4242

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

Celebrating 20 Years

EMPLOYEES' RETIREMENT SYSTEM

OF THE CITY OF NEW ORLEANS

FINANCIAL STATEMENTS TOGETHER WITH

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

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 SEP 19 2012

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EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

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Celebrating 20 Years

LUTHER SPEIGHT & COMPANY, LLC

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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, 2011 and the related statement of changes in plan net assets 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 audit.

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, 2011 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 26 to 28 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 6 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.

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Continued,

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2012 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.

Luther Speight & Co

New Orleans, Louisiana
June 11, 2012

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, 2011.

<u>Financial Highlights</u>

- The plan net assets for the current year totaled $317 million which reflected a decrease of $16.8 million (5%) as compared to the previous year which totaled $334 million.

- Net Appreciation in fair value reflected a balance of ($7.2) million for the current year. This balance represents a decrease of $47.6 million as compared to the previous year net appreciation of $40.4 million.

- The ARC is determined annually by the Plan's actuary and presented in his report dated January 1, 2012. The ARC for this reporting period totaled $18.8 million. This balance reflected a decrease of $2 million as compared to the ARC of $20.8 for the prior year.
- Total contributions to the Plan increased significantly from the previous year level of $18.6 million to the present year level of $26.2 million. This increase of $7.6 million was substantially due to an increase in the employer contributions. The increase in employer required contributions accounted for 89% of the increase.

<u>Overview of the Financial Statements</u>

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 resulting net assets as of December 31, 2011.

- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2011, categorically disclosing the additions to and deduction from plan net assets. The net increase to plan assets on this statement supports the change in net assets on the Statement of Plan Net Assets between the years ended 2010 and 2011.

Continued,

- 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.

Continued,

A comparative analysis of the investments is as follows:

Investments	2,010	2011	Change
Market Prices Quoted in Active Markets			
Cash & Cash Equivalents	$ 7,448,341	$ 5,546,135	$ (1,902,206)
Equities			
Domestic	96,629,513	84,922,249	(11,707,264)
Foreign	62,784,240	53,946,692	(8,837,548)
Large Cap Growth Fund	20,032,614	20,511,550	478,936
	179,446,367	159,380,491	(20,065,876)
Fixed Incomes			
Mutual Funds and Other Obligations	92,224,945	96,183,647	3,958,702
	92,224,945	96,183,647	3,958,702
Market Prices Determined by Other Methods			
Broadmarket Funds	9,591,225	9,165,528	(425,697)
Investment in Fund of Funds	22,581,527	22,340,343	(241,184)
Homeland Security Fund	899,599	797,377	(102,222)
Fixed Income and Equity Hedge Funds	5,308,317	10,798,292	5,489,975
Investment in Private Equities Funds	10,872,796	5,865,035	(5,007,761)
Investment in Real Estate Funds	2,084,330	3,257,264	1,172,934
	51,337,794	52,223,839	886,045
Total Investments	$ 330,457,447	$ 313,334,112	$(17,123,335)

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 decreased by $46.8 million or 110% compared to prior year. The balance for 2011 reflected $(4.3) million while the year 2010 was stated at $42.5 million. The decrease in net investment income was a reflection of the Plan's investment portfolio overall performance as compared to the prior year.

Continued,

Deductions From Plan Net Assets
Deductions from plan net assets include retirement, disability, death, and survivor benefits. These deductions reflected an increase of $1,970,535 or 5.3% as compared to the prior year.

A summary of Plan additions and deductions are as follows:

	2011	2010
Total Additions	$ 22,010,005	$ 61,092,098
Total Deductions	(38,809,216)	(36,838,681)
Net Increase/(Decrease) in Plan Net Assets	$(16,799,211)	$ 24,253,417

