

Sinking Funds Commission
March 9, 2016

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CITY OF PHILADELPHIA
SINKING FUNDS COMMISSION
Wednesday, March 9, 2016

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LOCATION: Two Penn Center Plaza
16th Floor
Philadelphia, Pennsylvania

REPORTED BY: Amy Marzario
COURT REPORTER

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COMMISSION MEMBERS: BENJAMIN GILBERT
RASHEIA JOHNSON
BILL RUBIN

ALSO PRESENT: MATTHEW MAZZA
FRANK DOMEISEN
CHRISTOPHER R. DIFUSCO
RICH SENSENBRENNER
LEON MINKA
ELLEN BERKOWITZ
JANET M. WERNER
ERIC STRAUSS
DAVID DACEY
RICHARD COHEN
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1 MR. GILBERT: We will call the meeting to
2 order. The first thing we'll do is we'll rule on the minutes
3 from the last meeting circulated by way of e-mail. Are there
4 any questions or additions or corrections to those minutes?

5 (No response.)

6 MR. GILBERT: There are none? Motion to
7 accept the minutes?

8 MR. RUBIN: So moved.

9 MR. GILBERT: Any questions on the motion?
10 All those in favor?

11 (Aye.)

12 MR. GILBERT: Motion carries. We'll have a
13 review of our performance report for the quarter end of
14 January 31, 2016 by Frank Domeisen.

15 MR. DOMEISEN: Thank you very much. And
16 first, we have the January report, which is in the first tab.
17 And if you look on page 1, and this is the market for the
18 month of January, so obviously this is somewhat date -- we'll
19 talk -- we'll give you some update on February. But on the
20 first page, it shows the market performance.

21 And as we know, the equity markets, which is the
22 first section, the U.S. equity markets were off between 5%
23 and almost 11% for small-capped growth. So you can see that,
24 you know, the equity markets sold off after having a strong

1 fourth quarter. International markets, which are shown in
2 the middle tab, were also off. The developed market index
3 was off 7%. Emerging markets were off 6.5%. Within fixed
4 income, right below that, we show slightly positive returns.
5 Interest rates actually fell.

6 Prices depreciated, so that helped the performance.
7 And we switch to the next page, which is page 2 of the month
8 of January. The first one is Rhumblin under large-cap
9 domestic equities, down the line on the benchmark since it is
10 an index fund. The same with Northern Trust, which is also
11 an index fund down the line on the benchmark. Fred Alger had
12 a weak quarter -- or a weak month. Part of that is their
13 allocations that they have to have heavy tech concentration,
14 overweighting in technology and healthcare.

15 Within technology, Google, Apple, Amazon, Facebook,
16 all that did very well in the fourth quarter. That sold off
17 and hurt the performance in the month of January, and also
18 that follows through in February. Looking at the value
19 manager, O'Shaughnessy, their performance for the month,
20 albeit negative, was ahead of the benchmark. Their
21 performance was starting to turn around. We have had, since
22 inception numbers as of the end of January, where then it was
23 down 10%, there was the benchmark down 7. That's improved,
24 again, through February and I'll update you on that in a

1 moment.

2 So two active managers, O'Shaughnessy and Fred
3 Alger, and then two index months against the broad benchmark.
4 So the resulting large cap was down 5.6% and the benchmark
5 was down 5.4. Under small cap, two managers, Eagle, which is
6 a group manager, and Vaughan Nelson, which is the value
7 manager, in the month of January. Eagle had performed,
8 Vaughan Nelson lagged. Over the longer run, over three
9 years, Eagle is still lagging the benchmark. We had that
10 review -- we had a review with them. A lot of that was
11 concentrated in 2013.

12 And since then, in this last year, they've been more
13 defensive and protected over the last year. So the combined
14 small cap, in line with the benchmark for the month and over
15 the trailing time periods, has been ahead of the benchmark,
16 so adding value in small caps. International, we have
17 Mondrian. Mondrian is the subadvisor that was initially part
18 of Delaware Investments and then spun off, but Delaware
19 Pooled Trust International Fund still used Mondrian as the
20 subadvisor, so we show Mondrian as the subadvisor.

21 Going forward, Delaware Pooled Trust is reorganizing
22 the fund and it will reorganize under the Mondrian
23 International Equity Fund. So it will be the same team, same
24 strategy, same portfolio managers that will be running the

1 portfolio, but it's being reorganized under Mondrian
2 International Equity Funds.

3 We've talked to both Mondrian and Delaware about
4 this, and a couple things that are happening this month with
5 respect to this reorganization is there will be a meeting
6 next week by the shareholders to approve this. The fund is
7 being held right now by Wells Fargo, and actually the fees
8 will be coming down as it moves to Mondrian.

9 MR. MAZZA: It is based upon the 79 basis
10 points, a 9-basis point decrease. The strategy is not
11 changing, everything is the same; the same portfolio,
12 management, everything.

13 MR. DOMEISEN: So we'll keep you abreast on
14 that. The other -- and that's the value mandate. The value
15 strategy has performed well in January and relative to the
16 benchmark and has done so over the trailing time periods that
17 we show on the page here. Harding Loevner, the growth
18 manager, one of the issues here with Harding is that while
19 they outperformed the benchmark in a down market on the
20 year-to-date basis, which is the month of January and also a
21 little bit longer, they did get hurt on the one year.

22 A lot of that was their allocations to healthcare
23 and Internet -- or information technology that hurt them on
24 the longer term. So we've been reviewing them and looking at

1 the benefit of having two active managers, Mondrian and
2 Harding, versus looking at alternatives here. Harding
3 Loevner has about 14% emerging markets and the benchmark has
4 none. So part of that underperformance over the trailing one
5 to three-year period has been the 14% emerging market. You
6 do have a dedicated emerging market manager, Dimensional Fund
7 Advisors, DFA.

8 They protected in the down market. They have a
9 slight evaluation to them and a little bit more defensive and
10 that did help in the down market. Combined equity for
11 international, ahead of the benchmark for the month, and it
12 lined on the one year as well. Under fixed income, four
13 managers. Two are core mandates, first Barksdale, meaning
14 that they have no additional abilities to go into what we
15 call non-U.S. or high yield. So they're basically the anchor
16 within the fixed income mandates. So first Barksdale
17 outperformed the month.

18 In the longer run, three years, they've outperformed
19 by about 30 basis points on the three year per annum. Logan
20 Circle and -- both Logan Circle and Lazard, both of these are
21 preliminary numbers. We have to go back. We see some issues
22 on the longer run performance that we're reporting. We track
23 this quarterly, and monthly actually, with Logan and Lazard.
24 So in the current month, they both missed their benchmark.

1 Part of that was their plus strategy, so being outside of the
2 benchmark.

3 And then Garcia Hamilton is intermediate manager,
4 being one of the tenured securities that they hold, and their
5 performance has been good versus the benchmark. So all in,
6 when you look at the total fund, down in the month 3.4% and
7 over the one year, down 3.1%, and the target market index is
8 shown right below that, so it's in line with the target
9 market for January. So we do have numbers as of the end of
10 January in terms of evaluation, and I'm showing that on the
11 next pages, page 4 and 5.

12 Page 4 shows the allocation and the allocation
13 benchmark is 50% domestic equities between large and small
14 and you're pretty much right there, about 54%, so a slight
15 overweighting. And international, you're at almost 14% and
16 the benchmark is 15, so slightly underweighted in
17 international. And then fixed income, 35% is the target and
18 you're at 35% as well. So slight overweight in the U.S.
19 offset by underweight in the international coming up to about
20 65% equities and 35% bonds. So you're pretty much in line
21 with the target. Evaluations are shown on the following,
22 page 5.

23 So for the month, the year end was -- at the end of
24 the year it was \$483,418,000. There were flows primarily

1 from Rhumblin and Northern Trust. That goes into the
2 custody cash account for payments -- benefit payments. And
3 you can see that was about 2.5 million for the month of
4 January, the outflows in total.

5 And then the ending evaluation, \$464,582,000. The
6 custody cash accounts started at 4.7 million at the beginning
7 of the year and is also at 4.7 million as of the end of
8 January. So the flows that -- there was money that came in
9 and went back out for benefit payments, so that's why it
10 stays constant. I do have a February update if it's okay to
11 move to?

12 MR. GILBERT: Okay. Any questions about the
13 January report?

14 (No response).

15 MR. DOMEISEN: February, we have a snapshot of
16 how the performance is. February was -- basically, the
17 equities for the one month was flat, flat return for the
18 month of February. International stocks were up -- were
19 down, I'm sorry, between 1% and 1.8%, and actually, emerging
20 markets fared better relative to the developed markets being
21 flat for the month. And bonds for the month of February were
22 slightly positive, albeit not to the extent that we saw in
23 January.

24 So bonds were anywhere from 0.5% up to 0.8% for

1 government -- or for credit bonds. The high-yield component
2 was in line with the overall benchmark this month, so less of
3 an impact that high yield had than it did in the month of
4 January. If I go to page 2, again the large cap, Rhumblin
5 and Northern Trust are the two index funds and matching the
6 benchmark. Fred Alger, again, was underperforming for the
7 month. And again, on the last two months, it's the same
8 issues that were tech weighted.

9 The overweighting from tech and Google, Apple,
10 Amazon, and Facebook, which as a fundamental bottom up
11 manager, they were hurt here with those holdings. Some of
12 the other issues were healthcare, the certainty of healthcare
13 in the current marketplace. They spoke a lot of volatility
14 and that's current with them as well year to date.
15 O'Shaughnessy did very well this month. You can see here, up
16 2.1% and the benchmark was 0, basically.

17 And so now since inception, which was end of
18 October, the performance was down 8% and the benchmark was
19 down 7. So they closed that gap considerably. Within the
20 small cap sector, Eagle in line with the benchmark.
21 Defensive manager, high qualify bias protected over the last
22 one year went in a down market. Over the long run, five
23 years basically even. That effaced with the benchmark.

24 Vaughan Nelson also had a strong month relative to

1 the benchmark, the small cap value benchmark. And over the
2 one and three year, five year time periods, it's up in the
3 market. On the next page, international, the Mondrian
4 subadvisor for Delaware Pooled missed it for the month. Year
5 to date, this was basically the outperformance from January
6 that held them. And Harding Loevner, in line with the
7 benchmark for the month.

8 All in, the international equity was down 1.7 for
9 the month and the year to date is down 5.8, and the benchmark
10 down 7.9. Fixed income for the month was, for the large part
11 -- when I say large part, I mean for the combined fixed
12 income, was plus 0.5 and benchmark was plus 0.6. It came
13 primarily from Garcia Hamilton in terms of outperformance.
14 And again, we have some issues which were on these
15 preliminary numbers on Logan and Lazard. These numbers are
16 good for the month in terms of accuracy. We have some --
17 we're checking the reporting in the longer run.

18 But to put it all together, the fund -- the return
19 was flat. It was 0 for the month. And the benchmark was
20 also 0 for the month, so in line with the benchmark for the
21 month of February. We'll skip to page 4, the next page.
22 This shows the slight overweighting and underweighting
23 between large cap equities, slight overweight 2% and offset
24 by the underweighted international equity of 2%.

1 And the other sector is pretty much right in line
2 with the overall benchmark being 65% equities, 35% funds. So
3 if you look at the upper right box, you can see that the
4 overweight was in large cap as well and offset by an
5 underweighted international, plus 2 and minus 2%,
6 respectively. And that puts it on page 5, shows that it's
7 within the guidelines, the asset allocation guidelines,
8 pretty much on target.

9 And then finally on page 6, it showed the market
10 value of the individual funds. And so for the ending value
11 at February 29th, \$461,773,000. And again, you can see there
12 were some flows for the month between Rhumblin and Northern
13 Trust going into the -- for cash payments into the cash
14 account for pension payments.

15 MR. MAZZA: The staff has been utilizing
16 Rhumblin and Northern Trust to use for benefit payments due
17 to not wanting to liquidate any of our equity holdings at the
18 bottom of the market right now.

19 MR. DOMEISEN: It may have been overweighted
20 --

21 MR. MAZZA: Been overweighted for some time.

22 MR. DOMEISEN: The large cap had been
23 overweighted.

24 MR. DIFUSCO: And just based on the market

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1 update, the first week or so in March, the assets under
2 management as of the close of business yesterday were in
3 excess of \$474 million. So we've seen a \$13 million increase
4 just in the first six or seven days compared to the numbers
5 that are being shown for the end of February.

