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Luther Speight & Company CPA's

**EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF NEW ORLEANS**

**FINANCIAL STATEMENTS TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7/29/09

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Council  
of the City New Orleans, Louisiana

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of New Orleans (The Plan), a component unit of the City of New Orleans, as of December 31, 2008 and the related statement of changes in plan net for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Retirement System of the City of New Orleans as of December 31, 2008 and the changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules on pages 24 to 25 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2009 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



New Orleans, Louisiana  
June 11, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of the Employees' Retirement System of the City of New Orleans. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the year ended December 31, 2008.

### Financial Highlights

- The plan net assets showed a change as compared to the previous year. The actual change reflected a decrease of \$ 145,456,651 or 35.2%.
- Net Depreciation in fair value reflected a balance of \$126 million for the current year. This balance accounts for the majority of the decrease in plan net assets and represents a decrease of \$152 million as compared to the previous year.
- The Plan's Annual Required Contribution (ARC) increased significantly from the previous year level of \$9.4 million to the 2009 ARC of \$17 million. The dramatic increase is primarily related to the net depreciation in fair value as discussed above.
- Total contributions to the Plan remained relatively constant with the previous year and are recorded at \$9 million, reflecting a 4% increase.

### Overview of the Financial Statements

An explanation of the financial statements and schedules that present the financial status of the Plan is as follows:

- Statement of Plan Net Assets – This statement reports the Plan's assets, liabilities, and resultant net assets as of December 31, 2008.
- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2008, categorically disclosing the additions to and deduction from plan net assets. The net decrease to plan assets on this statement supports the change in net assets on the Statement of Plan Net Assets between the years ended 2007 and 2008.
- Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements.
- Required Supplementary Information – The required supplementary information consists of several schedules that show information related to funding progress, contributions to the Plan and other certain actuarial information.

Financial Analysis of the System:  
A Summary of the System's Plan Net Assets is Presented Below;

	<u>2008</u>	<u>2007</u>
Cash	3,117,627	\$ 4,196,965
Receivable		
Contributions	409,549	362,650
Accrued Interest & Dividends	860,102	1,096,066
Accounts Receivable	101,403	36,429
Total Receivables	<u>1,371,054</u>	<u>1,495,145</u>
Investments:		
Market Prices Quoted in Active Markets:		
Cash & Cash Equivalents	8,148,483	8,590,242
Equities:		
Domestic	65,624,655	96,963,239
Foreign	42,254,292	116,993,277
Common Trust/Mutual and Other Funds	8,634,692	-
Large Cap Growth Fund	20,577,624	30,958,906
	<u>137,091,263</u>	<u>244,915,422</u>
Fixed Incomes:		
U.S. Government Obligations	32,314,149	34,193,621
Corporate Securities		
Municipal	604,958	-
Foreign Obligations	1,599,894	-
Bonds	32,332,351	45,417,519
Fixed Income - High Yield Fund	-	4,341,971
	<u>66,851,352</u>	<u>83,953,111</u>
Market Prices Determined by Other Methods:		
Investment in Hedge Funds	-	45,832,963
Broadmarket Funds	7,764,769	-
Investment in Fund to Fund	25,926,236	17,073,245
Outside Common Trust Funds/Mutual Funds	1,600,580	-
Closely Held Stocks	3,477,493	-
Investment in Private Equities Funds	7,315,467	1,333,801
Investment in Real Estate Funds	4,905,330	5,954,346
	<u>50,989,875</u>	<u>70,194,355</u>
Total Investments	263,080,973	407,653,130
Total Assets	<u>267,569,654</u>	<u>413,345,240</u>
Liabilities		
Due to Terminated employees	103,541	102,585
Escrow	19,483	29,084
Accrued Management and Custodial Fees	105,355	415,645
Total Liabilities	<u>228,379</u>	<u>547,314</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 267,341,275</u>	<u>\$ 412,797,926</u>

Additions to Plan Net Assets

Additions to the Plan Net Assets were derived primarily from contributions from employees and employers in addition to investment income. Net investment income was stated at \$(120.8) million for 2008. This represented a decrease of \$154.5 million due primarily to the significant net depreciation in the fair value of investments in the current year as compared to the appreciation reported in the prior year.

Employer and employee contributions both reflected slight increases of \$96,754 and \$443,743 respectively as compared to prior years. These increases were partially offset by a decrease in the transfers from the State System for the current year as compared to prior year.

The Plan's funding of employer contributions resulted in a Net Pension Obligation (NPO) totaling \$4.3 million as of December 31, 2008. This NPO resulted primarily from a shortfall of employer contributions made by the City to the Plan as compared to the Annual Required Contributions (ARC) as determined by the Plan's actuary.

Deductions From Plan Net Assets

Deductions from plan net assets include retirement, disability, death, and survivor benefits. These deductions remained relatively constant reflecting a decrease of \$605,035 or 1.7% as compared to the prior year.

