

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JANUARY 15, 2014**

A special meeting of the Board of Trustees was held on Wednesday, January 15, 2014 at the Retirement Office located at 2201 Auburn Road, Suite B, Auburn Hills, MI 48326. The meeting was called to order at 10:05 a.m.

TRUSTEES PRESENT

Koné Bowman, Vice Chair
Jan Gaffney
Charlie Harrison, Chairman
Walter Moore
Nevrus Nazarko, Secretary (*arr. at 10:09 am*)
Patrice Waterman
Dierdre Holloway Waterman, Mayor (*arr. at 10:09 am*)
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Deborah Munson, Finance Officer
Jane Arndt, Executive Assistant
Claudia Filler, Retiree
Billie Swazer, Retiree
Linda Watson, Retiree
Debra Woods, Retiree

TRUSTEES ABSENT

Shirley Barnett (*excused*)
Robert Giddings (*excused*)

Chairman Harrison thanked the Trustees for attending the meeting on such short notice. He said that it was an honor to work with Ms. Zimmerman and that the Board had lost a warrior and leader in the Retirement Office. He asked that there be a moment of silence for Ms. Zimmermann.

He stated that even under these extenuating circumstances the Staff has not missed a beat with regard to the operation of the Retirement Office.

PUBLIC DISCUSSION - None

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MAINTENANCE OF INTERIM OFFICE OPERATION

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Chairman Harrison told the Board that since he became aware of Ms. Zimmermann's death, he has been in daily contact with the Retirement Office either by telephone or email. The Staff has been holding up the banner quite well and they have not missed a beat. He indicated that he offered grief counseling to the staff if needed and extended the offer to any member of the Board. He and staff reviewed the agenda on Monday.

Trustee Moore asked what has been done to keep the office operating as usual and whether the members of the System were notified of Ms. Zimmermann's passing. He applauded Mr. Harrison's leadership during this time.

Trustee Williams indicated that Miss Munson's position should be stated in the minutes.

Chairman Harrison indicated that nothing has changed in the Retirement Office with regard to the overall operation of the office. He noted that where appropriate, Miss Munson's title should be included.

Deborah Munson is the Finance Officer for the Retirement System. Miss Munson told the Board that normal operations in the Retirement Office are being maintained. Ms. Zimmermann's email and telephone calls are being forwarded to her. A flyer was sent out to the membership notifying them of Ms. Zimmermann's passing. Operations are being maintained, however, there are some things that she cannot do. Providers did afford her a grace period but this period has expired.

Trustee Bowman asked specifically what Miss Munson's position is.

Miss Munson and Chairman Harrison indicated that she is the Finance Officer for the Retirement System.

Trustee Moore felt that that information would be helpful for the new members on the Board.

Chairman Harrison told the Board that the meeting was called to bring everyone up to speed including Staff, Legal Counsel and the Board. There are some timely issues that need to be dealt with immediately.

Miss Munson began the overview of the agenda items and why the requested items were necessary. She discussed the first memo which gave an overview of the items that would need to be addressed in order to maintain the Retirement Office operations while the Board considers their long-term plan for the Administration of the System. She explained that she and Ms. Zimmermann were the only authorized signers on certain accounts and Ms. Zimmermann the only authorized signer on the other. In some cases, this condition would mean – going forward - that she would need either to write direction letters (with only her approval) to make payments or would not be able to act at all. She briefly described how the current situation violates various accounting and auditing standards as well as the Board's and Retirement Office's policies and procedures. She indicated that she felt that it was important for the Board and the members to understand that the actions being requested today in no way change how the office operates, only who performs each function.

She indicated it was important that the Board have at least one Trustee in addition to staff as authorized signers for all Board activities that require a signature. She further indicated that she had taken the opportunity to have Beth Bialy of Plante & Moran review her plan in its entirety. Ms. Bialy's comments were incorporated into the plan and – if approved by the Board – the plan would not negatively impact the fund's annual audit. Miss Munson stated that the Retirement Office has to have internal checks and balances in place.