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 2011

Cash	$ 3,464,087
Receivable	
Contributions	1,130,982
Accrued Interest & Dividends	148,287
Accounts Receivable	1,074
Total Receivables	1,280,343
Investments	
Market Prices Quoted in Active Markets	
Cash & Cash Equivalents	5,546,135
Equities	
Domestic	84,922,249
Foreign	53,946,692
Large Cap Growth Fund	20,511,550
	159,380,491
Fixed Incomes.	
Foreign	21,654,499
Common Trust Mutual Funds	74,529,148
	96,183,647
Market Prices Determined by Other Methods:	
Broadmarket Funds	9,165,528
Investment in Fund of Funds	22,340,343
Homeland Security Fund	797,377
Fixed Income and Equity Hedge Funds	10,798,292
Investment in Private Equities Funds	5,865,035
Investment in Real Estate Funds	3,257,264
	52,223,839
Total Investments	313,334,112
Total Assets	318,078,542
Liabilities	
Due to Terminated employees	103,049
Escrow	30,166
Accounts Payable	4,893
Accrued Management and Custodial Fees	330,797
Total Liabilities	468,905
Net Assets Held in Trust for Pension Benefits	$ 317,609,637

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, 2011

ADDITIONS		
Contributions		
Employer - City of New Orleans	$	19,917,899
Employer - Other Agencies		1,686,755
Employee		4,087,034
Transfers from SW&B		63,867
Payments for Military Services		21,813
Transfers from State System		508,820
Total Contributions		26,286,188
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments		(7,158,671)
Interest and Dividends		4,241,488
Commision Recapture		2,947
Securities Litigation		126,316
Securities Lending		47,709
Total Investment Income		(2,740,211)
Less: Investment expense		(1,535,972)
Net investment income		(4,276,183)
Total Additions		22,010,005
Deductions		
Retirement Allowances		14,684,519
Ordinary Disability Retirements		1,583,491
Accidental Disability Retirement		528,328
Separation Retirements		964,816
Refunds to Members		937,922
Retierment Allowance Option II, III, IV		11,758,010
Transfers to the State Retirement System		821,446
Transfers to the Sewerage and Water Board		218,491
Transfers to Firefighters		12,562
Transfer to M.P.E.R.S.		15,589
Lump Sum Benefits Due to Death of Members		205,361
Option I Death Benefits		57,088
Cost of Living Benefits		2,856,770
Drop Withdrawal & Drop Annuities		394,124
Policy 4 Withdrawals & Policy Annuitites		3,664,387
Lost Contact		6,055
Operating Expenses		43,457
Administrative Expenses		56,800
Total Deductions		38,809,216
Net Increase		(16,799,211)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		334,408,848
End of Year	$	317,609,637

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

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, 2011, EMPLOYEES' RETIREMENT SYSTEM membership consisted of;

Retirees and beneficiaries currently receiving benefits	2,048
Terminated employees entitled to benefits but not yet receiving them	75
Total	2,123
Active Participants	
Fully Vested	1,144
Not Vested	1,145
Total Active Participants	2,289
Total Participants	4,412

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

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 tmes 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 2.5% of $1,200 times next 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.

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.

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.

Optional Forms of Benefits

1. If a member dies before receiving, in annuity payments, the value of his annuity at the time of his retirement the balance is payable to his beneficiary.
2. 100% survivor's benefits – reduced retirement benefit continued to beneficiary at member's death. If the spouse predeceases the retiree, the benefit reverts back to the maximum amount.
3. 50% survivor's benefits – 50% of reduced retirement benefit continued to beneficiary at member's death. If the spouse predeceases the retiree, the benefit reverts back to the maximum amount.
4. Other benefits of equal actuarial value may be available upon approval of Board.

Continued,

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.

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, however, that the minimum annual retirement allowance will be $300 per year.

Continued,

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

Medical examinations required every three years for those disability retirees under 60. Accidental disability benefits are offset by Workmen's Compensation payments, if any.

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. Effective September 23, 1983 retroactive for transfers on and after October 17, 1988, agreement was amended to provide for a transfer from the sending system to the receiving system equal to the GASB#5 liability of the sending system at 7% interest, 5% salary scale, the remaining GASB# 5 actuarial assumptions and the salary and benefit structure in effect for the sending system at time of transfer.

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.

