



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, JUNE 22, 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– Glenn Friedrich, Michael Malloy, Darshan Patel
Crowe Horwath LLP – Todd Thiesfeldt
KPMG LLP – James Martell, Maria Tiso
Marks Paneth LLP– Ed Chen, Hope Goldstein, Joseph Kanjamala, Warren Ruppel

Others

New York City Health and Hospitals Corporation – PV Ananatharam, Marshal Bondy, Jozef Dubroja, Elizabeth Guzman, James Linhart
New York City Housing Authority – Anil Agrawal, Karen Caldwell, Adham Choucri, Brian Clarke, Dan Frydberg, Michael Hudick, Bob Marano, Jeff Pagelson, Theresa Puccio, Tricia Roberts, Karina Totah
WTC Captive Insurance Company – David Biester, James Schoenbeck
New York City Transit Authority & Staten Island Rapid Transit Operating Authority – Neil Breitkopf, Maria Burgos, Douglas Connett, Jakeline Ospina, William Vazoulas

City of New York Deferred Compensation Plan – Joan Barrow, Beth Kushner

New York City Mayor’s Office of Operations – Florim Ardolli, George Davis

New York City Office of Management & Budget – Nicole Fleming, Xiaochao Jin, Raymond Lee, Miao Zhang

New York City Comptroller’s Office – Camille Arezzo, Emily Chan, Susan Cornwall, Berta Lara, Katrina Stauffer

Office of the Public Advocate – Stephen Abrams-Downey

New York City Independent Budget Office – Frank Posillico

Grant Thornton LLP – Marla Hummel, Hassan Khan, Ben Kohnle, Cosmo Saginario

Audit Committee Meeting– June 22, 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. Review of the Draft Minutes of the Audit Committee Meeting Held May 18, 2016

The first agenda item was the approval of the draft minutes of the May 18, 2016 Audit Committee Meeting. Chairman Rosen inquired if there were any comments on the draft minutes as presented. A committee member questioned if the New York Public Library should be included in the City's Comprehensive Annual Financial Report (CAFR). Ms. Michele Levine explained that the City's CAFR will include the Brooklyn Public Library and the Queens Public Library in fiscal year 2017. The New York Public Library will not be included because it did not meet the requirements for inclusion under GASB 14.

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 May 18, 2016 meeting.

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

- New York City Health and Hospitals Corporation
- New York City Housing Authority
- WTC Captive Insurance Company, Inc.

- New York City Transit Authority
- Staten Island Rapid Transit Operating Authority
- City of New York Deferred Compensation Plan

New York City 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, 2015. Chairman Rosen recused himself, as he is a member of HHC's Board of Directors. Mr. Mark Kaplan assumed the position of Chairman for the HHC session.

Mr. PV Anantharam, Chief Financial Officer at HHC, introduced the other representatives of HHC present and Ms. Maria Tiso, Audit partner and representative of KPMG LLP, HHC's independent auditors.

Mr. Anantharam stated that HHC operates eleven acute care hospitals, five long-term care facilities, five freestanding diagnostic and treatment centers, many hospital-based and neighborhood clinics, a certified home health agency, and MetroPlus Health Plan, Inc. He continued and presented a summary of HHC's financial statements for fiscal year 2015.

- HHC early adopted GASB 72, *Fair Value Measurement and Application*. The guidance only requires additional disclosures and did not have an impact on the financial statements.
- Cash and cash equivalents increased by \$268 million from the prior year due to the receipt of \$599 million of inpatient State Fiscal Year Upper Payment Limit funds.
- Malpractice payables increased to \$250 million from the prior year.

