



**AUDIT COMMITTEE OF THE CITY OF NEW YORK  
MINUTES OF THE AUDIT COMMITTEE MEETING  
WEDNESDAY, JANUARY 25, 2017  
AT THE OFFICE OF THE COMPTROLLER**

**ATTENDANCE**

<b>Chair</b>	Bernard Rosen
<b>Private Members</b>	Mark Kaplan Bud Larson Michael Spitzer
<b>Public Members</b>	<b>Representing the Mayor</b> – Nicole Fleming <b>Representing the Comptroller</b> – Michele Mark Levine
<b>Secretary</b>	Jacqueline Thompson
<b>Independent Auditors</b>	<b>Grant Thornton LLP</b> – Dan Barron, Brian Guastella, Marla Hummel, Hassan Khan, Ben Kohnle, Cosmo Saginario <b>Israeloff, Trattner &amp; Co., P.C.</b> – Jim Filacanevo, Andrew Wilder, Patrick Yaghdjian <b>KPMG LLP</b> – Sergiy Shkolnyy <b>Marks Paneth LLP</b> – Warren Ruppel <b>Skody Scot &amp; Company, CPAs, P.C.</b> – Burcu Polat Bora, William Skody
<b>Others</b>	<b>34<sup>th</sup> Street Partnership, Inc.</b> – Dan Biederman, Peter Ciriello <b>Grand Central Partnership, Inc.</b> – Alfred C. Cerullo, Peter Lempin, Robert Adinolfi <b>Department of Education of the City of New York</b> – Bill Goldband, Suzette Irish, Tisa Lapadula, Marisol Martinez-Williams, John Wall, Desmond White <b>New York City Educational Construction Fund</b> – Jennifer Maldonado, Cynthia Wong <b>New York City School Construction Authority</b> – Marianne Egri, Yi-Wen Wang <b>New York City Financial Information Services Agency</b> – Richard McCarrick, Roy Mogilanski, Rose-Ellen Myers <b>New York City Mayor’s Office of Operations</b> – Florim Ardolli, George Davis <b>New York City Comptroller’s Office</b> – Camille Arezzo, Michael Bott, Berta Lara, Katrina Stauffer <b>New York City Council</b> – Camille Bekaert <b>New York City Department of Finance</b> – Kristen Keller <b>New York City Department of Information Technology &amp; Telecommunications</b> – Denise Raymond

**New York City Department of Small Business Services** – Kris Goddard, Stephen Lee

**New York City Independent Budget Office** – Jonathan Rosenberg

**New York City Office of Management & Budget** – Enid Ellis, Xiaochao Jin, Raymond Lee

## Audit Committee Meeting - January 25, 2017

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

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

Audit Committee Secretary Ms. Jacqueline Thompson took roll call; a quorum was present.

### **II. Review of the Draft Minutes of the Audit Committee Meeting held December 7, 2016**

The first agenda item was the approval of the draft minutes of the December 7, 2016 Audit Committee Meeting. Chairman Rosen inquired if there were any comments on the draft minutes as presented. Hearing none, Chairman Rosen called for a motion to approve the minutes subject to the non-substantive editorial comments submitted to Ms. Thompson; the Committee approved the draft minutes of the December 7, 2016 meeting.

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

- 34<sup>th</sup> Street Partnership, Inc.
- Grand Central Partnership, Inc.
- The City of New York Management Report (Draft)
- Department of Education Management Report
- New York City Educational Construction Fund
- New York City School Construction Authority

**34<sup>th</sup> Street Partnership, Inc.**

The next agenda item was the review of the financial statements and management letter of the 34<sup>th</sup> Street Partnership, Inc. (34<sup>th</sup> Street) for the fiscal year ended June 30, 2016. Mr. Dan Biederman, President of 34<sup>th</sup> Street, introduced the other representative of 34<sup>th</sup> Street present and Mr. Sergiy Shkolnyy, the representative of KPMG LLP, 34<sup>th</sup> Street's independent auditors.

Mr. Biederman reported that 34<sup>th</sup> Street is financed 85 percent by Business Improvement District (BID) assessments, which are increased approximately every three years. In the spring, 34<sup>th</sup> Street will send the City Council a request for a higher assessment. The reasons for the increase include the phase-in of the minimum wage bill, with a cost estimated approximately \$600,000 to \$700,000.