Trustee Gaffney commended Miss Munson for bringing the auditor, Beth Bialy in to review the plan.

She reviewed the MHSCU/Affinity Group memo. She noted that the Credit Union issued a fraud alert on the System's main credit card in December 2013 without notifying the Retirement Office.

Trustee Gaffney asked what happened.

Miss Munson explained that she was contacted the second week in January by IFEBP (one of the System's vendors) that their attempted charge to the credit card had been denied. She contacted Chad Rich who is the Branch Manager at the Affinity Group Credit Union. He informed her that a fraud alert had been put on the credit card due to an attempted charge from Great Britain. He would not provide specifics with regards to the charge or vendor because Miss Munson is not a signer on the account.

Trustee Moore stated that he had the same issue with the Credit Union due to the Target Stores electronic payments security breach. He was issued a new credit card.

Miss Munson stated that it seemed strange that the Credit Union denied a charge from IFEBP because it is a known vendor that the System uses on a recurring basis, but allowed a charge for \$6,000.00 (which was more than three times the amount of the IFEBP charge) to Apple's on-line store for the Trustee I-Pads.

She reported that the current authorized signers at the Credit Union are Ms. Zimmermann, Chairman Harrison III and Debra Woods. Ms. Woods would not be considered authorized on the account since she is no longer a Trustee.

She explained that the System conducts limited business on the account at the Credit Union. The System maintains the account because the System's VISAs are issued on the account and it is used as a conduit to send the Retirement Staff payroll wires to ADP. ADP now requires the ability to initiate debits and credits on the employer's bank account. Since our Northern Trust account is identified as a Trust, this authority cannot be given. (Fortunately, the retiree payroll was set up long before ADP began requiring this permission and the System's process of sending the retiree payroll wire directly to ADP from Northern Trust was 'grandfathered' in.)

Miss Munson asked that the Board remove Ms. Zimmermann and Ms. Woods as signers on the Credit Union account and add Vice-Chair Koné Bowman and Deborah Munson.

Mayor Waterman asked if the credit card needs to be reissued and whether the account at the Credit Union is a corporate account that needs to be closed and reopened.

Miss Munson stated that it is a corporate account opened under the name of the Retirement System.

There was discussion regarding the difference between corporate and private accounts.

Miss Munson told the Board that she felt it was important that the System had the same assurance of having at least three authorized signers on the Northern Trust account with at least one Trustee signer.

Retiree, Billie Swazer asked if dual signatures are required.

Miss Munson explained that the Credit Union prohibits account holders from requiring two signatures.

Chairman Harrison noted that even though he has signature authority he will not be signing.

Ms. Billings stated that the trustees always receive copies of the VISA statements from the Credit Union.

Trustee Moore questioned whether there could be the possibility that the Chair or Vice Chair would have to sign.

Trustee Williams indicated that he works in the banking industry and that dual signers is a thing of the past.

It was stated that it is important that the Retirement Office has policies in place. Chairman Harrison reiterated that Miss Munson had asked the System's auditor to review the checks and balances.

Miss Munson reviewed the Northern Trust Signature Authority memo. Northern Trust requires four documents with various signers in order to authorize instructions and transactions. Miss Munson indicated that she and Ms. Zimmermann are the only authorized signers on most of the NT documents.

Miss Munson indicated that Northern Trust is the Board's custodian and custodies all of the non-private equity holdings of the Fund. Miss Munson then discussed each required document.

The first – the Authorized Parties Document – is the highest level of authorization at Northern Trust. Authorized Parties (AP's) are the parties who are authorized to act on behalf of the fund to give directions and instructions with respect to the Master Custody Agreement. The current AP's are Ellen Zimmermann and Deborah Munson. She asked that Ms. Zimmermann be removed and that Chairman Harrison III and Trustee Bowman be added.

