



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
TUESDAY, JANUARY 23, 2024
AT THE OFFICE OF THE COMPTROLLER
AND REMOTELY VIA ZOOM MEETING**

ATTENDANCE

Chair	Michael Spitzer
Private Members	Larian Angelo (via Zoom) Mark Kaplan Marcia Van Wagner
Public Members	Representing the Mayor – Paul Tymus Representing the Comptroller – Jacqueline Thompson Representing the Public Advocate – Wesley Paisley
Secretary	Katrina Stauffer
Independent Auditors	Grant Thornton LLP – Sharon Campbell, Kyle Chuber, John Edinger, Marla Hummel, Patrizia Iacono (via Zoom), Kevin Morris, Cecile Publico (via Zoom), Will Richardson (via Zoom), Mike Ryan (via Zoom)
Others	New York City Employees Retirement System – Herman Bernal, Tom Kambouras, Daniel Nunez, Rita Sare New York City Teachers' Retirement System – Kate Chen (via Zoom), Mitchell Fruchter, Michael Henschel (via Zoom), Barbara Owczarczyk, Nevena Platchkova (via Zoom), George Siavichay New York City Board of Education Retirement System – Kazi Ahammad, Ezefili Ade Iyekeze (via Zoom), Yina Ke, Chithra Subramanian New York City Police Pension Funds – Modupe Fagbulu (via Zoom), Ziqing Liu (via Zoom), Rachel Loo, Nikolaos Leonardos, Nazima Mohamed, Anna Russo, Stanley Thomas New York City Fire Pension Funds – Amar Dyal, Yingyu (Winnie) Lin (via Zoom), Simone Saywack, Jenny Wu New York City Other Postemployment Benefits Plan – Man Hon Cheung, Christopher Santangelo New York City Mayor's Office of Risk Management & Compliance – Julian Ross

New York City Office of the Actuary – Frankie Chen, Anderson Huynh, Tom O’Hara

New York City Department of Finance – John Fernandez (via Zoom), Francis Onakomaya (via Zoom), Sue Wang (via Zoom)

New York City Comptroller’s Office – Camille Arezzo, Robert DeRosa, Lynne Fleischman, Daniel Haas, John Katsorhis, Patricia Kearns, Veronika Musheyeva, Jessica Sanchez, Susanna Tregor, Mehdi Ben Zafar

Audit Committee Meeting – January 23, 2024

I. **Call to Order and Roll Call**

Mr. Michael Spitzer, 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 Minutes of the December 13, 2023 Audit Committee Meeting**

The first agenda item was the approval of the draft minutes of the Audit Committee Meeting held December 13, 2023. The Committee approved the minutes of the December 13, 2023 Audit Committee Meeting, subject to any non-substantive editorial comments submitted to the Secretary.

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 Fiscal Year 2023.

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

New York City Employees' Retirement System (NYCERS)

Mr. Tom Kambouras, Chief Information Officer of the New York City Employees' Retirement System (NYCERS), introduced the members of NYCERS present, and the members of Grant Thornton LLP, NYCERS' independent auditors.

NYCERS confirmed there were no issues found by the auditors that impacted NYCERS' financial statements. NYCERS received the GFOA Certificate of Achievement and it is presented in the NYCERS most recent Annual Comprehensive Financial Report, which was published in December 2023.

The QPP net position as of June 30, 2023 was \$81.4 billion, an increase from \$77.4 billion at June 30, 2022. The VSF net position as of June 30, 2023 was \$99.4 million, down from \$1.1 billion at June 30, 2022. The QPP and VSF combined was \$82.4 billion, an increase of \$3.9 billion from Fiscal Year 2022.

The total pension fund market return was 8.2 percent for Fiscal Year 2023, which was more than NYCERS' Policy benchmark of 7.4 percent. Domestic equities accounted for more than a quarter of the total portfolio and returned 18.1 percent, which did not meet the Russell 3000 benchmark of 18.9 percent. The Total World, excluding the United States and EAFE (Europe, Australasia and the Far East), made up about 11 percent of the total portfolio and returned 21.5 percent. Emerging markets, constituting about 5 percent of the total portfolio, returned 7.8 percent. The total fixed income segment, more than a third of the portfolio, returned 1.28 percent.

Based on the Entry Age Normal Cost Method, the funded ratio was at 81.5 percent at the most recent actuarial valuation of June 30, 2021, up from 78.1 percent as of June 30, 2020. The

fiduciary net position represents 82.3 percent of total pension liability for NYCERS and the five VSFs as of June 30, 2023. In December 2022, the QPP transferred to four of the five VSFs, approximately \$8.9 million in benefit payments.