6 MR. GILBERT: Any questions?

7 MR. DOMEISEN: And the S&P was up 2.5% in the
8 first week. International emerging markets were up about
9 6.5%, and bonds were flat, so provided the return, adding
10 values to the market.

11 MR. GILBERT: Motion to accept the progress
12 report for the quarter ending January 31?

13 MR. RUBIN: I'll move.

14 MR. GILBERT: Second?

15 MS. JOHNSON: Second.

16 MR. GILBERT: Motion to accept. Any questions
17 on the motion? All those in favor?

18 (Aye.)

19 MR. GILBERT: Motion carried for the February
20 report of information. We'll begin the review process for
21 the auditors. So how many minutes?

22 MR. MAZZA: We're going to give them 15
23 minutes apiece. The company Withum Smith & Brown is going to
24 come in first. I handed out to the Commissioners the costs.

1 Some of those folks have offered us -- this is a one-year fee
2 they'd be charging us. We can ask for some more definitive
3 wording when they talk about hard cap, but what I was led to
4 know about hard cap was that there was no increase on the
5 fee, hard cap and this for the certain amount of years. So
6 I'll bring in Withum Smith & Brown to start.

7 MR. DIFUSCO: We had asked -- Matt, Rasheia,
8 and myself, we had asked Rich Sensenbrenner from --

9 MR. MAZZA: Rich Sensenbrenner from Accounting
10 and Leon Minka from Accounting as well.

11 MR. DIFUSCO: We had asked them to join us and
12 it was a good suggestion from the Treasurer's office. They
13 obviously have some good expertise. I also spoke to a
14 gentleman in your office who was very helpful in reviewing --
15 Jerry Micciulla --

16 MR. MAZZA: Jerry's great.

17 MR. DIFUSCO: -- was helpful in answering --
18 and I appreciate that, in reviewing a couple of folks as
19 well. You know, Rich and those guys may have some questions
20 to interject to help us as we review the candidates.

21 MR. RUBIN: So before we get -- these guys
22 should have one piece and then the Controller have one to put
23 it on the table.

24 MR. DIFUSCO: Sure.

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1 MR. RUBIN: He had to go to a separate event.
2 But there was a discussion about making the rate of return
3 here 7%. There was a vote.

4 MR. DIFUSCO: So we can give it to those guys.

5 MR. RUBIN: That would be great.

6 MR. DIFUSCO: Do we know the order -- if they
7 want to --

8 MR. MAZZA: I didn't see it on the agenda. So
9 we wanted to do it before we got into these guys.

10 MR. DIFUSCO: Sorry about that.

11 MR. MAZZA: That's all right. Just to
12 clarify, Marc Ammaturo from PFM will be our new investment
13 consultant upon the completion of Gallagher. They had
14 contract issues.

15 MR. RUBIN: So we are clear that Rob, as the
16 finance director, has the sole ability to set the rate over
17 the plan. We had discussions, as Matt suggested in the last
18 meeting that we do that, with Rob and express our concerns.
19 We did that. I thought we had a understanding, and in the
20 last day or so, that understanding has not been expressed to
21 the satisfaction of the Controller.

22 We did have three separate groups come in to present
23 to us last month. Each of those groups said that there was
24 slim to none, basically, chance of us ever reaching the 7.65

1 number. We had conversations with our current consultant at
2 the table where we saw the 7% number was floated. We had
3 conversations with our new advisor who believes also that
4 that is a realistic number at 7%.

5 The markets have -- across the board when you talk
6 to anybody that has any real sense of what's going to take
7 place over the next five years, 7% is the number that's used.
8 And he was extremely dissatisfied that the number has not
9 been moved by the finance director. He hasn't seen it within
10 his purview to do that. Analysis after analysis is coming
11 back with the same result. So an answer to the Controller's
12 concern of we'd like more analysis because it was part of a
13 marketing system when they came in to present to us, is
14 totally unacceptable and we would have expected that that
15 action would've been undertaken before we got to this
16 meeting. Because I think it was clear in the minutes that we
17 would come back in March and that would be the process.

18 So it seems highly skeptical on the Controller's
19 part of any process going forward that doesn't lower it to a
20 number, that there was a vote of the Board that moved
21 forward, knowing full well that now, through Law Department's
22 advice, that Rob is the sole auditor, I guess, of that
23 percentage rate.

24 But if there's anything that's different, Marc, that

1 you would know, or Frank, that you would like to add that
2 would make it 7.65 as a reasonable number over the next five
3 years to get to, or there's some system in place that is
4 going to get us there, we would love to hear how we would do
5 that. But up to this point, we haven't heard or seen
6 anything that tells us that. So do you have any comments
7 that would get us to that 7.65?

8 MR. DOMEISEN: Yes, I would say that the 7.65
9 is a hard number to achieve. Certainly, even if you took on
10 more risk, like equity risk, I just think that's a high --
11 given the capital market assumptions that we're looking at
12 going forward, long term, that would be a hard bogey to
13 reach. 7% is more reasonable, but even that is an aggressive
14 target given the current outlook we have, but that's
15 achievable.

16 MR. RUBIN: 7% is achievable?

17 MR. DOMEISEN: Yes. You'd have to reposition
18 fully to achieve that, but the 7.65 seems to take on a lot of
19 volatility and may not get there.

20 MR. AMMATURO: I agree with a lot of what
21 Frank just summarized. I think if you look at our internal
22 company market assumptions, especially over the next five
23 years, it's going to be a significant challenge to get
24 anywhere close to that 7%. We're telling most of our clients

1 it's going to be a challenge to get to 6% in the next five
2 years because of where long-term interest rates are and where
3 one would think they're going to be over the next five years
4 and that's as they rise the bond prices.

5 And we're not going to flee bonds, so that's a
6 challenge because we're predicting about a 1, 1.5% from core
7 bonds over the next five years. So most of our clients have
8 30, 35% of the bond market. So 7% is not a number we're
9 projecting out for the next five years from a diversified
10 portfolio standpoint. It's more in the neighborhood of
11 closer to 5%. Over the longer term, you know, 30 years plus,
12 we still believe 7% is reasonable over the long term, you
13 know, as markets normalize.

14 MR. RUBIN: So the final comment that the
15 Controller would like me to express is that we're a plan that
16 is fairly well funded at this point. And we've been very
17 careful in the investments that we've made. We haven't gone
18 into a lot of risk. And to change our philosophy now, to
19 take on more risk and more change at this point in a plan
20 that is fairly well funded really doesn't make sense, just so
21 we can reach a hurdle of 7.65 when we can lower it and keep
22 our risk stabilized.

23 So we would call on the finance director to change
24 that immediately and send word back to the Board that he is

1 agreeable and we'll make the return 7%. We can't do it,
2 obviously, the Law Department has advised us, so putting a
3 motion on the table doesn't make any sense. But we would
4 strongly urge the Finance Director to make that action known
5 to us quickly and move forward.

6 MR. GILBERT: You said he took it under
7 advisement or he's just not going to do it?

8 MR. RUBIN: I can't speak for him. I thought
9 we had an understanding, but apparently we don't.

10 MR. DIFUSCO: My understanding is is that he,
11 the Finance Director, is open to it. I know he would like an
12 actuarial analysis of the impact and support and such from
13 Aon.

14 MR. RUBIN: But you had a month to do that,
15 right? You had two months to do that from the last meeting
16 we had, and coming in at the last minute today or last
17 Monday, three days ago, and say now we want analysis, you
18 know what we were doing. You know where we were going and he
19 had that ability to do it. And I don't mean that for you --

20 MR. DIFUSCO: I understand.

21 MR. RUBIN: -- but it was a clear
22 understanding and it's not being upheld.

23 MR. DIFUSCO: I understand. We're all
24 co-equal members of the Board, so it's fine. So that's my

1 understanding. He is not unwilling or -- and Rasheia,
2 correct me if I'm wrong --

3 MS. JOHNSON: No, you're definitely correct,
4 that he's open. But during our last meeting, there was
5 mention that you would kind of provide us with information
6 that you had because there was --

7 MR. RUBIN: I mean, that request came on
8 Friday, I believe, to provide something. I thought --

9 MS. JOHNSON: But we will definitely -- it's
10 not off the table. He's not unwilling, but he would just
11 like to have more information and actuarial study done on it.

12 MR. RUBIN: Pay more money, go through the
13 process, and we'll make ourselves available of all the
14 options we have and we'll look at it for all plans and
15 everything we're involved in and we'll just move forward.

16 MR. GILBERT: Is that a motion you want to
17 make?

18 MR. RUBIN: We don't have the ability to do
19 anything, so making a motion would be worthless. That is not
20 his normal style, so I will not make a motion on his behalf
21 and have to listen to it later.

22 MR. GILBERT: All right, so we'll continue to
23 work through the process.

24 MR. MAZZA: I'll bring in the representatives

1 from Withum Smith & Brown.

2 - - -

3 (Whereupon the representatives from Withum
4 Smith & Brown entered the meeting.)

5 - - -

6 MR. RUBIN: Before we start, just in the
7 interest of full disclosure, we do have outside contracts
8 that we use in the Controller's office with different firms
9 that do audits for us that are bigger than what we may be
10 able to handle at any given time and this is one of the firms
11 that we consider when we go through that process. So I just
12 want to have that on the record.

13 MR. MAZZA: Gentlemen, you'll have 15 minutes
14 to present. Just let me know when you're ready.

15 MR. STRAUSS: I think we're ready. Just by
16 way of introduction, my name is Eric Strauss. I've been the
17 lead partner on the engagement for about three years. I'll
18 let these guys introduce themselves, but the gentleman all
19 the way to the right was the lead partner on the engagement
20 before myself and transitioned it over to me.

21 MR. COHEN: My name is Richard Cohen. I'm a
22 partner at Withum. I chair our firm's government services
23 group. I'm very familiar with your agency, with this
24 financial statement. And we thank you for inviting us back

1 and we hope in 15 minutes to be able to answer your questions
2 and tell you a little bit more about us. We have provided
3 for you a brief slide presentation, but the guts of who we
4 are is in our proposal.

5 MR. DACEY: Hi, I'm Dave Dacey. I am the
6 practice leader of our employee medical plan services group.
7 We audit at this point in time about 330 plans from
8 firm-wide. And thank you for the opportunity to be here.
9 We're certainly very excited about it. We've enjoyed serving
10 you guys and hopefully look forward to doing it in the
11 future.

12 MR. STRAUSS: So with that, I ask that you
13 pull out the slides. Again, we're going to be as brief as
14 possible. We want to allow time for you to ask questions.
15 So a snapshot of Withum Smith & Brown, we're founded in 1974.
16 Three entrepreneurs, former Big 4 guys, went out on their own
17 and started the firm back in 1974. We were the 28th largest
18 firm. With all the mergers and acquisitions that have gone
19 on, I believe we are now the 27th largest firm in the
20 country.

21 Some other statistics for you: we're ranked number
22 15 in Baltic County out of 50 for 2016. And just something I
23 think is worth pointing out to the group here, the last item
24 on this side, page 3, is we passed all 12 AICPA peer reviews.

1 And Dave can speak to that a little bit, but that's without
2 comment. So we have, you know, passed our own internal audit
3 within the industry.

4 MR. DIFUSCO: Can you just remind everyone how
5 long you've been the incumbent and maybe speak to a little
6 bit -- and I know when we're doing some of our reviews,
7 there's some definite thoughts in the industry if there's not
8 hard and fast rules for how often you should be changing not
9 just a lead partner on an account, but the firm itself. I
10 know it's a lengthy question, but if you can spend a minute
11 on that.

12 MR. STRAUSS: No, it's fine. And I'm going to
13 let Rich talk to that a little bit, but just for your own
14 information, we've been around a little while. We did -- I
15 think for one year, I believe Mitchell Titus came in and did
16 it and we were asked to come back somewhere in there. So
17 Rich, why don't you speak to that?

18 MR. COHEN: Well, you know, there is a
19 collective wisdom on the part of some boards that it might be
20 a good idea to change firms after a while. It may be a good
21 idea to change partners after a while. And there are others
22 that recognize there's a great deal of benefit to using the
23 same firm that has been around for a while. And so
24 basically, that's really all I can say to that.