A summary of Plan additions and deductions are as follows:

	<u>2008</u>	<u>2007</u>
Total Additions	(\$111,837,789)	\$ 42,420,891
Total Deductions	<u>33,618,862</u>	<u>34,223,897</u>
Net Increase/(Decrease) in Plan Net Assets	<u>(\$145,456,651)</u>	<u>\$ 8,196,994</u>

Requests for Information

This management's discussion and analysis is designed to provide a general overview of the finances of the Employees' Retirement System of the City of New Orleans for interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the Plan Administrator, City of New Orleans and the Employees Retirement System, 1300 Perdido Street, New Orleans, LA 70131.



## BASIC FINANCIAL STATEMENTS

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**STATEMENT OF PLAN NET ASSETS**  
**DECEMBER 31, 2008**

Cash	\$ 3,117,627
Receivable	
Contributions	409,549
Accrued Interest & Dividends	860,102
Accounts Receivable	101,403
Total Receivables	<u>1,371,054</u>
Investments:	
Market Prices Quoted in Active Markets:	
Cash & Cash Equivalents	8,148,483
Equities:	
Domestic	65,624,655
Foreign	42,254,292
Common Trust/Mutual and Other Funds	8,634,692
Large Cap Growth Fund	20,577,624
	<u>137,091,263</u>
Fixed Incomes:	
U.S. Government Obligations	32,314,149
Corporate Securities	
Municipal	604,958
Foreign Obligations	1,599,894
Bonds	32,332,351
	<u>66,851,352</u>
Market Prices Determined by Other Methods:	
Broadmarket Funds	7,764,769
Investment in Fund to Fund	25,926,236
Outside Common Trust Funds/Mutual Funds	1,600,580
Closely Held Stocks	3,477,493
Investment in Private Equities Funds	7,315,467
Investment in Real Estate Funds	4,905,330
	<u>50,989,875</u>
Total Investments	263,080,973
Total Assets	<u>267,569,654</u>
Liabilities	
Due to Terminated employees	103,541
Escrow	19,483
Accrued Management and Custodial Fees	105,355
	<u>228,379</u>
Total Liabilities	228,379
Net Assets Held in Trust for Pension Benefits	<u>\$ 267,341,275</u>

The accompanying footnotes are an integral part of this financial statement.

**THE EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**ADDITIONS****Contributions:**

Employer	\$ 4,991,193
Employee	3,429,766
Transfers from Sw&B	18,312
Payments for Military Services	28,728
Other Agencies	467,365
Transfers from State System	<u>117,827</u>

Total Contributions 9,053,191

**Investment Income:**

Net Appreciation	
in Fair Value of Investments	(125,956,109)
Interest and Dividends	6,865,380
Commission Recapture	32,692
Other Investment Income	
Securities Lending	<u>156,356</u>
Total Investment Income	<u>(118,801,681)</u>

Less: Investment expense (1,989,299)

Net investment income (120,890,980)

Total Additions (111,837,789)

**Deductions**

Retirement Allowances	22,579,535
Ordinary Disability Retirements	1,618,658
Accidental Disability Retirement	577,394
Separation Retirements	715,968
Refunds to Members	905,254
Transfers to the State Retirement System	164,030
Transfers to the Sewerage and Water Board	448,841
Transfers to Firefighters	12,031
Transfer to M.P.E.R.S.	63,189
Lump Sum Benefits Due to Death of Members	7,258
Option 1 Death Benefits	40,818
Cost of Living Benefits	4,379,663
Drop Withdrawal	1,930,364
Operating Expenses	35,121
Administrative Expenses	<u>140,740</u>
Total Deductions	<u>33,618,862</u>

Net Increase (145,456,651)

**Net Assets Held in Trust for Pension Benefits**

Beginning of Year 412,797,926

End of Year \$ 267,341,275

The accompanying footnotes are an integral part of this financial statement.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**I. DESCRIPTION OF THE SYSTEM**

**A. PLAN DESCRIPTION**

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS (the Plan) is a Defined Benefit Pension Plan established under the laws of the State of Louisiana. The City Charter provided that the Retirement Ordinance (Chapter 114 of the Code) continues to govern and control the Retirement System under the management of the Board of Trustees, and also for changes in the Retirement System by council action, subject to certain limitations for the purpose of providing retirement allowances, death, and disability benefits to all officers and employees of the parish, except those officers and employees who are already or may hereafter be included in the benefits of any other pension or retirement system of the city, the state or any political subdivision of the state.

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS became operative on July 1, 1947. It is supported by joint contributions of the City and employee members and income from investments. The City makes contributions for members during active service as well as for periods of service of members employed prior to July 1, 1947. In this way, reserves are accumulated from the city and employee contributions.

The general administration and the responsibility for the proper operation of the Retirement System and for making effective the provisions of the Retirement Ordinance are vested in the five member Board of Trustees of the Retirement System.