Continued,

DROP Account

Effective January 1, 1994, any member who is eligible for a service retirement under Section 114-201(a) may participate in the DROP program. A member can participate for up to five years. When a member joins the DROP, he stops contributing to and earning benefits in the system. Employer contributions also stop. His retirement benefit begins being paid into his DROP account.

1. Interest is earned on the DROP account at an annual rate set by the Board. Members of the DROP receive cost-of –living increases as if they would have received such raises as a retiree.

2. Upon termination of employment at the end of the specified period of DROP participation, the DROP account is paid out. After his DROP period ends and upon continued or re-employment, the member may resume contributions and earn a supplemental benefit based on current covered compensation.

3. If at the end of a members' period of DROP participation he does not terminate employment, payments into DROP shall cease and no further interest shall be earned or credited to the account. Payments shall =not be made until employment is terminated.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with the standards established by the Government Accounting Standards Board (GASB). 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. Interest income is recognized in the period earned and dividends are recognized in the period declared.

Continued,

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 G. Investment income is recognized as earned gains and losses on sales and exchanges of fixed income securities and recognized on the transaction date.

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 as of January 1, 2012. 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.
- Asset Valuation Method – Adjusted Market Value using seven year smoothing
- Investment Return – 7.50%
- Cost Method – Entry Age Normal Cost Method
- Projected Salary Increases – 5% compounded annually.

Based upon the above assumptions the actuarially determined Pension Benefit Obligation (PBO) is as follows for the years 2011 as compared to 2010:

	2011	2010
Inactive Plan Participants	$ 342,178,606	$ 320,004,416
Active Plan Participants	164,994,620	165,216,267
Total	$ 507,173,226	$ 485,220,683

Additional information regarding the funded progress of the Plan is presented in the Required Supplementary Information section of this report and the accompanying notes.

D. DESCRIPTION OF ACTUARIAL COST METHOD

Under the Entry Age Normal 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 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. The actuarial accrued liability is the amount of total liability not covered by future entry age normal costs. This amount is composed of the actuarial value of benefits already funded (assets) and those not yet funded (unfunded actuarial liability).

The plan's funding cost for the year is the sum of the Entry Age Normal Cost and the amount necessary to amortize the remaining unfunded actuarial liability as of the valuation date over the adopted amortization period. Effective with the January 1, 2012 actuarial valuation, the investment return has been changed from 7.75% to 7.5% annually.

Governmental Accounting Standards Board (GASB) Statements 25 and 27 permit the amortization basis to be "open" (that is, a constant number of years) or "closed" (that is, with the remaining period reducing by one each year). GASB 25 and 27 further permit either a level dollar amortization method (more conservative) or a method based on increasing valuation payroll (less conservative). Beginning with the January 1, 2011 actuarial valuation, both the actuarial cost method and a new amortization basis has been established. The Frozen Initial Liability Method has been replaced by the Entry Age Normal Cost Method. "The former amortization basis used a level dollar amortization for a ten (10) year "closed" amortization period from January 1, 2008 through December 31, 2017. This has been replaced by a level dollar amortization for an "open" ten (10) year amortization period effect on each valuation date. Beginning with the January 1, 2012 actuarial valuation this open ten (10) year amortization amount has been changed to an open fifteen (15) year amortization.

Continued,

E. CASH

As of December 31, 2011, 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)	$3,464,087
Cash Equivalents	$5,546,135

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.

F. NET PENSION OBLIGATION (NPO)

The NPO is defined as the cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability or asset at transition, if any. The NPO substantially represents cumulative shortfalls in employer contributions to the Plan by the City as of the year ended December 31, 2011 as compared to the cumulative Annual Required Contribution (ARC) as computed by the Plan's Actuary. The NPO is computed annually by the Plan's actuary and reported to the City of New Orleans for inclusion in their annual audited financial statements. The NPO is determined in accordance with GASB 27.

G. ANNUAL REQUIRED CONTRIBUTION (ARC)

The Plan experienced substantial increases in the annual required contribution (ARC) for each of the prior years ended December 31, 2007, 2008 and 2009 based upon the actuarial determinations for each respective year. In the succeeding years 2010 and 2011 the level of the ARC generally stabilized at a level of $21.2 million and $20.8 million respectively.