1 We believe that our long-term experience with you
2 guys, which is probably about, you know, about ten years with
3 some interruption in between, you know, we've seen you go
4 from, you know, some very difficult times in terms of record
5 keeping and have walked through the system with the various
6 departments and so on. And Eric will talk to the approach
7 and so on.

8 But we believe that, you know, we are certainly
9 independent. We come to this engagement with a fresh look
10 every year. We are not afraid to say what's on our mind for
11 the purposes of reporting. And so with respect --
12 specifically with respect to your question, every firm out
13 there, all of the CPA firms, have clients that we perform
14 audits for for 10, 20, 30, and 40 years. It's a different
15 story as PCOAB, you know. They do require certain levels of
16 rotation, but not at this particular level, not for this.

17 MR. DIFUSCO: Thank you.

18 MR. COHEN: Sure.

19 MR. STRAUSS: We'll turn to page 4, again,
20 just more of a summary approach to what you would've seen in
21 the proposal. We're what I would consider a very responsive
22 CPA firm. I know Matt, who took over for Charlie, and Rich
23 and his group, whenever they pick the phone up or shoot an
24 e-mail, the response is going to be within 24 hours. We are

1 sort of, I'd like to say, always on call for any issues.

2 A couple years ago, the GASB 67 issue came about and
3 I know Rick and his group put together some meetings,
4 including myself and PGW, and PGW's auditors, KPMG, and we
5 worked through that a couple years ago. So we're a very
6 responsive CPA firm. There's a reason -- I know I didn't
7 give my card out, but I will. I have my cell phone on the
8 card and there's a reason for that. Unfortunately for my
9 wife, we are a 24/7 business, so we are very responsive.

10 What you'll see over the years -- and Chris alluded
11 to the fact that we've been around for a little while, our
12 consistency in fees. You won't see big jumps in fees and we
13 like to, you know, we have a good client with you folks and
14 we want to keep you happy, so we try to keep the fees under
15 control. There is a no-surprise approach, and this goes
16 without saying. If we're working on the audit and there is
17 something that comes our way, an issue, management is going
18 to know, Matt is going to know, the manager of PGW, and the
19 Commission is going to know if there's a big enough issue to
20 raise to that level.

21 So the no-surprise approach will continue. As with
22 the fact that we've been doing this for a while, we have
23 solid relationships with all of the professionals involved.
24 We've spoken to the actuaries. There was actually an issue

1 with the actuary report last year with the investment
2 balance. We've spoken directly with Tom and his group.
3 We've spoken with Rich and his group. We've spoken with the
4 folks from PGW. And as I mentioned before, a couple years
5 ago we got very involved with the GASB 67 and the required
6 disclosures.

7 We got on conferences calls from partners with KPMJ
8 and we all kind of etched through it. Chris, you're very
9 familiar with that. So we have great relationships with all
10 the professionals involved. And again, the quality of our
11 work, I know Dave may speak to this a little bit, but the
12 quality of our work is, you know, we've been audited by third
13 parties through peer review. The amount of risk work that we
14 do in the benefits plans we do, we do get audited by the
15 Department of Labor as well.

16 MR. DACEY: And if I could interject?

17 MR. STRAUSS: Sure.

18 MR. DACEY: And to that point, we do undergo
19 three inspections as it relates to our employee medical plan.
20 We're audited as part of our -- or we're inspected as part of
21 our peer review process and Eric already spoke about that.
22 We are also inspected by the Public County Accounting
23 Oversight Board. We have no comment from them as it relates
24 to work on the most recent inspection with them. We're due

1 to have another inspection in the upcoming year. And we're
2 also subject to Department of Labor Survey and we've gotten
3 favorable reviews from the Department of Labor also.

4 And one other quick point as it relates to just a
5 snapshot of our firm, we very much consider ourselves to be a
6 learning organization. So we look introspectively after
7 every informed benefit plan audit season and we go in with
8 the mindset of what can we do better? And we're very
9 critical of ourselves and we will look at those processes
10 that can be improved. We will make efforts to improve it and
11 we train our professionals on dealing with those processes,
12 and we think it makes for a pretty good product for our
13 product line. So I'm incredibly proud of our group. I think
14 it's a great group and, you know, hopefully that comes out.

15 MR. STRAUSS: In the interest of time, I know
16 we've got a few slides. Slide 5 is really just a snapshot of
17 the audit timeline. It's really not all that different from
18 prior years. We like to hit the ground running and sort of
19 do some planning in June. Sometimes as early as May, you
20 know, we would reach out to Matt and his group and find out
21 if there's been any significant changes to the plan, any
22 additions we need to know about up front. And we do some of
23 our planning and risk assessment at that point.

24 Audit field work, as always, you know, we try to get

1 started earlier, you know. We typically can get the
2 investment statements probably by mid to late July and we'll
3 start to work on that in early August, which is obviously a
4 big part of the work. And then we contact PGW itself
5 probably early August and try to get in there by the end of
6 August to do some of the internal testing and payroll
7 testing. With an eye towards really issuing a draft for the
8 Commission to look at, for a management person and the
9 Commission, really in October has always been the goal.

10 There's always been a little bit of back and forth
11 last year that the actuary had some bad numbers, so we had to
12 have them go back and do the actuary report, evaluation I
13 should say, so that delayed it a little bit. But we've been
14 pretty consistent with getting a real good, solid draft plan
15 by November and issuing it typically in December. So that's
16 kind of in a snapshot the audit timeline, if you will. Page
17 6 is just our experience, and I know Dave sort of spoke to it
18 a little bit, so I'll let you jump back in and I'll let Rich
19 jump in.

20 MR. DACEY: Yes, experience. I want to say
21 back in about 2007, 2008, we were auditing 60 plans as a
22 firm. We are now auditing about 330 plans. And prior to
23 these mergers that we just did, most of our growth has been
24 organic. It's been through client referrals, through people

1 liking the way that we deal with our professional staff,
2 trying to be respectful of their busy schedules and working
3 in a very convenient fashion so that to meet their needs.
4 But also at the same time, helping to educate our clients to
5 be better fiduciaries for their plans.

6 As I said, most of our growth has been organic.
7 We've added probably about 60 plans with adding a larger
8 Orlando office to our market and an office in Edison, New
9 Jersey. But it's been -- from an experience standpoint, I
10 would say this also, four out of the last six partners who
11 have been promoted with our firm all came from our employee
12 benefit plan audit, so we really take this incredibly
13 seriously.

14 We are constantly having discussions with attorneys,
15 fiduciary advisors, to do a better job in the way we go about
16 conducting our audits and I think it shows. Like I said, I
17 can't tell you how much I'm proud of our group. I think it's
18 a terrific group.

19 MR. COHEN: One of the core industries that we
20 serve, the core services that we provide, is in the benefit
21 of pension plans. We understand them, therefore, we have
22 training seminars, we have hundreds of people in our firm at
23 these training sessions so that nobody comes to the table
24 without experience. So, you know, the review process is very

1 strict in our firm. Dave is an advisory partner to this
2 engagement. There is a technical review partner to the
3 engagement.

4 So, you know, Eric's responsible for the day to day,
5 first level review. The job then goes up to our quality
6 control area. Eric consults with Dave throughout the
7 process. The quality control people take a deep look at the
8 work papers as if they are from the outside. I can attest to
9 that as an audit partner. And it is our job to make certain
10 that we give you an accurate product and we report everything
11 to you and that we work quickly to be able to get through any
12 issues and problems that we might have.

13 From a government perspective, as the chair of the
14 firm's government services, real quickly, we do work for the
15 federal government. We do work for state government; New
16 York, Pennsylvania, New Jersey. We do work for large cites,
17 two in particular; Philadelphia, New York. In Philadelphia,
18 we have done a substantial amount of work for the
19 Controller's Office over the past 30 years. I've done a lot
20 of that, Eric has done a lot of that. And we've done a lot
21 of work for various departments. So we understand, you know,
22 commerce, HOC, PIDC, PRA.

23 MR. MAZZA: Two-minute warning.

24 MR. COHEN: And we understand that government

1 environment and relationships are very important to us. And
2 so we expect to be able to deliver timely and proactively and
3 be available to you to answer your questions. I'll turn it
4 over to Eric so he can wrap it up, but I can assure you that,
5 you know, as one of the senior partners in the firm that's
6 been around for a while, that you are an important client of
7 ours. We know how to do your work and I can assure you that
8 we'll be available to you at any point in time.

9 MR. STRAUSS: In the interest of time to kind
10 of wrap it up, if you turn to page 13 for the sides. One of
11 the most important things within both our family as well as
12 our culture, you know, it's public accounting so it's not
13 necessarily an easy profession. We pride ourselves in our
14 culture. The work/life balance is very important to us and
15 it really shows when you look at our turnover rate of 7%
16 versus the national rate at 12%. Folks come to work at
17 Withum and they don't leave and there's a reason for that,
18 because of the culture.

19 And it's worth pointing out that on this particular
20 engagement since we are the incumbent, you will have the same
21 staff coming back out that are familiar with the systems and
22 the folks in the finance office and familiar with the
23 actuary. So it, you know, it seems essential since the staff
24 does stick around.

1 MR. COHEN: We're probably about ready to get
2 our beep, but if we were on television doing debates, we
3 would just ignore the beeps, so I'll just keep going.

4 MR. RUBIN: So which of the candidates would
5 you be?

6 MR. STRAUSS: Don't answer that question.

7 MR. COHEN: That's a great question. Thank
8 you, guys.

9 MR. DACEY: Thank you for the opportunity.

10 MR. RUBIN: Do you have a diversity policy
11 within the company?

12 MR. COHEN: We certainly do.

13 MR. RUBIN: Okay. So on our team and then in
14 the company in general, what's the breakdown of women and
15 people of color?

16 MR. COHEN: Women is fairly substantial,
17 including on the partner group. I can't -- I would have to
18 get back to you with those.

19 MR. RUBIN: You can send it to Chris or to
20 Matt.

21 MR. COHEN: Okay. I will get back to you with
22 our -- we didn't put our diversity policy in here. In our
23 proposal, in the back, we have our commitment to diversity.
24 In terms of statistics, I will have to get back to you.

1 MR. RUBIN: Okay.

2 MR. COHEN: Any other questions?

3 MR. SENSENBRENNER: I have five quick
4 questions. And in the sake of time, if you can answer them
5 in just a sentence or two or I'll beep you. So just if you
6 could tell me the basic difference in, you know, given the
7 fact that I've worked with you guys, these questions I'm more
8 interested in hearing from the other people, but I want to
9 ask everyone the same questions.

10 So can you just explain to me the difference between
11 GASB 67 and 68 and perhaps the most important part or change
12 that GASB 67 and 68 did in terms of financial reporting?

13 MR. STRAUSS: Okay. So only because we lived
14 through it together, so GASB 67 is the requirements --
15 disclosure requirements of financial standpoint requirements
16 around pension plans themselves, and GASB 68 would apply to
17 the employer. Essentially, I'll work backwards with GASB 68.

18 There are certain liabilities and disclosures to be
19 presented on the government financial statements that had not
20 been required before, and government financial deficits were
21 a huge hit, unfortunately. With regard to GASB 67, it was
22 more disclosure driven from an actuary standpoint in terms of
23 net present liability, in terms of ten-year projections, and
24 the required supplemental information also, which I'll call

1 beefed up.

2 MR. SENSENBRENNER: I'm good with that answer
3 if you guys are. And then have you done or had to do any
4 opinions for -- I hope I get this right, maybe this is just
5 my inexperience here, but have you had to do any opinions for
6 multiemployer plans on the allocation of net pension
7 liabilities to various employers?

8 MR. DACEY: We are not really a multiemployer
9 plan shop.

10 MR. SENSENBRENNER: Okay. Single employer?

11 MR. DACEY: Primary single employer. We have
12 some multiemployer plans. We have done work for the Pension
13 Benefit Guarantee Corporation to assist them in overseeing
14 multiemployer plans.

15 MR. COHEN: We have a five-year contract with
16 them.

17 MR. SENSENBRENNER: Okay, sounds good. And I
18 just want to make sure, I think I heard you say you audit
19 over 300 plans?

20 MR. COHEN: That's correct.

21 MR. SENSENBRENNER: And what would be just a
22 few of the headliners, maybe two or three of the headliners
23 of your big plans?

24 MR. DACEY: Yeah, we actually articulate that

1 in the slide deck here.

