CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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MAURA HAYES-CHAFFE
DEPUTY COMPTROLLER FOR AUDIT

BUREAU OF AUDIT

June 27, 2025

By Electronic Mail
LeRoy McGinnis
Executive Director
New York City Fire Pension Fund
One Battery Park Plaza, 9th Floor
New York, NY 10004

Re: Final Audit Letter Report on the New York City Fire Pension Fund's Other Than Personal Services Expenditures, FM24-086A

Dear Mr. McGinnis:

This Final Audit Letter Report concerns the New York City Comptroller's audit of New York City Fire Pension Fund's (FPF) Other Than Personal Services (OTPS) expenditures and compliance with relevant laws and regulations that govern them.

Background

FPF is one of the five New York City retirement systems providing benefits to full-time uniformed employees of the New York City Fire Department. FPF is responsible for administering the pension benefits of more than 28,000 active members, retirees, and beneficiaries.

FPF is governed by a Board of Trustees, which consists of 12 members. The Board is responsible for investing the assets of the pension fund and establishing rules and regulations for administering the Fund and its business transactions. The Board consists of the Fire Commissioner; a representative of the Comptroller; a representative of the Mayor; the Commissioner of Finance; the President, Vice President, Treasurer, and Chairperson of the Uniformed Firefighters' Association; three elected members of the Uniformed Fire Officers' Association; and the President of the Uniformed Pilots and Marine Engineers Association.

To properly execute its mission, FPF must responsibly steward City funds. This includes compliance with City regulations and applicable guidance, including Comptroller's Directive #1 – Principles of Internal Control and Comptroller's Directive #6 – Travel, Meals, Lodging, and Miscellaneous Agency Expenses. Each of these directives has been issued pursuant to the Comptroller's authority in Chapter 5 §93(h) and §93(m) of the New York City Charter.

According to the Fiscal Year 2024 Annual Comprehensive Financial Report (ACFR), FPF's administrative expenses totaled $11 million, which included $4.4 million in OTPS expenditures.[1]

The objectives of this audit were to determine whether FPF's OTPS expenditures were spent during FYs 2023 through 2024 in accordance with its policies and procedures, and other relevant rules and regulations, and the expenditures were necessary and related to its mission.

Audit Findings

The auditors found that FPF's OTPS expenditures were, for the most part, spent in accordance with relevant rules and regulations, and were necessary and related to its mission. However, the auditors also found several weaknesses in FPF's controls over its OTPS expenditures that could be improved.

FPF did not consistently comply with Comptroller's Directive #6, which governs expenditures for employee travel, agency-provided meals, and refreshments when conducting official City business. Directive #6 requires employees who attend out-of-town conferences to submit justification for travel, obtain approval, and/or submit post-conference attendance reports. Five FPF employees attended two out-of-town conferences in FY2024, with costs totaling $11,195; however, FPF did not provide justification for all five employees who attended the conferences. In their response, FPF officials stated that although they did not require post-conference attendance reports, they met before and after each conference to inform staff about emerging trends and best practices.

In addition, the auditors found that FPF did not accurately report certain OTPS expenditures, which may prevent the stakeholders from making informed decisions.

- FPF reported $2.4 million of investment-related expenses as OTPS expenditures in its ACFRs for FYs 2023 and 2024, and $56,991 of member-related payments as OTPS expenditures in FY2023. These expenses should have been reported as investment expenses and member-related payments, respectively. These misallocations overstated FPF's OTPS expenditures, as well as the reported gains of its investment portfolio.
- FPF did not report certain expenses in the year they were incurred as required. According to Generally Accepted Accounting Principles, accrual accounting ensures that revenues and expenses are recorded in the period they are earned and incurred, respectively, and that financial statements reflect the economic activity of a business. In its annual financial statements, FPF reported that expenses are recognized in the period incurred. However, FPF did not report IT consultant services in the period these expenses were incurred. As a result, FPF's OTPS expenditures were overstated in FY2023 and understated in FY2024 by $303,287. FPF officials stated that this was due to a timing issue with reporting in their current accounting system, and that they are currently searching for a new accounting system to address this.

