

AUDIT COMMITTEE OF THE CITY OF NEW YORK

MINUTES OF THE AUDIT COMMITTEE MEETING

WEDNESDAY, JUNE 18, 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
Secretary	Jacqueline Warburton-Thompson
Public Advocate	Representing the Public Advocate -Lawrence Schimmel
Independent Auditors	Deloitte & Touche LLP - James Curry, Glenn Friedrich, Darshan Patel
Others	Deferred Compensation Plan (DCP) – Joan Barrow, Ed Chen, Beth Kushner, Warren Ruppel NYC Housing Authority (HA) – Daniel Frydberg, Mike Hudick, Jeffery Pagelson, Lou Roberts WTC Captive Insurance Company (WTC) – Christine Lasala, James Schoenbeck, Todd Thiesfeldt New York City Office of Management & Budget - Nicole Fleming, Enid Ellis, Vanessa Morris, Ailin Jin, Stephen Maples, New York City Mayor's Office of Operations - George Davis New York City Law Department – Amber Theil, Sharon Cantor New York City Comptroller's Office - Maria Tavares, Thema Holder, Susan Cornwall, Berta Lara, Joan Stapleton, Craig Henry, Amaid Ali

Audit Committee Meeting - June 18, 2014

I. Call to Order

Mr. Bernard Rosen, the Chair, called the meeting to order at 9:30 a.m., and asked Ms. Jacqueline Thompson, Committee Secretary, to call the roll. Ms. Thompson called the roll. A quorum was present.

II. Review of the Draft Minutes of the Audit Committee Held May 15, 2014

The first agenda item was the approval of the draft minutes of the May 15, 2014 Committee meeting. Chairman Rosen inquired if there were any comments on the draft minutes as presented. Chairman Rosen asked for a motion to approve the draft Audit Committee minutes from the May 15, 2014 meeting. Subject to minor editorial comments submitted to the Secretary, Mr. Spitzer made a motion to approve the minutes of the May 15 Audit Committee meeting, the motion was seconded by Mr. Bud Larson, the vote was noted as unanimous, and the minutes were approved.

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

1. WTC Captive Insurance Company, Inc.

The next agenda item was the review of the financial statements and management letter of the WTC Captive Insurance Company, Inc. (WTCC) for the year ended December 31, 2013. Ms. Christine LaSala, President and Chief Executive Officer at WTCC, introduced the other members of WTCC

present and Mr. Todd Thiesfeldt, a representative of Saslow, Lufkin & Buggy, LLP, WTCC's independent auditors.

Ms. LaSala reported that WTCC had settled over 10,200 individual debris and removal cases since 2010. Overall payments had totaled more than \$700 million. There are three key updates since June of 2013, the last time WTCC presented in front of the City's Audit Committee:

- Only three pending claims against the Company are remaining.
- The Victims' Compensation Fund took over the responsibility for new claims.
- WTCC undertook an evaluation of its reinsurance transaction, which provides greater protection for the City and its contractors.

Mr. James Schoenbeck, Chief Financial Officer at WTCC, provided a summary of WTCC's financial statements. He reported that no major events occurred in 2013. The financial statements included a "Dear Reader" letter, which presented an overview of the economic operations of WTCC, and an audit report dated March 10, 2014, which covered fiscal years 2013 and 2012.

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

- Cash balances increased significantly from 2012 to 2013, because certain securities were liquidated to pay the premium on an anticipated reinsurance transaction, which did not occur in 2013.
- Various cases were reopened in 2011 seeking dismissal in favor of the Victims' Compensation Fund (VCF). The VCF is expected to remain opened until the end of 2016.

- WTCC had very strict procurement requirements under which its service providers were selected, including its current auditing firm and legal counsel. Service providers go through an annual review and it was determined that, because of the complexity of the issues and satisfactory service provision, there would be no change of legal counsel.

There were no Management Letter comments.

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

2. New York City Housing Authority

The next agenda item was the review of the financial statements and management letter of the New York City Housing Authority (HA) for the year ended December 31, 2013. Mr. Richard Couch, Chief Financial Officer at HA, introduced the other representatives of HA present and Mr. Lou Roberts, the representative of Ernst & Young LLP, HA's independent auditor.

Mr. Couch reported that HA had a difficult year from a funding perspective. Federal funding was approximately \$157 million less than the adopted plan. Therefore, several cuts had to be made in 2013; and 2014 will see similar cuts.

The Section 8 program is expected to be fully funded and HA will get approximately \$1 billion for housing vouchers. About 200,000 HA residents are included in this program.

Mr. Jeffrey Pagelson, Controller at HA, stated that Superstorm Sandy continued to have a major impact on HA's financial statements. An overview of HA's annual financial report and Single Audit was provided. Some of the highlights were:

- Recoveries related to Superstorm Sandy totaled \$122 million.
- Maintenance and operations increased by \$58 million due to HA's efforts to reduce the work order backlog program and for collective bargaining costs.
- General and administrative expenses increased due to increases in health insurance, general liabilities and workers' compensation.
- Subsidies and grants for the Section 8 Housing Assistance Programs decreased by \$65 million.
- HA completed a Bond issue, valued at \$701 million.