Miss Munson explained that all of the Fund's cash transactions are initiated out of the cash account held at Northern Trust. The next document is the Web Cash Movement Individual User Authorization (WCM User). WCM users are authorized to enter and/or approve cash transactions on NT's Passport website. NT requires a minimum of three WCM users, but only Ellen Zimmermann and Deborah Munson enter transactions. The Passport website does not permit the same person to initiate and approve the same transaction. Other names set up as users are Raymond Cochran, Charlie Harrison III and Craig Storum. She asked that the Craig Storum, Ray Cochran and Ms. Zimmermann be removed and that Jane Arndt be added.

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Trustee Gaffney requested confirmation that Northern Trust requires one person to enter the transaction and another person to approve it. Miss Munson confirmed that this was correct.

The next document is the Client Communication of Callback Process. She explained that the Board and office policies and practices require two signatures for financial transactions. However, Northern Trust does not require two signers. In the event that a financial instruction is sent to Northern Trust other than through its Passport website a call-back process would be used. If an instruction involving the movement of cash is received via email, fax, etc., Northern Trust would call one of the other authorized Web Cash Movement users to authenticate the transaction. Northern Trust would not call the individual initiating the transaction. The current Callback Authenticators are Ellen Zimmermann and Deborah Munson.

Miss Munson told the Board that the Retirement Office has never used this method to move cash.

She asked that Ms. Zimmermann be removed and that Chairman Harrison III and Jane Arndt be added as authenticators.

The final document is the Trade Order Access Form. The System invests in several private equity funds. Northern Trust provides accounting services, but does not actually custody the assets allocated to private equity managers. When a private equity manager makes a capital call or a distribution, the money is wired to/from the investment managers' account. The Trade Order Entry module of Northern Trust's Passport website accommodates these wires to and from the private equity bank account. As with Web Cash Movement no individual can initiate and approve the same transaction. The current Trade Order Entry users are Ms. Zimmermann and Miss Munson. She asked that Ms. Zimmermann be removed and that Charlie Harrison III and Jane Arndt be added.

The third memo reviewed was the Disbursements Process (Transaction Processing) memo. She described how as the Finance Officer she is responsible for all financial transactions of the Fund. Currently, the process for processing cash transactions is a two-step process. She would enter transactions on the Northern Trust website and Ms. Zimmermann would approve them. The Board receives a list of payments at the end of each month.

She indicated that currently only she or Chairman Harrison can initiate transactions and only she can approve transactions at Northern Trust. Two signatures are required for this process.

Currently, she performs all of her own clerical functions. She asked that the Board allow Ms. Arndt to enter transactions. She stressed that she would only be delegating her clerical tasks to Ms. Arndt and that she (Miss Munson) would retain responsibility for all financial transactions. Externally, Chairman Harrison and Vice Chair Kone Bowman will receive a transaction report and other detailed reports describing the day's cash movements (on the roughly five nights per month that the System moves cash). They would be required to attest that they have reviewed and have no concerns or objections regarding the transactions.

She reviewed the transaction report and some of the reconciliations, capital call notices, etc... that would be sent to the Chair and Vice-Chair as documentation of the cash movements for their review and consent.

Trustee Moore asked if the title 'New Pays' could be changed to 'New Retiree' on the retiree payroll reconciliation. Miss Munson agreed to make the change.

Chairman Harrison stated that as part of the internal controls process, both he and Vice Chair Bowman will have to review and consent to the transactions.

Miss Munson explained that all payments have been approved by the Board. Any non-routine payments are sent to the Board in advance for approval. She used the recent example of the iPad purchase.

Chairman Harrison told the Board that they approve these expenditures each month.

Trustee Moore asked if these persons should be bonded.

Ms. Billings indicated that it may be prudent for the System to bond these individuals based on the changes.

Chairman Harrison stated that both he and Vice Chair Bowman would feel more comfortable if they were bonded.

Mayor Waterman asked if the Board has insurance.

Ms. Billings indicated that the Board has fiduciary liability insurance.

Miss Munson indicated that these authorizations are temporary and can be changed.

Trustee Nazarko asked if this has to be done today.

Chairman Harrison stated that these changes have to be done today or the retirees will not be paid.