2 MR. SENSENBRENNER: Just tell me your
3 favorites.

4 MR. DACEY: Our largest plan is, you know, we
5 have Horizon Blue Shield, Vonage, Mercedes Benz.

6 MR. SENSENBRENNER: Okay, thank you.

7 MR. DACEY: We serve as back office accounts.

8 MR. SENSENBRENNER: Right up in the peer
9 group, I'm sure.

10 MR. DACEY: Much more important, I might say.

11 MR. SENSENBRENNER: Very good. And do you do
12 any audits on the employer side where you're on the GASB 68
13 type of compliance for the employer?

14 MR. STRAUSS: I do. I have -- I actually have
15 a dozen charter schools where I had to implement a plan for
16 this year.

17 MR. SENSENBRENNER: And as you know, the
18 accounting staff -- and so the City Financing Department is
19 your Board, is your accounting staff, and we rely heavily on
20 the auditors to assist in preparing financial statements.
21 We've been slowly hopefully building expertise in my office
22 to take away some of those tasks. But are you able and
23 willing somewhat above the traditional auditing role but to
24 again assist the accounting staff as needed, obviously

1 maintaining dependants as needed?

2 MR. COHEN: Yes. And in order to maintain
3 that independence, we need to have the comfort level that
4 there are folks on the other side of the table, such as
5 yourself and the Commission, that do have knowledgeable
6 individuals that can review those financial statements and
7 take responsibility for them. So while we assist in the
8 preparation of them and the organization of them and so on
9 and so forth, they're your financial statements. We're
10 opining on them.

11 MR. DACEY: And actually, to that question, an
12 important part of what we are -- I like to think of ourselves
13 as really being educators to the professionals. I mean, in
14 our group, I share in New Jersey employee benefit plan
15 conferences. An example, I also speak at the New York
16 conference. We have other people on our staff are who
17 running the Rhode Island conference and we speak at the
18 Connecticut conference.

19 We actually have another person who's part of the
20 AICPA expert panel for employee medical plans. So we're
21 really out there. We're big believers in education, and
22 anything we can do to help in that regard, we want to do
23 that. There's no question.

24 MR. COHEN: We speak at the -- and I serve on

1 the Pennsylvania Institute of CPAs government relations group
2 and we put on a couple seminars a year. And Eric does the
3 same with the not-for-profit group. There's a lot of
4 overlapping between government and not-for-profit, you know,
5 reporting and things such as that.

6 MR. SENSENBRENNER: Okay, thanks guys.

7 - - -

8 (Whereupon the representative from SB &
9 Company entered the meeting.)

10 - - -

11 MR. MAZZA: You'll have 15 minutes, and then
12 normally our accounting guru over there has about 25
13 questions for you to answer.

14 MR. SEYMOUR: Great. Thank you very much. I
15 greatly appreciate the opportunity today. My name is Bill
16 Seymour. I'm one of the founding partners of SB & Company.
17 What I was going to do is, we prepared a high-level
18 presentation that kind of summarizes some of the points that
19 we included in our proposal. As I go through this, please
20 feel free to stop me with any questions you may have.

21 A little bit about myself, I have over 18 years
22 experience, primarily serving the state and local government
23 market. I'm a past member of the executive committee of both
24 the AICPA quality centers for governmental audit quality as

1 well as employee benefit plan audit quality. I'm also
2 currently on the task force with the AICPA. That's looking
3 at the private sector financial reporting model and audit
4 model for employee benefit plans as a result of the DOL audit
5 quality study that was done years ago that was released on
6 there.

7 So working with the industry, what we really try to
8 do is as a firm, providing that extra piece on the
9 engagement. I'm also involved in a -- I chair the GFAOPA
10 Advocacy Committee. That is a committee that responds to new
11 GASBs, new OOB, circulars, as well as other guidance on
12 behalf of the entire organization. I'm a board member of the
13 central region of the GFAOPA and member of the membership
14 committee.

15 Tiana Wynn would've been with me today. She had a
16 family emergency and I apologize. She has been with the firm
17 for over eight years. She started her career in ENY and she
18 primarily serves in our employee benefit plan market. Slide
19 3, a little bit about us, as a firm, we're on of the largest
20 MBE firms. We are a certified MBE firm in the State of
21 Pennsylvania as well as Maryland, as well as other states
22 that we are.

23 We are primarily founded to serve the state and
24 local government market as well as the employee benefit plan

1 industry. We consider ourselves a diverse firm and we've
2 been founded really on Big 4 principals. All of the partners
3 of the firm are former Big 4 personnel; Arthur Anderson, PMG,
4 and ENY are the three that we have pooled from. And we have
5 over 100 people with offices up and down the east coast.

6 MR. DIFUSCO: What are some of the other state
7 and local plans you have?

8 MR. SEYMOUR: We audit the Public School
9 Employee Retirement System out of Harrisburg, PSERS. We
10 audit the State and Maryland Retirement System. Those are
11 our two largest ones. I believe they're 30th and 36th ranked
12 in the nation. PSERS has over \$50 billion in assets. State
13 of Maryland Retirement is around \$45, 47 billion.

14 MR. SENSENBRENNER: Are you the lead auditor?

15 MR. SEYMOUR: Yes, we are the lead auditor.
16 I'm actually the signing partner on both of those
17 engagements. We are also the prime auditor for the entire
18 State of Maryland, as well as University System of Maryland,
19 Maryland Department of Transportation, as well as the
20 District of Columbia. We've completed our first year of that
21 audit. We just issued our opinion at the end of January for
22 that as well.

23 So we audit a number of counties and municipalities,
24 all of which have defined benefit plans in those. Some are

1 just baked into the overall capital, others have separate
2 deliverables with those. It kind of goes very nicely into
3 slide 4. If you put all the plans together that we audit,
4 it's almost \$128 billion a year in plan assets, eight of the
5 top 1,000 benefit plans within the United States, and that's
6 both from a public as well as a private sector.

7 We do work for Prudential. We do work for medical;
8 Johns Hopkins Health System, to name a few of our larger
9 ones. We do some work for Marriot as well as HMSHost,
10 benefit plans for there. And we audit for 150 separate
11 benefit plans. One of my partners is a chair of the Greater
12 Washington Society of CPAs and benefit plan sector. Our
13 managing partner, Gray Smith, who is the proposed client
14 service partner, led Anderson's midatlantic employee benefit
15 plan practices prior to starting the firm back in 2005.

16 I myself and other partners have testified to GASB
17 and we have a lot of GFAO certificates in the firm. Slide 5,
18 Why us? You know, we believe it starts with quality. We
19 model our procedures after the Big 4 firms. That's kind of
20 what we grew up in. That's kind of our bread and butter, you
21 know, of how to serve clients. Every year that we've had a
22 peer review, we've received an unmodified peer review since
23 the inception of the firm.

24 We just completed our peer review in January of this

1 year. Unfortunately, that's not available at this time
2 because the National Peer Review Board is backed up with
3 those. We are not anticipating that is going to be released
4 until April or May at the earliest, but we do anticipate we
5 will be receiving an unmodified peer review with no comments.
6 We've had various desk reviews and peer reviews by various
7 governmental agencies with no major findings.

8 One of the things that we've done that's different
9 is that we've hired a full-time knowledge coordinator. And
10 that person's job is to really be a central resource for the
11 entire firm to be able to help capture knowledge and be able
12 to disseminate it out to all of our staff members. And that
13 includes training as well as periodicals as well as
14 opportunities that are identified through the firm.

15 We have a bullseye client service approach. What
16 this idea is we invite all of our partners and senior
17 managers on that. There's four interrelated components. It
18 starts with a quality product. Our opinion is going to read
19 just like your incumbent auditor, just like the other firms
20 that are out there today. We all pull from the same source.
21 We all follow the same standards, so we look at it -- say if
22 you picture a dart board, that's just like kind of hitting
23 the dart board and just being able to get on the outside.

24 As you move closer in, we say quality client

1 service, that is meeting or exceeding your deadlines,
2 anticipating your need for that. And when we say we've done
3 that, we've done a little better than quality product, but
4 we're not quite where we want to be. Then we say quality
5 relationship, and what a quality relationship means is that
6 we can have an open and honest conversation about your needs,
7 your challenges, items that come up during the course of the
8 audit. And that is an item that doesn't happen the first day
9 that we get started, but rather it's built upon.

10 And once we're there, then it gives us the
11 opportunity to -- we believe that we can provide quality
12 knowledge. That's what we're doing, is taking our industry
13 knowledge, our activities with the standard setters that we
14 converse with and being able to bring that information to
15 you, such that you're able to go and fully implement
16 accounting standards, issues, on a common-sense basis.

17 I can tell you that during implementation of the
18 GASB 67 and 68, we spent a lot of time talking with GASB and
19 the State of Maryland Retirement System. I won't bore you
20 with all the details. They had changed the funding
21 requirements to pass the funding to locals that used to be
22 all handled by the State of Maryland. If you're familiar
23 with GASB 67 and 68, you're supposed to spread that liability
24 based upon who's contributing to the fund.

1 However, the State of Maryland was actually going to
2 -- wanting to keep the entire net pension liability for the
3 teachers, which was not anticipated by GASB. So that's just
4 one example of what we would do, is work as an intermediary.
5 Gray Smith is actually a current board member of FASB, which
6 is Federal Accounting Standards Board, and through that role,
7 meets often with the members from GASB. We know most of the
8 people from GASB. We call pretty much any time there's an
9 issue. Of course we do that on a no-name basis, and just
10 presenting those so we can provide that to you.

11 And we employ a top-down approach, and what that
12 top-down approach means is when we start the audit, partners
13 and managers are involved in the beginning. We don't just
14 have staff come out and sort of run all around. So that
15 means that we would understand how your methodologies are.
16 We value your investments. We would then agree that those
17 methodologies make sense or we would provide what our
18 concerns are on that. And that's done in the beginning.
19 That's a conversation that myself would be having with you.

20 We'd say, Okay, we signed off on the methodology.
21 Then I can have my folks go through and do the work to
22 validate whether or not the methodology is actually what you
23 go through and you do. What we find is that we're a lot more
24 efficient and a lot more effective as opposed to kind of on a

1 traditional audit level that requires you to have a staff
2 person think they would find something, they come to you,
3 comes back, the senior comes to you, comes back, the manager.
4 And then by the time it gets to me, you've answered the
5 question four or five times, and oftentimes it's a pretty
6 easy item that we're able to get to.

7 We believe that issues that come up are not things
8 that just get easier as -- the answers just don't appear if
9 we wait on them, so what we try to do is really tackle those
10 up front and to go from there. That's a little bit about us
11 as a firm. I wanted to make sure I left enough time for
12 questions about us. Once again, really appreciate the
13 opportunity to present the conventions of the firm.

14 And we believe that if you were to choose us, you
15 would be -- you know, when we get to the end of the first
16 year, if you don't look back and say that was a wise
17 decision, we would say that we have not fulfilled our role
18 and would ask that you call our references and ask about the
19 changes, the difference the firm provides. So thank you very
20 much, and I'll entertain questions about us and we'll kind of
21 go from there.

22 MR. MAZZA: I have a question about your fee.
23 I noted that you guys have a \$1,000 increase in each year in
24 years two through four. Would you be willing to waive that

1 for a new relationship?

2 MR. SEYMOUR: Yes.

3 MR. RUBIN: How many people would be working
4 on our engagement?

5 MR. SEYMOUR: What we would typically have is
6 an engagement team that would probably be four or five folks
7 that would be there, two to three that would be onsite pretty
8 much every day. Then we would have a manager partner. We
9 would have our concurrent partner to come in and out.

10 As I mentioned earlier, when we kind of get started,
11 we'd set up meetings and kind of -- if you picture it, if you
12 said today, Bill, you're hired, and we were starting the
13 audit tomorrow -- bear with me, what we would do is I would
14 come and meet with you, sit down and say, Okay, let's walk
15 through your financial statements. Let's understand what's
16 in the numbers. Let's understand the accounting choices that
17 are made.

18 We would understand how it is that you reconcile the
19 information, that you would ensure that numbers are correct.
20 What is the high level understanding of the processes that
21 are in place, the methodologies for the investment
22 evaluation, how the actuarial information -- all of that is
23 kind of capped. And then what we would do is from that
24 information, we would then develop our audit plan.

