



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, JANUARY 27, 2021
REMOTELY VIA ZOOM MEETING**

ATTENDANCE

Chair

Michael Spitzer

Private Members

Mark Kaplan
Bud Larson

Public Members

Representing the Mayor – Raymond Lee
Representing the Comptroller – Jacqueline Thompson
Representing the Public Advocate – Michael Twomey

Secretary

Katrina Stauffer

**Independent
Auditors**

Grant Thornton LLP – Sharon Campbell, Jeremy Goss, Marla Hummel, Patrizia Iacono, Nicholas Lazzaruolo, Mike Ryan, Matthew Thompson, Andrew Zmich

Others

New York City Teachers' Retirement System – Kate Chen, Mitchell Fruchter, Barbara Owczarczyk, Nevena Platchkova, Paul Raucci

New York City Board of Education Retirement System – Iyekeze Ezefili, Yina Ke, Sanford Rich, Steve Sebili, Chithra Subramanian

New York City Employees Retirement System – Charles Barkley, Herman Bernal, Mario Disanto, Chun Gong, Tom Kambouras, Daniel Nunez

New York City Police Pension Funds – John Flynn, Rachel Loo, Tiffany Mastrota, Anish Patel, Bavakutty Sunny, Stanley Thomas

New York City Fire Pension Funds – Albert Connolly, Maureen Dale, Andrew Lai, 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

New York City Office of Management & Budget – Enid Ellis, William Kennely, Mujeeb Shinwa

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

New York City Comptroller’s Office – Camille Arezzo, Leonel Ferreira, Lynne Fleischman, David Jeter, Veronika Musheyeva, Giovanna Quezada, Jessica Sanchez, Cara Schnaper, George Siavichay, Joan Stapleton, Susanna Tregor

Audit Committee Meeting – January 27, 2021

I. Call to Order and Roll Call

Mr. Michael Spitzer, the Audit Committee Chairman, called the Audit Committee Meeting to order at 9:30 a.m. Ms. Katrina Stauffer, the Audit Committee Secretary, took roll call; a quorum was present.

II. Motion to Accept Draft Minutes of the Audit Committee Meeting held December 9, 2020

The first agenda item was the approval of the draft minutes of the December 9, 2020 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 Ms. Stauffer, the Committee approved the draft minutes of the December 9, 2020 Audit Committee Meeting.

III. Presentation of the Financial Statements and Management Letters

The next agenda item was the review of the financial statements and management letters (where applicable) of the following entities for the fiscal year ended June 30, 2020.

- 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
- New York City Other Postemployment Benefits Plan

Teachers' Retirement System of The City of New York

Mr. Mitchell Fruchter, Assistant 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 Grant Thornton LLP, TRS' independent auditors.

TRS noted that this is Grant Thornton's first year as its auditor.

This was the sixth year of TRS' combination financial statements. Regarding TRS' net position, the qualified pension plan (QPP) increased 2.2 percent and totaled \$59.3 billion at the end of Fiscal Year 2020. The tax-deferred annuity (TDA) position increased 4.8 percent, with \$37 billion at year end. The QPP and TDA combined net position was \$96.3 billion.

Investment performance can be explained largely by allocations to particular market sectors and individual sector returns. These were the figures for the pension asset target allocation as of June 30, 2020: approximately 37.4 percent fixed income, 29.2 percent domestic equity, 20.81 percent international equity, and 13.33 percent alternative investments.

The primary difference between the 2020 and 2019 allocations was that fixed income increased 3 percent at year end; domestic stocks decreased 2 percent; and international stocks decreased 1 percent. Financial markets for Fiscal Year 2020 were volatile. Among other figures, international stocks declined 4.7 percent and the Dow Jones U.S. Select Real Estate Securities

declined 17.7 percent. TRS returned 4.9 percent, below the 7 percent expected return for Fiscal Year 2020.

With regard to current investment levels as of December 31, 2020, TRS increased its combined net asset values to \$113.3 billion, or \$14.6 billion more than the combined \$98 billion as of year-end. Funding levels as of June 30, 2020, were 79 percent using the GASB 67(Financial Reporting for Pension Plans) market value, or 69.3 percent, using the more typical actuarial entry method.