Trustees Moore and Gaffney thanked Miss Munson for all her hard work putting together the documentation and information for the Board.

Trustee Nazarko asked if the temporary employee position would be posted.

Trustee Gaffney indicated that responsibility would fall under the Personnel sub-committee.

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RESOLUTION 014-001 By Moore, Supported by Waterman

Whereas, the Board of Trustees has various responsibilities associated with administering the business of the Retirement System and for making effective the provisions thereof;

Now, Therefore, Be it Resolved that the Board wishes to remove Ellen Zimmermann and Debra Woods as signers from MHSCU/Affinity Group bank account and to add as signers Vice Chair Koné Bowman and Deborah Munson;

Further Resolved, That the Northern Trust Authorized Parties Document will be updated by removing Ellen Zimmermann and adding Chairman Charlie Harrison III and Vice Chair Koné Bowman;

Further Resolved, That the Northern Trust Web Cash Movement Individual User Authorization will be updated by removing Raymond Cochran, Craig Storum and Ellen Zimmermann and adding Chairman Charlie Harrison, III and Jane Arndt;

Further Resolved, That the Northern Trust Client Communication Callback Process will be updated by removing Ellen Zimmermann and adding Chairman Charlie Harrison III and Jane Arndt;

Further Resolved, That the Northern Trust Trade Order – Access Form will be updated by removing Ellen Zimmermann and adding Chairman Charlie Harrison III and Jane Arndt;

Further Resolved, That the Retirement Office Disbursements Process be updated to allow Jane Arndt to initiate and enter transactions on the Northern Trust website (with access limited to “enter only”); Deborah Munson to approve transactions for payment on Northern Trust website; and, Chairman, Charlie Harrison III and Vice Chair, Koné Bowman to review and sign off on a nightly transaction report that would detail vendor name, payment type, amount and total number of transactions. When appropriate, the transaction report would be accompanied by either a payroll reconciliation or capital call notice or such other additional information as may be appropriate to describe the payment. Both Trustees would be required to attest that they have reviewed the payments and have no additional questions.

Yeas: 8 – Nays: 0

Discussion then turned to the final item of the plan which was the hiring of a temporary clerical employee for up to 30 hours per week. Miss Munson indicated that she is asking that the Board allow her to hire a temporary employee who can take on most of Ms. Arndt’s clerical work (answering phones, responding to member requests, filing, etc...) so that Ms. Arndt would be available to take on some of the clerical functions Miss Munson currently performs for herself. Miss Munson would then be able to take over the Executive Director’s responsibilities. This would enable the staff to maintain its normal operations and give the Board three months or so to deliberate on and execute their long-term plan for the administration of the Fund. It would also help to provide a smooth transition with minimum disruption to office operations and member service.

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Chairman Harrison reminded the Board that the number of employees in the Retirement Office went from four to three and is now down to two.

There was Board discussion regarding finding a reputable temporary agency and the cost associated with a temporary employee.

Miss Munson indicated that the Retirement Office had used a temporary employee in 2013 for approximately four months from AccountTemps.

There was discussion regarding whether the Staff would handle the hiring process.

Trustee Gaffney indicated that the temp would be paid based on the skillset.

Trustee Nazarko said that the cost for a temp from AccountTemps is normally in the \$25.00 to \$26.00 per hour range.

Trustee Bowman said that the Staff can also look at other temporary agencies.

Trustee Moore felt that Miss Munson should be responsible for making the selection.

Mayor Waterman said that when speaking with the temporary agency, Miss Munson should look to hire someone from Pontiac.

Trustee Moore also noted that there could be a retiree working at one of the agencies.

RESOLUTION 014-002 By Gaffney, Supported by Bowman

Resolved, That the Board approve the hiring of a temporary clerical employee by the Retirement Office for up to thirty hours per week.

Yeas: 8 – Nays: 0

Chairman Harrison discussed his idea for an ad-hoc administrative committee composed of Trustees who had backgrounds in administration that would provide support to the staff during the transition and consider the direction the Board would take in filling the position of Executive Director.

