



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, JANUARY 22, 2020
AT THE OFFICE OF THE COMPTROLLER**

ATTENDANCE

Chair

Michael Spitzer

Private Members

Mark Kaplan
Bud Larson
Larian Angelo

Public Members

Representing the Mayor – Raymond Lee
Representing the Comptroller – Jacqueline Thompson

Acting Secretary

Man Hon Cheung

**Independent
Auditors**

Grant Thornton LLP – Marla Hummel, Cosmo Saginario
Marks Paneth LLP – Roseanne Bowen, Hope Goldstein, Joseph Kanjamala,
Melissa Ouari, Talieh Sadri

Others

New York City Teachers' Retirement System – Kate Chen, Mitchell Fruchter,
Barbara Owczarczyk, David Yerushalmi

New York City Board of Education Retirement System – Jean-Daniel
Desmornes, Iyekeze Ezefili, Chithra Subramanian

New York City Employees Retirement System – Herman Bernal, Chun Gong,
Tom Kambouras

New York City Police Pension Fund – John Flynn, Bavakutty Sunny, Stanley
Thomas

New York City Fire Pension Fund – Albert Connolly, Maureen Dale, Simone
Saywack, Michael Sohn

New York City Other Postemployment Benefits Plan – Andrew Dowling,
Raymond Lee

New York City Mayor's Office of Operations – Florim Ardolli, George Davis

New York City Office of Management & Budget – Enid Ellis

New York City Office of the Actuary – Sherry Chan, Frankie Chen, Tom O'Hara,
Michael Samet

New York City Comptroller's Office – Camille Arezzo, Rosa Charles, Leonel Ferreira, Lynne Fleischman, Ninoshka Garrick, Michael Hecht, David Jeter, Patricia Kearns, Veronika Musheyeva, Jessica Sanchez, Cara Schnaper, George Siavichay, Susanna Tregor, Alla Vayner, Mehdi Ben Zafar

New York City Independent Budget Office – Robert Callahan

Audit Committee Meeting – January 22, 2020

I. Call to Order and Roll Call

Mr. Michael Spitzer, Audit Committee Chairman, called the meeting to order at 9:30 a.m. Mr. Man Hon Cheung, the Acting Audit Committee Secretary, took roll call; a quorum was present.

II. Motion to Accept the Draft Minutes of the Audit Committee Meeting held December 11, 2019

The first agenda item was the approval of the draft minutes of the December 11, 2019, Audit Committee Meeting. Chairman Spitzer inquired if there were any comments on the draft minutes as presented. Subject to any non-substantive editorial comments submitted to Mr. Cheung, the Committee approved the draft minutes of the December 11, 2019 Audit Committee Meeting.

III. Presentation of the Financial Statements and Management Letters (where applicable)

The next agenda item was the review of the financial statements and management letters of the following entities for the fiscal year ended June 30, 2019:

- Teachers' Retirement System of The City of New York
- New York City Board of Education Retirement System
- New York City Employees' Retirement System
- New York City Police Pension Funds
- New York City Fire Pension Funds
- The New York City Other Postemployment Benefits Plan

Teachers' Retirement System of The City of New York

Mr. Mitchell Fruchter, Deputy Chief Accountant of the Teachers' Retirement System of The City of New York (TRS), introduced the other representatives of TRS present, and the representatives of Marks Paneth LLP, TRS' independent auditors.

This was the fifth year of the combining statements of the Qualified Pension Plan (QPP) and Tax-Deferred Annuity (TDA) financials; the fifth year of implementing the GASB 67 requirements, and the fourth year of implementing GASB 72 investment disclosures.

As of June 30, 2019, QPP net position increased 6.3 percent, or \$58 billion, up from \$54.5 billion in 2018. The TDA net position increased \$35.3 billion, or 5.8 percent, up from \$33.4 billion in 2018. The QPP and TDA combined was \$93.3 billion, 6.2 percent higher than \$87.9 billion in 2018. Investment performance can largely be explained by investment allocations to particular market sectors and individual sector returns. Pension asset allocations for 2019 were 33.3 percent to fixed income, 32.5 percent to domestic equity, 21.2 percent to international equity, and 13 percent to alternative investments.

