

Audit Committee Meeting- March 25, 2015

I. Call to Order and Roll Call

Mr. Bernard Rosen, Audit Committee Chair, called the meeting to order at 9:30 a.m. Ms.

Jacqueline Thompson, Committee Secretary, took roll call. A quorum was present.

II. Review of the Draft Minutes of the Audit Committee Held on March 4, 2015

The first order of business was the approval of the draft minutes of the March 4, 2015 Audit Committee meeting. The Chair inquired if there were any comments on the draft minutes as presented. Subject to the editorial comments submitted to the Committee Secretary, the Chair called for a motion to approve the minutes; Mr. Spitzer made a motion; the motion to approve the minutes of the March 4th meeting carried unanimously.

III. Actuarial Reports

The next agenda item was the review of the draft actuarial reports of the independent actuary which include:

- **The New York City Retirement Systems Actuarial Audit and Related Review Services Independent Actuary's Statement;**

- **New York City Retirement Systems** Actuarial Audit and Related Review Services Administrative Review Report, October 28, 2014;
- **New York City Retirement Systems** Actuarial Experience Investigation for the Two-Year and Ten-Year Periods ending June 30, 2011; and
- **New York City Retirement Systems** Actuarial Audit of Employer Contributions for Fiscal Year 2012 (June 30, 2010 Lag Valuation).

Mr. Kenneth Alberts, Project Manager and Contribution Audit Director at Gabriel, Roeder, Smith & Company (GRS), introduced the representatives of GRS who were present. There was an executive review of the results of the first engagement, by category. Draft reports have been issued and are being reviewed for the second engagement.

A discussion regarding GASB 67 implementation and the effects of changing the City's actuarial method took place. The following were the main discussion points:

- The present value of future benefits is the same no matter what actuarial method is used. The difference between the methods is how one allocates the costs that have not been paid between the past and future.
- Changes in the funding valuation had no impact on the comprehensive annual financial report.
- With the implementation of GASB 67, the City now has a large liability in the financial statements.
- The New York City Fire Pension Funds (FIRE) was most affected of the City's qualified pension plans from the change in actuarial method.

- Due to the change in the actuarial method to the entry age normal method, the City Pension Systems now appear to be less funded than in prior years.

Regarding the administrative review, GRS concluded that the data used to determine employer pension contributions and develop actuarial assumptions was sufficient and accurate for those purposes. The major recommendations to the Office of the Actuary (OA) was that it should produce full valuation reports for the New York City Employees Retirement System (NYCERS), the Teachers Retirement System (TRS), and the Board of Education Retirement System (BERS), and that OA should work with BERS to get better credited service information. The Committee questioned the need for five distinct processing systems that do basically the same type of function. It may be more efficient if the five systems merged and focused on a more state-of-the-art process.

Regarding the contribution audit, GRS concluded that the OA calculations for the fiscal year 2012 employer contributions for all of the systems were reasonable and appropriate. There was a discussion as to whether GRS' test conclusions were based solely on pass/fail to a tolerance level. Mr. Alberts said not necessarily; a System may come very close to passing on everything but, upon examination, a different conclusion may be reached. The data is reviewed by record per person, and decisions are made as to whether the conclusions need to be reviewed further.

Regarding the experience studies, the following were discussed:

- There was a material increase in the longevity expectations.
- The same benefits must be provided for men and women. The funding by the City into the Systems may be based on assumptions that reflect longevity differences.

- GRS generally compares disability rates among their clients to look for variations. The information does not get published.
- GRS found that the rates of disability were not as drastically different, pre- and post- September 11, 2001, as initially thought.
- If one goes back too far in the data, one would see trends that are no longer appropriate to be using going forward.

Mr. Alberts reported that the mathematical calculations used to determine the City's contribution by the OA were reasonable calculations and reproducible. GRS was able to certify that the systems were being funded in conformity with all applicable actuarial, financial, and legal requirements. GRS believed that the contributions from the 2010 evaluation will be sufficient to pay benefits when due assuming continuing of the process and the methods and assumptions. Regarding GRS' second audit, on the contribution audit side, so far nothing in the assumptions has been surprising.

The Committee concluded that there is a need to identify best practices, to look into merging the Systems, and to hold a full-day meeting on the actuarial audits. Until that time, any additional questions not discussed at today's meeting should be forwarded to the Committee Secretary. Mr. Alberts reiterated that what this process does is to affirm or disaffirm the calculations performed by the OA to provide some assurance that the contributions will ultimately be sufficient to pay the benefits. A suggestion was made to hold an executive session once the second engagement is presented.

The Chair called for a motion to accept the Independent Actuarial Reports. Mr. Larson made a motion; the motion to accept the Independent Actuarial Reports carried unanimously.

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

IV. Financial Statements and Management Letters for the Following

Brooklyn Navy Yard Development Corporation

The next agenda item was the review of the financial statements and management letter of the Brooklyn Navy Yard Development Corporation (BNYDC) for the fiscal year ended June 30, 2014. Mr. John Madonia, Chief Financial Officer at BNYDC, introduced the other representatives present of BNYDC, and Mr. Glenn Deans, the representative of Deans•Archer & Company, BNYDC's independent auditor.

Mr. Madonia gave a brief presentation of BNYDC's financial statements and highlighted the following:

- Estimates to rebuild the electrical, waterfront, and steam infrastructures after Superstorm Sandy will be in excess of \$65 million.
- In fiscal year 2014 capital spending totaled \$19 million on infrastructure and of that \$17 million was provided through the City's capital budget.
- Construction had commenced on building 77, and it should be completed in fiscal year 2017 at a cost of approximately \$140 million. It is estimated that once tenanted, the project will add an additional 3,000 jobs in BNYDC.

