

THE AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
HELD ON THURSDAY, MAY 15, 2014
IN THE COMPTROLLER'S OFFICE BOARD ROOM

ATTENDANCE

Chair	Bernard Rosen
Private Members	Bud Larson Michael Spitzer Mark Kaplan
Public Members	Representing the Mayor – John Grathwol Representing the Comptroller – Michele Mark Levine Representing the Public Advocate – Larry Schimmel
Secretary	Jacqueline Thompson
Independent Auditors	Deloitte & Touche LLP – James Curry, Mike Malloy Earnst & Young - Randy Nelson, Kimberly Hancy
Others	New York City Office of Management & Budget – Nicole Fleming, Enid Ellis, Simone Saywack New York City Mayor's Office of Operations – George Davis New York City Office of the Actuary – John Gibney New York City OPEB Plan - Nicole Fleming New York City Independent Budget Office – Frank Posillico New York City Health and Hospitals Corporation (HHC) - Jay Weinman, Marlene Zurack, James Martell New York City Housing Development Corporation (HDC) - Richard Froehlich, Cathleen Baumann, Bharat Shah, Mary John, Camille Fremont New York State Comptroller's Office –Justine DeGeorge

New York City Comptroller's Office – David Jeter, Maria Tavares, Katrina Stauffer, Susan Cornwall, Berta Lara, Thema Holder

Audit Committee Meeting - May 15, 2014

I. Call to Order

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

II. Review of the Draft Minutes of the Audit Committee Held April 30, 2014

The first agenda item was the approval of the draft minutes of the April 30, 2014 Committee meeting. Chairman Rosen inquired if there were any comments on the draft minutes as presented. There were some minor editorial corrections submitted to Ms. Jacqueline Thompson, Committee Secretary. Chairman Rosen made a motion to approve the draft Audit Committee minutes from the April 30, 2014 meeting. Subject to the editorial corrections submitted to the Secretary, the Committee unanimously approved the draft minutes of the April 30, 2014 meeting.

III. Review of the Financial Statements and Management Letters (where applicable) for the Following Entities:

1. NYC Housing Development Corporation

The next agenda item was the review of the financial statements and management letter of the New York City Housing Development Corporation (“HDC”) for the fiscal year ended October 31, 2013. The representatives of HDC and Ernst & Young LLP, HDC’s independent auditor, introduced themselves.

Ms. Cathleen Baumann, Senior Vice President and Treasurer at HDC, presented a summary of the year's events. HDC maintained a strong AA credit rating in fiscal year 2013. Twenty-nine bond series were sold, totaling \$1.78 billion, to create and preserve affordable housing. Of the total sold, \$1.49 billion was new money and \$291 million was refinancing of previously issued debt. HDC assets grew by almost 6 percent, to \$12.97 billion, and total liabilities increased to \$11.32 billion. HDC's net income was \$83 million, which included \$45.5 million from grant revenue income from the Battery Park City Authority, in fiscal year 2013.

A question and answer session took place after the presentation. Several matters were discussed including:

- The number of units covered by Mitchell-Lama in fiscal year 2013 was roughly 50,000 units.
- When Mitchell-Lama developments were converted in the past, most residents were then covered under a rent stabilization statute, preserving affordable housing.
- HDC will review whether all investment transactions are reported on a delivery date or trade date basis.
- It was recommended that the investments listed in the chart on page 22 be characterized by the name of the security and the issuer.
- HDC issues securities backed by mortgages and acts a lender as well.
- Under the Housing Revenue Bond Program HDC may issue bonds secured by assets held under the General Resolution, which includes a pool of mortgage loans.

- Certain of the projects in the Housing Revenue Bond Program, which secure a portion of the mortgage loans, receive the benefit of subsidy payments.
- HDC has competitive bidding for accounting and other services. Bond counsel has been on retainer at HDC for a long period of time, but the other legal services are generally awarded regularly through a competitive procurement process.
- The consultant fees paid to “Cristo Rey New York City High School” was for a charity event where students get work training.

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

2. NYC Health and Hospitals Corporation

The next agenda item was the review of the financial statements and management letter of the New York City Health and Hospitals Corporation (“HHC”) for the fiscal year ended June 30, 2013. The representatives of HHC and KPMG LLP, HHC’s independent auditor, introduced themselves.

Chairman Rosen recused himself from chairing the discussion of HHC as he is on HHC’s Board of Directors. Mr. Mark Kaplan led the discussion.

