

Memorandum

TO: Federated City Employees' Retirement System
Police and Fire Department Retirement Plan
Audit Committees

FROM: Dhinesh Ganapathiappan

SUBJECT: FY 2024 Financial Audit Recommendation Update

DATE: October 30, 2025

Approved

Date October 21, 2025

Background

In the Fiscal Year 2024 Management Letter, MGO had one observation related to completeness and accuracy of investment disclosures specific to unfunded commitments. The appendix to this memo includes the MGO recommendation and management response.

Updates

As of September 2025, ORS has implemented enhanced controls to ensure the timely and accurate reporting of unfunded commitments for financial reporting. As part of these controls, ORS has engaged its consultants to reconcile unfunded commitments against investment manager reported figures and to produce fiscal year-end unfunded commitment data on an accelerated basis to meet financial reporting timelines. For certain investments with longer reporting cycles, such as fund-of-funds, adjustments are incorporated as updated information becomes available.

In addition, ORS staff performs an independent review to confirm that all investments, including new commitments, are captured, and select a sample of investments for verification against reports from investment managers. These procedures are performed annually and will continue to be a standard part of ORS's financial reporting process.

In Fiscal Year 2025, the consultant reconciliation process resulted in updates to 59% of Federated fund investments and 58% of Police and Fire fund investments. The differences occurred due to consultant Meketa's system-generated unfunded commitment values utilizing data input from capital call notices that may not include information such as recallable distributions, timing delays as the June 30 private market reports are not generated until late November which is beyond the financial reporting timeline, and an intention to reflect unfunded values that have a realistic chance of actually being called (i.e.: zero values for older funds that have no likelihood of calling capital despite a contractual unfunded commitment remaining).

The ORS independent review included reviewing some funds that the consultants were unable to reconcile data for and selecting a sample of funds to independently compare to investment manager statements. This

identified some new investments that were not included in the report and some values that needed to be updated affecting a total of 7% of Federated fund investments and 6% of Police and Fire fund investments.

Subsequent testing by MGO identified additional changes of -\$0.8 million for P&F and -\$2.1 million for Fed (\$0.3 million excluding late data). The largest change was due to late data from a fund-of-funds investment manager that was received after the unfunded commitments were transmitted to MGO. Additionally, MGO identified that currency conversions were not completed for Euro-denominated funds and there were two data issues per plan. The manual nature of data collection and reconciliations overlooked the currency conversion and caused the data issues.

ORS' consultants will act as a first line to prevent them from occurring next year. ORS will continue independent reviews along with proactively requesting and verifying information from investment managers known to be late or have had faulty data before. ORS is confident that following the changes and learnings during this fiscal year that a robust process is in place for Fiscal Year 2026.

Exhibit 1: Differences identified at various review stages

San Jose Federated City Employees' Retirement System

	# of investments	% of all investments	Amount (\$ million)
Consultant review	48	59%	5.1
ORS review	6	7%	-3.0
MGO review	5	6%	-2.1 (0.3*)

*\$0.3 million excluding late data from a fund-of-funds that was received after ORS submitted data to MGO

San Jose Police and Fire Department Retirement Plan

	# of investments	% of all investments	Amount (\$ million)
Consultant review	63	58%	-41.7
ORS review	7	6%	10.8
MGO review	6	6%	-0.8

Exhibit 2: Comparison of differences following MGO review

San Jose Federated City Employees' Retirement System

Fiscal Year 2024	10.1
Fiscal Year 2025	0.3*
Change (\$ million)	-9.8

San Jose Police and Fire Department Retirement Plan

Fiscal Year 2024	20.5
Fiscal Year 2025	-0.8
Change (\$ million)	-21.3



Dhinesh Ganapathiappan, CFA
Senior Investment Officer

SAN JOSÉ OFFICE OF RETIREMENT SERVICES

Management Letter

Current Year Comment and Recommendation

Fiscal Year Ended June 30, 2024

Fiscal Year 2024 Observation #1 – Completeness and Accuracy of Investment Disclosures

Criteria

Management is responsible for the accuracy of the data and the completeness and fairness of the presentation of information in the financial statements, including disclosures. Governmental Accounting Standards Board Statement No. 72 (GASB 72), *Fair Value Measurement and Application*, requires disclosure of the amount of a government's unfunded commitments related to its investments in certain entities that calculate the net asset value (NAV) per share (or its equivalent).

Condition

As part of our audit, we performed tests, on a sample basis, of the accuracy and completeness of unfunded commitments related to investments whose fair value is measured at the NAV. Our procedures included confirming unfunded commitment amounts directly with third-party investment managers and reviewing their June 30th capital account statements. The results of our testing identified differences between the unfunded commitment amounts reported by management and amounts confirmed by investment managers. These amounts were as follows:

- Federated City Employees' Retirement System: For the samples tested, the investment manager reported higher amounts than those disclosed by management in the amount of \$10,115,561.
- Police and Fire Department Retirement Plan: For the samples tested, the investment manager reported higher amounts than those disclosed by management in the amount of \$20,464,467.

These amounts were immaterial overall to each Plan's financial statements, respectively.

Cause

Based on discussions, our understanding is that certain financial statement disclosures, including the unfunded commitments, are prepared by the San José Office of Retirement Services Investment Group (IG) and provided to the accounting division. The IG relies on investment consultants, Neuberger Berman for private equity, and Meketa for all other private asset classes, to keep track of unfunded commitments, who prepare reports of the balances at year-end, and provide their reports to IG. However, there is no independent verification or reconciliation performed between the reports and the manager's capital account statements and/or internal records.

Effect

Investment disclosures contained unreconciled differences and could be incomplete and/or inaccurate.

Recommendation

We recommend management implement policies and procedures to perform independent review and verification of the information provided to them for financial reporting purposes, including comparing or reconciling the reports to investment manager capital account statements and internal records as necessary.

SAN JOSÉ OFFICE OF RETIREMENT SERVICES

Management Letter (Continued)

Current Year Comment and Recommendation

Fiscal Year Ended June 30, 2024

Management Response

Management is on board with the recommendation. ORS has engaged Meketa (all private asset classes except private equity) and Neuberger Berman (private equity) to track unfunded commitments on a quarterly basis as part of the private markets reports. Due to the elongated timeframes for receiving valuations for alternative investments and time to reconcile data, these reports are lagged by one quarter and publicly reported and presented in Board meetings on the last month of the quarter (ex: June 30, 2024 reports presented on the first (P&F) and third (Fed) Thursday of December 2024). Staff will assess the current process with all parties involved and implement procedural changes as necessary to ensure that data is reconciled.