

Audit Committee Meeting – January 21, 2015

I. Call to Order

Mr. Bernard Rosen, Audit Committee Chair, was delayed; Mr. Mark Kaplan acted as the Chair and called the meeting to order at 9:30 a.m.

II. Grand Central Partnership, Inc. and Grand Central District Management Association, Inc.

The first agenda item was the review of the financial statements for the Grand Central Partnership, Inc. and Grand Central District Management Association, Inc. (GCP) for the fiscal year ended June 30, 2014. Mr. Alfred Cerullo, President and CEO of GCP, introduced the other representative of GCP present, and Mr. William Skody, the representative of Skody, Scot & Company, CPAs, P.C., GCP's independent auditor. Mr. Cerullo began his presentation by noting that GCP had a good year financially and programmatically and therefore did not need to seek an assessment increase.

Mr. Cerullo noted that GCP:

- Added \$800,000 to the reserve, bringing the total to \$4.4 million.
- Focused \$400,000 of the reserve on a project with Metro-North and MTA.
- Refinanced bonds resulting in savings of \$1.8 million for the fiscal year 2014. Combined with previous refinances, total savings was \$3 million.

Mr. Cerullo stated that the refinancing helped fund many of GCP's capital projects.

There being no further comments or questions, Mr. Kaplan thanked the representatives of GCP for their participation at today's meeting.

III. 34th Street Partnership, Inc.

The next agenda item was a review of the financial statements for 34th Street Partnership, Inc. (34th Street) for the fiscal year ended June 30, 2014

Mr. Peter Ciriello, Controller and Chief Financial Officer at 34th Street, introduced Ms. Charlene Laniewski, the representative of KPMG LLP (KPMG), 34th Street's independent auditor.

Mr. Ciriello made a brief presentation noting that 34th Street's financial statements were very straightforward in 2014.

There was a discussion regarding whether all three levels of the fair value hierarchy must be disclosed in 34th Street's notes, even if they did not have investments in all levels. Ms. Laniewski stated that there were no level 3 risk bonds and that 34th Street's bonds were considered level 2 within the hierarchy. She continued and stated that it is standard KPMG accounting policy to discuss the three levels in the accounting policy note, but in the future the notes will mention there are no level 3 inputs to make the distinction clearer.

There being no further questions or comments, the Chair thanked the representatives of 34th Street for their participation in today's meeting.

IV. New York City Educational Construction Fund

The next agenda item was the review of the financial statements and management letter of the New York City Educational Construction Fund (ECF) for the fiscal year ended June 30, 2014. Ms. Jennifer Maldonado, Chief Executive Officer and Executive Director at ECF, introduced the other representatives of ECF present and Mr. Jim Filacanio, the representative at Israeloff, Trattner & Co., P.C, ECF's independent auditor.

Ms. Maldonado stated that ECF performed extremely well during fiscal year 2014 and noted the following:

- ECF's net position increased by \$0.1 million and \$3.7 million in 2014 and 2013, respectively.
- A second amendment to the ground lease at 250 East 57th Street led to an additional payment of \$7 million.
- ECF expects to develop one to two more projects in fiscal year 2015 that will affect revenues over the long-term. Additional projects will begin over the next two to three years.

Mr. Filacanio stated that ECF's expenses increased by \$9 million in fiscal year 2014, mostly due to interest no longer being capitalized. He continued that ECF was unable to implement the new Governmental Accounting Standards Board (GASB) requirements for pension reporting because the State has not yet implemented the standards.

[Mr. Rosen arrived at 9:50 a.m. and assumed his responsibility as Chair.]

A question and answer session followed and the following matters were discussed:

- It was recommended that ECF show fiscal year 2012 numbers along with fiscal year 2013 and 2014.
- It was pointed out that the wording on page six that *Rental and Tax equivalency income increased in fiscal year 2014* was inconsistent with what was presented on the *Statement of Activities* on page 9. Mr. Filicanivo explained that the wording on page six was meant to compare *total general revenue* in fiscal years 2013 and 2014 and not specific categories of revenue.
- The reference to the increase to general and administrative expenses for 2014, on page 6, pertained to the depreciation expense. Overall, general and administrative expenses decreased in 2014.
- The Norman Thomas High School site was sold in 2013 resulting in increased revenue.
- On Page 34, tax equivalence is determined each year, therefore adjustments are pending.
- In regards to the litigation over the crane accident, ECF will not collect insurance until the claim against the contractor has been settled. As of last week, all claims had been settled and will be reflected in ECF's 2015 statements.
- The Committee had several comments that the language in various sections of the statements was unclear or erroneous.

There being no further questions or comments, the Chair thanked the representatives of ECF for their participation in today's meeting.

V. Approval of the Minutes of the October 22, 2014, and October 27, 2014 Meetings

The next agenda item was the approval of the minutes of the October 22, 2014 and October 27, 2014 meetings. The Chair called for a motion to approve the minutes; Mr. Kaplan made a motion; and the motion was seconded by Mr. Michael Spitzer. The motion to approve the minutes carried unanimously.

VI. NYC School Construction Authority

The next agenda item was a review of the financial statements and management letter of the New York City School Construction Authority (SCA) for the fiscal year ended June 30, 2014. Ms. Marianne Egri, Vice President of Finance at SCA, introduced the other representatives of SCA present and Mr. David Mandelbaum, the representative of PricewaterhouseCoopers, LLP (PWC), SCA's independent auditor.