  In response to the finding, FPF provided the auditors with additional documentation related

[1] OTPS expenses are any operating expenditures that are not related to employee salaries, wages, or fringe benefits. Examples of OTPS expenditures include but are not limited to office supplies, equipment, utilities, travel costs, and contractual services with outside vendors.

to the accrual of IT consultant services in FY2023. Based on this documentation, FPF OTPS expenditures were overstated in FY2023 and understated in FY2024 by $930,000, as opposed to $303,287.

The auditors also found that FPF lacks adequate controls over its OTPS expenditures. Specifically:

- FPF did not segregate duties for its OTPS expenditures process. Comptroller's Directive #1 states that key duties and responsibilities need to be divided among different staff members to reduce the risk of error or fraud, including separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. FPF designated one person to issue purchase orders, assign budget codes, prepare payment vouchers, and process checks and electronic fund transfers (EFT) in the banking system. FPF officials stated that the fund is a small agency and, therefore, some staff must take on multiple roles. In instances when strict segregation of duties is not feasible (due to staffing levels, for example), agencies must establish other mitigating controls to reduce risk such as management review and dual authorization of transactions.
- FPF did not always record payment transactions in the general ledger in a timely manner. For example, FPF began recording payment vouchers for October 2024 four months later, in February 2025. According to Comptroller's Directive #1*,* §5.9 – Accurate and Timely Recording, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and decision making.
- For FYs 2023 and 2024, the results of the auditors' review of a sample of 65 transactions show that FPF did not always process payments to vendors in a timely manner. According to Procurement Policy Board Rules §4-06, payments to vendors shall be made within 30 days of receiving or accepting the invoice to prevent the incurring of interest on such payments. Within the audit team's sample, there were 54 OTPS invoices, of which three (5.6%) were paid more than 30 days after the invoice dates without justification. In its response, FPF acknowledged that the invoices were paid "a few days outside of the 30-day window" but stated that no interest was incurred. Based on FPF documentation, the three invoices were paid between four and 47 days after invoices were received. Regarding the invoice that was paid 47 days late, FPF stated that the initial invoice was received from an unknown email address that was not associated with that vendor.
- FPF does not have policies and procedures for procurement and travel expenses. FPF recently formalized draft policies and procedures for travel but these have not been implemented yet.

Recommendations

To address the findings, the auditors recommend that FPF should:

1. Obtain post-travel attendance reports from each person who attended out-of-town conferences, to demonstrate how the information learned can be implemented to benefit FPF.

FPF Response: FPF did not agree or disagree with this recommendation. FPF stated that it will continue to use Comptroller's Directives as a framework in developing its policies and procedures and consider their available resources.

Auditor Comment: As best practice, FPF should require employees who attend out-of-town conferences to submit post-conference attendance reports that justify the trip and document how the training can benefit the fund, which can be used and shared with appropriate staff members.

2. Discontinue reporting investment and member-related payments as OTPS expenditures.

   FPF Response: FPF did not agree or disagree with this recommendation, stating that the payments in question were correctly recorded as reimbursements and not misclassified. Specifically referencing that transfer contributions are non-periodic payroll (OTPS) expenses. Additionally, FPF stated that it will separate those payments in future financial statements.

   Auditor Comment: FPF should ensure that member-related payments and investment-related expenses are reported in their respective accounts, rather than OTPS expenditures. FPF incorrectly referred to the investment and member-related payments as reimbursements or non-periodic payroll (OTPS) expenses and disregarded the fact that these expenses were indeed misclassified. Based on the nature of the investment-related payments, they should have been reported as investment expenses for the computation of Net Investment Income in ACFR, as similarly presented by four other Pension Funds. Regarding the transfers of member contributions to new employers, FPF should have reported those transfers as withdrawals, part of the benefit payments, withdrawals and administrative expenses presented in its ACFR.