1 And from there, we would build through that so that
2 our shop would be onsite, then validating what was that
3 discussion that we had up front. And so from there, myself,
4 the manager, as well as Gray Smith, we would be in and out.

5 MR. RUBIN: I would imagine you have a
6 diversity program?

7 MR. SEYMOUR: Yes, we do. I mean, we're a 70,
8 80 -- 86, 87% of the firms are owned by minorities. We have
9 seven partners, four of which are women. We have two white
10 males, myself being one of them, and our managing partner is
11 an African American male. We have four female partners,
12 three of them are African American and one is of Indian
13 descent.

14 MR. MAZZA: Rich, do you have any questions?

15 MR. SENSENBRENNER: Yes. Well, back to the
16 diversity program. I think in your proposal, you give an
17 outline of the entire firm? Is that in your proposal?

18 MR. SEYMOUR: Yes, page 2.

19 MR. SENSENBRENNER: I just ask as a follow up,
20 because -- if I can just make a suggestion to the Board just
21 to make sure we get that for each and every firm for
22 comparative purposes. I have a couple of questions. Given
23 the time allotment, if you can just answer them --

24 MR. SEYMOUR: I'll be as short as I can.

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1 MR. SENSENBRENNER: I'll give you a couple
2 seconds, but I'm going to beep if you go too long. One,
3 could you just briefly explain the difference between GASB 67
4 and 68 and the most important changes that each one applied
5 to financial statements?

6 MR. SEYMOUR: Between GASB 67 and then 68 or
7 between what was GASB 25 and 27 then 67 and 68?

8 MR. SENSENBRENNER: I'm the one asking
9 questions.

10 MR. SEYMOUR: I know, I just want to make sure
11 I answer it correct.

12 MR. SENSENBRENNER: I'm just joking, Bill.
13 The difference between 67 and 68.

14 MR. SEYMOUR: Okay. 67 primarily -- and I'll
15 try this as fast as I can, the 67 is really what we call the
16 actuarial standard. And what it did is it really -- GASB
17 laid out what were the requirements of the actuary, had the
18 following -- the development of the total pension liability
19 as well as the net pension liability, as well as lay down
20 what were the required footnote disclosures and required
21 information that a pension plan would have to include within
22 their financial statements.

23 MR. SENSENBRENNER: Good. And how about 68?

24 MR. SEYMOUR: 68 basically is the accounting

1 for a government. So in your case, you know, if the City of
2 Philadelphia had to adopt GASB 68, if you presumed that the
3 pension plan had no employees, GASB 68 wouldn't be applicable
4 to the pension plan because it's really -- what it drove to
5 the introduction of the recommendation of the net pension
6 liability on the entity-wide financial statements as well as
7 the concept of smoothing the investment returns as well as
8 changes in actuarial experience and someone that could be
9 floating through on a closed basis based upon the various
10 factors.

11 MR. SENSENBRENNER: That's good. Second
12 question, does your firm do opinions for GASB 68
13 multiemployer plans for the allocation of the MPL and other
14 factors? Do you opine on those?

15 MR. SEYMOUR: Yes, we do one for PCERS as well
16 as one for the State of Maryland Retirement System. And I
17 think we're actually just issuing PCERS 630151. If not
18 today, it's going to be tomorrow.

19 MR. SENSENBRENNER: Thank you very much. Do
20 you do any audits of the actual employer -- participating
21 employers? That would have to obviously implement the 68 as
22 well as plans who are doing 67?

23 MR. SEYMOUR: Yes. We audit a large number of
24 government entities. I mentioned the State of Maryland and

1 D.C., both of which had to implement 68 last year. I can
2 tell you the State of Maryland had to report a liability that
3 was in the neighborhood of \$17 billion.

4 MR. SENSENBRENNER: So on that point, did you
5 ever do a pension plan audit and a major participating
6 employee at the same time?

7 MR. SEYMOUR: Yes. The State of Maryland
8 Retirement System is one. That system is actually five
9 interrelated --

10 MR. SENSENBRENNER: Do you have any conflict
11 issues with that?

12 MR. SEYMOUR: No, because what it becomes is
13 the GASB was pretty clear on this, on setting it. When the
14 state -- or when the retirement system sets what the
15 allocation is, what was set by us performing that audit is
16 really -- allows each of the individual participating
17 government units to use that as audit evidence.

18 However, if that participating government unit has
19 better information, is able to do -- you know, you would go
20 to that, so ultimately, they're management's financial
21 statements. So I had some where you allocate a liability and
22 they have their own specific actuarial analysis that was
23 done. Why they did this is beyond me because it wasn't a
24 material difference, but you know, it's not a conflict.

1 MR. SENSENBRENNER: Very good. And last
2 question I have is, so my office in the Finance Department of
3 the City, the Accounting Office, we do the bookkeeping for
4 the trustees here for the Sinking Fund, for the pension plan.
5 And including myself, the office is rather green. We have a
6 lot of turnover. And so we're at the point where the auditor
7 has been very -- in the past couple years has been extremely
8 helpful in kind of coaching up me and my staff.

9 And we've made progress, but there's still a ways to
10 go. So the question is, do you see that within your
11 contractual ability to -- again, maintaining independence of
12 course, but again assisting in, in this case, my accounting
13 staff as we continue to hopefully get better in our financial
14 reporting duties?

15 MR. SEYMOUR: Yes. We believe that the
16 financial statement audit process really is a partnership
17 with independence kind of always maintained. But at the end
18 of the day -- I'll rephrase this. I'm not independent if I
19 make you out in footnote disclosures and accounting that you
20 don't understand.

21 And so what our process is really built upon is
22 really the coordination and discussion such that you're
23 completely up to speed and ideally, that you take GASB 72.
24 With adoption of that, we typically try to work with you a

1 year before, that way, if there are things that you need to
2 put in place, you've got a year to do it.

3 MR. SENSENBRENNER: Thank you very much. I'm
4 good.

5 MR. SEYMOUR: Thank you.

6 - - -

7 (Whereupon the representatives from Befit,
8 Lyons & Shuman, P.A. entered the meeting.)

9 - - -

10 MR. MAZZA: Just like the other candidates,
11 you'll have 15 minutes. I'll give you a two-minute warning
12 and we'll have some occasional questions at the end.
13 Whenever you're ready.

14 MR. FOURNARIS: My colleague is Maria Hurd.
15 My name is George Fournaris from Belfint, Lyons & Shuman from
16 Wilmington. And you may not have familiarity with us. Our
17 firm has been in business for 93 years in Wilmington and we
18 have a small office in West Chester also. And we have about
19 65 people at the firm.

20 So we received your request for proposal and Maria
21 and I discussed it and decided that we would respond to it
22 together. Maria's expertise is in the filed of pension
23 audits and benefit plans, and my background is in government
24 audits, state and local government. So we thought that we

1 would team up and approach your plan because your plan has
2 both, you're operating in both environments.

3 But actually, we work together on other clients as
4 well. And so we have our teams that I think are well
5 positioned to work on this audit and understand your
6 environment.

7 MS. HURD: For 20 years, we've been growing
8 the retirement plan audit area in my firm. And so in that
9 amount of time, what makes me -- what's most satisfying to me
10 is that I have an entire team that's dedicated to servicing
11 only retirement plans. It's about four people that spend
12 pretty much all of their time in this area.

13 So even though you might think it's from Wilmington
14 that it sounds far away, but there are a lot of clients that
15 we serve who are in the Philadelphia area as well as
16 Maryland, Virginia. Location is not really a challenge
17 anymore in this electronic day and age. And we service a lot
18 of the State of Delaware retirement plans as well as, you
19 know, regular single employer retirement plans that are
20 located in the entire mid-Atlantic area as well as even
21 further away. I mean, I have a client that I've serviced for
22 over ten years in Chicago and there's another one in
23 Oklahoma.

24 So my point being that location isn't really a

1 challenge for us, and in addition to that, we're only a half
2 hour away. A lot of the reason I spend a lot of time in
3 Philly is because I'm on the Board of the American Society
4 for Pension Professionals and Actuaries, the Philadelphia
5 Chapter for that. I'm the Treasurer for that one, as well as
6 the program's chair. And the reason that's significant is
7 because it has given me direct access to a lot of the
8 industry leaders as well as the people in charge of plan
9 audits at the IRS who I can, and I have, called in more than
10 one instance when there have been discrepancies between plan
11 operations and plan documents.

12 They have actually walked me step by step through
13 how to help my client become compliant with their own plan
14 documents. It's a pretty satisfying experience. Some of the
15 people in my group are serial test takers, so we have a
16 couple of qualifying 401k analysts and we have one currently
17 getting certified in actuary government pension plan. She's
18 getting a pension plan certification.

19 In addition, the younger the kids get, the better
20 they are at computers. So we have two people in our staff
21 that are incredible at data manipulation, and so for that
22 reason, one of my government plans is a defined contribution
23 plan that has 14 vendors -- 15 vendors. And we have
24 developed a program that allows us to know by person, by

1 payroll date, who didn't get their money into their account
2 at four different institutions.

3 And so for that reason, this government entity uses
4 us as a resource all the time just because we have the
5 capability that is very unique and very valuable in my view.
6 And they just know that we are available and that we are
7 passionate about the field. Not just to provide a stamp to
8 your audit, because generally, everybody passes their audit.
9 I haven't seen anyone who doesn't.

10 So where we like to differentiate ourselves is in
11 the value that we provide our clients in the form of a
12 resource when they want to streamline any sort of process or
13 just need our assistance for more than just a financial
14 statement, more than materially. I'm not trying to downplay
15 the importance of that, but I think that operational
16 challenges are what I enjoy dealing with the most and teaming
17 up with my client and helping them develop processes to
18 improve and just streamline their processes to get to where
19 they want to be.

20 And in more than one situation, it has been a
21 multi-year project. It's not something that we can
22 accomplish in one year, but we do, you know, kind of edge at
23 it and so that it's in a better position than it was last
24 time as every audit takes place.

1 MR. FOURNARIS: As Maria mentioned just now,
2 we feel we can add to the audit service over than in addition
3 to the opinion, which is important, is the fact that we can
4 work with you on issues that you may have, questions that may
5 arise during the year. Personally, I've been in public
6 accounting around 20 years, but in my previous life, I was a
7 Finance Director at the City of Wilmington. And in that
8 capacity, I was on several pension boards with the City.

9 So I've worked on pension audits and pension plans
10 from the inside and from the outside. I've worked with labor
11 unions. I've worked with actuaries and with different
12 investment guidelines that plans have to adhere to. So I
13 think maybe we bring a kind of -- that kind of understanding
14 to this audit should you decide to go with Belfint, Lyons &
15 Shuman. We've worked that way with other clients as well.

16 I think we have a good rapport with our clients.
17 They don't hesitate to call us during the year. We visit
18 with them during the year. It's not just, you know, at audit
19 time that they see us. And Maria also mentioned that our
20 team of younger people that we work with are becoming experts
21 in these fields as well. We have a couple of younger people
22 assigned to this task, but not really that young, but manager
23 level, supervisor level.

24 MS. HURD: Younger than us.

1 MR. FOURNARIS: Yes. But they are -- in
2 addition to being CPAs, they're pursuing other certifications
3 and other expertise. We have Michael Mast who is a CPA and
4 is also a certified fraud examiner. We have Stacey Snyder
5 who is assigned -- who is also a CPA and also a certified
6 pension consultant.

7 So we encourage our young people to further
8 themselves, to get additional certifications, to go for
9 additional education in their fields and become experts in
10 their fields. So these younger people oftentimes will,
11 instead of one of us, the younger people will become the
12 go-to people for the client as well. So we're proud of that
13 and it's part of the culture at Belfint, Lyons & Shuman.

14 MR. DIFUSCO: I think Maria -- I'm sorry to
15 interrupt, I think Maria had mentioned you do work for at
16 least one or two of the state pension plans in Delaware. Can
17 you just touch on that a little bit more? Maybe the clients,
18 if we might recognize the names of some of the other public
19 institutions you're doing work for?