Continued,

The actuary's report is generally made available to the Plan at the mid-year point of the year following the effective period of the report. The City's procedure related to funding of the ARC provides for adjusting the City's contribution rate effective the beginning of the year succeeding the receipt of the report. The effect of this ARC funding procedure creates a one-year lag period between the ARC determination date and the City's implementation of the adjusted contribution rate. The actuary utilizes a beginning of year report effective date.

The following schedule presents a comparison of the ARC determined by the actuary compared to the employer contributions made by the City for the corresponding year that the applicable rate was implemented as described above:

ARC Report Date	ARC Amount	Employer Contribution Year	Employer Contribution Amount	Over/(Under) Contribution Variance
1/1/2007	$ 3,660,755	2008	$ 5,458,558	$ 1,797,803
1/1/2008	9,429,697	2009	13,690,309	4,260,612
1/1/2009	17,066,286	2010	14,639,863	(2,426,423)
1/1/2010	21,281,681	2011	21,604,654	322,973
1/1/2011	20,850,943	2012	N/A	N/A

This schedule is presented for analysis purposes only and differs from the results presented on page 35 of this report. That schedule presents the schedule of annual required contributions consistent with the methodology employed by the Plan's actuary in accordance with GASB 27. The above schedule includes an additional year's lag period resulting from the City's effective date of implementing the ARC rate change.

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, 2011. Investments that represent 5% or more of the Plan's net assets are separately identified.

Investments.	
Market Prices Quoted in Active Markets	
Cash & Cash Equivalents	$ 5,546,135
Equities:	
Domestic	84,922,249
Foreign	53,946,692
Intech (large cap growth fund)	20,381,392
Other	130,158
	159,380,491
Fixed Incomes	
Foreign Obligations	21,654,499
Mutual Funds	
TCW Funds	36,317,643
Delaware Investments	30,798,444
Other Funds	7,413,061
	96,183,647
Market Prices Determined by Other Methods	
Broadmarket Funds	9,165,528
Investment in Fund of Funds	22,340,343
Homeland Security Fund	797,377
Fixed Income and Equity Hedge Funds	10,798,292
Investment in Private Equities Funds	5,865,035
Investment in Real Estate Funds	3,257,264
	52,223,839
Total Investments	$ 313,334,112

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, 2011, alternative investments were $52,223,838 or 16.6% of the total 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 estimated valuations based upon receipt and review relevant financial data and periodic independent audits. The estimated market values are forwarded to the Plan's custodian financial institution on a monthly or quarterly basis. These market values are updated by the Plan's custodian. These updated values are included within these financial statements.

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the Plan'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, 2011 each of the aggregate asset classes reflected positions within these guideline limits.

Continued,

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 Plan's investments in publicly traded securities as of December 31, 2011:

ECONOMIC SECTORS

Bond Rating	Plan Market Value
Treasury	$ 6,707,958
Agency	551,807
AAA	14,498,574
AA	1,475,483
A	28,946,299
BAA	14,314,671
Other	29,688,855
Total	$ 96,183,647

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, 2011, 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.

Continued,

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, 2011, the Fund had the following investments in long-term debt securities.

Bond Maturities	Plan Market Value	
0-2 Years	$	13,246,638
2-3 Years		3,220,445
3-4 Years		3,984,873
4-5 Years		5,828,254
5-6 Years		3,035,995
6-8 Years		9,239,901
8 Years and Above		57,627,541
Total	$	96,183,647

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 2011, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year depreciated in value by $(7,158,671). The details of the net depreciation on investments are as follows:

Investment Category	Net Appreciation/ (Depreciation)	
Equities	$	(29,142,968)
Fixed Incomes		682,301
Other Securities		21,301,996
	$	(7,158,671)

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 25 and 26.