At December 31, 2008, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

Retirees and beneficiaries currently receiving benefits	1,986
Terminated employees entitled to benefits but not yet receiving them	<u>104</u>
Total	2,090
Active Participants	
Fully Vested	1,221
Not Vested	1,030
Total Active Participants	<u>2,251</u>
Total Participants	<u>4,341</u>

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

The City of New Orleans requires membership in the EMPLOYEES' RETIREMENT SYSTEM for all City of New Orleans' regularly employed persons. Membership and eligibility information is summarized below:

Membership

1. Employees hired on or after July 1, 1947, who become members as a condition of employment, except for those over 65, unless they have 10 years prior service.
2. Employees hired before July 1, 1947 became members, unless they elected not to join.
3. Officials elected or appointed for fixed terms, however, membership is optional.
4. All officers and employees of various judicial and parochial offices of the parish, except those covered by another system and those for whom no contributions are made by respective offices are eligible.
5. For employees of the French Market Corporation, membership is optional; eligibility is contingent on not having attained age 55.
6. Effective November 1, 1993, membership includes the full-time employees of the Coroner's Office.
7. Effective April, 1, 1997, membership includes the full-time employees of the District Attorney's Office for the Parish of Orleans.

Retirement

Under the System, employees with 30 years of service, or who attain age 60 with 10 years of service, or age 65 and 5 years of service are entitled to a retirement allowance. Effective January 1, 2002 any member whose age and service total 80 may retire with no age restriction. The benefits to retirees consist of the following:

1. An annuity, which is the actuarial equivalent of the employee's accumulated contribution at the time of retirement; plus

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Continued,

2. Effective for members retiring on or after January 1, 2002, an annual pension, which, together with above annuity provides total retirement allowance equal to 2.5% of average compensation times first 25 years, plus 4% of average compensation times creditable service over 25 years.
3. Effective for members retiring before 2002, but on or after January 1, 1983, an annual pension, which, together with above annuity, provides total retirement allowance equal to 2% of average compensation times first 10 years, plus 2.5% of average compensation times next 10 years, plus 3% of average compensation times next 10 years, plus 4% of average compensation times creditable service over 30 years.
4. Effective January 1, 1983, additional pension equal to 2% of \$1,200 times first 10 years, plus 3% of \$1,200 times next 10 years, plus 4% of \$1,200 times service over 30 years. Ceases at 62 or at eligibility for Social Security, whichever comes first. Effective January 1, 2002, the \$1,200 exclusion will not apply.
5. Additional pension for member who reaches age 65 with 20 or more years and the retirement allowance under (1) and (2) above is less than \$1,200 per year; to produce total retirement allowance of \$1,200 per year.
6. Effective January 1, 1982, for service retirement prior to age 62 with less than 30 years of Service, (3) and (4) above are reduced by 3% for each year below 62. However, effective January 1, 1996 this reduction is not made if employee has at least 30 years of Service, Effective January 1, 2002 no reduction if age and service total at least 80.
7. **Maximum Benefit**  
Benefit not to be greater than 100% of average compensation, unless member has already accrued a larger benefit as of April 1978.
8. **Minimum Benefit**  
Effective June 1, 1999, benefit of \$300 per month for retirees with 10 years of service at retirement.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

Continued,

9. Form of Benefit

Modified cash refund annuity - If a member dies after retirement and before receiving the amount of his accumulated contributions in annuity payments, then the lump sum balance of his contributions is paid to beneficiary.

10. Cost-of-Living

Board of Trustees retains excess over average 3.5% interest earnings to provide Cost-of-Living increases in benefit to retirees (past or future) not to exceed 3% of original benefit per each year of retirement. Effective January 1, 2001, additional one-time increase of 1% times member's or beneficiary's current monthly benefit times whole calendar years from date benefit commenced.

Death Benefit

Members that expire during active service are eligible for death benefits. The benefits represent the members accumulated plan contributions and are paid to the member's beneficiary. Additional information is as follows:

1. If a member has three years creditable service, additional lump sum benefit equal to 25% of earnable compensation for year preceding death, plus 5% of such earnable compensation for each additional year of creditable service (benefit not to exceed compensation made before death).
2. If, at date of death, member was eligible for retirement and leaves Surviving Spouse, Surviving Spouse shall be eligible to elect either Option number 2 or lump sum refund of employee's contributions offset by Worker's Compensation benefits.
3. If, at date of death, member was ineligible for retirement, but was at least 55 years of age and had 10 or more years of creditable service or was under age 55 and had at least 20 years of creditable service, then surviving spouse may elect to receive benefit equal to an actuarially reduced amount based upon the members age and years of creditable service. Benefit to cease when surviving spouse reaches age of eligibility for Social Security.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Continued,

Separation Benefits

1. Effective January 1, 2002, a member who separates with 5 years of Creditable Service may allow his accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 65.
2. Prior to January 1, 2002, withdrawal with 10 years of Creditable Service prior to separation, member may allow accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 60 (subject to reduction if retirement is elected before age 62). If death occurs before retirement, return of accumulated contributions with interest.
3. Upon withdrawal without 5 years Creditable Service, employee is entitled to return of his accumulated contributions with interest or may allow contributions to remain on deposit for maximum of five years. (In case of employee's death, then accumulated contribution plus interest are paid to beneficiary.)
4. If employee re-enters after receipt of refund and continues service thereafter for at least three years, he may repay amount of refund plus the amount of employer contributions, with compound interest, to receive prior creditable service again.