- The 2015 portion of the Due to City of New York was reclassified as long-term. The 2014 portion remained in short-term; this reclassification resulted in a positive effect on HHC's current ratio.
- There was a \$74 million decrease in net capital assets in fiscal year 2015, as there were fewer acquisitions in fiscal year 2015 due to the completion of major modernization projects in the prior years. HHC expects capital assets to increase because a \$1.72 billion public assistance alternative procedures program was signed.
- The pension liability increased by \$298 million in fiscal year 2015.
- The other postemployment benefit (OPEB) obligation decreased by \$148 million in fiscal year 2015 due to a change in actuarial valuation.

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

- The electronic medical record (EMR) system implementations are ongoing and expected to be completed by December 2018.
- Contractor oversight has been implemented to improve the classification and recording of hours through an automated timesheet tool, which also allows for calculation of staff time dedicated to the project.
- A committee member suggested that the Management's Discussion and Analysis (MD&A) should quote both dollar amounts and percentages consistently.
- The City had, in its executive budget, allocated \$100 million for a new clinic in Staten Island currently under construction. HHC has no anticipation of issuing bonds.

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

New York City Housing Authority

Mr. Rosen resumed his position as Chairman.

The next agenda item was the review of the financial statements and management letter of the New York City Housing Authority (NYCHA) for the fiscal year ended December 31, 2015. Ms. Karen Caldwell, Chief Financial Officer of NYCHA introduced the other representatives of NYCHA present and Mr. Glenn Friedrich, the representative of Deloitte & Touche LLP, NYCHA's independent auditors.

Ms. Caldwell stated that NYCHA provides affordable housing to approximately 400,000 low and moderate income New York City residents in 328 housing developments with approximately 178,000 apartments in the five boroughs. Through the Section 8 Housing Choice Voucher Program, NYCHA assisted approximately 87,000 families in locating and renting housing. Additionally, NYCHA oversees a network of over 400 community-based facilities that include community and senior centers, healthcare terminals, day care centers, and a Head Start educational center. She continued and presented the financial highlights for 2015.

- NYCHA'S gain before capital contributions for 2015 was \$39 million, primarily due to increases in non-operating and tenant revenue and a decrease in operating expenses.
- OPEB decreased by \$116 million due to an actuarial gain resulting from lower than expected premium increases for Medicare Part B, welfare fund contributions, and health insurance.

- There was a gain on the sale of capital assets of \$13 million, primarily representing the current year gain on the sale of Section 8 New Construction;
- Operating expenses, excluding OPEB, decreased by \$121 million due primarily to decreases in general and administrative expenses and maintenance and operations expenses.

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

- Rents increased on average \$20 per unit, per month in fiscal year 2016.
- Protective services are contracted security guards.
- NYCHA houses approximately 600,000 people, which ranks comparably to the size of Boston.
- NYCHA has approximately a \$17 billion backlog in capital repairs.
- NYCHA implemented a requirement that apartment inspections, at a minimum, should occur once every two years. During the inspection simple repairs may be done.
- Handheld devices will be deployed to all maintenance and skilled trade staff by close of this year.
- Public housing waiting list is close to 300,000 applications; NYCHA has moved to electronic applications and has certified 14,000 to 15,000. Once you are certified the wait time is about nine months.
- The pollution remediation obligation is measured based on the expected costs of future activities, estimating a reasonable range of potential outlays. NYCHA is

working closely with Department of Design and Construction on remediation for all lead-based paint and asbestos.

- Broadband availability is dependent on outside contractors.

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

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. (WTC) for the year ended December 31, 2015.

Mr. David Biester, Acting President and Chief Economic Officer of WTC, introduced the other representative of WTC present and Mr. Todd Thiesfeldt, the representative of Crowe Horwath LLP, WTC's independent auditors.

Mr. Biester provided an overview of WTC's financial statements and highlighted the following:

- The total amount paid to claimants in 2015 was approximately \$30 million.
- Net assets were approximately \$294 million at the end of 2015.
- WTC's current charter is up until 2029.
- There is one open claim unresolved.
- Two lawsuits were filed in 2014; the claims have not yet been resolved and has not reached litigation.
- The first round of payments under the Settlement Process Agreement was made in January of 2016.
- WTC does not lend securities from its portfolio.