34<sup>th</sup> Street in negotiation to design, build, and operate Herald and Greeley Square pedestrian plazas without any City money. It is also taking over the maintenance and operation of another plaza in the mayor's Renewed "Pedestrianization" Program, between 7<sup>th</sup> and 8<sup>th</sup> Avenues, on 33<sup>rd</sup> Street, next to Madison Square Garden.

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

- Bryant Park is a very active entity, which shares common management with 34<sup>th</sup> Street. Bryant Park has approximately \$3.5 million of debt which financed an underground electrical vault. The debt will be extinguished in 2023.
- 34<sup>th</sup> Street employees are paid an annual salary or wages.

- Regarding unamortized premium included in bonds payable: under General Accepted Accounting Principles, the premium is required to be amortized and included as a reduction of interest expense over the life of the bonds.
- There should be a notation in the litigation section of the notes indicating the existence of insurance coverage.

There being no further questions, Chairman Rosen thanked the representatives of 34<sup>th</sup> Street for their participation at today's meeting.

### **Grand Central Partnership, Inc.**

The next agenda item was the review of the financial statements and management letter of the Grand Central Partnership, Inc. (GCP) for the fiscal year ended June 30, 2016. Mr. Fred Cerullo, President and CEO, introduced the other representatives of GCP present and Mr. William Skody, the representative of Skody Scot & Company, CPAs, GCP's independent auditors.

Mr. Cerullo provided an overview of GCP's financial statements. He indicated that GCP is soon approaching its 30<sup>th</sup> year. GCP had a consistent year financially in fiscal year 2016 and it was significant in terms of projects that came to completion, many enhancing operations with upgraded technology. GCP has completed the conversion of Grand Central Terminal facade (exterior) lighting to light-emitting diodes (LEDs), and Phase I of an application to manage damage reports on the physical assets GCP owns in the neighborhood. GCP continues to focus on its core responsibilities, which includes neighborhood patrol, working with the business community, and keeping the streets and sidewalks clean.

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

- In fiscal year 2016, the Tourist Greeter Staff was included in the External Affairs Budget. However, as part of the Field Operations consolidation, Tourist Greeters have been moved out of the External Affairs line for fiscal year 2017.
- GCP's public safety, sanitation, and tourism divisions are now operating under field operations with managerial structure and consolidation of supervisory functions.
- Minimum wage increase has an impact of \$1.2 million, approximately, over the next three years, with respect to the existing workforce not currently earning the new minimum wage structure. It does not include wage compression issues for longer tenured employees of GCP.

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

### **The City of New York Management Report (Draft)**

The next agenda item was the review of The City of New York Management Report (Draft) of The City of New York for the fiscal year ended June 30, 2016.

Mr. Ben Kohnle, Partner of Grant Thornton LLP (GT), presented an overview of the management report findings. Everything is summarized in one presentation document, both for the City as well as Department of Education.

- Regarding page 4, as a reminder to the Audit Committee members, the audit of the City is not conducted in accordance with rules promulgated by Public Company Accounting

Oversight Board (PCAOB), there is no requirement to issue an opinion on internal control.

- GT is responsible to perform walkthroughs of control procedures in significant areas and determine the nature, time, and extent of audit procedures it performs.
- The summary document addresses control deficiencies for the current year. There is also a summary of prior years' deficiencies that have been corrected, recommendations from prior years that have been implemented.

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

- Grants management system comment has been in the City's management letter for at least ten years. A grant management system for capital grants has been implemented for all new grants, and available information about the older grants are being input into the system.
- For the expense grant side, GT is in dialogue with the Office of Management and Budget (OMB) and others and is looking at the combination of automated and manual grant controls now in operation with fresh set of eyes, and engaged management in dialogue. A final version of the management letter will be issued once GT has been able to assess the materiality of any current control deficiencies.

In response to a finding by GT that Small Business Service (SBS) maintained FMS access for separated former employees, Mr. Roy Mogilanski, Executive Director of Financial Information Services Agency (FISA) and Office of Payroll Administration, stated that FISA

will follow up with Department of Small Business Services to expedite the process to remove computer access for terminated employees.