J. COST-OF-LIVING BENEFITS

Historically, the Board of Trustees had adopted the policy of maintaining a "Cost of Living Account" representing a "reserve" to provide for cost of living payments to retirees and beneficiaries from excess realized investment earnings. In the January 1, 1996 and prior actuarial valuations, this reserve was used as an offset to assets in developing the actuarial value of assets. Beginning with the January 1, 1997 and in subsequent actuarial valuations, this reserve was included with other actuarial liabilities presented in the plan actuary's report. Effective with the January 1, 2007 actuarial valuation, the Board eliminated the inclusion of this "reserve" in the system actuarial liabilities in favor of the direct demonstration of the amount available for cost of living payments as described below. The "reserve" was intended to represent the amount available for such cost of living payments pursuant to Section 114-204 (7) of the New Orleans Code governing System benefits.

The Board has adopted a revised policy of determining the amount available pursuant to the foregoing section as follows. "The Board has made the interpretation that "interest earnings" represents cumulative market-to-market investment performance of the fund and that "in excess of an average 3.5 percent" means cumulative investment performance in excess of 3.5% compounded annually. The plan's actuary's report reflects cumulative investment performance of 3.5% compounded annually would have resulted in total system assets of $75,476,525 as of December 31, 2011 based on the assumption that there had not been any "one time" cost of living payments during the 22 year period considered. Actual fund performance during the 23 year period considered resulted in a market value of $317,609,637 after recognition of the "one time" cost of living payments actually made.

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, investment consultants 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 (4/5) (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	84.10	96,947,970	78,846,321	122.95
2009	387,146,017	478,551,973	80.89	50,329,902	89,366,260	56.30
2010	384,105,611	485,220,683	79.20	127,398,531	85,926,577	148.30
2011	379,526,159	507,173,226	74.80	150,736,308	93,636,301	161.00

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	8,858,238	104%
1995	10,416,160	102%
1996	9,622,427	102%
1997	8,235,365	110%
1998	8,385,967	104%
1999	6,853,238	81%
2000	6,649,492	101%
2001	5,954,203	107%
2002	4,080,311	163%
2003	6,736,917	99%
2004	7,181,837	113%
2005	11,840,850	54%
2006	4,126,492	118%
2007	3,660,755	144%
2008	9,429,697	58%
2009	17,066,353	80%
2010	21,281,308	69%
2011	20,850,837	104%

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011

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, 2012
- Actuarial cost method: Entry Age Normal Cost Method
- Amortization period: 15 years
- Asset valuation method: Adjusted Market Value
- Investment rate of return: 7.50%
- Projected salary increases: 5.0%

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

Celebrating 20 Years

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*

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

We have audited the accompanying financial statements of the Employees' Retirement System of the City of New Orleans (the Plan) as of December 31, 2011 and for the year then ended, and have issued our report thereon dated June 11, 2012. 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 of the financial statements of the Plan, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the 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 of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below we identified certain deficiencies in internal control that we consider to be material weaknesses.

New Orleans Office: 1100 Poydras Street, Suite 1225 • New Orleans, LA 70163 • Phone (504) 561-8600 • Fax (504) 561-8800
Baton Rouge Office: 2900 Westfork Drive, Suite 200 • Baton Rouge, LA 70827 • Phone (225) 275-9100 • Fax (225) 275-9300

Continued,

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the findings listed in the Schedule of Findings and Responses as findings 11-01 and 11-02 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

The Plan's response to the findings listed in the Schedule of Findings and Responses were not available and is accordingly not a part of this report.

This report is intended solely for the information and use of the audit committee, 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."

Luther Speight & Co

Luther Speight & Company
June 11, 2012

SCHEDULE OF FINDINGS AND RESPONSES

FINDING 11-01: PLAN'S MANAGEMENT OF THE RISKS PRESENTED BY ALTERNATIVE INVESTMENTS NOT ADEQUATE

CONDITION

The Plan reported portfolio values for alternative investments of $52.2 million as of December 31, 2011. This reported value represents 16% 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.

We noted that the U.S. General Accounting Office has continued to provide accounting guidance in the area of alternative investments primarily through interviews and surveys of Plan managers across the country. While their published data shows a general increase in the number of Plans investing in alternative strategies, the GAO also continues to highlight the challenges posed by these investments including limited liquidity and a general lack of transparency. Survey results continue to reflect that MEPRS portfolio exposure to alternative investment strategies is in the upper range of their peer group.