3. Accurately report OTPS expenditures in the period the expenses are incurred.

   FPF Response: FPF agreed with this recommendation.

4. Segregate duties for its OTPS expenditures process or implement compensating controls which include requiring management review and dual authorization, or establish other mitigating controls.

   FPF Response: FPF agreed with this recommendation.

5. Promptly record payment transactions in the general ledger.

   FPF Response: FPF did not agree or disagree with this recommendation, stating that staffing limitations led to delays in posting payments and the Fund is in the process of obtaining a new accounting system that will enhance timely financial reporting.

   Auditor Comment: GAAP accounting standards require that all financial transactions be recorded in a timely manner. Therefore, FPF should record payments in the general ledger in a timely manner to ensure financial information is accurate, reliable, and useful for decision-making and compliance purposes.

6. Process payments to vendors within 30 days of receiving the invoices.

FPF Response: FPF did not agree and disagree with this recommendation, stating that the Fund makes every effort to process payments within 30 days of receiving invoices.

Auditor Comment: FPF stated that it follows PPB Rules, which require payments to be made within 30 days. Therefore, FPF should pay invoices within 30 days to ensure that vendors are paid in a timely manner, prevent service disruptions, and avoid paying penalties.

7. Establish and implement internal procurement and travel policies and procedures.

FPF Response: FPF partially agreed with this recommendation, stating that the Fund follows the PPB rules for procurement to the best extent. With regard to travel, FPF stated that it is testing draft policies and procedures to determine whether there is any room for improvement.

Auditor Comment: FPF should also create and implement internal procurement policies and procedures specific to its operations.

Recommendations Follow-up

Follow-up will be conducted periodically to determine the implementation status of each recommendation contained in this report. Agency reported status updates are included in the Audit Recommendations Tracker available here: https://comptroller.nyc.gov/services/for-the-public/audit/audit-recommendations-tracker/

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions within the context of our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The Comptroller is one of the 12 FPF Board members by virtue of his office. The Comptroller sits on the Board through a designated representative. Neither the Comptroller nor his representative on the Board were involved in the audit process.

The scope of this audit was July 1, 2022 through June 30, 2024. The auditors took the following steps during the audit:

- Obtained and reviewed FPF's ACFR and accounting records for FYs 2023 and 2024, and board meeting minutes related to the conduct of business, audit, and investment meetings.
- Interviewed FPF officials and conducted observation to obtain a detailed understanding of the fiscal review processes, including the approval of purchase requisitions, the preparation of purchase orders, the vendor payment process, and the recording and reporting of OTPS expenditures.

- Reviewed FYs 2023 and 2024 supporting documents for 50 expense items that were randomly selected and 10 expense outliers that were judgmentally selected.[2]
- Reviewed supporting documents of five bank debits that were randomly selected. The audit team reviewed July to September 2024 for any subsequent payments.
- Determined the length of time that FPF took to make payments based on the invoice dates.
- Reviewed the statements for purchase and travel cards for FYs 2023 and 2024.
- Judgmentally selected all operating exp. seminar fee expenses for FYs 2023 and 2024 to review the supporting documentation.
- Judgmentally selected all out-of-town travel expenses for FY2024, the most recent fiscal year within our audit scope, for review. The documents reviewed included but were not limited to: (a) approved out-of-pocket reimbursement requests; (b) itemized receipts and invoices that support the travel expenses; and (c) program information or brochures.

The results of the above tests provided a reasonable basis for the auditors to support the findings and conclusions in this Final Audit Letter Report.

Preliminary results of this audit were discussed with FPF on May 20, 2025, and May 30, 2025. FPF agreed to waive the Exit Conference. On May 30, 2025, a Draft Audit Letter Report was submitted to FPF with a request for written comments. Our office received a written response from FPF dated June 12, 2025. In its response, FPF agreed with two and partially agreed with one of the audit's recommendations. FPF did not explicitly agree or disagree with the remaining four of the audit's findings and recommendations. The full response is attached to this report as an addendum.