The Management Discussion & Analysis (MD&A) includes a breakdown of financial activity by employer, schedules of QPP and TDA cash flow, QPP and TDA percent holdings, and percentages of the comptroller-managed pension fund versus the TRS-managed variable fund.

Other important Fiscal Year 2020 initiatives were that one of TRS' important investment funds was retired and two other investment funds were added. Also, the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) impacted the TDA more than the QPP.

TRS received an unqualified audit opinion.

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

- The Committee noted that the COVID footnote is much shorter than those of the other systems, which is a problem because these funds have a separate COVID risk other than their market portfolio, and also noted that the footnote to this audit report is very brief.
- The Committee suggested that all funds should have the same COVID description, and that the potential impact on retirement needs should be noted. TRS underscored its

larger disclosure (page 54 of the blue-book version received by the Committee), which notes that the ultimate impact of the COVID pandemic on the plans cannot be determined at this time; TRS added that the ultimate impact of COVID remains to be seen.

- The Committee agreed that there should be consistency across all of the pension plans in terms of the COVID footnote for both 2020 and 2021.
- TRS noted that the significant decrease in cash is probably connected primarily to investment assets.
- Markets were better in the previous year, which explains the substantial decrease in net investment income year-on-year.

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

Ms. Chithra Subramanian, Director of Fiscal Operations at the New York City Board of Education Retirement System (BERS), introduced the other representatives of BERS present, and the representatives of Grant Thornton LLP, BERS' independent auditors.

Ms. Subramanian took a moment to remember Jean-Daniel Desmornes, who was with BERS for 14 years and was involved with the Audit Committee for the last decade. Mr. Desmornes passed away in June 2020.

BERS' combined net position for Fiscal Year 2020 stood at \$7.5 billion, a 6 percent increase from Fiscal Year 2019. QPP's net position was at \$5.2 billion, an increase of 4 percent from Fiscal year 2019, and TDA program's net position was \$2.3 billion, an increase of 9 percent

over Fiscal Year 2019. The increases in net position stem primarily from an increase in total investments, which increased by 6.8 percent, from \$7.4 billion in Fiscal Year 2019 to \$7.9 billion in Fiscal Year 2020.

Return on fixed investment portfolio stood at 5.7 percent for fixed investments and 2 percent for variable investments. Member contributions increased by 10 percent in QPP and 8 percent in TDA. Total membership consisted of nearly 60,000 members at year end, an increase of 2.3 percent from Fiscal Year 2019.

QPP's net pension as a percentage of total pension liability moved to 94.9 percent in Fiscal Year 2020 compared to 94.8 percent in Fiscal Year 2019. Actuarial value of assets to the entry age actuarial accrued liability stood at 76.6 percent, based on the most recent actual actuarial valuation.

Among other key accomplishments, BERS most recently rolled out the next phase of a project that allows members to perform certain transactions online. Prior to the pandemic, BERS began a relocation process, which it hopes to complete by the end of 2021.

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

- The Committee commended the informative BERS' COVID footnote, which is a full page.
- BERS noted that the currency exposure under assets stems from the fact that they are in index funds, so BERS' pro rata exposure is small in some cases.
- BERS received an unqualified audit opinion.

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

Mr. Charles C. Barkley, Director of Finance of the New York City Employees' Retirement System (NYCERS), introduced the other representatives of NYCERS present, and the representatives of Grant Thornton LLP, NYCERS' independent auditors.

NYCERS' QPP net position as of June 30, 2020 reached \$69.9 billion, increased from \$68.5 billion in 2019. The Variable Supplement Fund (VSF) net position as of June 30, 2020 stood at \$353 million, a decrease from \$416 million in 2019. The combined QPP and VSF assets under management were \$70.2 billion, an increase of \$1 billion from Fiscal Year 2019.