20 MS. HURD: Certainly. I don't think it's a
21 secret because I think a lot of the audit reports are online.

22 MR. DIFUSCO: Sure.

23 MS. HURD: So the one with the 14 vendors is
24 the State of Delaware Employees Pension Plan.

1 MR. DIFUSCO: Okay.

2 MS. HURD: So it's basically every teacher in
3 the State of Delaware. So about \$25 million in contributions
4 every year going to that plan, those 14 vendors. I also do
5 the Defined Benefit Plan for the bus drivers' system. And
6 that one is actually a lot like yours. It's a contributory
7 plan and I saw that you have a 6% contribution level from
8 wages. And they have their own challenges in terms of the
9 software that they use. For some reason, it's glitchy.

10 So they really have used us from year to year to
11 make sure that the record of the after-tax contributions that
12 we have is actually accurate and complete for all those
13 people. Clearly, tax information too because when you get a
14 1099 for it, you're not supposed to pay tax on that money
15 again because it went in after tax. And so in many cases,
16 we've helped them make sure that the tax reporting is correct
17 for those pensions.

18 We are currently about to start a project. It's not
19 an audit, but it's a project for the Delaware River Port
20 Authority, which they requested they refute 500 pension
21 calculations. That's in progress, so there isn't anything
22 you can see on the Internet about that, unfortunately. Then
23 I also do the 457-B plan for the State of Delaware. And in
24 that one, the challenge has been the fact that to offer the

1 special caption for a 457-B plan, you have to have historical
2 data for contributions, not only to that plan, but the other
3 plans sponsored by the State of Delaware.

4 So they're really using us just to make sure that
5 what they're doing in determining what the maximum additional
6 contribution available to anyone who wants to use that plan
7 feature is actually an accurate number. So it's been really
8 a great opportunity to work with the State of Delaware
9 because they really have very interesting compliance but they
10 have operational challenges that they really want to correct
11 and work with us to do so.

12 So they're not really threatened, they just want to
13 partner with us to get to where they want to be. So
14 actually, out of all my 401k and pension plans that I audit,
15 I audit some unions as well, they're the ones that have been
16 more proficient and satisfying just because there are so many
17 challenges that we have tackled together. And they're always
18 in such a better position when we're done and never
19 completely there, so I don't think there's a perfect plan.

20 MR. MAZZA: Maria, a question on your cost.
21 Of all the audit candidates that we have had present to the
22 Board today, you guys have substantially the highest fee.
23 Can you just explain why your fee would be \$5,000 to \$6,000
24 more than the other firms we've had submit and what extra

1 we'd be getting out of that?

2 MS. HURD: Okay. Not knowing how they
3 determine their fees, what I can say about my many years in
4 practice is that I have very seldom have ever gone back for
5 additional fees, unless there's something that's, I think,
6 the client even acknowledges is beyond the scope of what an
7 audit would be.

8 But the value and the quality and the dedication to
9 the industry that we have by far exceeds many other firms, in
10 my experience, including firms larger than us. So I think
11 the value you get for your dollar from our firm tends to
12 justify the difference. Having said that, you know, small
13 differences are not necessarily a deal breaker for us, you
14 know. It's not something that you can't --

15 MR. MAZZA: So you would be willing to lower
16 the fee into the parameters of the 25-27 range that the other
17 candidates provided?

18 MS. HURD: We've done that more than once.
19 And I don't want to speak for George. I'm not the head of
20 the department, but you know --

21 MR. MAZZA: Two-minute warning.

22 MS. HURD: -- it's open for discussion.

23 MR. FOURNARIS: I'm not the head of the
24 department either, but that's certainly not unreasonable.

1 One of the things that you may or may not have an answer to
2 today is that we considered in putting together the proposal
3 was that we hadn't seen the June of '15 audit yet. So, you
4 know, there may be something there that is going to be
5 resolved quickly that will give us some comfort going forward
6 as well.

7 MR. MAZZA: I'm pretty sure it's on our
8 website, the City Treasury website, the Sinking Fund
9 Commission. It should be posted on there.

10 MR. FOURNARIS: I checked this morning. If
11 not, I'll check this afternoon then. But anyway, as Maria
12 said, we certainly can work with you on that.

13 MR. RUBIN: Does your firm have a diversity
14 policy?

15 MR. FOURNARIS: We have a diverse firm.

16 MS. HURD: He's Greek and I'm from Puerto
17 Rico, so I don't know if there's a policy, but I think we do.

18 MR. RUBIN: Okay. Could you send that over,
19 and the breakdown of women and people of color in the firm?

20 MS. HURD: Yes. We bid on a lot of state
21 jobs, so I'm sure that we do.

22 MR. GILBERT: Do you participate in the peer
23 review process?

24 MS. HURD: Of course.

1 MR. GILBERT: And how did the last meeting go?

2 MS. HURD: Amazing. I actually get hit the
3 hardest because there's a rule that if you belong to the
4 employee benefit prime quality audit center for the ACPA,
5 they have to select one of each type of audit that you do for
6 benefit plans only. So they audit more my plans than anyone
7 else's because they have to pick 403-B, they have to pick a
8 pension plan, they have to pick a defined contribution plan,
9 they have to pick a non-profit, they have to pick a
10 government plan, or one of the unions, or I do some welfare
11 plans. So they really hit me hard on the peer review and we
12 would always pass with flying colors.

13 And in addition, they study the qualify of audits
14 like my own. They study the auditors and that there's a 39%
15 deficiency rate in our reports for retirement plans. In that
16 study, they establish a correlation between the size of the
17 practice for the retirement plan audit practice and the
18 number of deficiencies that they found in the audit report.

19 And as a result of that study, they sent a ton of
20 accountants to the ethics division of their board of
21 accountants, so we got some clients because they rejected
22 three years of forms 5500, which I know you don't have. But
23 we have to submit all of our work papers for those reaudits
24 to the Department of Labor and they couldn't say enough nice

1 things. So, you know, the quality of the practice area is
2 definitely there and I'm more interested in growing the
3 practice than I am getting an additional dollar.

4 MR. MAZZA: Great. Rich, do you have any
5 questions?

6 MR. SENSENBRENNER: I have about four
7 questions that I'm just asking everyone. And so if you
8 would, given the time, I just need a couple sentences, if not
9 less, for this. But could you just explain to me -- or to us
10 the difference between GASB 67 and 68?

11 MR. FOURNARIS: Well, to give you a short
12 answer, GASB 67 is more from the plans perspective and GASB
13 68 is more from an employers' perspective. We've recently
14 worked with several of our clients to make that conversion
15 and that included the City of Wilmington and included the
16 Delaware State Housing Authority.

17 MR. SENSENBRENNER: When you say the City of
18 Wilmington, are you doing both the 67 for the plan and 68 for
19 the employer? Are you doing both or one for one and one for
20 the other?

21 MR. FOURNARIS: The City of Wilmington has a
22 pension plan and the police and firefighters' pensions are
23 required to report separately, the others are not. So we've
24 separately issued those two pension plans in addition to

1 doing the audit of the City of Wilmington's basic financial
2 statements on capital.

3 MR. SENSENBRENNER: Okay, good. Thank you
4 very much. For any of your work, do you have to issue an
5 opinion like on the GASB 68 multiple employer plan
6 allocations allocating the NPL for outflows to different --
7 were you issued an opinion on the actuary work?

8 MR. FOURNARIS: No, I haven't. We have used
9 reports from others in our work, but we have not done that
10 with ours.

11 MR. SENSENBRENNER: Have you done any work for
12 the City of Philadelphia in the past, like for the
13 Controller's Office or any other non-pension plan work?

14 MR. FOURNARIS: We have not. And we're
15 looking forward to it.

16 MR. SENSENBRENNER: Okay, very good. And just
17 one last question, within the scope of your contract
18 proposal, I'm sure this happens in a lot of your clients, so
19 I work in the Finance Department and Accounting Office for
20 the City of Philadelphia, and we are the bookkeeper for the
21 Sinking Fund for this pension plan. And we've had a lot of
22 turnover in the last couple of years, including myself, so we
23 have a lot of relatively green accountants who -- I'm still
24 learning 25 and 27, you know.

1 So the past auditors have been very helpful to
2 myself and my staff in bringing us up to speed and helping to
3 -- maintaining independence but helping us get the financial
4 statements together. In the scope of your contract, do you
5 see that ability to perform that service that's somewhat
6 outside strictly auditing the statements?

7 MR. FOURNARIS: Yes. In preparing the
8 proposal, we reviewed the comments that the current auditors
9 had, and I can see that there's a need to work together to
10 get the financial statements to where they need to be so they
11 can be audited. We certainly would offer any of our
12 experience and time to you to help in that effort.

13 MS. HURD: When we first got the Cigna 430
14 plan to audit, it was missing 14 assets on the bench. And so
15 we've been instrumental in getting the statements complete
16 and accurate and that has been a challenge just because the
17 contracts are separate for their 430 plan. So they view so
18 extensively for accuracy, and that's what we enjoy.

19 MR. SENSENBRENNER: Good.

20 MS. HURD: You can see that online too.

21 MR. SENSENBRENNER: Okay, thank you very much.

22 - - -

23 (Whereupon the representative from JTGGoldstein
24 entered the meeting.)

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2 MR. MAZZA: Okay. 15 minutes, guys, and there
3 will probably be questions at the end.

4 MR. GOLDSTEIN: Okay, well let's get to it. I
5 don't know if we're the last thing on the agenda so I don't
6 want to hold you longer than you are now. But by way of
7 introduction, my name is Jovan Goldstein. I'm the managing
8 partner of JTGGoldstein, which is a CPA firm based in
9 Philadelphia with a national client base. What we do at the
10 end of the day, we help our clients make confident business
11 decisions, which means that none of our clients make any
12 significant business decisions without first consulting with
13 us.

14 We are a full service firm. We do tax, we do
15 accounting services, but we also do full advisory services as
16 well as investigator services. We picked those other two
17 nitches because we believe that they cross lines into the
18 other areas of practice. Obviously, from a CEO standpoint,
19 it allows us to give advice from the investigator standpoint,
20 allows us to spot issues as well as -- because we work on a
21 host and buy and sell deals, a host of helping attorneys with
22 cases and things of that nature. So we're always looking at
23 things from a business perspective.

24 So it's a pleasure to present to you today. To my

1 left is Maurice Tucker who will serve as the engagement lead
2 if we are so fortunate to land this account. And our
3 presentation will be brief, you know. We do want to have an
4 opportunity if you have any specific questions of us. But we
5 don't want to insult your intelligence and kind of rehash
6 what's in the proposal that we submitted back in November
7 rather than just tell you a little bit about ourselves, if
8 that's okay with you.

9 So with regards to our team, you know, I mentioned
10 that I would be the engagement partner with the overall
11 responsibility on the account. I would be the one that will
12 attend all key meetings and then force down the tone of the
13 engagement from the top to the bottom. Maurice Tucker would
14 be the person that's actually out in the field that's leading
15 the staff and working as the main liaison on the account. We
16 believe we're uniquely qualified to handle this account based
17 on our existing experience.

18 When we talk about our background, we do have an
19 existing relationship with PGW whereas we were selected and
20 sought out by KPMG to actually join their team to do the
21 audit of PGW last year. It was the first year of our
22 engagement. It went well and we look forward to continuing
23 that. We just want to point out that we do have an existing
24 relationship.

1 With regards to our industry expertise, we are
2 members of the Employer Benefit Quality Control Center, if
3 you're familiar with that. That is an AICPA designated
4 center where it provides us with tools. We have to get
5 certain professional training when it comes down to obtaining
6 our peer reviews. We have to pick all of our pension audits
7 and make sure that they look at those separately and kind of
8 issue an opinion on whether or not it conforms with all the
9 applicable standards, so we are proud members of that.

10 And we are home based, you know. And what I mean by
11 that is that you're looking at the leadership where it's --
12 you know, we're from Philadelphia. We live here. We raise
13 our children here. We've been schooled here. We have a
14 national client base and we still decided to stay here. And
15 I'm not advocating that that's going to make us better
16 auditors, right? I'm not saying that. But what I'm saying
17 is that we're invested in the city more than just on this
18 account, you know. If you look at our names, we'll have PGW
19 accounts in our names. So it's a point where --

20 MR. MAZZA: Whether you're happy with that,
21 that's another --

22 MR. GOLDSTEIN: Well, I'm not here to raise
23 any opinion on that. But, you know, bills are paid and we
24 know the value and experience to services that's being

1 provided and how important it is. So you are dealing with a
2 firm that looks to hire local talent, looks to do things
3 locally because we just believe in the city.