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

### **Department of Education of The City of New York Management Report**

The next agenda item was the review of the management report of the Department of Education (DOE) of The City of New York for the fiscal year ended June 30, 2016. Mr. John Wall, Chief Administer, introduced the other representatives of the DOE present.

Mr. Kohnle provided a summary of DOE's management report, which included current year comments and a summary of statuses of prior year comments. Four of eight previous comments have been implemented, three are in process, and evaluation was made on Finding #15-3 "*Restrict access such that Galaxy developers do not have access to the production environment*" not to implement.

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

- A format will be worked out for next year to add a column for anticipated implementation dates for the management comments.
- Finding #15-3 was not implemented because the resources that would be needed are very substantial, and there are very strict controls already in place with DOE has concluded sufficiently reduces risk to an acceptable level.



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

### **New York City Educational Construction Fund**

The next agenda item was the review of the financial statements of the New York City Educational Construction Fund (ECF) for the fiscal year ended June 30, 2016. Ms. Jennifer Maldonado, Executive Director, introduced the other representative present of ECF and Mr. Jim Filacanevo, the representative of Israeloff, Trattner & Co., ECF's independent auditors. Ms. Maldonado provided an overview of ECF's financial statements. Funds net position increased by approximately \$2.5 million during fiscal year 2016. In fiscal year 2016, rental income and tax equivalency payments from developers increased by approximately \$3.5 million, including a \$2.9 million increase in tax equivalency received for the 57<sup>th</sup> Street project. Bond interest expenses decreased by \$1.4 million as result of ECF's redemption of outstanding 2005 series A bonds in October 2015.

ECF recently was certified by the Department of City Planning for a new project referred to as the East 96<sup>th</sup> Street project. In the next few weeks, ECF will be working toward signing the term sheet for a Downtown Brooklyn Project, which would bring approximately 350 new school seats to that area. In the next few months, ECF will also bid out two school projects, one in Brooklyn and one in Tribeca.

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

- The project on 57<sup>th</sup> Street and 2<sup>nd</sup> Avenue rental units are now open and the condo units are expected to be open by the end of the year. Additional revenue will be generated from these housing units.
- The 96<sup>th</sup> Street project in East Harlem will be all rental and will include approximately 30 percent of the units as affordable housing.
- Each housing unit project has its own management company. The management companies are responsible to collect the rents, arrange for repairs and handle any complaints from the tenants.
- ECF has its own Audit Committee.
- The three employees of ECF are members of the state retirement system.

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

### **New York City School Construction Authority**

The next agenda item was the review of the financial statements and management letter of the New York City School Construction Authority (SCA) for the fiscal year ended June 30, 2016. Ms. Marianne Egri, Vice President of Finance and Information Technology, introduced the other representative of SCA present and Mr. Warren Ruppel, the representative of Marks Paneth LLP, SCA's independent auditors.

Ms. Egri provided an overview of SCA's financial statements. Fiscal year 2016 was the second year of the SCA's sixth five-year plan, which goes from 2015 to 2019. The current

appropriation is \$14.7 billion for the five years. Total commitments for 2016 were \$2.6 billion, which includes \$781 million for 35 large capacity projects and \$761 million for 335 capital improvement projects. In fiscal year 2016, SCA completed 29 large capacity projects, including 16 Pre-K programs, comprising 5,692 seats. Currently in construction, SCA has 42 large capacity projects and 395 capital improvement projects.

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

- Operating Transfers on behalf of the Department of Education exist because SCA funds the capital work.
- The insurance costs decreased by approximately \$100 million for the three-year renewal period of 2017-2019, mainly due to more competition during the bid process.
- SCA carries a ten percent reserve for change orders, which is reevaluated every year.
- SCA has approximately 760 employees.
- Capital improvement projects consist of anything that's not adding seats to the school system.
- SCA employees are members of the Board of Education Retirement System (BERS) or New York City Employees Retirement System (NYCERS).
- Determination of the discount rate of four percent was made by the City's actuary based on a 2.5 percent inflation assumption and a 1.5 percent real return rate.

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

#### **IV. Adjournment**

There being no further business before the Committee, Chairman Rosen made a motion to adjourn the January 25, 2017 meeting; the motion was unanimously approved.