This higher 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 and the other related due diligence procedures provide crucial evidence in support of any potential adverse changes in alternative investment values.

Our examination disclosed that the Plan's portfolio included investments with 28 fund managers in the alternative strategies. There were no independent audit reports on file in support of seven (7) of these investment manager holdings. These investment balances totaled $13.1 million or 25.2%. We further noted that little or no qualitative or comparative analysis had been performed or documented related to the audit reports received and their bearing on the valuations placed on the Plan's investments by the respective managers.

CAUSE

The Plan did not have procedures or staffing designated to perform the detailed analysis of the independent audit reports and relate the analysis to the values reported by the alternative fund managers.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011

FINDING 11-01: PLAN'S MANAGEMENT OF THE RISKS PRESENTED BY ALTERNATIVE INVESTMENTS NOT ADEQUATE

Continued,

EFFECT

The lack of qualitative or comparative analysis of the independent audit reports and the accompanying financial statements does not reduce the risk that the valuations reported by the alternative mangers may not be reduced to an acceptable level. 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 update it procedures related to the receipt and review of the independent audit reports from the alternative investment managers to include qualitative and comparative analysis of investment's financial position and results of operations and cashflows and other relevant financial and market related data.

MANAGEMENT'S RESPONSE:

Not Available

FINDING 11-02: PLAN'S ALTERNATIVE INVESTMENT VALUATION REPORTING NOT ADEQUATELY MONITORED

CONDITION

The Plan's alternative investment valuations are reported by the respective fund manager to the Plan's custodian financial institution for inclusion in the investment trust statement reporting. We reviewed the alternative investment valuation reporting and review procedures and noted that procedures and controls in place did not include documentation of the tracking of the timeliness of valuation updates by the fund managers.

Our examination showed that the Plan's 28 alternative managers were scheduled to update investment values either on a monthly or quarterly basis. Documentation indicating the most recent valuation dates was not on file, therefore we could not determine if the valuations included in the Plan's alternative investment portfolio were current.

CAUSE

The Plan's policies and procedures did not require documentation of the tracking of the timeliness of updated investment values reported by the alternative managers.

EFFECT

Since the alternative investment values are not publically available, delinquent reporting of those estimated values by the respective managers could allow adverse changes affecting the investment valuations not to be reported to or acknowledged by the Plan's staff and Board on a timely basis. We were unable to determine the timeliness of the reporting of the values.

RECOMMENDATION

We recommend that the Plan adopt a policy requring documentation of the tracking of the timeliness of reporting of alternative investment value updates. Procedures implemented should also include measures to address delinquent reporting.

MANAGEMENT'S RESPONSE:

Not Available

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
DECEMBER 31, 2011

STATUS OF PRIOR YEAR FINDINGS

Finding No	Summary of Condition	Resolved	Unresolved
10-01	Plan's management of the risks presented by alternative investments not adequate		X
10-02	Alternative investment valuation reports delinquent		X

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?	_X_ yes	__ no
Significant deficiency(s) identified not considered to be material weaknesses?	___ yes	_X_ no
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards **(Not Applicable)**

Internal control over major programs:		
Material weakness(es)identified?	___ yes	___ no
Significant deficicency(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

CITY OF NEW ORLEANS
EMPLOYEES' RETIREMENT SYSTEM

MITCHELL J LANDRIEU
MAYOR

September 6, 2012

Luther C Speight, III
Luther C Speight & Company
1100 Poydras Street, Suite 2900
New Orleans, LA 70163

Re City of New Orleans Employees' Retirement System
Financial Statements – Year ending December 31, 2011

Dear Mr Speight

The following is our Management Response to findings identified during your audit of the financial statements of the City of New Orleans Employees' Retirement System

Finding (11-01): Plan's Management of the Risks Presented by Alternative Investments Not Adequate.

