

AUDIT COMMITTEE OF THE CITY OF NEW YORK

MINUTES OF THE AUDIT COMMITTEE MEETING

WEDNESDAY, JANUARY 28, 2015 IN THE COMPTROLLER'S OFFICE BOARD ROOM

ATTENDANCE

Chair	Bernard Rosen
Private Members	Mark Kaplan Bud Larson Michael Spitzer
Public Members	Representing the Mayor – John Grathwol Representing the Comptroller – Michele Mark Levine Representing the Public Advocate – Lawrence Schimmel
Secretary	Jacqueline Thompson
Independent Auditors	Deloitte & Touche LLP - James Curry, Glenn Friedrich, Mike Malloy, Jill Strohmeyer Ernst & Young – Kim Hancy, Amy Wong
Others	New York City Economic Development Corporation (EDC), New York City Industrial Development Agency (IDA), Build NYC Resource Corporation (Build NYC) & New York City Land Development Corporation (LDC) – Bulent Celik, Spencer Hobson, Raafat Osman, Bruce Rollins New York City Mayor's Office of Operations – Florim Ardolli, George Davis New York City Office of Management & Budget – Enid Ellis, Nicole Fleming, Omais Hassan, Xiaochao Jin, Raymond Lee, Roy Mogilanski New York City Comptroller's Office – Susan Cornwall, Alma Fana, Thema Holder, Berta Lara New York City Law Department – Steven Cushman New York City Independent Budget Office – Sean Campion New York State Comptroller's Office – Christopher Lotridge McGladrey LLP – Robert Rooney

Audit Committee Meeting - January 28, 2015

I. Call to Order

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

The Chair noted that the minutes from the January 21, 2015 meeting, as well as the minutes from this meeting, will be sent to Committee members in advance of the next meeting in March.

II. Executive Session

The Chair asked for a motion for the Committee to enter the Executive Session to discuss non-public financial matters. The motion was made by Mr. Bud Larson, seconded by Mr. Mark Kaplan, and was unanimously approved.

III. Return to Public Session. Resolution on Selection of the City's Independent Auditor.

The Chair asked for a motion to approve the resolution regarding Audit Committee selection of The City of New York's (the City) independent auditor (*see attached*). Mr. Larry Schimmel moved for the approval of the resolution. Mr. Mark Kaplan seconded the motion. There were no objections, and the motion carried.

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IV. Financial Statements and Management Letter Reviews

The next item on the agenda was the review of the financial statements and management letters for the following entities: New York City Economic Development Corporation (EDC), the New York City Land Development Corporation (LDC), the New York City Industrial Development Agency (IDA), and Build NYC Resource Corporation (Build NYC) for the fiscal year ended June 30, 2014. Mr. Spencer Hobson, Executive Vice President of Finance at EDC, LDC, IDA and Build NYC, introduced Mr. Bulent Celik, Controller, and Mr. Raafat Osman, Deputy Controller, of EDC, LDC, IDA, and Build NYC, and Ms. Kim Hancy and Ms. Amy Wong, the representatives of Ernst & Young LLP (EY), EDC's, LDC's, IDA's, and Build NYC's independent auditor.

There was a discussion as to why EDC, LDC, IDA and Build NYC operate as separate legal entities when in substance they are the same entity. The representatives explained that some of the entities may perform functions not permitted by other entities. For example, LDC is able to acquire or lease City property outside of the auction process, whereas EDC is not able to do so. Changing the charter so that there would not be many spin-offs is a legal matter and, that in some cases, federal law and/or tax codes would have to be changed.

New York City Economic Development Corporation

Mr. Celik stated that fiscal year 2014 was a successful year financially for EDC as compared to the previous year in that revenues increased and operating expenses decreased. EDC continued to provide great efforts on remediation and construction work resulting from Superstorm Sandy.

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Regarding the management letter, EDC had no material weakness or significant deficiencies.

The following was discussed during the presentation:

- EDC has federal, state and City grants.
- The decline in reimbursable grants was a result of less capital project activity.
- Property rentals increased due to the refinancing transactions at the 42nd Street Development Project and the Brooklyn Renaissance Plaza.
- EDC has the titles to the properties; EDC develops these properties, then either sells them or passes them through.
- Program and project costs decreased due to less project activity and fewer capital projects.
- Cash and investments decreased as a result of disbursements to the Highland Park Water Syphon project and mortgage payments to the City for Columbus Circle.
- Amount due from the City increased as a result of the Community Development Block Grant (CDBG) Disaster Relief projects relating to Superstorm Sandy.

There was a review of EDC's *Schedule of Investments*:

- The total investment portfolio consisted of federally secured assets, commercial paper, money market and mutual funds as well as CDs.

- The separate *Schedule of Investments* is an auditors' report issued upon completion of the annual audit of investments required by the New York State Public Authorities Accountability Act.