A question and answer session followed the presentation. Several matters were addressed, including:

- The Mayor's Office provided \$52 million for backlog repairs in 2013.
- The number of open active fuel oil spills has been reduced from 157 in 2012 to 140 in 2013.
- HA is setting up a team to inspect its housing units every other year. However, residents can choose to not participate in the inspection.
- HA still has not received the funding needed to continue the repair work related to Superstorm Sandy. HA has only received \$230 million from insurance proceeds and \$300 million from the Federal Emergency Management Agency (FEMA). Until the funding is received, the repairs are on hold.
- HA provided additional security to some areas and, in light of recent incidents, there are plans to examine those safety and security measures.

Ms. Michele Levine stated that she hoped the resolution of maintenance issues would mitigate complaints about mold and mildew, particularly in light of the allegation that people had to go to housing court in order to get relief.

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

3. New York City Transit Authority

The next agenda item was the review of the financial statements and management letter of the New York City Transit Authority (TA) for the year ended December 31, 2013. Mr. William Vazoulas, Controller at TA, introduced Mr. Michael Malloy of Deloitte & Touche LLP ("D&T"), TA's independent auditor.

Mr. Vazoulas reported that TA's finances improved as a result of a fare increase in March 2013 and an improving economy and real estate market. As a result, TA's deficit in 2013 was reduced to \$7 million, as compared to \$262 million in 2012. Revenues from fares increased by 8.8 percent, due to an increase in ridership and the fare increase. Overtime costs increased, due to Superstorm Sandy. TA had decreases in funding from the Metropolitan Transit Authority ("MTA") for capital projects.

Significant projects in 2013 included the Fulton Station Center and the #7 Flushing Line extension, both of which will be completed in 2014. The Second Avenue line will be completed in December 2016. Repairs took place on the South Ferry station and the tunnels from Queens and Brooklyn into Manhattan, all of which were damaged by Superstorm Sandy.

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

- The TA has begun to fund its Other Postemployment Benefits (OPEB) liability. There is \$300 million in a trust; \$162.5 million is the TA's portion; the remainder is for MTA headquarters, the Long Island Railroad, and the Metro-North Railroad. There are concerns about the transparency of OPEB costs, which the TA will mention to the Office of Management and Budget and other entities.
- The unexpired fare card revenues decreased due to the introduction of the "green fee" to encourage New Yorkers to recycle MetroCards.

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

4. Staten Island Rapid Transit Operating Authority

The next agenda item was the review of the financial statements of the Staten Island Rapid Transit Operating Authority (SIRTOA) for the year ended December 31, 2013. Ms. Jackie Ospina, Director, noted that D&T was SIRTOA's independent auditor

Ms. Ospina provided an overview of SIRTOA's finances. She stated that revenues increased 3.5 percent, mainly because of fare increase and higher student reimbursements. Operating expenses increased due to salaries, mostly from the overtime related to Superstorm Sandy. Pension costs increased and other business expenses increased due to a write-off of \$450,000. Non-operating revenues decreased due to the decrease in a recovery subsidy.

A question and answer discussion followed. Several matters were addressed, including:

- The financial statements do not present operating losses by SIRTOA compared to other TA operations on a per rider basis.
- The City is now funding SIRTOA's deficits. In 2013, the City provided \$30.7 million, which was spent on improvements.
- The management comments have been prepared but not yet finalized. There are only a few comments relating to housekeeping issues.

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

5. Deferred Compensation Plans

The next agenda item was the review of the City's Deferred Compensation Plans (DCP) for the period ended December 31, 2013. Ms. Joan Barrow, Chief Accountant at DCP, introduced the other representatives of DCP present and Mr. Warren Ruppel, the representative from Marks Paneth LLP, DCP's independent auditor.

Ms. Barrow reported that the combined DCP's net position exceeded \$14.5 billion at the end of 2013, compared to \$12.1 billion at the end of 2012. The annual return for most options outperformed their respective benchmarks.

A question and answer discussion followed. Several matters were addressed, including:

- Most investments are in the Stable Income Fund and traditional Guaranteed Investment Contracts.

- The administrative fee per member is \$20 per quarter. If the plan does not need the money, the fourth quarter fee is waived. The annual fee has only been \$60 since 2011.

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

The Chair asked if any members wished to bring up new business for the public meeting at this time. No new business was raised.

The Chair asked for a motion for the Committee to enter the Executive Session for the non-public session. The motion was seconded by Mr. Spitzer, the vote was noted as unanimous, and the Committee went into Executive Session, at 11:15 a.m.

After exiting the Executive Session, the Chair noted for the record that no official decisions or actions of the Audit Committee were made during the Executive Session.

Being no further business, the Chair asked for a motion to adjourn. The motion was seconded, no objections were raised, and the meeting stood adjourned, at 11:55 a.m.