In general for returns, the Russell 3000 returned 9 percent, the Morgan Stanley Capital Index returned 0.02 percent, and real estate securities index was at 9.8 percent. The core plus five aggregate benchmark for fixed income was 8.7 percent.

The pension fund return was 7.5 percent. TRS' ten-year returns were 10 percent and 15-year returns were 7.3 percent.

TRS' investment levels increased 5 percent since the beginning of this year and S&P was up 11 percent since June. The Net Asset Value (NAV) was \$98.4 billion, up 5 percent as of December 31, 2019.

TRS' independent auditors made five observations:

- A loan interest-rate correction due to a change in actuarial return rate in 2011. Total difference in refunds was approximately \$15 million. Tax issues associated with the refunds are still being worked through.
- Microsoft software support: Fifty more servers are being replaced.
- Financial statement grouping: Multiple funds are commingled, which leads to more complex worksheets. A consultant will be brought in to look at general investment accounting, as well as working with the custodians, to improve efficiency.
- Purchase of cybersecurity insurance: TRS is reviewing quotes and coverage currently. In response to a question from the Committee about TRS' deadline for purchasing cybersecurity insurance, TRS stated that it will select a vendor very soon. The Committee noted the lack of cybersecurity insurance poses a significant risk and recommended TRS hasten the process, and at least implement temporary coverage currently, and return with a resolution.

[Subsequent to the Audit Committee Meeting, TRS selected the Beazely Group as the provider for cybersecurity insurance and is working on contract terms.]

- TRS' pension accounting system: Currently the record-keeping system is being modernized.

The Committee noted that issues with the pension accounting systems have been a perennial topic, that the systems have been in the process of being updated for a lengthy period, and that there are ongoing observations over the years about the lack of improvements to the systems.

The Committee asked what is happening across the pension accounting systems - whether other resources need to be injected into the process, and/or what is necessary to alleviate the problem.

One of the auditors for the Pension Systems noted that each of the Systems owns its own processes, and stated that there have been improvements overall. TRS added that each System is different. TRS has recently faced an end-of life-software issue and TRS is currently replacing a robust recordkeeping system with a new system. This project began after fiscal year 2015 and is being delivered in one module at a time as it's a huge undertaking.

A question and answer session took place after the presentation. Several matters were discussed including:

- In explaining “Investments in the TDA are pooled with QPP investments as the System assets in the TRS NYC Pension Fund for investment purposes only,” TRS confirmed that only investments can be pooled when managing a TDA deferred compensation plan with a pension plan.
- US Treasury and US Government debt are noted, on page 44’s GASB 72 disclosure, as a Level 2. TRS is open to reviewing this, but guidance from the Custodian, auditor and

Comptroller is that all debt is Level 2. The reason is because liquidity and pricing determine the GASB 72 level categories.

There being no further questions, Chairman Spitzer thanked the representatives of TRS for their participation in today's meeting.

New York City Board of Education Retirement System

Mr. Jean-Daniel Desmornes, Chief Financial Officer of the New York City Board of Education Retirement System (BERS), introduced the other representatives of BERS present, and the representatives of Marks Paneth LLP, BERS' independent auditors.

BERS' net position increased 7.2 percent from Fiscal Year 2018 to \$7.11 billion. The increase for the QPP was 6.8 percent; and for TDA 8.1 percent. Investments increased from \$6.97 billion in 2018 to \$7.45 billion in Fiscal Year 2019, an increase of 6.83%. Return on investment increased 6 percent in fixed investments and 7 percent in variable investments. Member contributions increased by 13 percent and membership increased from 51,000 to 53,000. The composition of membership includes 30,000 active members and 18,000 retirees.

A question and answer session took place after the presentation. Several matters were discussed including:

- BERS noted that it currently has no cybersecurity insurance, and stated that any changes to cybersecurity must be done in conjunction with the Department of Education (DOE). The Committee felt the cybersecurity risk may need to be addressed at the City level and the Committee will follow up on that, including having a conversation with the City's Chief Information Officer.

- The Committee expressed concerns over uninsured and uncollateralized cash deposits. Currently BERS takes no credit risk with reinvestment.

There being no further questions, Chairman Spitzer thanked the representatives of BERS for their participation in today's meeting.