A question and answer period followed. The following matters were addressed:

- The Committee advised that money market funds and mutual funds should not be presented on the same line and that demand accounts at a bank are not money market deposit accounts.
- In fiscal year 2014 EDC's activity was generally broken down between EDC and Apple. Going forward, Apple will be presented as part of EDC.
- EDC's fixed asset policy requires that property be maintained on the books with a position of \$1 until the property is retired, recycled, or discarded, at which time it is taken off of the fixed assets ledger.
- EDC manages the new piers on the West side but does not own the terminals.
- EDC, as a quasi-governmental entity, had been advised by counsel that in the event of the failure of Chase, the monies that EDC collateralized may not be available. EDC has therefore invested in money market funds to secure the money.
- The Committee expressed concern that there was no limit to the concentration of credit risk. EDC explained it has invested primarily in federally-secured investments that were thoroughly secured. The Committee suggested that EDC include that policy in its disclosures.

- EDC has an Audit Committee and a 27-member Board that oversees operations. The Mayor appoints a majority of the Board members.

All of the reporting issues covered in the auditors' management letter comments had been taken into consideration and corrected within the financial statements. Committee members suggested that EDC clearly identify which comments in the management letter have and have not been adopted.

New York City Industrial Development Agency

The Committee decided that, since LDC was small, it would turn its discussion to IDA. Mr. Celik explained that the debt related to the stadiums is conduit debt and is included in the *Statement of Net Position*. IDA's two largest financings were related to the stadiums. Mr. Celik explained that the conduit debt is supported by Payments in Lieu of Taxes (PILOT), and in the event that there is a revenue shortfall, the City would not have any obligation for debt service. At the end of the lease term the ownership of the stadiums revert back to IDA.

A question and answer session followed and the following was discussed:

- IDA has been following the Government Accounting Standards Board's (GASB) exposure draft on tax abatement reporting and is aware that comments are due the following Friday. IDA is comfortable that it has the material needed to conform to the requirements.

- Local Law 62 requires IDA to report to City Council and elected officials more information than what GASB's tax abatement pronouncement is recommending.
- Stadium interest was included in current accounts payable.
- Money market funds are not insured and they are at a depository institution in IDA's name.

Build NYC Resource Corporation

Mr. Celik began his report by saying that that in fiscal year 2014 Build NYC completed its first full fiscal year with a surplus of \$3 million. During fiscal year 2014 Build NYC adopted investment guidelines and started investment activity similar to IDA. Build NYC manages all investments, and decisions are made according to investment guidelines. The investment mix consists of federally secured assets, commercial paper, money market and mutual funds. The federal portion of all investments totaled \$2 million, and the remainder is attributable to certificates of deposits, money market funds and commercial paper. Investment income had an average yield of 0.1%.

A question and answer session followed:

- Build NYC assists not-for-profit organizations.
- Build NYC disclosed that current assets increased as a result of fees from 22 bond transactions during the year; the Committee suggested that Build NYC should detail the amount associated with the bond transactions so there is a relationship between the fees generated and the amounts bonded for in the fiscal year.

- Build NYC explained that it uses all New York banking institutions. However, they are not all on the New York City Banking Commission List.

Build NYC did not have receive any management letter comments.

There being no further questions, the Chair thanked the representatives of EDC, IDA LDC and Build NYC for their participation at today's meeting.

There being no further business before the Committee Ms. Levine made a motion to adjourn which was seconded by Mr. Kaplan and approved unanimously. The Chairman adjourned until the next scheduled meeting on March 4, at 9:30 a.m.

Proposed Resolution on Audit Committee Selection of the City Independent Auditor; for consideration on Wednesday, January 28, 2015

WHEREAS, Sections 95 and 97(c)(2) of the New York City (the “City”) Charter require that the Audit Committee of the City (the “Committee”) select a firm or firms of certified public accountants (“Auditor”) to perform the annual audit of the City’s accounts;

WHEREAS, as the term of the City’s current independent auditor expires upon the completion of the financial statement and federal funds single audits of fiscal year 2015, on May 12, 2014, on behalf of the Committee, the Comptroller’s Office issued a weighted competition for auditor (the “Prior RFP”) based on the highest technical score for experience, organizational capability, and proposed approach with price not considered except for a requirement that a contract would be awarded to the highest technical proposer only upon a determination that the price that is fair and reasonable,

WHEREAS, the Committee believes that it is in the City’s best interests to cancel the Prior RFP and issue a new RFP (the “New RFP”) for an Auditor, and that such New RFP should include in the weighted competition both a separate factor for consideration of price and, in accordance with the research of certain industry experts (summarized in the attached Exhibit A), a separate factor for any non-incumbent Auditor or an incumbent Auditor that will have served as City auditor for less than 12 continuous years at of the end of the prior contract term;

NOW, THEREFORE, BE IT RESOLVED, that the Committee approves the cancellation of the Prior RFP; and

BE IT FURTHER RESOLVED, that the Committee approves issuance of the New RFP; and

BE IT FURTHER RESOLVED, that an Audit Firm Proposals Evaluation Committee be established in order to review proposals and make a recommendation to the Committee for the City’s Auditor for the fiscal year 2016 - 2019 term; and

BE IT FURTHER RESOLVED, that the Committee approves the following weighted competition that the Audit Firm Proposals Evaluation Committee will use to evaluate proposals and make a recommendation to the Audit Committee:

Weight	Criteria
25 points	Experience (technical ability)
30 points	Organizational capability
20 points	Proposed approach
25 points	Price

10 points	Non-Incumbents and incumbents of fewer than 12 continuous years at the beginning of the contract term.
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AND BE IT FURTHER RESOLVED, that the Committee or its designee may develop in further detail the above criteria and scoring to be used evaluating proposals, as long as the overall weighted competition remains consistent with the above.