Ms. Egri noted that fiscal year 2014 was the fifth year of SCA's five-year capital plan, for which the appropriation was \$11.4 billion. In 2014 SCA's total commitments was \$2.2 billion, which included \$604 million in construction contracts for 17 new schools and \$52 million for 459 capital improvement renovation projects. In addition, in fiscal year 2014 SCA completed 11 new schools and, in fiscal year 2015 19 schools and 23 pre-K facilities will open. Current projects include 55 capacity projects and 585 capital improvement projects.

A question and answer session followed. Several matters were discussed, including:

- SCA budgets 10 percent for change orders; the process for change orders was reviewed.
- SCA has an inspection division reviewing each construction project, as well as designers, architects and engineers.
- SCA has an audit advisory committee that is working with City Hall to identify new members.
- Ernst & Young LLP is the internal auditor.
- When a project is complete, the asset is transferred to the Department of Education, along with the custodial staff and training manuals from the contractor.
- Regarding the significant deficiency identified in SCA's *Report to Management* relating to the *proper accounting for insurance receivable/liability*, the errors were related to the timing of recognition in the financial statements and had no cash impact on SCA. All resulting errors were corrected in the financial statements.
- There was a discussion regarding SCA's difficulty in the implementation of GASB 68 on pensions. Ms. Michele Levine offered the Comptroller's Office assistance for any issues that occur going forward. Mr. John Hepburn, Comptroller at SCA, confirmed that he is in the process of arranging a meeting with the Comptroller's Office on the subject, and that he will also speak with the Actuary's office.

[Mr. Kaplan left the meeting at 10:20 a.m.]

- There was a discussion about errors in SCA financial statements found by PWC; Mr. Hepburn confirmed that all the errors were corrected in the statements.

- It was suggested that, in the absence of an SCA Audit Committee, SCA's independent auditors can make required communications to the City Audit Committee, rather than communicating only with SCA management. .

There being no further questions or comments, the Chair thanked the representatives of SCA for their participation at today's meeting.

VII. Department of Education of The City of New York- Report to Management

The next agenda item was the review of the Report to Management of the Department of Education of The City of New York (DOE) for the year ended June 30, 2014.

Mr. Bill Goldband, of the Division of Financial Systems and Business Operations at DOE, discussed Deloitte & Touche, LLP's (Deloitte) comment on *application terminations for separated employees* and the problem with needing manual intervention in order to disable the accounts. He stated that By June 2015, the process will be automated.

Ms. Suzette Irish, Director of Financial Operations at DOE, added that DOE is taking this issue seriously, and discussed various strategies to address the issue, such as holding employee engagement meetings.

Regarding the *Cash-General School Fund* comment, cash in the general school funds continue to have balances greater than \$300,000; the banking unit is working closely with network operations directors to ensure that schools are accountable for their cash and spending.

A question and answer session followed. Several matters were discussed, including:

- Some of the cash in the general school funds is the result of fundraising efforts. Large fund balances may also be attributable to large student bodies.

- All school fund accounts are in accordance with Department of Finance regulations.
- There were no material weaknesses.

There being no further questions or comments, the Chair thanked the representatives of DOE for their participation at today's meeting.

VIII. The City of New York Management Report

The next agenda item was the review of The City of New York Report to Management [from independent auditors] for the year ended June 30, 2014.

Grants Management System

The Chair asked if the Single Audit can be conducted despite the absence of an automated grants management system. Mr. Glenn Friedrich, Partner at Deloitte, responded yes, but with a manual system it will always be a challenge to gather the information needed, particularly when reports arrive at the last minute.

A question and answer session followed. Several matters were discussed, including:

- There have been discussions about implementing a City-wide grants management system.
- Certain Federal agencies have been interested in how the City is managing its grants.
- A grants management system is in place at the New York City Police Department (NYPD), along with a system for Federal Emergency Management Agency and Housing (FEMA) grants and the United States Department of Housing and Urban Development grants.
- The NYPD system was originally seen as a possible model for other agencies, but the PD's needs are unique and thus the system is not suitable to be transformed into a citywide grants management program. The FEMA system is reserved for a handful of funding sources.

- A grants management system would become more complicated as more funding sources are added. There will not be any further action until some deliverables are defined or issues arise in the pilot programs.
- One of the challenges of a centralized grant management system is the decentralized grant administration structure in the City. For example, in some cases, neither OMB nor the Comptroller's Office do not know when other agencies apply for, or receive, grants.
- When a grant application begins, there should be a mechanism for sending it through the proper channels. This would streamline and simplify the process.
- If such a system were created, it should reside in OMB because it is important to have the appropriations that go along with the grants or risk being in violation of the grant.
- The system should also be able to differentiate Federal grants from state grants. This would help identify monies that come directly from Federal sources and those that flow through state sources, thus avoiding repetition and confusion.
- OMB might have some systems, other than the one at the NYPD, that are more broadly applicable to grants.

Mr. John Grathwol stated that he will provide a report at the June Audit Committee, but underscored the difficulty of trying to create a "one size fits all" system; also stated that he anticipates a "segmented development and rollout" process.

Other Items

There was a general discussion regarding the remaining items in the report, including calculation of accrued real estate tax refunds, allowance for uncollected real estate taxes, etc.

Ms. Levine indicated that she and Jackie Thompson would “keep on top” of these issues, and escalate them if/when necessary.

Mr. James Curry, Partner at Deloitte, underscored the fact that the management report is not large or significant, given the size of The City. He also stated that a management letter will arrive at a subsequent meeting that will include “constructive service comments.”

There being no further questions or comments, the Chair thanked the representatives of Deloitte for their participation in the meeting.

There being no further business before the Committee, the Chair asked for a motion to adjourn; the motion was made by Mr. Spitzer; seconded by Mr. Grathwol; and the Chair adjourned until the next scheduled meeting on March 4, at 9:30 a.m.