Yours sincerely,

Maura Hayes-Chaffe

c. Simone Saywack, Budget Director, New York City Fire Pension Fund

[2] The outliers are non-standard or high-risk data points that significantly deviate from all other data points within a sample.

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LeRoy C. McGinnis
Executive Director

June 12, 2025

By Electronic Mail
Maura Hayes-Chaffe
Deputy Comptroller for Audit
Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007-2341

Re: **Response to the Draft Letter Report on the New York City Fire Pension Fund's Other Than Personal Services Expenditures**
FM24-086A

Dear Ms. Hayes-Chaffe:

The New York City Fire Pension Fund (the Fund or FPF) has reviewed the draft letter report on its Other Than Personal Services (OTPS) expenditures. The stated objectives of the audit were to determine whether the Fund's OTPS expenditures during FY 2023 and FY 2024 were in accordance with its policies and procedures, and other relevant rules and regulations, and that the expenditures were necessary and related to the Fund's mission.

The Fund appreciates the auditors' efforts and thanks the auditors for the opportunity to respond to the Draft Letter Report. The Fund would also like to thank the auditors for their courtesy and professionalism throughout the audit process.

Following is the Fund's response to the Draft Letter Report findings.

Sincerely,

LeRoy McGinnis
Executive Director

c. Chris Jensen, Deputy Executive Director, NYC FPF
Simone Saywack, Budget Director, NYC FPF
Amar Dyal, Chief Accountant, NYC FPF
Meishan Cui, Internal Audit, NYC FPF

Response to the New York City Office of the Comptroller's Draft Letter Report on the New York City Fire Pension Fund's Other Than Personal Services Expenditures
FM24-086A

1. FPF did not consistently comply with Comptroller's Directive #6, which governs expenditures for employee travel, agency-provided meals, and refreshments when conducting official City business. Directive #6 requires employees who attend out-of-town conferences to submit justification for travel, obtain approval, and/or submit post-conference attendance reports. Five FPF employees attended two out-of-town conferences, with costs totaling $11,195; however, FPF did not provide justification for all five employees who attended the conferences.

   Obtain post-travel attendance reports from each person who attended out-of-town conferences, to demonstrate how the information learned can be implemented to benefit FPF

   FPF Response
   The two out-of-town conferences referenced by the auditors are regularly attended by the Fund staff as part of their ongoing training and professional development. For instance, the Fund's Annual Comprehensive Financial Report (ACFR) is prepared in accordance with both GASB standards and the guidelines set forth by the Government Finance Officers Association (GFOA). As a result, the Fund has consistently received the GFOA's Certificate of Achievement for Excellence in Financial Reporting on an annual basis.
   Given the regular nature of staff participation in these conferences, we did not require written post-travel reports from attendees. However, we do hold meetings both before and following each conference to maximize the value of these training opportunities and to ensure staff remain informed about emerging trends and best practices. We will continue to utilize Comptroller's Directives as a foundational framework in developing our own Fund policies and procedures to achieve optimal efficiency based on our available resources.

2. FPF reported $2.4 million of investment-related expenses as OTPS expenditures in its ACFRs for FYs 2023 and 2024, and $56,991 of member-related payments as OTPS expenditures in FY2023. These expenses should have been reported as investment expenses and member-related payments, respectively. These misallocations overstated FPF's OTPS expenditures as well as the reported gain of its investment portfolio.

   FPF Response
   The payments in question have been correctly recorded as reimbursements, specifically, transfer contributions are non-periodic payroll (OTPS) expenses rather than being misclassified. This distinction is important because it ensures understanding the nature of these transactions and that the financial statements accurately reflect the Fund's expenditures. However, the FPF will separate these payments in future financial statements which should enhance transparency and make it easier for readers to distinguish between regular payroll expenses and non-periodic reimbursements.