Industry Support for Auditor Rotation

EXHIBIT A

Name/Organization	Organization & Position	Points
John C. Bogle	Vanguard Group, Inc. <i>Founder and Former Chairman</i>	- Costs of rotation are exaggerated, benefits are understated. Benefits are far-reaching and create substantial value for the financial system and society. - Rotation would improve independence of auditors. - As CEO of Wellington Management Company, responsible for recommending the appointment of the auditor for its management company. At one point, replaced the long-time auditor. The process was smooth and essentially cost-free to the firm. - Source: http://pcaobus.org/Rules/Rulemaking/Docket037/ps_Bogle.pdf
Arthur Levitt Jr.	SEC <i>Former Chairman</i>	- Investors deserve the perspectives of different professionals every so often. - Loss of institutional memory among the audit teams is an invalid criticism as most audit work is done by high turnover front-line staff. - Source: http://pcaobus.org/Rules/Rulemaking/Docket037/ps_Levitt.pdf
Harold Williams	SEC <i>Former Chairman</i>	- Concern of increased costs is exaggerated. An increase of costs because of rotation would be justified. - Concern of the audit quality of the last several years of the departing auditor's engagement casts serious doubt on confidence in its professionalism and suggests a more serious problem.
Damon Silvers	AFL-CIO <i>Director of Policy and Special Counsel</i>	- A new audit firm introduces a fresh perspective and fresh skepticism that may be missing when an auditor has a long-standing relationship with a firm. - Longtime auditors may look for the same issues each year instead of staying open to other possibilities. They also tend to rely on prior years' working papers, particularly if fees are a concern. - Longtime auditors may avoid escalating problems identified during the audit process out of fear of angering the client and losing its business. Auditor rotation mitigates this by requiring that potential income from the client could not flow indefinitely. - Source: http://financialservices.house.gov/uploadedfiles/hhra-113-ba16-wstate-dsilvers-20130523.pdf
John H. Biggs	TIAA-CREF <i>Former Chairman and CEO</i>	- Costs can be managed and there are many positive benefits. Even if the cost-benefit ratio were unfavorable, the importance to the capital markets and their confidence in financial reports makes rotation worthwhile. - When Biggs was CEO and Chairman, TIAA-CREF's audit committee considered auditor rotation after a five- to ten-year period. TIAA-CREF went through two successful auditor rotations. Fees did not increase substantially. - Reduce the financial incentives for audit firms to placate management by reducing the present value of fees with the audited company. - New auditor would conduct an exhaustive review of the former audit work papers. - Management less likely to engage in financial manipulation if confronted by different auditor every few years. - Rotation produces a "real time" peer review. The outgoing auditor wants the work papers to be complete and of high quality with all problems clearly resolved; the new firm reviews them and could either challenge their results, or start with fresh eyes. - Reduces the problem of cross-selling other services. - Sources: http://www.banking.senate.gov/02_02hr/022702/biggs.htm, http://pcaobus.org/Rules/Rulemaking/Docket037/620_JH_Biggs.pdf
Lynn Turner	SEC <i>Former Chief Accountant</i>	- Audit partner rotations are not enough. There is an inherent conflict of interest in later concluding that the financial statements (as audited by the same company) were wrong. - A new auditor has no "skin in the game" with respect to the previous accounting. - Source: http://pcaobus.org/Rules/Rulemaking/Docket037/Release_2011-006.pdf
Walter Schuetze	SEC <i>Former Chief Accountant</i>	- Outgoing auditor would be incentivized to keep the financial statements clean before handing off the client to the new auditor. - Source: http://pcaobus.org/Rules/Rulemaking/Docket037/Release_2011-006.pdf

Name/Organization	Organization & Position	Points
Peter G Peterson (Federal Reserve) John W Snow (CSX Corporation) John H Biggs (TIAA-CREF) John C Bogle (Vanguard) Charles A Bowsher (US Comptroller General) Andrew S Grove (Intel) Ralph S Larsen (Johnson & Johnson) Arthur Levitt Jr (SEC) Lynn Sharp Paine (Harvard Business School) Warren B Rudman (US Senator) Paul A Volcker (Federal Reserve)	The Conference Board Commission on Public Trust and Private Enterprise	- The incoming audit firm would have the benefit of a fresh look at the firm's finances, accounting practices and the former firm's audit. - Reduce any financial incentives for external auditors to compromise their judgment on borderline accounting issues. In disagreeing with management, auditors would no longer be risking a stream of revenues that they believed would continue in "perpetuity." Further, knowing their work will be reviewed by another firm at the end of the rotation period would also deter "questionable" judgments and decision-making on the part of the auditor. - Source: http://www.conference-board.org/pdf_free/SR-03-04.pdf