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

- The Office of the Comptroller's Bureau of Asset Management (BAM), on behalf of NYCERS, noted that the Hong Kong market is considered to be a developed market, one that is highly liquid, and there is no concern about undue regulatory risk.
- The Committee stated that the assumed long-term consumer price inflation of 2.5 percent did not match reality, though it was reasonable considering the long-term average was 2 percent, and supported a less-reactive design mechanism for specific market cycles over time.
- NYCERS noted that it would provide the number of individuals that applied for coronavirus-related loans at a later date.

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

Teachers' Retirement System of The City of New York (TRS)

Ms. Barbara Owczarczyk, Financial Reporting Manager 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.

The TRS QPP net position as of June 2023 was \$67.9 billion, compared to \$64 billion in June 2022. The TDA net position totaled \$45.4 billion, an increase of 7.6 percent from June 2022. The QPP and TDA combined net position was \$113.3 billion at the end of Fiscal Year 2023. Investment performance was primarily attributed to investment allocations and particular market sectors and returns. The Fiscal Year 2023 pension target asset allocations were 35 percent in fixed income, 24.7 percent in domestic equities, 19.9 percent in international equities, and 20.4 percent in alternative investments.

The investment performance for Fiscal Year 2023 mirrored the following index returns: Russell 3000, 19 percent; MSCI, 16.4 percent; Bloomberg US, -1.52 percent; NYC Custom Structure, -1.2 percent. Overall, the pension fund returned 7.7 percent.

The QPP statutory interest expense increased to \$2.3 billion. The QPP income of \$2.4 billion was attributable to the TDA investment funds.

The combined benefits payment increased by 2.8 percent, mostly due to increasing partial withdrawals and payments to retirees.

As of December 31, 2023, TRS holdings increased 4.5 percent compared to June 30, 2023. The fiduciary TRS net position as a percentage of the total pension liability was 83.2 percent at the end of Fiscal Year 2023.

TRS received an unmodified opinion, and a managerial note regarding the valuation of alternative investment assets.

The administrative expense for Fiscal Year 2023 included an additional \$3.6 million of accruals due to recognition of interest and amortization expense as required by GASB 87. Excluding the

GASB 87, the combined QPP and TDE administrative expense totaled \$88.2 million. TRS implemented GASB 96 which did not impact the TRS financial statements.

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

- TRS confirmed that charter schools were held to the same terms and non-charter schools, including employee and employer contributions.
- TRS confirmed that schools converted from public to charter were obligated to continue pension fund participation, but new charter schools were not required to participate.
- The Office of the Actuary stated that it would examine why the salary differential favored women until age 35-39.
- TRS confirmed that charter schools were allowed to join the TDA.
- BAM, on behalf of TRS, noted that contracts negotiated for investment management fees took advantage of scale among the five QPPs, which were all being charged the same rate.
- TRS confirmed that the only impediment to charter schools joining the pension fund was meeting the administrative terms.
- BAM stated that the Dow Jones US Select Real Estate Securities Index return of 6.4 percent was indicative of listed real estate with differing pricing dynamics because they were traded on a secondary market.

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

Board of Education Retirement System (BERS)

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

For Fiscal Year 2023, BERS combined net position was \$9.3 billion, an increase of 7.7 percent from Fiscal Year 2022. The QPP net position was \$6.2 billion and the TDA's net position was \$3.1 billion. Investments totaled \$9.8 billion and the return of investment was at 8 percent on the total investments. The fixed asset mix was comprised of 47 percent equity, 27 percent fixed income, and 26 percent alternative private investment.

Total contributions, which include the employer and the employee contributions for Fiscal Year 2023 were \$400 million, and benefit payments totaled \$469 million. The QPP net position as a percentage of total pension liability was 98.8 percent in Fiscal Year 2023. In January 2024, BERS expanded the TDA program to provide Roth TDA options to all TDA-contributing participants.

In December 2023, the Governor of New York signed a bill, which provides for automatic enrollment of employees who are currently not automatically enrolled to join the BERS pension program, effective July 2024.

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

- BERS noted that the text in the next report would be expanded to explain the four alternate voting members.

- BERS stated that it expanded the Roth program to all participants starting in January 2024 and was still rolling out the program and should have more details by the next Audit Committee meeting. BERS estimated 130 members participated in Roth.