Disability

Any amounts which may be paid or payable under the provisions of any Workmen's Compensation Statute or similar law to a member or to a dependent or a member on account of accidental disability or accidental death shall, in such a manner as the Board shall approve, be offset against and payable in lieu of any benefits payable out of the funds provided by the City under the provisions of the Retirement system on account of the same accidental disability or on account of death.

Ordinary Disability Retirement

Upon written application of a member in active service or of the head of his department, any member who has had 10 or more years of creditable service may be retired by the Board on an ordinary disability retirement allowance if a physician nominated by the Board shall certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired.



**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Continued,

Upon retirement for ordinary disability, a member will receive a service retirement allowance, if eligible, otherwise the member will receive a disability retirement allowance, which will consist of:

- a. An annuity which shall be the actuarial equivalent of the employee's accumulated contributions at the time of retirement; and
- b. An annual pension, which together with the annuity in (a), shall be 75% of the service allowance that would have been payable upon service retirement at the age of sixty-five, had the member continued in service to the age sixty-five. Such allowance is to be computed on the average compensation, plus the sum of \$1,200 provided, however, that the minimum annual retirement allowance will be \$300 per year.

Accidental Disability Retirement

Upon the application of a member or the head of his department, any member whom the Board finds has been totally and permanently incapacitated for duty as the natural and proximate result of an accident sustained in service as an active member and occurring while in the actual performance of his duty at some definite time and place without willful negligence on his part may be retired by the Board; provided, that a physician nominated by the Board will certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired. Upon retirement for accidental disability, a member will receive a service retirement allowance, if eligible, otherwise he will receive an accidental disability retirement allowance, which will consist of:

- a. An annuity which is the actuarial equivalent of his accumulated contributions at the time of retirement; and
- b. An annual pension equal to the difference between his annuity and 65% of his earnable compensation

Any employee whose withdrawal from active service occurs after he/she has obtained at least 5 years of creditable service, may remain a member of the Retirement System by permitting his accumulated contributions to remain on deposit with the System.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Continued,

Should the member have served at least 10 years before such separation, he will be entitled to receive a full service retirement after age sixty which he may elect, subject to the reductions applicable to retirement before the age of sixty-two, which will be based upon the amount earned and accrued at the date of withdrawal from service.

Upon withdrawal without 10 years of creditable service, the employee is entitled to the return of his accumulated contributions with interest or the employee may allow contributions to remain on deposit for a maximum of five years.

Reciprocal Transfers

Effective July 16, 1974, provisions were made for reciprocal transfers of service and funds between this System and the Employees' Retirement System of the Sewerage and Water Board of New Orleans. In the event an employee transfers from one employer to the other, service credits are transferred from the employee's previous account plus earned interest and all employer contributions, plus agreed-upon interest, are transferred.

A detailed plan agreement has been published and made available to all plan participants. Their agreement contains all information regarding the plan's benefits, amendments, actuarial assumptions and contribution requirements.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following are the significant accounting policies followed by the plan:

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Contributions are recognized as revenue in the period in which employee services are performed.

Method Used to Value Investments - Quoted market prices are used to value investments, if available. Short-term investments are valued at cost which approximates market. The investment securities that have no quoted market price are recorded at estimated fair value. More information regarding these alternative investments is presented at Note H. Investment income is recognized as earned gains and losses on sales and exchanges of fixed income securities and recognized on the transaction date.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

Continued,

**C. PENSION BENEFIT OBLIGATION**

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date.

The measure is intended to help assess the funding status of the Employees' Retirement System on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employees' retirement systems.

The pension benefit obligation was determined as part of the actuarial valuations at December 31, 2008 based on reports dated January 1, 2009. Significant actuarial assumptions used in the latest valuation are as follows:

- Life Expectancy of Participants - 1971 Group Annuity Mortality Table.
- Retirement Age Assumptions - Based on the results of the 1990-1995 periodic actuarial experience study.
- Investment Return - 7.75%
- Projected Salary Increases - Based on U.S. Department of Commerce, adjusted for projected increases in the standard of living.

Based upon the above assumptions the actuarial present value of accumulated plan benefits is as follows:

Actuarial Present Value of Accumulated Plan Benefits	
Active Participants	\$ 219,691,939
Inactive Participants	295,729,485
Grand Total	\$ 515,421,424

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Continued,

**D. CHANGE IN ACTUARIAL VALUATION**

Beginning with the January 1, 1996 actuarial valuation, the actuarial valuations will be prepared using the "Frozen Entry Age Actuarial Cost Method" of funding. Prior to the change in the funding method, the Plan had been funded using the "Entry Age Normal Cost Method".

Under the Frozen Entry Age Actuarial Cost Method, the normal cost of the plan is designed to be a level percentage of payroll; calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future-working lifetime of the participant is determined from each participant's hypothetical entry age into the plan assuming the plan had always been in existence, to his expected retirement date.