4 MR. DIFUSCO: In addition -- I'm sorry, in
5 addition to PGW, can you just maybe review some of your
6 other, particularly on the public pension or public side,
7 some of your other clients maybe that we would know, you
8 know, instinctively by name?

9 MR. GOLDSTEIN: Philadelphia Orchestra,
10 Philadelphia Housing Authority. We worked on the
11 Philadelphia Municipal Pension Plan for a period of time.
12 You know, so we do have great experience in that.

13 MR. DIFUSCO: Thank you.

14 MR. GOLDSTEIN: You're welcome. As far as our
15 commitment, you know, to the best of our ability, we
16 understand from doing audits from year to year, we're very
17 fortunate to have the audits for multiple years. We're
18 promising the staff continuity. We want to make sure that
19 it's the most efficient process for the organization. So,
20 you know, we do everything within our power to retain staff
21 and train staff.

22 So it's like, you know, we're making an investment
23 in the account but you're also making an investment in us as
24 well and we view it as such. So therefore, we make sure that

1 we kind of keep the same individuals assigned to the account.
2 As far as effective communication, you know, we're really,
3 really big on the communication aspect. Fundamentally, we
4 believe 95 to 98% of all the problems that could coexist is
5 the failure of communication.

6 So we take pride in making sure that you know what's
7 going on throughout the course of the engagement, that you
8 know what's going on during the course of the year as things
9 arise, and that, you know, we look for our clients to kind of
10 call on us when things happen. Things change all the time,
11 so we can keep the communication pipe strong and make sure
12 that, you know, we're on the same page throughout the course
13 of the year. So our commitment is definitely effective
14 communication.

15 And then you'll have the leadership involvement.
16 And the reason I'm putting these three points here like that
17 and highlighting them is that at the end of the day, if we're
18 fortunate enough to get the account, these are some of the
19 measuring sticks that, you know, we want to say that, Hey,
20 have you accomplished it or not? You know, we run our firm
21 by metrics, just like most companies do, and some of the
22 metrics that we have are associated here.

23 And my commitment from a leader standpoint is that I
24 will be involved intimately into the engagement. And with

1 that said, I'll just pass it over to Maurice Tucker who will
2 talk briefly about our audit approach, which is kind of
3 outlined in our proposal, but just to give you a little
4 insight on what we plan to do.

5 MR. TUCKER: And I'll just touch on a few
6 points. Good afternoon, everyone. We thank you for having
7 us and taking the time to hear us as we break down the
8 details. Talking about our approach, I mean, from transition
9 to execution, and basically transition just deals with -- if
10 we were to be awarded the engagement, we'd have to have your
11 permission to speak with the predecessors to just basically
12 meet with them.

13 It's a required communication just to outline if
14 there was any difficulties, any disagreements, or any other
15 challenges that we have been faced, or anything -- just
16 things that are general knowledge that we should probably
17 know about. From there, we go into our objectives and our
18 scope, which basically would be to issue an opinion based on
19 our audit. And that's just under generally accepted
20 accounting principals in the United States and governmental
21 auditing standards.

22 Basically, management's responsibility is to prepare
23 the financials. Our responsibility is to issue that opinion
24 on those financial statements. We also just mentioned that

1 we don't specifically audit -- issue a report on conservative
2 controls, but we can do some best practices and
3 recommendations and things of that nature upon completing the
4 audit. From there, we get into the biggest part of the
5 audit, which is usually the planning phase.

6 We really just try to identify and assess the
7 particular risk to this particular engagement. That would be
8 to the particular plan itself, the industry, and the overall
9 organization. This is where we will devote most of our
10 attention, just to make sure that we can move through things
11 in an efficient and effective manner. From there, we assess
12 the internal control. This is basically just looking at how
13 -- we understand the process for how transactions are
14 processed from the original source documents all the way up
15 until the financial statements.

16 That is also another thing we continue to identify
17 and assess risk for any possible breakdown in those controls
18 that could probably lead to some potential material
19 misstatement. Once we've done that planning and internal
20 control, we develop our audit procedures, which basically
21 customizes how you're going to obtain our entities about the
22 amounts in the disclosures in those final statements.

23 This is usually done by audit programs, which are
24 also tailored to the specific client in the history of the

1 organization and we go through these different steps to
2 determine whether we've come up with the evidence to support
3 what the numbers are telling us. After that, you know,
4 that's part of the field work when we come out and actually
5 are on site. After that, we huddle up as a team back in our
6 office or in a conference room on the site and determine
7 whether or not we're ready to put together a draft to report
8 those related footnotes and financials.

9 And we present that to management, iron out any
10 disagreements, any discrepancies and challenges. And from
11 there, you know, once we finalize all of that, we're pretty
12 much ready to issue a final with the particular governing
13 board and management and basically discuss our required
14 communications at that conclusion and issue a final report.
15 And that basically concludes the cycle. And we talked, you
16 know, as Jovan mentioned, effective communication post audit
17 as well because we like to think we are a resource.

18 We have information. We have knowledge. We also
19 like to keep abreast of anything that's going on during the
20 course of the year on the client's end as well so that it
21 doesn't feel like oh, we're just starting all over again with
22 the audits. So this whole cycle begins again, just minus the
23 element of transition. That basically outlines our approach.

24 MR. GOLDSTEIN: Thank you, Maurice. So with

1 regards to what we consider to be a long-term value --
2 because again, if you make an investment in us, we see this
3 as a relationship that goes both ways, right? It has to go
4 both ways. So what we see the value to be is that, you know,
5 we come from an advisory perspective.

6 We know the line between management and auditor, but
7 we do come from an advisory perspective where we want to make
8 sure that, you know, if we see something based off our
9 collective experience that's out in the industry that people
10 are doing, things of that nature, we want to make sure that,
11 you know, we can give you advice and hopefully that you're
12 open to that.

13 We firmly understand the fiduciary responsibility of
14 the Commission, you know. We do a great deal of board
15 training. We do a great deal of just making sure that the
16 board is really aware of what their responsibilities are as
17 well as, you know, helping them to make sure they know how to
18 look at the information when they receive it, you know,
19 because you can't assume everyone on the Board has the
20 financial expertise, things of that nature.

21 So, you know, we spend a lot of time making sure
22 that the communication at that level is so transparent in
23 such a way where, you know, everybody is comfortable with
24 what's being presented at the end of the day. So, you know,

1 we really understand that fiduciary responsibility and have a
2 commitment of making sure that, you know, it's clear from our
3 firm. We're really efficient from a technology standpoint.
4 You know, we joke at the office that we spend more money on
5 technology probably than we do marketing.

6 But the reason being is that we want to make sure
7 that all of the -- we use platforms that are used by firms
8 that are way larger than us, you know. We're on the Thomson
9 Reuters platform a lot and making sure that we get all the
10 information. Our libraries -- we used to have libraries that
11 fill up this room, but now everything's computer based. We
12 really believe in operating that way so that the information
13 is pushed to us in such a way that it can feed to you.

14 So, you know, we believe in efficiency with
15 technology and it's a commitment that our firm -- and then
16 transfer the benefits to you. We're able to do things at a
17 competitive cost, what we say, as well as educate you
18 throughout the process, and at the end of the day, help you
19 make confidence decisions. You know, we like to view
20 ourselves as auditors that say, you know, people call us and
21 say, What do you think about this, you know, we're about to
22 go in this direction, you know. You were doing securing
23 lending at one point and now you're not doing security
24 lending per the last audit report I have seen.

1 You know, but that's an area where you might want to
2 do something -- go to some other alternative of investment.
3 You know, we would want to be leaned on versus the after
4 effect of this is what you did, because everything has all of
5 the ramifications, you know.

6 So we just want to put it out there in the beginning
7 that, you know, we look to be a business advisor as well or
8 at least be able to waken. And with that said, that
9 concludes the presentation. I'd rather open up the floor to
10 any particular questions that anyone else has.

11 MR. RUBIN: How many employees do you have?

12 MR. GOLDSTEIN: We have nine employees.

13 MR. RUBIN: Nine?

14 MR. GOLDSTEIN: Yes.

15 MR. RUBIN: How many would be on this
16 engagement?

17 MR. GOLDSTEIN: Three total. You would have
18 us and then another staff member.

19 MR. MAZZA: So 33% of the firm would be on the
20 account?

21 MR. GOLDSTEIN: Yes. If you want to do the
22 math, yes.

23 MR. MAZZA: That's the most we've had.

24 MR. GOLDSTEIN: Yeah, I mean, we're selective

1 with clients too and opportunities. So, you know, you're not
2 sitting with a firm that just goes after everything as well.
3 So, you know, so we know what we're doing with regards to
4 that.

5 MR. MAZZA: In terms of your fee, it's
6 \$25,700. Is that a fee for all four years, each year?

7 MR. GOLDSTEIN: Each individual year, yes.

8 MR. RUBIN: Do you have a diversity policy?

9 MR. GOLDSTEIN: We do, and that was submitted
10 in the proposal.

11 MR. GILBERT: Have you participated in the
12 peer review process?

13 MR. GOLDSTEIN: Yes. Our peer review results
14 are in the proposal. We had no letter of comments. We had a
15 clean bill of health. We have them again this year as well,
16 and we expect the same results.

17 MR. MAZZA: Two-minute warning. Rich, do you
18 have any questions for these gentlemen?

19 MR. SENSENBRENNER: Yes. I have four
20 questions I've just been asking everyone.

21 MR. GOLDSTEIN: Sure, no problem.

22 MR. SENSENBRENNER: So if you could, given the
23 length of time and the questions I'm asking -- I mean, your
24 answers can just be a sentence or two. Don't think you have

1 to go on and on, so if you could be very short on these
2 answers.

3 MR. GOLDSTEIN: I can be succinct.

4 MR. SENSENBRENNER: Okay. First of all, can
5 you just explain the difference between GASB 67 and 68?

6 MR. GOLDSTEIN: When you say -- one has to do
7 with post-employment benefits and to me, none of those apply
8 to you. You know, when I looked at it and did the research,
9 we're talking about 72, which is new which is the fair value
10 investments that may apply here. Because I don't believe the
11 other ones do, and that was in our proposal as well.

12 MR. SENSENBRENNER: Okay.

13 MR. RUBIN: I don't think I understood that.
14 So 67 doesn't apply to us either?

15 MR. GOLDSTEIN: 67 -- to my knowledge, 67 does
16 not because it's post -- it has to do with post-employment
17 benefits. I stand corrected on that, but to my opinion it
18 does not.

19 MR. SENSENBRENNER: Okay. Have you guys done
20 any opinions on GASB 68 in regards to multiemployer plan
21 allocations of like MPL or for outflows? It's kind of a --

22 MR. GOLDSTEIN: No, we have not. The only
23 multiemployer plan I have experience with is Girl Scouts of
24 America up in New York and that was governmental.

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1 MR. SENSENBRENNER: Okay, thank you.

2 MR. GOLDSTEIN: Oh, and Essex County in Orange
3 County, New York. That's a multiemployer plan as well.

4 MR. SENSENBRENNER: Okay, thank you. Have you
5 -- forgive me if I missed this, so you have performed and
6 been the lead auditor in various pension plans like
7 Philadelphia Orchestra and PHA?

8 MR. GOLDSTEIN: PHA, yes. I was partner on
9 the account.

10 MR. SENSENBRENNER: For their pension plan?

11 MR. GOLDSTEIN: Yes.

12 MR. SENSENBRENNER: Okay. And how about on
13 the other side for like the participating employers? Have
14 you been an auditor where you had to incorporate GASB 68 for
15 the employer side of things?

16 MR. GOLDSTEIN: No.

17 MR. SENSENBRENNER: And I know this is
18 probably in your proposal, but have you done much work in the
19 past with the City on non-pension audits? Like I know the
20 Controller does a lot of work with the CPA firm. Do you have
21 a history of working with the City on other engagements?

22 MR. GOLDSTEIN: Yes. Worked on Parking
23 Authority -- I mean, with the Parking Authority, a report was
24 issued with the airport.

1 MR. SENSENBRENNER: Okay, thank you. And my
2 last question is this: Now, again, my role in this kind of
3 scheme of things is I'm the -- my office is under the Finance
4 Department and Accounting Office. I'd say we're simply the
5 bookkeeper for the trustees of the Sinking Fund for their
6 pension plan. And my staff is relatively new. We've had a
7 lot of turnover in the last couple of years.

