



New York City Comptroller  
Scott M. Stringer

NEWS

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NEWS RELEASE

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## COMPTROLLER SCOTT M. STRINGER RELEASES COMPREHENSIVE REVIEW AND REFORM PLAN OF THE BUREAU OF ASSET MANAGEMENT

*Assessment builds on Comptroller's overhaul of ethics, reform and compliance*

**(New York, NY)**- On Tuesday, New York City Comptroller Scott M. Stringer announced the findings of a [comprehensive assessment](#) of the management and operations of the Bureau of Asset Management (BAM), a nearly 100-person unit of the Comptroller's Office that oversees the investments of the \$160 billion New York City Pension Funds. This new report is the first independent analysis of BAM's operations since 2002.

"This evaluation is clear: we have to fundamentally rethink how the Bureau of Asset Management does business," Comptroller Stringer said. "For too long, too little attention has been paid to our investment operations and there was a sense that nothing could be done to cut through an intractable bureaucracy. Today, that era has come to an end. To continue to fulfill our fiduciary duties, we must re-engineer every process and procedure and bring our investment operations into the 21<sup>st</sup> century. In the coming months and years, I will be working with the Trustees of all five pension systems to address these serious issues."

Since taking office, Comptroller Stringer has enhanced the ethics, reform and compliance functions of BAM through key hires and process implementation, in addition to working with Trustees to enact a placement agent ban and create a Common Investment Meeting. However, to bring about fundamental change, a more comprehensive analysis needed to be done. The Comptroller commissioned this review in November 2014 and chose Funston Advisory Services, a leading consultant to public pensions systems, in April 2015 after a competitive selection process.

During the period of June through October 2015, Funston interviewed over 75 BAM employees, Trustees of the pension funds, external investment managers, consultants and other key service providers and reviewed over 3,300 documents. The resulting report made a total of 240 recommendations over 20 areas of operation.

Below is a summary of the report's most important recommendations which address critical needs in five areas, including:

## 1. Investment Management, Risk and Compliance

Issue #1: BAM should enhance and standardize its due diligence practices for selecting and monitoring external investment managers.

Examples: BAM did not have a standard process across all asset classes to vet investment managers. In addition, too much reliance has been placed on third party consultants for critical tasks such as on-site management visits.

Action recommended: Require standard due diligence procedures and documentation for all asset classes. Increase the frequency of BAM staff onsite visits to external investment managers.

Issue #2: BAM needs to formalize its risk and compliance assessments in regular reports using documented policies.

Example: At the start of 2014, BAM had no formal risk management department, instead depending on consultants for most portfolio-level risk analysis.

Actions recommended: Develop a regular, formal risk and compliance reporting regimen for BAM and System Trustees along with a separate due diligence and reporting process for evaluating risk.

## 2. Organization and Administration

Issue #1: Organizational structure is too dependent on senior management for decision-making, creating bottlenecks and limiting the ability of BAM to respond quickly.

Example: Rather than having decision-making bodies handle routine requests, most actions require the formal approval of the CIO and/or the Assistant Comptroller.

Actions recommended:

- Add one or more Deputy CIOs and form an Internal Investment Committee to review investments and an Operational Risk Committee to evaluate risk from administrative and business practices to ensure robust oversight;
- Bring in a senior executive with change management experience to drive strategic initiatives throughout BAM; and
- Separate the role of the Assistant Comptroller into administration and operations.

Issue #2: BAM's operations should be restructured to bring it up to the standard of its peer pension systems.

Example: In 2014, staff who invested cash holdings and those that administered the movement of cash reported to the same individual, an inherent conflict. Oversight of the cash management group was subsequently moved to the Bureau of Accountancy.

Actions recommended: Re-structure operations areas to improve timeliness and reliability of reporting, eliminate repetitive clerical tasks, enhance external vendor oversight, and improve the quality and quantity of data available by the BAM staff for analysis.

### **3. Strategic Plan and Budget**

Issue: BAM does not currently have a formal strategic plan for its operations.

Example: BAM's budgeting process fails to prioritize projects and doesn't distribute responsibility for budgeting throughout the organization.

Action recommended: Formalize a multi-year budget, business and strategic plan for BAM.

### **4. Staff Development and Training**

Issue: In order to attract, train, retain and develop employees, and to ensure that staff have adequate access to training for the efficient deployment of Information Technology resources, BAM needs to create its own Human Resources and IT functions and appoint senior leaders to manage them.

Example: BAM has had difficulty in attracting staff because of historically low compensation, ineffective recruitment and lack of career paths, which has led to significant under-staffing at the asset class level.

Actions recommended: Augment existing capabilities and personnel by hiring a head of human resources to fill vacancies on staff through a coordinated recruitment campaign. Hire a head of information technology to create a comprehensive IT plan for the office.

### **5. Policies, Procedures and Records Management**

Issue: BAM must modernize its policies, procedures and records management protocol.

Example: Data is not stored in a centralized system and many procedures are not standardized or documented.

Actions recommended: Update and document all procedures, standardize policies across BAM and develop a central electronic repository for all records and policies with controlled access.

"Bringing this asset management operation up to leading practice will take all hands on deck over a period of many years. We have already begun to look anew at every process and procedure we have, but this review shows clearly why we need a fundamental re-architecting of the Bureau of Asset Management," said Scott Evans, Deputy Comptroller for Asset Management and Chief Investment Officer (CIO).

As mentioned previously, Comptroller Stringer has addressed several operational and managerial imperatives that have greatly enhanced the functioning of the Bureau of Asset Management, including:

- Appointing the first [Chief Risk Officer, Chief Compliance Officer, and Internal Auditor](#) for the Comptroller’s Office to improve risk management and accountability;
- Working with fellow Trustees to establish a [Common Investment Meeting](#) to reduce meetings from 54 to at least 6 times per year among the five systems, increasing time for BAM investment staff to address investments, strategy and planning;
- Working with fellow Trustees to approve a compensation plan for BAM investment staff that brought their pay in line with public pension fund median levels, improving its ability to attract and retain qualified investment professionals;
- Working with fellow Trustees to [enact a ban](#) on placement agents across all asset classes;
- Working with fellow Trustees to promote new [transparency and accountability](#) on [investment fees](#) including a requirement that all external private asset managers submit comprehensive data on fees and other charges each quarter; and
- Implementing [strict new accounting standards](#) under GASB 68 ahead of other major pension funds.

Moving forward, Comptroller Stringer and CIO Scott Evans will work with System Trustees to develop an implementation roadmap for reorganizing BAM. As this plan is formulated, several initiatives are already underway, including:

1. Expanding recruitment efforts to fill open and new positions;
2. Developing new middle and back-office capabilities and reducing manually-intensive reconciliation processes;
3. Establishing a new internal Investment Committee and Operational Risk Committee and developing charters for each;
4. Reviewing investment benchmarks as part of the ongoing asset allocation strategic process; and
5. Continuing to formalize due diligence and manager oversight policies.

The Comptroller’s Office will present its plan at the March Common Investment Meeting and will provide progress updates periodically.

“Our goal is to make the Bureau of Asset Management the gold standard of performance, risk, compliance and ethics. Every day, we are changing systems and revising best practices and being honest, transparent and upfront about our challenges, our strengths and our path forward. We didn’t get to where we are today overnight nor are we going to be able to change this organization in a day. This comprehensive review provides us a clear picture of what steps we need to take to address our most critical needs,” Stringer said.

To [view the full report](#), please click here.

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