For the first year the actuarial accrued liability is the amount of total liability not covered by future entry age normal costs and is called the frozen actuarial liability since it is not affected by actuarial experience gains or losses in future years. This amount is composed of actuarial value of benefits already funded (assets) and those not yet funded (unfunded frozen actuarial liability).

Once established, and for valuations in subsequent years until fully amortized, the unfunded frozen actuarial liability is affected by the normal cost, the valuation interest rate and plan contributions. The normal cost must then become the balancing item as the allocated annual portion of the remaining actuarial present value of retirement benefits. As a result, normal cost will fluctuate from year to year to account for actuarial experience.

There were not any changes made to the provisions of the plan to improve benefits, although there were modest increases in the monthly benefits of retirees and beneficiaries to accommodate cost of living erosion. In keeping with past practice, these increases are incorporated into plan experience as they occur.

**E. CONTRIBUTIONS REQUIRED AND CONTRIBUTION MADE**

The Employees' Retirement System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of employer payroll contribution rates is determined using the "Entry Age Normal Actuarial Funding Method". The Employees' Retirement System also uses the "Percentage of Payroll Method" to amortize the unfunded liability over a thirty-year period effective July 1, 1974.

Employees contribute 4% of their earnable compensation in excess of \$1,200 per year. Earnable compensation is the annual compensation paid to an employee, which includes overtime and/or supplementary pay earned prior to April 29, 1979. Effective April 29, 1979, it is defined as annual compensation paid to an employee plus tenure pay.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

Continued,

**F. Net Pension Obligation**

In accordance with GASB 27, the Plan determined a Net Pension Obligation (NPO) totaling \$4,386,553. This NPO substantially represents shortfalls in employer contributions to the Plan by the City of New Orleans for the year ended December 31, 2008 as compared to the Annual Required Contribution (ARC) as computed by the Plan's actuary.

In addition to the NPO noted above, the actuary's report for the current fiscal year includes a beginning of the year valuation date of January 1, 2009 as it relates to the ARC. The actuary's report for that valuation date includes a material increase in the ARC from a 2008 level of \$9.4 million to the 2009 ARC of \$17 million.

**G. CASH**

As of December 31, 2008, the Employees' Retirement System had the following cash accounts and related FDIC insurance and/or other types of collateral to secure the plans cash accounts:

Deposits (bank balance)	\$3,127,772
Cash Equivalents	\$8,148,483

The Fund's bank account balances were entirely collateralized by pledged government securities of the depository institution held in the name of the System in addition to federal depository insurance. Cash equivalents were entirely comprised of money market funds on deposit by the custodian bank. These balances represent un-invested cash on hand with each respective investment manager. The balances are swept daily to the custodian account where they are invested in money funds. The money market fund is collateralized by underlying corporate and government securities.

**H. INVESTMENTS**

Investments of the System are reported at fair market value, where published values are available in actively traded markets. Estimated values are reported where published values are not available. The following table presents the reported values of investments at December 31, 2008. Investments that represent 5% or more of the Plan's net assets are separately identified.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Cash	\$ 3,117,627
Receivable	
Contributions	409,549
Accrued Interest & Dividends	860,102
Accounts Receivable	101,403
Total Receivables	<u>1,371,054</u>
Investments:	
Market Prices Quoted in Active Markets:	
Cash & Cash Equivalents	8,148,483
Equities:	
Domestic	65,624,655
Foreign	42,254,292
Common Trust Funds/Mutual Funds	8,634,692
Large Cap Growth Fund	20,577,624
	<u>137,091,263</u>
Fixed Incomes:	
U.S. Government Obligations	32,314,149
Corporate Securities	
Municipal	604,958
Foreign Obligations	1,599,894
Bonds	32,332,351
Fixed Income - High Yield Fund	-
	<u>66,851,352</u>
Market Prices Determined by Other Methods:	
Investment in Hedge Funds	-
Broadmarket Funds	7,764,769
Investment in Fund to Fund	25,926,238
Outside Common Trust Funds/Mutual Funds	1,600,580
Closely Held Stocks	3,477,493
Investment in Private Equities Funds	7,315,467
Investment in Real Estate Funds	4,905,330
	<u>50,989,875</u>
Total Investments	263,080,973

### Alternative Investments

In recognition of the increasing opportunities available in today's dynamic investment universe to seek returns that may be less correlated to traditional broad equity and fixed income markets, the Board may allocate up to 20% of the Aggregate Fund to alternative investments. The Board recognized that alternative investments may contain a high level of risk due to, but not limited to, such factors as potential liquidity constraints, restrictions on the ability to withdraw invested capital, concentrated positions, short positions, leverage, high volatility and the marketability of such investments. These investments include, but are not limited to real estate, private equity, options and derivatives. As of December 31, 2008, alternative investments were \$50,989,875 or 19% of the total investments. Additional investments totaling \$3.7 million were categorized by the Plan as fixed income securities, however many of the attributes of these investment strategies were comparable to alternative investments.