8 So the current and prior auditors have been very
9 helpful in kind of bringing us up to speed and of course
10 maintaining independence but helping us along as we prepare
11 these financial statements for the ride. Within your scope
12 of your contract proposal, do you see your firm as being able
13 to provide that expertise and guidance for the accounting
14 staff itself?

15 MR. GOLDSTEIN: When you say expertise and
16 guidance, do you mean as far as helping you --

17 MR. SENSENBRENNER: Yes. So like for example
18 right now, we have a very unique relationship with PGW where
19 they perform -- they actually perform a lot of the
20 administrative work of running the pension fund and they keep
21 their books appropriately. And then they supply us at year
22 end with a lot of the adjusting that we need to make to the
23 final statements.

24 And that's something that obviously we want a help

1 currently from the auditors. That's something that my staff
2 needs to -- and myself need to gain a better understanding of
3 how we do that so we can kind of alleviate that as a burden.
4 So it'd be just stuff like that, assisting and putting the
5 books -- ensuring that we're putting the books together
6 correctly so thus we have a good product and we can give you
7 guys the audit, so it's your technical expertise.

8 MR. GOLDSTEIN: Yeah, that's standard. And I
9 guess the theme of, I guess, our firm is that we want to be
10 there to help you with that expertise. So in that process, I
11 mean, hopefully there's templates and things because an audit
12 -- it's not like an audit happens once every five years, it
13 happens annually, right? So from year to year, efficiency
14 should be gained. If we can learn what the disconnects are,
15 it's relatively simple to kind of weigh in and say, you know,
16 what needs to be done.

17 MR. RUBIN: Have you looked at prior audits
18 that were done?

19 MR. GOLDSTEIN: We have, and one of the
20 concerns, I mean -- well, I haven't seen the most recent one
21 because we submitted this back in November. So I guess 2014
22 was the most recent one that was issued. And there was a
23 finding associated with, you know, I guess the accounting not
24 being up to speed pretty much and a lot of significant audit

1 adjustments and things of that nature.

2 Although I don't really know the background of it
3 other than what's in that report, but, you know, it sounds to
4 me that I guess that's why you raised the question. But
5 again, that's standard stuff, of this communication
6 throughout the course of the year. I mean, if you're coming
7 at the audit time and saying, Hey, I need the help, that's
8 something different than us going throughout the course of
9 the year and saying, Hey, we anticipate these challenges.
10 This is what's happening.

11 So I'm pretty sure PGW doesn't give you everything
12 all at once. And if they do, then I'm recommending that that
13 change, you know. You can do things throughout the course of
14 the year to always be ahead of the game.

15 MR. SENSENBRENNER: Thank you, gentlemen.

16 - - -

17 (Whereupon the representatives from
18 JTGGoldstein left the meeting.)

19 - - -

20 MR. MAZZA: So Commissioners, as you can see,
21 the fees that I attached are here. Any discussions? I
22 personally, you know, I was very impressed by JTGGoldstein,
23 I'm not going to lie. I thought that they did a very nice
24 job. I they think that they're a lower fee.

1 In terms of my overall gist of things, I like lower
2 fees in everything. They're a lot cheaper than Withum.
3 Withum is going to go up 5% every year. I looked it up. You
4 know, Belfint, their fee, I don't see them lowering it
5 \$5,000.

6 MR. RUBIN: So why would we be switching out
7 from the current?

8 MR. MAZZA: I just think giving the
9 opportunity to another firm, I think, to see what they can do
10 would be my opinion, but I think Withum's also done a good
11 job. So that's up to you guys.

12 MR. RUBIN: I guess I get concerned with
13 switching away from an incumbent who's still doing a good job
14 unless we have a reason to want to switch.

15 MS. JOHNSON: That was one of my questions.
16 With the incumbent, is staff pleased with the work they've
17 been doing?

18 MR. MAZZA: The incumbent has been very, very
19 good to us. They've been very responsive and they've, you
20 know, in all essence, they've done everything that we've
21 asked. And they've actually worked with Rich's staff very
22 well, and Rich can attest to that, that James and the team at
23 Withum have been very good.

24 MR. RUBIN: So with that being said, Rich,

1 when we're looking at -- both of the last two that came in
2 commented on things they saw in the last couple of audits or
3 that could be correct in going forward. So was it things
4 that Withum just from -- and put into the audit or was it
5 something that the City and Withum together have been working
6 on but they have been to reported, and there have been
7 progress since that point going forward now? Did I make that
8 clear?

9 MR. SENSENBRENNER: Yes. It would be that
10 certainly when I started about two and a half, three years
11 ago, we could not have gotten out a clean opinion without
12 Withum's help. That probably goes back to not only three
13 years ago but two years ago and last year. They've been
14 instrumental, and again I say that of course maintaining
15 their independence, but helping myself and the staff be able
16 to produce a financial statement that you guys always get
17 every year.

18 So, you know, I really can't speak high enough in
19 regards to what Withum has done and the reporting has been
20 spot on. I mean, they reported that my staff needs to
21 improve our game and that's absolutely the case. I feel we
22 are, as a matter of fact, and I think Chris can attest to
23 this, we really concentrated on meeting the pension fund over
24 the last couple of years knowing that, with my staff

1 resources, that's where I needed to really spend my
2 attention.

3 And I really relied on Withum to help me out, quite
4 frankly, knowing that this is the year we're really going to
5 switch over and make some improvements in our work product
6 for you guys.

7 MR. RUBIN: The Controller's Office.

8 MR. SENSENBRENNER: For the Board, you know.
9 So but certainly, what I see, you know, and I'll make two
10 observations and then maybe I'll leave for you guys to
11 deliberate and if you want me to stick around, I can. But
12 the last group obviously is very green and the fact that they
13 didn't answer the question on GASB 67 or they answered it
14 incorrectly gives me major pause.

15 MR. MAZZA: What did they mean that GASB 67
16 didn't apply to this plan, because that --

17 MR. RUBIN: His final answer was, "And I could
18 be corrected if I'm wrong." So he would be corrected and he
19 was wrong.

20 MS. JOHNSON: Right. And it was clear that he
21 didn't understand.

22 MR. RUBIN: I think SB & Company was very
23 good. I think he was solid in what he did. And if you told
24 me there was a reason we would be shifting out, I would like

1 to seriously consider them. But I think Withum is doing a
2 good job from everything I'm hearing and what I always
3 experienced. So I would find it hard pressed to move away
4 from them without some kind of reason that says, Hey, these
5 guys should be transferred out.

6 MS. JOHNSON: And I would tell you that Withum
7 and SB were my number one and number two. I don't have any
8 test to see which one was one and which one was two, but they
9 were the top two from the presentations and the way that they
10 answered the questions.

11 MR. RUBIN: So I would make a motion that we
12 retain with them as our auditor going forward for the next
13 period of four years.

14 MR. GILBERT: Four-year engagement?

15 MR. RUBIN: Yes.

16 MR. DIFUSCO: Bill, just a point of order.
17 Can I just ask you, could we do something -- would you have
18 any objection to us doing, you know, prior to us telling
19 them, try to get the cap or whatever lowered a little bit,
20 not contingent on blowing the deal?

21 MR. RUBIN: We're always amenable to that.

22 MR. MAZZA: Let's have them match
23 JCGoldstein's fee.

24 MR. DIFUSCO: Obviously, you know, when we did

1 something similar with PFM, it made a major difference and I
2 would like to be able to do that.

3 MR. MAZZA: The only reason why I like
4 JCGoldstein was they had the lowest fee and I thought they'd
5 be more aggressive with doing things for us. But if we can
6 get Withum at \$25,700, I think that'd be a phenomenal deal.

7 MR. RUBIN: So the motion is that we will hire
8 them at \$25,700 if they're amenable to that and if not,
9 you'll bring it back to the Board and we'll have to evaluate
10 whether or not we want to pay them a higher fee if they
11 counteroffer.

12 MR. DIFUSCO: Okay.

13 MR. GILBERT: I understand the motion.
14 Second?

15 MS. JOHNSON: Second.

16 MR. GILBERT: Any questions on the motion?
17 All those in favor?

18 (Aye.)

19 MR. GILBERT: Motion carries. Next update is
20 a memorandum.

21 MR. DIFUSCO: So we wanted to give the
22 Commissioners a full update. You can probably recall from
23 the last meeting, the Commission asked us, or authorized us,
24 to form a working group in conjunction with the Law

1 Department, a couple of folks from the Mayor's office that
2 participated. And then because of the meetings, you know,
3 requires just one member of the Commission with an alternate,
4 and that was Bill from the Controller's office.

5 So we had a kickoff meeting about a week ago and --
6 excuse me, back in February, rather. And about a week ago,
7 with Ellen's help, sent out a memo to the members of that
8 working group just flushing out some of the ideas, possible
9 areas where the principals or resolution can be tweaked, for
10 lack of a better word, where changes can be considered if
11 there was a desire to look at amendments.

12 I think the plan is, you know, to get feedback from
13 all the members of the working group and have another sit
14 down with these folks and and try to flush this into
15 something that's more, you know, a more formal proposal.
16 That's the direction. And if Bill or Ellen wants to add to
17 that, I think that's a brief and fair summary of where we're
18 at.

19 MR. RUBIN: It was brief, it was fair, and I
20 think we can move forward with the same working group.

21 MR. DIFUSCO: Okay, thank you.

22 MR. GILBERT: Small cap index manager
23 response?

24 MR. DIFUSCO: Sure. So we would like to

1 present the results of that formally at the next meeting.

2 And it's just a question of -- I think all of you know, or if
3 you don't, I apologize, we received two responses which have
4 been pretty standard when we've done an index of Rhumblin
5 and Northern Trust. They've been in once or twice on prior
6 engagements. I don't think Rasheia has had the pleasure of
7 meeting with those folks yet. I think the other
8 Commissioners have.

9 Rhumblin came in at their traditional very low fee,
10 two and a half basis points. Northern Trust is usually a
11 little bit higher. They're at eight basis points. So we'd
12 like to present, you know, a written summary or a formal
13 summary at the May meeting.

14 What we didn't want to do -- we don't know if
15 there's a desire from the Board to hear from those folks, you
16 know, formally at the table recognizing its index manager and
17 have a fairly standard process, or if you're comfortable with
18 just a written report. And so it's really a question for the
19 folks at the table.

20 MR. GILBERT: So the question is do you want
21 to bring in a formal presentation for the next meeting?

22 MR. DIFUSCO: Right. We would present a brief
23 or a formal report from staff outlining the responses. The
24 question is, in addition to that, would the Commissioners

1 like them to come in, the index manager? I know, Ben, you've
2 heard them a couple times. Bill and Alan have. Rasheia
3 obviously has not and we want to be respectful of that. If
4 you want to hear from them, by all means we'll bring them in.

5 MS. JOHNSON: As one that hasn't heard from
6 them, I'm okay with the report from staff since the remaining
7 Commissioners have heard.

8 MR. DIFUSCO: Okay. So we'll present the
9 brief report as well as highlights from the formal response
10 at the meeting.

11 MR. MAZZA: And, I mean, just in comparison,
12 the average basis points that we paid in the plan in the
13 fiscal year 2014 was 49.4 basis points. Since we have
14 started putting in index managers in our strategy, we've
15 lowered that to 39.4 basis points in the fiscal year 2015.
16 So we've lowered -- it was about \$300,000 in fees by doing
17 that.

18 So with small cap managers as well, their fees vary
19 anywhere from the 35 to 40 basis point area up to the 60s.
20 So, I mean, you can see the difference between that and 2.5
21 basis points is substantial. So we will get a report for you
22 guys for the next meeting.

23 MR. RUBIN: And we'll go through that, and
24 then if there's questions, we can bring them in.

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1 MR. DIFUSCO: Sure, absolutely. We didn't
2 know if you wanted to hear from them from the start. We
3 wanted to be respectful of that.

4 MS. JOHNSON: Yeah, that's fine. Thank you.

5 MR. DIFUSCO: Thank you.

6 MR. GILBERT: Any other business?

7 MR. RUBIN: Motion to adjourn.

8 MR. GILBERT: We're adjourned.

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C E R T I F I C A T I O N

I hereby certify that the proceedings and evidence noted are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter dated March 9, 2016, and that this is a correct transcript of the same.

Amy Marzario
Court Reporter - Notary Public

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