Ms. Marlene Zurack, Senior Vice President of Finance/Chief Financial Officer at HHC, presented a summary of the year’s events. As a result of Superstorm Sandy, HHC had its worst performance in its history. Two hospitals were temporarily closed, which adversely affected patient service revenue, and restoration costs were incurred. There was an increase in grant revenue from the Federal Emergency Management Agency (“FEMA”) and the US Department of Housing and Urban Development’s Community Development Block Grants for Disaster Recovery (“CDBG-DR”). There

was a change in accounting from the implementation of Government Accounting Standards Board Statement 61 which required MetroPlus to be reported as a discretely presented component unit of HHC.

A question and answer session took place after the presentation. Several matters were discussed including:

- Lost revenue from Superstorm Sandy was estimated at \$250 million, and HHC received \$180 million in consideration of that (as service readiness cost reimbursement, not as lost revenue replacement which is ineligible under both FEMA's Public Assistance and HUD's CDBG-DR programs). HHC had \$92 million in additional expenses from Superstorm Sandy and \$153 million in capital losses. HHC received \$61 million from FEMA. It is unclear whether or not the remainder of the loss may be recovered at a later point.
- There were about \$12 million in asset impairments recorded.
- HHC had reduced its annual judgment and claims costs from approximately \$200 million to \$139 million through the implementation of a risk management practice and by using in-house staff for malpractice legal defense; this was noted as having been a successful risk management initiative for HHC and the City.
- The management letter was not included in HHC's handouts for today's meeting due to an administrative error, but Mr. James Martell, Partner at KPMG LLP, discussed the comments which related to operational improvements and recommendations. There were no material weaknesses in internal controls noted by the auditors. [Subsequent to

the meeting, copies of the management letter were distributed to the Committee Members.]

- In fiscal 2013, HHC treated 1.4 million patients, 500,000 of whom were uninsured, 60 percent who were on Medicaid. Forty percent of HHC inpatients were related to psychiatric conditions and 33 percent were for emergency department visits.
- HHC issued \$112 million of tax-exempt fixed rate Health Systems Bonds in fiscal year 2013. The proceeds were used to refund and redeem HHC's series 2003 Series A bonds and a portion of the 2008 Series A bonds.
- The interest rates on HHC's bonds are about 60 to 80 basis points higher than the City's.

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

Mr. Rosen resumed his position as Chair.

3. New York City Other Postemployment Benefits Plan

The next agenda item was the review of the financial statements and management letter of the New York City Other Postemployment Benefits Plan ("OPEB" and "Plan") for the fiscal year ended June 30, 2013. Representatives of the Office of Management and Budget ("OMB"), the Office of the Actuary ("OA") and the Comptroller's Office Bureau of Asset Management ("BAM"), who collectively functions as the management of Plan, and Deloitte and Touche LLP, the Plan's independent auditor, introduced themselves.

Ms. Nicole Fleming, Director of Accounting Services at the O M B, presented a summary of the years events. The Plan is composed of two parts: (1) The activity which flows through the New York

City Retiree Health Benefits Trust (the “Trust) which is used to receive, hold and disburse assets accumulated to pay for some post-retirement benefits other than pensions provided by the City to its retired employees and (2) the non-trust other postemployment benefits other than pensions, that are paid directly by the City out of its general resources. The ending balances of the Plan and the Trust over the past few years have been reduced as a result of planned drawdowns. There was a drawdown of about \$1 billion of Trust assets in fiscal year 2013.

A question and answer session took place after the presentation. Several matters were discussed including:

- A drawdown was utilized to reduce funding necessary from the City’s annual budget.
- There is no plan to decrease the assets further in fiscal year 2014.
- The OA publishes an annual OPEB report that provides the details on the health insurance, Medicare Part B and welfare benefits portion of the OPEB liability.
- The actuarial accrued liability of \$71 billion, presented on page 6 of the financial statements, reflects the amount that would be needed for the Plan to cover the benefits to individuals in the Plan, which includes retirees and beneficiaries currently receiving benefits and actuarial estimates of those who will ultimately receive a benefit in the future.
- Pension benefits are constitutionally protected therefore the pension liability is much more accurate. OPEB benefits are not constitutionally protected. These benefits have essentially been rewarded as part of collective bargaining agreements. It was recommended that the Note disclosures should make the public aware of this.

- The reported annual required contribution reflects the normal cost of benefits and the amortization payment of any unfunded liability over a single year amortization period. The recognition of the entire liability in one year was an unusual election by the City at the time of implementation of the OPEB reporting standards.

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

Ms. Levine made a motion that the Committee go into Executive Session at 11 a.m. The motion was unanimously approved by the Committee.