New York City Employees' Retirement System

Ms. Chun Gong, Associate Director of Finance of the New York City Employees' Retirement System (NYCERS), introduced the other representatives of NYCERS present, and the representatives of Marks Paneth LLP, NYCERS' independent auditors.

The QPP net position was \$68.5 billion, up from \$65.2 billion in Fiscal Year 2018. The Variable Supplement Funds (VSF) net position was \$416 million, up from \$402 million. The QPP and VSF combined increased \$3 billion to \$68.9 billion in Fiscal Year 2019, due to favorable investment portfolio performance, primarily in the equity markets.

Total pension fund returned 7.1 percent for fiscal year 2019, slightly lower than NYCERS' 7.73 percent policy benchmark. The total fixed income segment returned 7.2 percent. Domestic equities returned 8.4 percent, slightly lower than the Russell 3000 index of 9 percent. The total world, excluding the United States, returned 0.6 percent.

The funded ratio was up from 71.4 percent as of June 30, 2016 to 72.2 percent as of June 30, 2017, which is the date of the most recent actuarial evaluation. Plan fiduciary net position as a percentage of total pension liability remained at 78.8 percent. The QPP transferred \$4.6 million in benefit payments to four of the five VSFs. These are the smaller VSFs funded on a pay-as-you-go basis. The benefit payments will decrease, due to the funds now being closed to new

entrants. In December 2019, \$67 million was moved from the QPP to the Correction Officers' Variable Supplements Fund (COVSF).

A question and answer session took place after the presentation. Several matters were discussed including:

- NYCERS does not compare its operating expenses and performance against the other Pension Systems. The Committee expects NYCERS and the other systems to have a dialogue on this subject, and also with respect to non-investment expenses.
- The New York City (NYC) Comptroller's Office compares NYCERS investment expenses and performance against the other Pension Systems; this can be presented to the Committee.
- Substantial cash fluctuation year-on-year will be evaluated by NYCERS accounting and it will respond to the Committee Secretary to distribute to Committee members.
- The NYC Comptroller's Office will clarify the two separate references to "treasury inflation protected securities" (page 8) and will speak to the other Systems to ensure consistency across the five Systems.
- NYCERS will examine language regarding Boards of Trustees (page 15) and clarify to the Committee.
- The NYC Comptroller's Office will clarify the "The QPP does not have any investments in any one entity that represents 5 percent..." language (page 26) with respect to the U.S. Government.

- The NYC Comptroller’s Office will clarify “The plausible risk of a loss or default…” language (page 26).
- The NYC Comptroller’s Office will clarify whether current private investments are all partnerships.
- NYCERS will better clarify that the reference to 820-10-15-4 (on page 36) refers to a FASB standard.

There being no further questions, Chairman Spitzer thanked the representatives of NYCERS for their participation in today’s meeting.

New York City Police Pension Funds

Mr. Stanley Thomas, Chief Fiscal Officer of the New York City Police Pension Funds (POLICE), introduced the other representatives of POLICE present, and the representatives of Marks Paneth LLP, POLICE’s independent auditors.

The fund net position restricted for benefits increased by \$2.4 billion, or 5.6 percent, to \$44.9 billion in Fiscal Year 2019, up from \$42.6 billion in Fiscal Year 2018. The increase was mainly due to asset increases related to growth of investments and the overall economy.

Member contributions increased by 4.1 percent to \$278 million compared to \$267 million the previous fiscal year, mainly due to members increasing deductions towards plans.

Benefit payments and withdrawals were \$3.28 billion due to increase in the number of retirees. Administrative expenses were \$29.0 million due to an increase in operational expenses, and expenses related to the Comprehensive Officers Pension System (COPS) 2.0 project.

Achievements for the 2019 fiscal year included the completion of the first COPS 2.0 rollout, a member self-service portal. Also, there were only three outstanding audit recommendations from Marks Paneth in Fiscal Year 2019 compared to ten in Fiscal Year 2018.

A question and answer session took place after the presentation. Several matters were discussed including:

- The Committee noted that fund growth should not be attributed to overall growth in economy due to possible disconnect between the economy and stock market. POLICE will consider this in future financial statements.
- POLICE will clarify the following language “All investments are managed by registered investments advisors” (page 8).
- POLICE will clarify language regarding custodian to indemnify funds (page 19).
- POLICE does not compare its operating expenses and performance against the other Pension Systems. The Committee recommended they do so.
- POLICE noted that, before securing its own cybersecurity insurance, POLICE will learn from TRS’ cybersecurity insurance experience, as well as leverage the work they do in developing their RFP, to avoid redundant pitfalls.

