SAN JOSÉ OFFICE OF RETIREMENT SERVICES

San José Federated City
Employees' Retirement System

San José Police and Fire
Department Retirement Plan

Management Letter

Fiscal Year Ended June 30, 2024

MGO. | Certified Public Accountants

SAN JOSÉ OFFICE OF RETIREMENT SERVICES
Management Letter
Fiscal Year Ended June 30, 2024

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MGO. Certified Public Accountants

November 5, 2024

To the Management of the San José Office of Retirement Services
San José, California

In planning and performing our audit of the financial statements of the San José Federated City Employees' Retirement System and San José Police and Fire Department Retirement Plan (Plans) as of and for the fiscal year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), we considered the Plans' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of Plans' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We previously issued our report on internal control and compliance in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States in a separate communication dated November 5, 2024. This communication does not affect that report.

Our current year comments and recommendations involving internal control are presented in the attached summary. In addition, the status of prior year comments and recommendations is also presented. Our comments and recommendations have been discussed with appropriate members of management and include management's response. Management's response to the internal control deficiencies identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Audit Committees, the Boards of Administration, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Respectfully,
Walnut Creek, California

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.

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.