Regarding market return, the total pension fund returned 3.6 percent for 2020, slightly lower than the NYCERS policy benchmark of 3.7. Domestic equities, which represent approximately 25 percent of the portfolio, returned 4.3 percent. This was lower than the Russell 3000 index of 6.5.

Non-U.S. equities, which consist of about 13 percent of the portfolio, returned 0.49 percent. Emerging markets (5 percent of the portfolio) returned negative 11.5 percent. The total fixed income segment returned 7.6 percent.

Funded status, based on the entry age actuarial cost method, stood at 74.1 percent as of June 30, 2018, the date of the most recent actuarial valuation. This funded ratio increased from 72.2 percent as of June 30, 2017.

NYCERS continued working on key initiatives in 2020, including its customer relationship management system, and its enhancement of its agency-wide cybersecurity efforts by hiring a deputy chief information security officer. Finally, NYCERS continued making progress on its Legacy Replacement Project initiative.

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

- NYCERS confirmed that it works closely with the New York City Cyber Command, and particularly focuses on areas that have enterprise-wide policies, internet response plans, and technical controls.
- NYCERS confirmed that it receives cash when it loans a security, and that cash is invested, and stated that it would modify the language in its financial statements to ensure that it is clear that only cash collateral is being invested.
- NYCERS will explore how to clarify that American companies are at risk in relation to foreign currencies because of the nature of their business.
- NYCERS received an unqualified audit opinion.

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 Grant Thornton LLP, POLICE's independent auditors.

POLICE's net position restricted for benefits increased by \$1.3 billion, or 2.8 percent, to \$46.3 billion in Fiscal Year 2020 compared to Fiscal Year 2019, and increased by \$2.4 billion, or 5.6 percent, to \$44.9 billion in Fiscal Year 2019 compared to Fiscal Year 2018. POLICE's net position restricted for benefits increased in Fiscal Years 2020 and 2019 due to contributions and Investment Income exceeding benefit payments and withdrawals.

During Fiscal Year 2020, member contributions increased by 0.7 percent, to \$280.1 million, as compared to Fiscal Year 2019 contributions of \$278.1 million. This change was due to members increasing their deductions. Benefit payments and withdrawals were \$3.5 billion, due to an increase in the number of retirees eligible for benefits. In Fiscal Year 2020, the administrative expenses were \$26.8 million.

Fiscal Year 2020 was a very productive year for POLICE because of the first rollout of the multi-year project to upgrade its operational software system (COPS 2.0). The new software is helping POLICE provide better customer service to its members and is giving members the ability to access and manage different aspects of their pension via their own internet portal. This software has been an extremely valuable resource to POLICE, especially during the unexpected pandemic this year. Rollout 2/Validation 2 was modified and prepared to be executed during late summer. Project methodology has also been updated based on lessons learned from Rollout 1/Validation 2, and feedback.

POLICE's total net position increased, the first rollout of COPS 2.0 went live, and POLICE continued to build its working relationships with the Comptroller's Office, the Actuary's Office, and the audit team from Grant Thornton.

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

- The Committee commended the footnote in POLICE's financial statements related to the governor's Executive Orders in response to the COVID-19 pandemic.
- Similar to previous comments regarding COVID-related language, the Committee underscored that there should be consistency in language among the five pension system financial statements.
- The Committee noted that the footnote describing the Hedge Fund program was very detailed and explicitly described the program, and asked if the other Private Market asset classes could be described in a similar manner. POLICE will work to add more details to the other sections.
- POLICE received an unqualified audit opinion.

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

New York City Fire Pension Funds

Ms. Maureen Dale, Chief Accountant for the New York City Fire Pension Funds (FIRE), introduced the other representatives of FIRE present, and the representatives of Grant Thornton LLP, FIRE's independent auditors.

FIRE presented the combined financial results for the Fire Qualified Pension Fund, Firefighters' Variable Supplements Fund, and Fire Officers' Variable Supplements Fund.

For Fiscal Year 2020, FIRE's fiduciary net position restricted for benefits was approximately \$15.9 billion. This amount reflects an increase of \$721.4 million (4.8 percent) over the prior Fiscal Year, due in part to overall net appreciation in fair values of invested assets.