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He appointed Trustees that have administrative abilities including Trustee Waterman who ran the City Council's Office, Trustee Williams, Trustee Bowman and Trustee Giddings.

He noted that the Staff has done a good job of handling the operation of the Retirement Office. He also told the Board that he has never micro-managed the Retirement Office Staff. He felt forming this committee was a good idea. The second reason was to look at moving forward with plans to fill the Executive Director position.

Trustee Moore wondered whether the responsibilities of such an ad-hoc sub-committee would overlap the responsibilities of the Personnel sub-committee. He felt it was redundant to appoint another committee.

Chairman Harrison stated that there would be issues that would overlap between the two committees.

Trustee Bowman stated that there was concern that this task could be time-consuming for the personnel sub-committee along with the succession plan and other tasks they are currently working on. He suggested polling the personnel sub-committee to determine whether they can move forward with this and develop an RFP.

Trustee Gaffney stated that her biggest concern is that the committee will bypass the option of a Third Party Administrator. It has to be addressed as part of the process.

Trustee Williams told the Board that Miss Munson has already indicated that she can handle the operation of the Retirement Office so there is no need to rush a decision.

Trustee Gaffney added that any decision will require the full Board's approval.

Chairman Harrison thanked Trustee Williams for his insight on not rushing through the process.

Trustee Nazarko questioned whether new members of the Board should have the opportunity to be appointed to the personnel sub-committee. He indicated that the Mayor is well educated, could add a bird's eye view perspective and a wealth of knowledge and experience. He proposed adding Mayor Waterman to the personnel sub-committee.

Chairman Harrison stated that the Board has to determine whether the Retirement Office should stay the way it is or move to a TPA. The full Board will have the opportunity to participate in determining the best approach.

Trustee Bowman stated that he does not mean any disrespect, but he questioned whether Trustee Nazarko was suggesting that the current Committee is not capable of making a decision and had questioned the education level of the committee members.

Chairman Harrison stated that the current members of the personnel sub-committee are Chair, Trustee Gaffney, Chairman Harrison, Trustee Moore, Trustee Bowman and Trustee Waterman. He noted that a committee cannot have more than five members because that would constitute a quorum.

Mayor Waterman stated that she is willing to work with the Board in whatever capacity she can be helpful. She indicated that a TPA might be helpful. In view of the time lag, the personnel sub-committee should address the TPA issue.

Chairman Harrison suggested that the Mayor could perhaps serve as an alternate to the personnel sub-committee.

Mayor Waterman indicated that she would be happy to serve as an alternate to the committee.

The Board discussed this and decided that in light of the plan presented by staff and the existence of the personnel sub-committee, an ad-hoc administrative sub-committee would not be required at this time and that a meeting would be called by the Chair of the personnel sub-committee to address the administration of the Retirement Office.

Trustee Moore indicated that the Committee has to be able to operate without a timeline as well as realize the importance of this issue.

Ms. Billings stated that the Board should move expeditiously to address the issue and suggested that the Board could consider pursuing both paths. The Board could simultaneously issue an RFP for a Third Party Administrator and conduct a search for an Executive Director and see which yielded the best result.

Trustee Moore stated that the personnel sub-committee should be able to come up with a reasonable timeline.

Chairman Harrison indicated that there are currently two committees, the Personnel and Finance sub-committees. He asked that Ms. Arndt provide the list of the members of the finance sub-committee.

Mayor Waterman recommended that Trustee Nazarko be added to the finance sub-committee.

Trustee Moore noted that there is a good group of people at the table to provide support to the staff.

Retiree, Claudia Filler thanked and commended Chairman Harrison, Miss Munson and Ms. Arndt for stepping up with regard to the operation of the Retirement Office during this difficult time.

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SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, January 29, 2014 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 014-003 By Williams, Supported by Bowman
Resolved, That the Board adjourn the meeting at 11:48 a.m.

Yeas: 8 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on January 15, 2014

Secretary, Nevrus Nazarko

As recorded by Jane Arndt