AUDIT COMMITTEE MEETING
OF THE
RETIREMENT BOARD OF ADMINISTRATION
WATER AND POWER EMPLOYEES' RETIREMENT PLAN

MINUTES – August 15, 2007

Present:

Eugene K. Canzano	Chairperson
Mike Moore	Audit Committee Member
Ron Vazquez	Audit Committee Member

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Jeremy Wolfson	Senior Investment Officer
Michael R. Wilkinson	Deputy City Attorney
Irene Colón Gonzalez	Recording Secretary

Chairman Canzano called the Audit Committee Meeting to order at 8:44 a.m.

Ms. Bhatia indicated a quorum of the Audit Committee was present.

There were no public comments.

1. Discussion of Issues Concerning the Financial Statement Reporting of the Retiree Health Benefits Fund and Possible Action

Ms. Bhatia explained this item was before the Committee to review and consider issues presented by Macias Gini & O'Connell (Macias) in connection with the 2006/2007 Retirement Plan audit.

Chairman Canzano recognized the Macias representatives, Messrs. James Godsey, Partner, and David Livingston, Senior Manager.

Mr. Godsey informed the Committee that this was the first year for consideration of the Retiree's Health Benefits Fund within the Retirement System; consequently, a few questions arose.

Mr. Godsey indicated the accounting standard was clear that the administrator was responsible for the financial reporting; however, it was unclear whether the administrator was the Department or the Retirement Plan Office. He expressed his concern that while the Retirement Plan Office would report the health benefits financial statements, the Department would select the actuary to perform the study, and this presented two issues.

He indicated one issue was the requirement for Macias to obtain statements from Retirement Plan management noting they (Plan management) were responsible for and in agreement with assumptions and estimates included in the financial statements. He stated he initially asked Ms. Bhatia if she was comfortable certifying to Macias that the assumptions were correct and that several discussions regarding this took place.

Mr. Godsey stated his second concern was his impression, from a previous Audit Committee meeting, that the Committee believed a conflict of interest might exist if the Department selected the actuary; however, he was unsure if the Committee was aware that the Department would be making that selection. He added that the actuarial assumptions will become a basic part of the Retiree Health Benefit Plan financial statements and will be included in the Retirement System financial statements. He indicated he wanted everyone to be aware of that. He also noted that in one of the documents it stated the Department would be instructing the actuary to use the assumptions being used for the Retirement Plan. He stated this would place the responsibility back on the Retirement Board and make it easier for the administrator to make the representations back to Macias that the assumptions are correct. He added that this clarification would resolve the vast majority of issues.

Chairman Canzano, in summarizing his understanding of the financial statement reporting of the Retiree Health Benefits Fund, stressed that the Retirement Board, in agreement with the Department, would be comfortable with investing Other Post Employment Benefits (OPEB) funds and overseeing them as a fiduciary; however, the Retirement Board was not responsible for funding the OPEB. He also expressed his consent if the Department, who is responsible for funding, chose to use the Retirement Board's actuarial assumptions.

Mr. Godsey noted that he felt it was critical that the Board, as the fiduciary of the Retirement Fund and of the OPEB Fund, be responsible for informing the employer about the process. He explained that during the process, an actuary is retained to determine the necessary calculations to maintain the appropriate level of funding and control. He added that the most critical number calculations are those for the Net Pension Obligation (NPO) and the Annual Required Contribution (ARC). He noted it was always the responsibility of the employer to decide the actual funding. Under the current accounting standards, if the employer elects not to fully fund the ARC, the employer would be liable for that difference. Mr. Godsey emphasized that under no circumstance would the liability ever appear on the Retirement Plan's financial statements. He stated the Board must account for and report back on the status of those funds annually.

Mr. Godsey stated that for the preparer of the financial statements and the entity taking responsibility, he believed the assumptions that go into that actuarial study are a significant and critical component. He also indicated that if Macias, during its review of the actuarial study contracted by the Department, saw anything unusual, it would report back to the Committee. He reiterated that he would be uncomfortable signing off on the financial statements if Ms. Bhatia was not comfortable with all of the assumptions that have a critical impact on the disclosures and financial statements.

Mr. Vazquez explained the intent of transferring the OPEB trust fund to the Retirement System. He clarified that only the responsibility for trusteeship and custody of those funds was transferred to the Retirement System, and he emphasized the responsibility for the funding level remained with the Department.

Mr. Vazquez stated that out of the 25 representations in the management representation letter, the Retirement Office would be non-responsive to only one item (Item 12) which dealt with the representations of the actuary. He added he did not think Macias, as auditors for the Retirement Plan and for the trusts, needed to opine on the adequacy of the funding, and he inquired about Macias' concerns regarding the actuarial funding levels since it was not the responsibility of the Retirement System. Mr. Godsey replied that the current accounting standards required that the financial statement of the OPEB meet certain standards, one of which was reporting on the funding status and the calculation of the ARC. He added that those disclosures would ultimately be included in the 2008 employer disclosure requirements and most of them would be the same disclosures that came out of the GASB 43 Financial Statements which require NPO disclosures and calculation of the ARC for the OPEB Plan. Mr. Godsey stated that since the OPEB Plan was now part of the financial statements and the responsibility of the Retirement System, the Retirement System would be responsible for any significant assumptions and estimates included in the financial statements.

Mr. Vazquez stated he had requested the Department's accounting management ask the alternative trustee, U.S. Bank, for its auditor's position on the actuarial study and funding level. Mr. David Ulm (Accounting and Finance) responded that U.S. Bank had not yet responded, but he stated he agreed with Mr. Godsey. He noted that he had been very comfortable having the same actuary for both the Department and Retirement Plan for the past four or five years. Prior to this, the Department and the Retirement Plan had separate actuaries with significantly different assumptions and which considerably impacted the financial statements. Mr. Ulm indicated that The Segal Company had been instructed to use the same assumptions and would work with Buck Consultants to prevent any problems going forward.

Mr. Vazquez noted that Macias would be auditing the OPEB financial statements, and the question regarding the representations on the actuarial assumption remained unanswered. Mr. Godsey responded that Retirement Office management must be comfortable with the assumptions including those made on the actuarial study for OPEB.

Mr. Moore inquired how the assumptions relating to the inflation rate in medical costs would be addressed. Mr. Godsey responded that some potential items in OPEB and the retiree medical area were different, as were other assumptions unrelated to Retirement, and he reiterated that it was critical for the Retirement Office management to be comfortable with the assumptions. Ms. Bhatia responded that, as Mr. Godsey previously summarized, the main reason for discussion of this issue was the representation letter and the recommendation that most of the representations that needed to be signed off concerned internal controls and investments administered by the Retirement Office. Ms. Bhatia stated it would be difficult to sign off on actuarial methods and assumptions used by the Department's actuary, even though the assumptions may have been changed to be in line with the retirement valuation study. She recommended that that particular assumption be signed off by Department management; and, if Retirement Plan management were to sign off, they would need that particular assurance from Department management. Ms. Bhatia added that she wanted to make sure the Committee was aware of this.

The Audit Committee adjourned at 9:25 am.

Eugene K. C
EUGENE CANZANO
Chairperson

Sangeeta Bhatia
SANGEETA BHATIA
Retirement Plan Manager

Julie Escudero for
IRENE COLÓN-GONZALEZ
Recording Secretary