Net position as a percentage of total pension liability also improved for Fiscal Year 2020. The ratio was 66.1 percent, compared to 65.4 percent in Fiscal Year 2019. The combined statement of changes in net position had total additions of approximately \$2.2 billion. Employer contributions increased 1.5 percent over Fiscal Year 2019, to \$1.4 billion; member contributions were flat, at \$106.8 million. Net investment gains, although lower by 26.6 percent, were significant, at \$718.7 million.

Combined benefit payments, withdrawals, and administrative expenses reported increased 4.9 percent over Fiscal Year 2019, to approximately \$1.5 billion. These payments included VSF disbursements of \$44.3 million to firefighters and \$25.7 million to fire officers. Administrative expenses were \$9.1 million, 7.4 percent lower than the prior period.

Operations processed over 470 retirement applications for members. These applicants are now on payroll, receiving 90 percent of benefits, pending final calculations. Approximately 330 new member applications for probationary firefighters were processed; those firefighters are now contributing members of FIRE under Tier 3 enhanced legislation. FIRE closed with approximately 17,300 retirees on payroll and approximately 11,000 active members.

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

- The Committee noted that the COVID footnote for FIRE was brief.

- In response to similar previous comments regarding the details describing the Hedge Fund program, FIRE stated it will work to add more details to the other sections.
- In the future, funds that are hedged versus long- or short-structures will be specified.
- FIRE received an unqualified audit opinion.
- Regarding the various Information Technology (IT) systems across the five pension plans, FIRE's auditors indicated that no significant deficiencies have been noted among any of the systems, and that good progress is being made with all of the systems.
- The Committee again discussed why the five plans maintain five different IT systems, citing added to cost and administration. Mr. Kaplan noted that he asks this question every year and is always told that it's difficult to implement. However, given that the City is desperately strapped for cash at present, this policy question would seem worth looking into. The Committee suggested the subject could be addressed in its annual report.

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

New York City Other Postemployment Benefits Plan

Mr. Raymond Lee, Assistant Director of Accounting Services of the New York City Mayor's Office of Management and Budget, introduced the other representative of the New York City Other Postemployment Benefits Plan (OPEB) present, and the representatives of Grant Thornton LLP, OPEB's independent auditors.

The biggest OPEB item for Fiscal Year 2020 was that the City drew down on the OPEB trust. The City used \$1 billion to cover a portion of the Fiscal Year 2020 pay-go, which is reflected in

the net position (decreased by \$880 million from Fiscal Year 2019) and the employer contributions (decreased by more than \$600 million from Fiscal Year 2019).

OPEB activity has remained fairly consistent, aside from an increase in benefit payments of \$175 million in Fiscal Year 2020 versus Fiscal Year 2019. Investment income decreased slightly (by \$25 million) compared to Fiscal Year 2019. Year-over-year, OPEB total liability was fairly consistent, increasing from \$112 billion to \$113 billion.

The impact of COVID on the plan is difficult to project at this point. The HIP rate, an item paid as part of plan expenses, is determined each year, and the effects of COVID is currently unknown. As previously mentioned, COVID could lead to early retirements due to health impacts, but the impact cannot be projected at present.

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

- OPEB noted that the plan will draw down \$1.6 billion in Fiscal Year 2021.
- OPEB stated that it will consider providing a separate 'COVID' category in the Fiscal Year 2021 financial statements, as the other plans have done this year. OPEB currently addresses COVID in the 'Other Matters' category.
- The Committee noted that the biggest COVID risk will be the increased pressure the pandemic will place on the City's financial plan; specifically, that the City's obligations could lead to a larger draw down on this fund. Until recently, the City had been adding money to the fund. OPEB noted that the Mayor's office is trying to avoid using further drawdowns from the fund.
- OPEB received an unqualified audit opinion.

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

IV. Adjournment

There being no further business before the Committee, a motion was made to adjourn the January 27, 2021 Audit Committee Meeting; the motion was unanimously approved.