Quoted market prices are generally not available for these alternative investments. Accordingly, the recorded amounts represent estimated fair values. The System engages independent investment managers to advise and execute trades regarding alternative investments. These firms monitor the valuations based upon receipt of periodic independent audits or other independently prepared financial data related to the investments. The independent audits or other valuation data is forwarded to the System's custodian on a periodic basis. At intervals where alternative investment fair values reflect material changes, portfolio values are updated by the System's custodian. These updated values are included within these financial statements.

Independent audits were not on file in support of the valuation of a material portion of the Plan's alternative investments as of December 31, 2008. The lack of these audit reports or other documentation in support of the proper valuation of these securities precluded proper evaluation of the adequacy of the valuation amounts recorded. Many of the audit reports that were on file were received during the latter days of audit fieldwork and had not been considered as a part of management's due diligence and monitoring of the adequacy of the alternative investment valuations.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

Continued,

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the System's investment in a single issuer. Based upon the System's investment objectives, time horizon, risk tolerances and performance expectation of selected asset classes, the asset allocation guidelines for the fund includes maximum limits on positions held within each asset class. These limits are set by the Board of Trustees in the System's investment policy as follows:

Equities	65%
Fixed Income	55%
Alternative Investments	20%

As of December 31, 2008 each of the aggregate asset classes reflected positions within these guideline limits.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following are the credit ratings of the System's investments in publicly traded securities as of December 31, 2008:

<u>QUALITY SECTORS</u>	<u>MARKET VALUE</u>
Treasury	1,160,842
Agency	28,885,796
AAA	9,172,406
AA	1,696,977
A	9,196,060
BAA	7,997,546
OTHER	8,741,725
	<u>\$ 66,851,352</u>

The System has no investment policy regarding credit risk on fixed income mutual funds. Obligations guaranteed or explicitly guaranteed by the U.S. Government are not considered to have credit risk. The System's investment policy provides that fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, federal agency obligations, corporate bonds, debentures, asset backed securities, convertible securities,



preferred stock commercial paper, and commercial bank certificates of deposit. All investments in interest-bearing nonconvertible obligations of corporations must be rated within the six highest ratings of a major rating service at the time of purchase (minimum B or higher).

#### Custodial Credit Risk

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

At December 31, 2008, the System was not exposed to custodial credit risk since the investments are held in the name of the System. The Fund has no investment policy regarding custodial credit risk.

#### Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2008, the Fund had the following investments in long-term debt securities.

Bond Maturities	Market Value
0 - 2 Years	\$ 33,479,475
2 - 3 Years	6,533,982
3 - 4 Years	8,109,891
4 - 5 Years	2,905,543
5 - 6 Years	3,587,046
6 - 8 Years	6,287,372
7 and Above Years	1,888,416
Non Categorized	<u>4,059,627</u>
	<u>\$ 66,851,352</u>

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

The System has no investment policy regarding credit risk on fixed income mutual funds. Obligations guaranteed or explicitly guaranteed by the U.S. Government are not considered to have credit risk. The System's investment policy provides that fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, federal agency obligations, corporate bonds, debentures, asset backed securities, convertible securities, preferred stock commercial paper, and commercial bank certificates of deposit. All investments in interest-bearing nonconvertible obligations of corporations must be rated within the six highest ratings of a major rating service at the time of purchase (minimum B or higher).

Custodial Credit Risk

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

At December 31, 2008, the System was not exposed to custodial credit risk since the investments are held in the name of the System. The Fund has no investment policy regarding custodial credit risk.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2008, the Fund had the following investments in long-term debt securities.

The System's overall investment policy sets forth an investment time horizon of greater than ten years for the aggregate fund however no specific limitations are placed upon the maturities for fixed income securities.

Appreciation/(Depreciation)

During 2008, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$ 125,956,109. The detail of is as follows:

Fixed Income	\$	(10,700,062)
Equity		(85,235,088)
Foreign		(15,782,012)
Alternative		(14,238,947)
	\$	<u>(125,956,109)</u>

**I. TREND INFORMATION**

Trend information, which gives an indication of the progress made in accumulating sufficient assets to pay pension benefits when due, are presented on pages 23 and 24.

**J. COST-OF-LIVING BENEFITS BONUS**

Retired members were paid a cost-of-living bonus benefit. The 2008 benefit, which totaled \$4,379,663, consisted of a bonus check and a permanent monthly increase. The monthly increase is calculated once a year for each individual as an additional 1% of the original benefit which resulted in an annual cost of \$4,379,663. The bonus checks used the following calculation to determine the maximum check amount each retiree could receive: 3% of the original retirement benefit times the number of years in retirement, with a maximum the greater of \$600 or \$75 times each year in retirement. However, by law, the aggregate annual total of the cost of living bonus and the monthly increase could not exceed 3% of the annual retirement benefit for each year in retirement. Therefore, the cost of living bonus check was reduced in cases where the total of both benefits would have exceeded 3%. The Board plans to continue the cost-of-living bonus benefit as long as interest earnings are sufficient.

**K. COSTS OF PLAN ADMINISTRATION**

The City of New Orleans absorbs significant costs of the plan administration. Those costs include salaries, fixed assets, office supplies etc. for the department administering Plan operations. However, there are administrative expenses paid by the Plan that are associated with travel, conferences for Board members, attorney fees, and actuary fees.