3. FPF did not report certain expenses in the year they were incurred as required. According to Generally Accepted Accounting Principles, accrual accounting ensures that revenues and expenses are recorded in the period they are earned and incurred, respectively, and that financial statements reflect the economic activity of a business. In its annual financial statements, FPF reported that expenses are recognized in the period incurred. However, FPF did not report IT consultant services in the period these expenses were incurred. As a result, FPF's OTPS expenditures were overstated in FY2023 and understated in FY2024 by $303,287. FPF officials stated that this was due to a timing issue with reporting in their current accounting system and they are currently searching for a new accounting system to address this issue.

   FPF Response
   The FPF current accounting system does not automatically align expense recognition with the period in which they are incurred. As a result, certain transactions were recorded outside their intended timeframe. The Fund is in the process of replacing the system to enhance accuracy and ensure timely financial reporting.

4. FPF did not segregate duties for its OTPS expenditures process. Comptroller's Directive #1 states that key duties and responsibilities need to be divided among different staff members to reduce the risk of error or fraud, including separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. FPF designated one person to issue purchase orders, assign budget codes, prepare payment vouchers, and process checks and electronic fund transfers (EFT) in the banking system. FPF officials stated that the fund is a small agency and, therefore, some staff must take on multiple roles. In instances when strict segregation of duties is not feasible (due to staffing levels, for example), agencies must establish other mitigating controls to reduce risk such as management review and dual authorization of transactions.

   FPF Response
   As noted by the auditors, strict segregation of duties is not currently feasible due to staffing limitations. To address this, the FPF has implemented mitigating controls. Periodic cross-checks and reconciliations are conducted between the Budget and Accounting Units to ensure accuracy and oversight. Additionally, a management review process is in place. For example, each payment voucher must be reviewed and approved by either the Executive Director or the Deputy Executive Director prior to payment processing.

5. FPF did not always record payment transactions in the general ledger in a timely manner. For example, FPF began recording payment vouchers for October 2024 five months later, in March 2025. According to Comptrollers Directive #1, 55.9 — Accurate and Timely Recording, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and decision making.

   <u>FPF Response</u>
   The FPF makes every effort to record transactions in the period they occur but staffing limitations can lead to delays in posting them. This delay is expected given the prioritization of preparing the financial statements, a critical aspect of the Fund's reporting obligations. The commitment to making every effort to post transactions as soon as practically demonstrates a continuing effort to maintain accurate and timely financial records. As previously noted, the Fund is in the process of replacing the current accounting system which will enhance accuracy and ensure timely financial reporting.

6. For FYs 2023 and 2024, the results of the auditors' review of a sample of 65 transactions show that FPF did not always process payments to vendors in a timely manner. According to Procurement Policy Board Rules 54-06, payments to vendors shall be made within 30 days of receiving or accepting the invoice to prevent the incurring of interest on such payments. Within the audit team's sample, there were 54 OTPS invoices, of which three (5.6%) were paid more than 30 days after the invoice dates without justification.

   <u>FPF Response</u>
   The three invoices that were mentioned by the auditors were paid outside of the 30-day window for specific reasons. One invoice was sent from a different email address than normal and so was not caught within the 30-day window of payment. The two other invoices were paid a few days outside of the 30-day window because they were sent via mail instead of being emailed as all the other prior invoices were. These two invoices were paid as soon as practicable once they were physically received by the Budget Unit. The Fund would like to clarify that no interest was incurred in any of these three payment exceptions. The Fund prioritizes timely payments and as such makes every effort to make payment within the City's prompt pay rule of 30 days of receipt of invoice. We believe this is evidenced by the fact that only 3 out of the 54 payments sampled were flagged as out of the payment window.

7. FPF does not have policies and procedures for procurement and travel expenses. FPF recently formalized draft policies and procedures for travel but these have not been implemented yet.

   <u>FPF Response</u>
   The Fund follows the PPB rules for procurement to the best extent as a non-mayoral agency. The Fund has also consistently followed any draft policies and procedures in carrying out its responsibilities. Currently, the Fund is testing the draft policies and procedures to determine whether there is room for improvement. As these documents have not yet been fully reviewed by the Legal Unit and Senior Management, they therefore cannot be considered formally finalized.