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

New York City Transit Authority and Staten Island Rapid Transit Operating Authority

The next agenda item was the review of the financial statements of New York City Transit Authority (TA) and the Staten Island Rapid Transit Operating Authority (SIRTOA) for the year ended December 31, 2015. Mr. William Vazoulas, Controller at the TA, introduced the other representatives of TA and SIRTOA present and Mr. Michael Malloy, the representative of Deloitte & Touche LLP, TA and SIRTOA's independent auditors.

New York City Transit Authority

Mr. Vazoulas presented the financial highlights of the TA for 2015.

- Operating revenues increased in 2015 by over \$5 million due mainly to a March 2015 fare increase, increased property tax collections, and increased revenue from toll collections.
- There was a slight decrease in ridership in 2015 of five million passengers or 0.2% from the prior year; the decrease was attributable to the fare increase and lower gas prices.
- There was a net surplus of \$663 million in 2015, due largely to the implementation of GASB 68. The increase in total liabilities of \$6.6 billion was also due to the adoption of GASB 68.
- Total paratransit revenue funding was \$208.5 million in 2015, an increase of \$14 million from the prior year.

- Overtime expenses increased by 10.6% in 2015 due largely to maintenance, unscheduled service, and vacancy absentee coverage requirements.
- Health and welfare expenses increased in 2015 due largely to insurance rate increases.
- OPEB decreased by \$1.1 billion in 2015 due largely to changes in the actuarial valuation assumptions.
- Revenue began being generated in 2015 from the number 7 line extensions.
- The Second Avenue Subway Phase I project is scheduled to begin operating, and therefore generating revenue, in December 2016.
- East Side access completion is expected in December 2022.
- Three contracts in place next year will begin delivery of 354 standard buses, 300 express buses, and 234 articulated buses to replace the aging buses.

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

- The MD&A has a requirement to discuss the economy as it affects the reporting entity.
- The Green fee surcharge of \$1 refers to the purchase of new metro cards.
- Once a project is completed, space is able to be rented out to vendors for income generation.

Staten Island Rapid Transit Operating Authority

Ms. Maria Burgos, Assistant Director of Finance at SIRTOA presented a review of the financial statements for 2015:

- Total revenue increased approximately \$729,000, or 9%, due to fare revenue increase in March 2015.
- Total operating expenses increased approximately \$5 million or 8%.
- Other fringe benefits decreased by \$2.4 million.
- Non-operating revenue increased by \$15.7 million or 48%.

There being no questions Chairman Rosen thanked the representatives of TA and SIRTOA for their participation at today's meeting.

City of New York Deferred Compensation Plan

The next agenda item was the review of the financial statements of The City of New York Deferred Compensation Plan (DCP) for the fiscal year ended December 31, 2015. Ms. Joan Barrow, Chief Accountant at DCP , introduced the other representatives of DCP present and Mr. Warren Ruppel, the representative of Marks Paneth , LLP, DCP's independent auditors.

Ms. Barrow noted that the following options are now available to the members: the 457, 401(k), NYCE IRA, and the 401(a) plans. DCP added a ROTH component, as well as the traditional, to give the members numerous options.

Ms. Barrow presented a review of the financial statements:

- The increase in net assets was due to appreciation of the portfolio.
- Changes to the 457 Plan equity index fund can be made until 4 p.m. eastern time to receive the market price for that day, but there is a 32-day redemption period for investors.
- The selection process for identifying the fund managers is done through the Request for Proposal (RFP) process. DCP follows the state procurement rules. The performance is reviewed on a quarterly basis and the Board will make a determination.
- Custodial fees are transaction-based.

There were no management letter comments.

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

IV. Executive Session

There being no further business for the public session, Chairman Rosen asked for a motion to enter the Executive session. Mr. 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 June 22, 2016 meeting, the motion was unanimously approved.