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

New York City Police Pension Funds (POLICE)

Mr. Stanley Thomas, Chief Fiscal Officer of the New York City Police Pension Fund (POLICE), introduced other representatives of POLICE present, and representatives of Grant Thornton LLP, POLICE's independent auditors.

POLICE's net position restricted for benefits totaled \$54.3 billion for Fiscal Year 2023, an increase of \$2.7 billion or 5.2 percent from Fiscal Year 2022. Changes in the funds' net position were attributed primarily to the fluctuation of investment returns, contributions, benefit payments, and withdrawals. Member contributions decreased 4.8 percent in Fiscal Year 2023 to \$267.7 million. Benefit payments and withdrawals were \$4.3 billion, and administrative expenses were \$30.3 million.

The QPP portfolio asset allocation for Fiscal Year 2023 consisted of the following categories: US domestic equities, 30.2 percent; fixed income, 32.2 percent; international equities, 7.3 percent; emerging markets, 4.8 percent; private real estate and private equities, 19.5 percent; hedge funds, 5.4 percent; and others, 0.6 percent. The total QPP portfolio return was 8.1 percent. The total portfolio return for the Police Officers' Variable Supplements Fund was 10 percent, and 9.9 percent for the Police Superior Officers' Variable Supplements Fund.

POLICE gave an update on the COPS 2.0 project. While the first rollout for COPS 2.0 was in production, the team focused on finalizing the second rollout, and began the foundational components of the third rollout. There were no major production changes for the first rollout. POLICE went live with the second rollout in November 2023, which focused on retired members' pension and death benefits. For the third rollout, data mapping was underway to

convert members' contributions, track accounts, and design the employer payroll induction process.

A major operational change in Fiscal Year 2023 was that the Board of Trustees passed a resolution to establish an audit committee, and quarterly meetings have been held. Fiscal Year 2023 was a pivotal year considering the positive return on investments compared to Fiscal Year 2022. The Fund continued to build great working relationships with the comptroller, actuary, and auditors.

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

- POLICE noted that the number of active members fluctuated every year, which would affect the increase and decrease in member contributions.
- POLICE stated that, two years ago, Grant Thornton made it aware that there was a problem with separation of duties within the IT department that consisted of only two people to manage the COPS 1.0 database and other IT issues. IT personnel were added to the department, but the full request was not granted, and concerns in the management letter had yet to be resolved. The request was presented to and decided by the Board of Trustees, with input from OMB. The Board approved some of the needed positions, so POLICE plans to request more again during the next budget season.
- POLICE could not speak to why positions were not approved, but each position was presented to the Board of Trustees along with an explanation of how each position addressed the issue in the management letter.

- POLICE noted that the Board of Trustees would hear further presentations from Grant Thornton and Mr. Stanley Thomas regarding adding positions.
- Management recognized the separation of duties concern and made improvements. POLICE noted that adding personnel will help resolve the issue and agreed to investigate whether COPS 1.0 had a monitoring control over personnel with privileged access.

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

New York City Fire Pension Funds (FIRE)

Mr. Amar Dyal, Chief Accountant for the New York City Fire Pension Funds (FIRE), introduced representatives of FIRE present, and the representatives of Grant Thornton LLP, FIRE's independent auditors.

FIRE is comprised of a QPP and two variable funds for firefighters and fire officers. In Fiscal Year 2023 the Fund processed 634 new membership applications. The QPP investment portfolio of \$18.7 billion posted a net gain of 7.8 percent, which surpassed the policy benchmark of 7.2 percent. During the five years ending in June 2023, the QPP analyzed return remained positive at 6.9 percent and ahead of the policy benchmark of 6.7 percent.

The Firefighters Variable Fund gained 10 percent with a policy benchmark of 10.1 percent, and the Fire Officer Variable Fund gained 10.3 percent with a policy benchmark of 10 percent. In the same five years, the Firefighters and Fire Officers Variable Funds had a return of 5.5 percent and 5.6 percent, respectively, with a policy benchmark return of 5.5 percent.

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

- FIRE noted that it is a separate corpus funding from the Fire Department. The Fund depends on the Fire Department for certain IT issues, but it has no control over the Department's response to its request for access.
- FIRE confirmed that it became corpus funded in 2016.
- FIRE stated it brought budget requests to the Board in the same manner as POLICE, and that OMB is significantly involved in approving or denying requests.
- FIRE has had an IT person for a year and a half, and much had been accomplished with him onboard. The new hire has been proactive in upgrading the system in cooperation with the accounting department.