**L. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

REQUIRED SUPPLEMENTARY INFORMATION

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
HISTORICAL TREND INFORMATION**

**SCHEDULE OF FUNDING PROGRESS**

Year	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Percent Funded by Employer (3)	Unfunded AAL (UAAL) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
1992	174,340,893	174,852,648	99.70	511,755	70,163,161	0.01
1993	194,704,398	180,044,150	108.14	*(14,660,248)	65,578,056	*(22.35)
1994	205,126,988	185,685,601	110.47	*(19,441,387)	66,910,493	*(29.05)
1995	221,783,014	226,348,016	97.98	4,565,002	68,492,113	6.66
1996	278,446,227	247,902,452	112.32	*(30,543,775)	70,480,255	*(43.34)
1997	319,142,011	274,538,774	116.00	*(44,603,237)	76,090,614	*(59.00)
1998	355,566,389	309,660,485	114.00	*(45,905,904)	76,199,531	*(60.00)
1999	375,180,736	310,855,758	120.69	*(64,324,978)	75,663,274	*(85.01)
2000	371,909,534	298,945,269	124.40	*(72,964,265)	76,248,758	*(95.69)
2001	374,022,902	301,213,454	124.17	*(72,809,448)	83,379,038	*(87.32)
2002	376,843,982	343,571,841	109.68	*(33,272,141)	78,048,020	*(42.63)
2003	402,503,774	386,747,332	104.07	*(15,756,442)	87,713,132	*(17.96)
2004	412,486,855	418,856,855	98.48	16,288,182	92,665,909	17.58
2005	412,970,222	391,570,570	105.50	(13,077,927)	63,621,521	20.60
2006	403,370,965	378,793,753	106.50	9,717,711	52,985,316	18.00
2007	398,490,554	423,794,409	94.0	50,275,852	63,456,911	79.20
2008	381,604,003	450,942,554	84.62	50,325,102	78,846,321	63.80

Bracketed amounts represent overfunded actuarial accrued liability (AAL).

## EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

### Schedule of Employer Contributions

Year	Annual Required Contribution	Percentage Contributed
1994	9,274,320	104%
1995	9,238,967	102%
1996	10,629,702	102%
1997	9,858,968	110%
1998	9,063,207	104%
1999	8,739,480	80%
2000	6,162,035	90%
2001	6,710,305	106%
2002	6,369,982	163%
2003	6,235,328	100%
2004	7,168,281	100%
2005	7,592,093	54%
2006	6,396,358	100%
2007	5,780,008	133%
2008	9,427,704	53%
2009	17,066,353	0%

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date: January 1, 2009

Actuarial cost method: Frozen Entry Age Actuarial Cost Method

Amortization method: Frozen Initial Liability

Amortization period: 10 years

Asset valuation method: Adjusted Market Value

Actuarial assumptions:  
 Investment rate of return: 7.75%  
 Projected salary increases: 4.5%



Luther Speight & Company CPA's

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Council of  
New Orleans, Louisiana

We have audited the accompanying financial statements of the Employees' Retirement System of the City of New Orleans (the Plan) as of December 31, 2008 and for the year then ended, and have issued our report thereon dated June 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Plan's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Plan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Plan's financial statements that is more than inconsequential will not be prevented or detected by the Plan's internal control. We consider the deficiencies described in the accompanying schedule of findings, as finding 08-01 through 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the deficiencies described in the accompanying schedule of findings as finding 08-01 through 08-02 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, and management of the Plan, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Although, the intended use of these reports may be limited, "Under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document."



June 11, 2009



## SCHEDULE OF FINDINGS

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
DECEMBER 31, 2008

FINDING 08-01: PLAN'S MANAGEMENT OF THE RISKS PRESENTED BY  
EXPOSURE TO ALTERNATIVE INVESTMENTS NOT ADEQUATE.

CONDITION

The Plan reported portfolio values for alternative investments of \$50.9 million as of December 31, 2008. This reported value represents 19% of the entire portfolio market value at year-end. The investments represent a variety of investment strategies, however the underlying securities are not in the custody of the Plan's trustee financial institution. In addition the market valuations for these securities are not based upon published values. Accordingly the Plan's investments in the alternative category bear a higher risk.

Furthermore, a survey of defined benefit plans recently published by the U.S. General Accounting Office (GAO) indicated that defined benefit plans within the United States as a universe reflected exposure to alternative investments averaging 4% to 5%. In addition, of all the Plans surveyed of comparable size to MPERS, only 16% of those plans invested in alternative investments. Considering the GAO survey results and the Plan's present exposure to alternative investments of 19% as of December 31, 2008, it appears the Plan's portfolio risk profile is within the higher-end of its peer group as it relates to alternative investments.

This higher valuation risk should be partially mitigated by the Plan's receipt and review of independent audit reports related to the respective fund managers and other management due diligence procedures related to monitoring these investments. Due to the lack of published market valuation data, these audit reports provide crucial evidence in support of any potential adverse changes in alternative investment values.