CONDITION
The Plan reported portfolio values for alternative investments of $52 2 million as of December 31, 2011 This reported value represents 16% of the entire portfolio market value at year-end The investments represented 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

We noted that the U S General Accounting Office (GAO) has continued to provide accounting guidance in the area of alternative investments through interviews and surveys of Plan managers across the country While their published data shows a general increase in the number of Plans investing in alternative strategies, the GAO also continues to highlight the challenges posed by these investments including limited liquidity and a general lack of transparency Survey results continue to reflect that MEPRS portfolio exposure to alternative investment strategies is in the upper range of their peer group

This higher 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 lack of published market valuation data, these audit reports and the other related due diligence procedures provide crucial evidence in support of any potential adverse changes in alternative investment values

Our examination disclosed that the Plan's portfolio included investments with 28 fund managers in the alternative strategies There were no independent audit reports on file for seven (7) of these investment manager holdings These investment balances totaled $13.1 million or 25.2% We further noted that little or no qualitative or comparative analysis had been performed or documented related to the audit reports received and their bearing on the valuations placed on the Plan's investments by the respective managers

CAUSE
The Plan did not have procedures or staffing designated to perform the detailed analysis of the independent audit reports and relate the analysis to the values reported by the alternative fund managers

EFFECT
The lack of qualitative or comparative analysis of the independent audit reports and the accompanying financial statements does not reduce the risk that the valuations reported by the alternative managers may not be reduced to an acceptable level 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 update its procedures related to the receipt and review of the independent audit reports from the alternative investment managers to include qualitative and comparative analysis of investment's financial position and results of operations and cashflows and other relevant financial and market related data.

RESPONSE
The alternative investments held by the Plan that are on the platform of our investment consultant undergo both a qualitative and comparative analysis to ensure accurate valuations and subsequent reporting of all investment positions This includes not only our alternative investments but our traditional investments as well The Board has decided to make all future alternative investment selections from the vetted investment consultant platform. Also, the Plan's investment contracts with each investment manager documents the manager's commitment to the retention of external auditors, registered custodians and other specific performance reviews to ensure accurate valuations.

FINDING (11-02): PLAN'S ALTERNATIVE INVESTMENT VALUATION REPORTING WAS DELINQUENT.

CONDITION

The Plan's alternative investment valuations are reported by the respective fund manager to the Plan's custodian financial institution for inclusion in the investment trust statement reporting. We reviewed the alternative investment valuation reporting and review procedures and noted that the procedures and controls in place did not include documentation of the tracking and timeliness of valuation updates by the fund managers

Our examination showed that the Plan's 28 alternative managers were scheduled to update investment values either on a monthly or quarterly basis Documentation indicating the most recent valuation dates was not on file, therefore we could not determine if the valuations included in the Plan's alternative investment portfolio were current.

CAUSE

The Plan's policies and procedures did not require documentation of the tracking of the timeliness of updated investment values reported by the alternative managers

EFFECT

Since the alternative investment values are not publically available, delinquent reporting of those estimated values by the respective managers could allow adverse changes affecting the investment valuations not to be reported to or acknowledged by the Plan's staff and Board on a timely basis We were unable to determine the timeliness of the reporting of the values

RECOMMENDATION

We recommend that the Plan adopt a policy requiring documentation of the tracking of the timeliness of reporting of alternative investment value updates Procedures implemented should also include measures to address delinquent reporting

RESPONSE

The timelines of statement delivery contracted by our alternative investment managers and JP Morgan's statement delivery policies are in conflict JP Morgan's policy is to print all statements for the previous month after the 10th business day of the following month. Many of the alternative investment statements are not received until the 20th of the following month and in some cases later. There will always be a lag in reporting with alternative investments The Plan is in the process of completing a move to an upgraded system with the custody bank which will include the ability to track the receipt and subsequent posting of third-party statements for all assets held away The report generated from this service will include the name of the account, our due date and the date the custody bank received and posted the statement to our account

The above responses complete the Management Response to the audit findings for the 2011 audit of the financial statements of the City of New Orleans Employees' Retirement System

Sincerely,

Jesse Evans, Jr.
Director