



**AUDIT COMMITTEE OF THE CITY OF NEW YORK  
MINUTES OF THE AUDIT COMMITTEE MEETING  
WEDNESDAY, MAY 18, 2016  
AT THE OFFICE OF THE COMPTROLLER**

**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** – Umair Khan

**Secretary** Jacqueline Thompson

**Independent Auditors** **Deloitte & Touche LLP** – Bogdan Geambasu, Michael Malloy, Jill Strohmeier  
**Ernst & Young** – Samantha Culoo, Randy Nelson

**Others** **New York City Housing Development Corporation** - Cathleen Baumann, Richard Froehlich, Mary John, Bharat Shah  
**New York City Other Postemployment Benefits Plan** - Nicole Fleming, Simone Saywack  
**New York City Comptroller’s Office, Bureau of Audit** – Ed Carey, Alma Fana, Faige Hornung, Marjorie Landa  
**New York City Mayor’s Office of Operations** – Florim Ardolli, George Davis  
**New York City Office of Management & Budget** – Enid Ellis, Xiaochao Jin, Raymond Lee  
**New York City Office of the Actuary** – Frankie Chen, John Gibney, Anderson Huynh

**New York City Comptroller's Office** – Camille Arezzo, Susan Cornwall, Berta Lara, Steve Veloric

**New York City Independent Budget Office** – Frank Posillico

**Grant Thornton LLP** – Maria Hummel, Hassan Khan, Ben Kohnie, Jack Reagan

## Audit Committee Meeting- May 18, 2016

### **I. Call to order and Roll Call**

Mr. Bernard Rosen, Audit Committee Chairman, called the meeting to order at 9:30 a.m., and took roll call; a quorum was present.

### **II. Acceptance of Draft Minutes of the Audit Committee**

The first agenda item was the approval of the draft minutes of the March 16, April 13, and April 27, 2016 Audit Committee Meetings. Chairman Rosen inquired if there were any comments on the draft minutes as presented. Chairman Rosen called for a motion to approve the minutes subject to the non-substantive editorial comments submitted to Ms. Jacqueline Thompson, Audit Committee Secretary; the Committee approved the draft minutes of the meetings.

### **III. Public Libraries**

Mr. Umair Khan, the representative of the Public Advocate's Office on the Audit Committee, reminded the Committee that at the April 30, 2014 Audit Committee meeting, the Public Advocate's Office made a motion to have the public libraries present before this Audit Committee. The motion was tabled by the Audit Committee until the completion of audits being performed on the public libraries by the Comptroller's Office. Since the motion, the Comptroller's Office had determined that the Brooklyn Public Library (BPL) and the Queens Borough Public Library (QBPL) are component units of The City of New York (the City) for the purpose of the City's Annual Financial Report (CAFR). Therefore, BPL and QBPL will be added to the Audit

Committee's review list for the upcoming year and there is no need to adopt the Public Advocate's motion.

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

- New York City Housing Development Corporation
- New York City Other Postemployment Benefits Plan

**New York City Housing Development Corporation**

The next agenda item was the review of the financial statements of the New York City Housing Development Corporation (HDC) for the fiscal year ended October 31, 2015. Mr. Richard Froehlich, Executive Vice President of Capital Markets and General Counsel of HDC, introduced the other representatives of HDC present and Mr. Randy Nelson, the representative of Ernst & Young LLP, HDC's independent auditors.

Ms. Cathleen Baumann, Senior Vice President and Treasurer at HDC, presented a summary of HDC financial statements during fiscal year 2015. She highlighted that HDC had two active subsidiaries, the New York City Housing Assistance Corporation (HAC) and the New York City Residential Mortgage Insurance Corporation (REMIC) that were reported as discretely presented component units in HDC's financial statements. No management letter was issued in fiscal year 2015.

HDC maintained its position as one of the nation's leading housing finance agencies during fiscal year 2015 by having its most active year for bond issuances and loan closings. Twenty-five bond series were issued totaling approximately \$2.1 billion. Included in HDC's bond issuances was a

newly created standard called Sustainable Neighborhood Bonds, which was introduced as a means of attracting new investors for HDC.

In December of 2015 HDC, through HAC, funded a loan of \$143.2 million to Stuyvesant Town-Peter Cooper Village. The transfer enabled HAC to provide monies to fund subordinate participation interest. As this was a City request, HDC will be reimbursed with City funds. This transaction will be reflected in HDC's 2016 financial statements.

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

- No advance refundings were done in fiscal year 2015; the bonds issuances were for new money.
- Not all projects satisfied the low income requirements for tax exempt status.
- The Mitchell-Lama portfolio had approximately 43,000 units, which were refinanced.
- Most employees at HDC are part of the New York City Employees Retirement System but there is no requirement to join. Employees are also offered a 403(b) retirement savings plan.
- HDC does not use investment advisors, but carefully tracks its yields and occasionally works with brokerages and banks.
- HDC's uninsured and uncollateralized deposits are money market accounts and Negotiable Orders of Withdrawal (NOW) accounts.
- HDC has a certain amount of floating rate debt that is balanced with a certain amount of short term investments. Therefore, if rates were to rise on HDC bonds, there would also be a

balanced increase in return on the short term investments..