There being no further questions, Chairman Spitzer thanked the representatives of POLICE for their participation in today’s meeting.

New York City Fire Pension Fund

Mr. Albert Connolly, Director of Administration of the New York City Fire Pension Fund (FIRE), introduced the other representatives of FIRE present, and the representatives of Marks Paneth LLP, FIRE's independent auditors.

The QPP return on investment was 7.1 percent and 6.2 percent for the variable supplements. The GASB 67/68 report by Office of the Actuary reported an improvement in FIRE's funded status. Combined fiduciary net position as a percent of total pension liability was 65.4 percent, increased from 64.4 percent in the previous year.

FIRE's combined corpus grew by 7.3 percent. Fire began Fiscal Year 2019 with a combined net position restricted for benefits of \$14.1 billion and ended the 2019 fiscal year with \$15.2 billion. FIRE's QPP net position restricted for benefits increased by 8.1 percent to \$14.3 billion; firefighters' VSF decreased 5.8 percent to \$499.3 million; and fire officers' VSF decreased 1.2 percent to \$342.4 million.

Combined overall the Fund's net position restricted for benefits increased by 7.3 percent. The combined statement of changes in net assets increased \$2.5 billion. Employer contributions were \$1.4 billion, 16 percent higher than in 2018.

Combined net investment income was \$982.3 million, due mainly to a \$693.1 million net appreciation in fair values of investments assets. Combined benefit payments and withdrawals and administrative expenses were \$1.5 billion, increased 5 percent from Fiscal Year 2018.

On the membership side, FIRE processed more than 480 retirement applications for members receiving 90 percent of their benefits, and 550 probationary new members contributing on Tier

3. At the end of Fiscal Year 2019 there were more than 11,200 active members and more than 17,300 retirees/beneficiaries.

A question and answer session took place after the presentation. Several matters were discussed including:

- FIRE noted that management letter comments still open from prior years have been related to an insufficient number of personnel to address the items. FIRE moved to their own location in February 2019 and will be increasing IT staff shortly.
- FIRE periodically communicates with the other Systems about best practices.

There being no further questions, Chairman Spitzer thanked the representatives of FIRE for their participation in today's meeting.

The New York City Other Postemployment Benefits Plan

Mr. Raymond Lee, Assistant Director of Accounting Services of New York City Mayor's Office of Management and Budget, introduced the other representative of OPEB, and the representatives of Marks Paneth LLP, OPEB's independent auditors.

OPEB was steady year-over-year in 2019. There was an overall decrease in assets of \$67 million due to increased benefit expenses and no prepayment for Fiscal Year 2020 expenses by the City, as in previous years. The discretionary contribution remained the same. Investment income was significantly higher than in previous years, and it was broken into realized and unrealized gains. OPEB liability increased by \$9.2 billion, partly due to a decrease in interest rate.

A question and answer session took place after the presentation. Several matters were discussed including:

- The Committee questioned the wording of Custodial Credit Risk “Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Trust.” OPEB will re-examine the wording.
- In the same section, the Committee questioned this wording: “The Trust manages custodial credit risk by requiring high quality collateral be held by the Trustee Bank in the name of the Trust.” OPEB will re-examine the wording.

There being no further questions, Chairman Spitzer thanked the representatives of OPEB for their participation in today’s meeting.

The Committee asked if the auditors had any comments regarding the Pension Systems. Marks Paneth expressed appreciation of the Committee’s feedback on how the System boards should compare performance, since they are operating more independently than in the past. The Committee suggested Marks Paneth and the Comptroller’s Office have a conference with all System boards to discuss best practices, as well and tracking progress at the System level.

IV. Executive Session

There being no further business for the public session, Chairman Spitzer asked for a motion to enter into Executive Session. A motion was made to go into Executive Session for the purpose of discussing non-public financial information about The City of New York. The motion was unanimously approved.

V. Adjournment

After returning from Executive Session, there being no further business before the Committee, a motion was made to adjourn the January 22, 2020 Audit Committee Meeting; the motion was unanimously approved.