A question and answer session followed and the main issues were:

- Steiner Studios has completed Phase 3 of its renovation. That building, together with stages 10 through 15, will support 1200 people.
- The employment center was able to place 201 people in jobs within BNYDC and community.
- In fiscal year 2014, there were approximately 3,000 people working at BNYDC.
- BNYDC's new water system is almost complete. BNYDC is able to bill tenants off the meters.
- The additional rent insurance premium is the pass through of the property insurance that is charged tenants.
- BNYDC's uninsured balance is the money needed to cover capital improvements.
- Regarding the space that will come become available in June, three corporations have signed leases for approximately 75 percent of the space

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

NYC Business Relocation Assistance Corporation

The next agenda item was the review of the financial statements and management letter of the Business Relocation Assistance Corporation (BRAC) for the fiscal year ended June 30, 2014. Mr. Don Giampietro, Assistant Commissioner of Business Incentives at the New York City Department of Small Business Services (SBS) and proxy representative of the SBS

Commissioner, who is also the BRAC Chairperson, introduced the other representatives of BRAC present and Ms. Viola Binua, the representative of Padilla & Company, LLP, BRAC's independent auditor.

Mr. Giampietro gave a brief presentation that BRAC's funding was from lower Manhattan, Greenpoint, and Williamsburg conversions, which are being spent down. BRAC is managed by City employees and there have been discussions about dissolving BRAC. If additional funding comes in, the program can be performed by another entity. There have been discussions over the years and other mechanisms have been implemented to assist businesses that have been relocated. Businesses are informed on the options that are available.

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

The Trust for Governors Island

The next agenda item was the review of the financial statements and management letter of the Trust for Governors Island (TGI) for the fiscal year ended June 30, 2014. Ms. Leslie Koch, President of TGI, introduced the other representatives of TGI present and Mr. Warren Ruppel, the representative of Marks Paneth LLP, TGI's independent auditor.

Ms. Koch provided an overview highlighting that TGI had a busy fiscal year, particularly in the capital program. The City made an investment in upgrading the infrastructure and public space of Governor's Island. The high school is still on the island, and it is in the process of expanding.

Regarding TGI's management letter, the auditor's recommendations have been implemented as to best practices on overseeing the ticket system. Most of the direct maintenance staff are contract employees.

There being no further questions the Chair thanked the representatives of TGI for their participation at today's meeting.

Brooklyn Bridge Park

The next agenda item was the review of the financial statements and management letter of the Brooklyn Bridge Park (BBP) for the fiscal year ended 6/30/14. Ms. Regina Myer, President of BBP, introduced the other representatives of BBP present and noted that Marks Paneth, LLP was BBP's independent auditor.

Ms. Myer presented the Committee with a brief handout and provided an overview of BBP during fiscal year 2014. Two new sections of the BBP will open during the summer of 2015, and at that time, it will be 60 percent open. Ms. Myer also reviewed the projects that are ongoing and anticipated.

BBP opened the bridge from Brooklyn Heights a year and a half ago, but there were some concerns about the movement of the bridge. The bridge was remodeled and hopefully will re-open by June. The recent request for proposal for BBP development sites had specifications for use, which included residential use with ground floor retail.

Regarding the payments in lieu of taxes (PILOT), the increase from \$2 million in 2013 to \$41.5 million in 2014 was because BBP combined the ground lease payments with the PILOT. BPP has three full-time employees with additional seasonal help.

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

Single Audit Report for the City

The next agenda item was the review of the City's draft Single Audit Report for the fiscal year ended June 30, 2014.

Mr. Glenn Friedrich, Partner at Deloitte and Touche, LLP, provided an overview of the City's draft Single Audit Report for the fiscal year ended June 30, 2014. The main discussion items were

- Unlike the prior year, the 2014 Single Audit Report included both the Federal and the State of New York Department of Transportation Single Audits in one report.
- The Comptroller's Office develops the City's chart of accounts with some agency adjustments.
- Of the \$22.5 billion the City had in Federal expenditures during fiscal year 2014, the biggest expenditure was for medical assistance. The process the City went through to determine that amount was reviewed.

Mr. Friedrich reported that the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters* based on an audit of Financial Statements performed in accordance with Government Auditing Standards contained no material weaknesses or significant deficiencies. The Independent Audit Report on *Compliance for Each Major Federal and State of New York Department of Transportation Assistance Programs*; and *Report on Internal Control Over Compliance* required by OMB Circular A-133 and Part 43 of the New

York State Codification of Rules and Regulations contained 14 findings, 3 of which were significant deficiencies. There were no material weaknesses. For 2013, there were three new findings which were brought to the attention of the Committee.

There was discussion about calling in agencies to address compliance with Federal issues. No one at the City was aware of using the Single Audit to determine how resources should be directed.

Ms. Levine agreed to follow-up with the Audit Bureau. The independent auditor's understanding was that the Single Audit has been used to determine how resources should be directed. Ms.

Levine noted for the record that there had been delays and some last-minute issues regarding the final Sandy grant award expenditures reported on the SEFA and in the notes. She indicated that BOA would work closely with OMB and the Mayor's Office of Operations to avoid similar issues next year.

The Chair called for a motion to accept the draft Single Audit Report. Mr. Larson made a motion; the motion to accept the draft Single Audit Report carried unanimously.

With no further business, the meeting was adjourned at 11:30 a.m.