As of the completion of scheduled audit fieldwork, our review of the available audit reports showed that the Plan's portfolio included 27 investments with fund managers in the alternative strategies, with only 4 of these investments supported by independent audit reports or other reliable independent support for the market values. Extended fieldwork and additional procedures resulted in the receipt of a substantial number of the remaining audit reports. However, the lateness of receipt of these audit reports by the Plan, did not provide management the opportunity to adequately consider the audits as a part of effective due diligence or monitoring of alternative investment valuations.

Further review of the Plan's investment policy and established management procedures related to alternative investments does not provide adequate guidance or controls for managing the risks associated with its present exposure to these alternative investment strategies, particularly when independent audit reports in support of valuations become significantly delinquent or non-existent.

**CAUSE**

The significant delays of receipt of independent audit reports related to alternative investments appear to be a trend and may be reflective of the increasing risks associated with these investment strategies.

**EFFECT**

The unavailability of timely submitted independent audit reports or other third-party documentation related to potential changes in market valuation significantly increases the risks that investment values may have adversely changed and not be reported to the Plan on a timely basis. The Plan's ability to fulfill its fiduciary responsibility related to management of the risks could be adversely impacted.

**RECOMMENDATION**

We recommend that the Plan review its investment policy related to alternative investments to include specific consideration of the increasing risks associated with its present level of exposure to these investment strategies. The Plan should also address required actions or responses to the delinquency or absence of independent audit reports or other reliable indicators of potential changes in market value.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2008

FINDING 08-02: ALTERNATIVE INVESTMENTS MAY EXCEED PLAN BOARD'S  
POLICY LIMIT

CONDITION

The Plan's investment policy sets forth a maximum portfolio limit of 20% exposure to alternative investments. The Plan's reporting of investments for the year-ended December 31, 2008 reflect actual level of alternative investments at 19%. However, our examination of alternative investments indicate that certain investments recorded at \$ 4.7 million as fixed income securities might be more properly reported as alternative investments based upon our evaluation of the nature of these securities. If these securities are in fact classified as alternative investments, the Plan's exposure to alternative investments would reflect 21.5% and therefore exceed the Plan's limit.

The factors that affect the classification for these securities in question include but are not limited to the following;

- The securities are not custodied by the Plan's custodian, JP Morgan Chase
- There is no published market value for these securities
- There is no SAS 70 report on file for the custodian for these securities
- There is no independent audit report on file related to the underlying assets related to these securities.

CAUSE

The Plan's policy related to alternative investment does not set forth in sufficient detail objective criteria related to proper categorization of alternative investments that support categorization of this investment as a fixed income investment.

EFFECT

As a result of the lack of sufficient clarity and detail in the Plan's definition of alternative investments, potential mis-categorization such as the securities cited above may continue and adversely affect the Plan's ability to objectively remain within its established limits related to alternative investments.

RECOMMENDATION

We recommend that the Plan further clarify its definition within the investment policy related to alternative investments. The Board should assure that all investments remain within its established policy limits.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS

DECEMBER 31, 2008

FINDING 08-03: TRAVEL EXPENSE REPORTS DID NOT INCLUDE COMPLETE  
COSTS OF BUSINESS TRAVEL

CONDITION

We reviewed a selection of travel expense reports for Plan board members for the year ended December 31, 2008 and noted travel expense reports for certain board members did not appear to include the full cost of business travel and accommodations. Further inquiry indicated that certain travel expense costs were paid by the seminar or event sponsors. These costs were not documented as in-kind expenses or otherwise on the expense reports.

CAUSE

We were unable to determine the cause of this condition.

EFFECT

As a result of the lack of disclosure of the payor of certain business related travel costs, we were unable to determine if these costs were in compliance with applicable state and local regulations.

RECOMMENDATION

We recommend that the Plan board update its policy to include guidance for documentation and full disclosure of all business related travel expenses.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
DECEMBER 31, 2008

STATUS OF PRIOR YEAR FINDINGS

<u>Finding No.</u>	<u>Summary of Condition</u>	<u>Resolved</u>	<u>Unresolved</u>
07-01	Alternative Investments not adequately monitored		x
07-02	Participant data not validated or certified		x
07-03	Controls over investment fund disbursements not adequate	x	
07-04	Investment portfolio procedures not followed by custodian	x	
07-05	Investment financial reporting not properly categorized		x

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2008

Section I – Summary of Auditor’s Results

Financial Statements

An unqualified opinion was issued on the financial statements of the auditee.

Internal Control Over Financial Reporting:

Material weakness(es) identified?  yes  no  
Significant deficiency(s) identified  
not considered to be material weaknesses?  yes  no

Noncompliance material to financial statements noted?  yes  no

Federal Awards (Not Applicable)

Internal control over major programs:

Material weakness(es) identified?  yes  no  
Significant deficiency(s) identified  
not considered to be material weaknesses?  yes  no

Any audit findings disclosed that are required to be  
Reported in accordance with Circular  
A-133, Section 510(a)?

yes  no