- Secondary market housing bond returns are closely monitored as to how they are marketed and sold. A report of observations will be provided to the Audit Committee.
- GASB Statement 72 – *Fair Value Measurement and Application* – disclosures are being reviewed with the auditors and will be implemented in fiscal year 2016.
- HDC has its own Audit Committee.

There being no further questions, Chairman Rosen thanked the representatives of HDC for their participation at today's meeting.

#### **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 (Plan) for the fiscal year ended June 30, 2015. Ms. Nicole Fleming, Director of Accounting Services at the New York City Office of Management and Budget, introduced the other representatives of the Plan present and Mr. Michael Malloy, the representative of Deloitte & Touche LLP, the Plan's independent auditors.

Ms. Fleming reported that there was a large increase to the Plan's net position at the end of the year due to the City making net deposits of \$955 million into the New York City Retiree Health Benefits Trust (Trust) for 2015. The Trust is used to hold and disburse assets accumulated to pay for benefits provided by the City to its eligible retired employees and other eligible beneficiaries.

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

- Regarding continuation of prepayments, the latest executive plan includes \$250 million as an

additional contribution for the current fiscal year 2016.

- The changes in certain OPEB-specific actuarial assumptions were due to the City's agreement last year to reduce the welfare fund payments. The explanation in the Notes next year will be more detailed.
- A committee member suggested, on page 15, that investments should be presented in a table.
- The City may not make use of assets within the Trust for any purpose other than to pay other postemployment benefits. This is part of the Trust agreement.
- Healthcare cost trend rates listed, on page 19, are reviewed every year. The last adjustment was made with the implementation of the Affordable Care Act. In fiscal year 2016, the Office of the Actuary will address the welfare fund assumption and possibly lower it from 5 percent to 3½ percent.
- The website address link will be added on page 20 of the financial statements for the Silver Book availability.

There being no further questions, Chairman Rosen thanked the representatives of the Plan for their participation in today's meeting.

## **V. Bureau of Audit Annual Report**

The next agenda item was the *Report to the Mayor and City Council on City Comptroller Audit Operations* (Report), for the fiscal year ended June 30, 2015. Ms. Marjorie Landa, Deputy Comptroller for Audit at the Comptroller Office's Bureau of Audit, introduced other representatives of the Audit Bureau present.

Ms. Landa provided a summary of the Audit Bureau's accomplishments in fiscal year 2015. Eighty audits and special reports were issued during the fiscal year. Actual savings and revenues identified was almost \$1 million; potential cost savings was over \$600 million from a variety of management and financial audit findings. Potential cost avoidance resulting from analyses of claims filed against the City was over \$200 thousand. The Audit Bureau is required to audit every City agency at least once every four years. The Audit Bureau's scope of reports includes financial and operational audits, special reports and non GAGAS audits.

Ms. Landa reviewed some of the audits performed by the Audit Bureau. Fiscal 2015 focused on the New York City Housing Authority (NYCHA) audits, which accounted for approximately 93 percent of the potential savings. A major goal at NYCHA is energy efficiency, which will help to reduce utility and operating costs. NYCHA submitted a plan to the U. S. Department of Housing and Urban Development for \$18 million in energy savings. An audit of inventory at NYCHA disclosed a lack of appropriate controls. NYCHA is working to correct the issues. In an audit of the Section 8 Program in NYCHA and Department of Housing Urban Development (HUD), the auditors found that guidelines were being adhered to. More investigation needs to be conducted regarding individual Section 8 eligibility to ensure the eligibility of the beneficiaries.

A follow-up audit was conducted on high-risk construction oversight. Engineers found differences in the Department of Buildings consultant's statistics, leading to further recommendations for more vigilant monitoring.



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

- The Audit Bureau is responsible to audit, make recommendations to the City agencies and issue the report. Implementation of recommendations falls with the agency managers and Mayor's Administration officials.
- A suggestion was made to have noncompliant City agencies present before the Audit Committee.
- A committee member suggested that an interim report indicating which agencies are out of compliance to be provided to committee members for better discussion with oversight agencies. The Audit Bureau plans to monitor and ensure follow up for next fiscal year.
- A Committee member suggested that the Report be more detailed on the recommendations that the agencies have not implemented to date, and which recommendations the agencies refuse to implement.
- Letter reports are on short forms and do not include the detail of an audit report. Both reports follow the same standards

There being no further questions, Chairman Rosen thanked the representatives of the Bureau of Audit for their participation in today's meeting.

## **VI. Executive Session**

There being no further business for the public session, Chairman Rosen asked for a motion to enter the Executive session. Mr. Mark Kaplan made a motion to go into Executive session for the purpose

of discussing non-public financial information about the City. The motion was unanimously approved.

Following the conclusion of the Executive session, the Committee resumed public session. Chairman Rosen made a motion to adjourn the May 18, 2016 meeting, the motion was unanimously approved.