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

New York City Other Postemployment Benefits Plan (OPEB)

Mr. Man Hon Cheung, Assistant Director for Accounting Services for the New York City Mayor's Office of Management and Budget (OMB) and presenting for the New York City Other Postemployment Benefits Plan (OPEB), introduced the other representatives of OMB present, and the representatives of Grant Thornton LLP, OPEB's independent auditors.

In Fiscal Year 2023, OPEB's net position decreased by \$58 million due to an increase in benefit payments. Total net position at the end of the fiscal year was \$5.3 billion. Investment income increased from \$3 million in Fiscal Year 2022 to \$152 million in Fiscal Year 2023, a result of

favorable market conditions. The City contributed \$500 million as a prepayment for next year's expenditures.

Total employer contributions to OPEB for the Fiscal Year 2023 were \$3.3 billion. Total OPEB liability increased by approximately \$5.4 billion, of which \$2.6 billion was a result in the change of assumptions related to pre-Medicare trend rates and a change in the discount rate.

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

Sharon Campbell, Managing Director of independent auditors Grant Thornton LLP, presented audit procedures for OPEB.

The auditors began planning procedures in March and continued through May. Risk assessments field work ensued in June and wrapped up in October, after which the audit report was released.

A full list of responsibilities was included in Grant Thornton's engagement letter, including:

- The Audit Committee was responsible for oversight of the financial reporting process, which included setting a positive tone, challenging entities when necessary, and reporting fraud and fraud risk.
- OPEB management was responsible for designing, implementing, and maintaining internal controls relevant to the preparation of financial statements, maintaining sufficient records, and preparing and presenting the resulting financial statements.
- Grant Thornton was responsible for obtaining reasonable assurance about the lack of material misstatement and issuing a report of the auditor's opinion.

Grant Thorton has a risk-based approach to audits, identifying items of significant risks, which for OPEB was management override over internal controls, a presumed fraud risk for all audits.

To address the risks, the auditor obtains an understanding of the financial reporting process and the controls over entries and adjustments, and the suitability of the utilized controls.

The audit process includes inquiries of individuals who report financials about unusual or untoward activity. The auditors consider fraud risk indicators, the complexity of accounts, and entries processed outside the normal course of operations.

For investments and investment positions, Grant Thornton evaluated samples throughout the year, and at year end, to establish the reasonableness of the fair value disclosure and reported values. For OPEB liability, in collaboration with the actuarial team, Grant Thornton tested the completeness and accuracy of the census data and actuarial assumptions and inputs in the calculation of the liability. For benefit payments, the auditor tested the completeness and accuracy of the benefit payment population, and assessed the reasonableness of accruals and estimates related to benefit payments.

Specialists within Grant Thornton reviewed the reasonableness and actuarial assumptions and inputs used by the total pensions liability, and conducted investment valuation. Subcontractors included Galleros Robinson, CPA, LLP, and Mr. Paisley commended the firm for using a business owned by minority women.

The Basic Financial Statement Audit resulted in a clean, unmodified opinion. There were no scope limitations, and there was open and effective communication with management.

Summary of audit adjustments:

- Certain reversing entries for prior accruals were booked incorrectly.

- Investment purchases were identified as traded on June 30, 2023 that were settled in July 2023 but not initially reported. Mr. Kaplan asked what the total was for those purchases, and auditor Patrizia Iacono reported it was about \$247 million.
- Grant Thornton was not aware of any significant or unusual trends or actions that occurred, and there were no disagreements or contentious matters.
- A significant deficiency identified was draft financial statements included errors related to reversals of prior year accruals as well as omitted certain investment transactions that should have been included based on the OPEB's accounting policies. The impact of the reversals on the benefit payment items was \$175 million.
- Grant Thornton recommended that plan management increase the level of precision of review of financial statements and allow for sufficient time for all levels of review to be completed prior to submission of the draft financials to the auditors.

Grant Thornton reviewed its own practices to ensure they meet or exceed regulatory requirements. To promote their commitment to ethical and professional excellence, there was a hotline to report ethical concerns.

IV. Executive Session

Chairman Spitzer asked for a motion to enter Executive Session. A motion was made to enter Executive Session for the purpose of discussing non-public financial information about The City of New York. The motion was unanimously approved.

V. **Adjournment**

There being no further business before the Committee, a motion was made to adjourn the January 23, 2024 Audit Committee Meeting; the motion was unanimously approved.