



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

ATTENDANCE

Chair	Bernard Rosen
Private Members	Mark Kaplan Bud Larson Michael Spitzer
Public Members	Representing the Mayor – Nicole Fleming Representing the Comptroller – Michele Mark Levine Representing the Public Advocate – Umair Khan
Secretary	Jacqueline Thompson
Independent Auditors	Grant Thornton LLP – Marla Hummel, Ben Kohnle, Cosmo Saginario Marks Paneth LLP – Michael Kaplan Ernst & Young – Louis Roberts
Others	New York City Housing Development Corporation - Cathleen Baumann, Richard Froehlich, Mary John, Bharat Shah New York City Other Postemployment Benefits Plan - Simone Saywack New York City Comptroller’s Office, Bureau of Audit – Ed Carey, Alma Fana, Faige Hornung, Marjorie Landa, Michael Montemurro, Keith Schwam New York City Mayor’s Office of Operations – Florim Ardolli, George Davis New York City Office of Management & Budget – Xiaochao Jin, Raymond Lee New York City Office of the Actuary – Frankie Chen, Thomas O’Hara, Michael Samet

New York City Comptroller's Office – Ali Amaid, Camille Arezzo, Jackson Blain, Rosa Charles, Susan Cornwall, Louis Eng, Ashley Fernandez, Leonel Ferreira, Sabrina Ho, Berta Lara, Katrina Stauffer, Steve Veloric

Audit Committee Meeting – May 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. Nomination for Chair of the Audit Committee

The first order of business was the appointment of the Audit Committee Chairman. Mr. Mark Kaplan nominated Mr. Rosen as Chairman of the Audit Committee. By unanimous vote, Mr. Rosen was re-elected as Chairman. Ms. Thompson turned the meeting over to Chairman Rosen.

III. Nomination for Secretary of the Audit Committee

The next order of business was the appointment of the Audit Committee Secretary. Mr. Michael Spitzer made a motion to nominate Ms. Thompson to serve as Audit Committee Secretary. By unanimous vote, Ms. Thompson was re-elected as Audit Committee Secretary.

IV. Adoption of the Bylaws

There was a motion and second to adopt the Committee Bylaws in accordance with Article 4, Section 3. The Committee Bylaws were adopted by unanimous vote.

V. Approval of the Draft Minutes of the Audit Committee Meeting held April 26, 2017

The next agenda item was the approval of the draft minutes of the April 26, 2017 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 April 26, 2017 meeting.

VI. 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, 2016. Ms. Marjorie Landa, Deputy Comptroller for Audit and Investigation at the Comptroller's Office, introduced other representatives of the Audit Bureau present.

Ms. Landa provided a summary of the Audit Bureau's accomplishments in fiscal year 2016. The mandated four-year cycle to audit every agency is almost complete and on target to finish by the end of this calendar year. Highlights of the fiscal year included:

- Revenue and cost saving audits in a Department of Finance (DOF) Co-op/Condo Tax Abatement audit found that \$10 million had not been collected between fiscal years 2013 through 2016. For tax year 2016/2017 the auditors estimated \$3.2 million in cost savings. DOF will conduct its own reviews of these areas going forward.
- A series of audits was conducted on the tax classification of properties, with particular attention to mixed-use properties. It was recommended that DOF needs to be more

observant and provide better training. For fiscal year 2016, a \$70 million tax savings was estimated, if DOF had properly classified properties listed on the rolls. Changes in classifications and investigations are continuing by DOF.

- The service delivery area was another area of focus for audit. Audits of the Department of Homeless Services (DHS) and Administration for Children's Services (ACS) helped identify areas for investigations to follow. Shelter audits were conducted to evaluate services delivered. The audits found that DHS was not sufficiently staffed and DHS had subsequently added staff to try to meet the demands. The Audit Bureau is reaching out to successful programs for ideas to implement for improvement.
- An audit was performed on the permitting of childcare centers by Department of Health. The auditors found that water lead testing had not been conducted in every center. This was corrected throughout the system before the Audit Report was released.

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

- The Audit Bureau has its own investigations group which works on variety of issues including accusations of corruption on the inspections level.
- In cases where a department/agency disagrees with the recommendations, the Audit Bureau would look at the auditee's response to determine the validity of their reasoning.
- Most departments/agencies are cooperating with Audit Bureau to make changes to processes. The Audit Bureau presents the departments/agencies with its preliminary findings; the departments/agencies review the findings and work with the Audit Bureau to make necessary changes. The full audit reports contain the audit recommendations, the

auditee's responses and, if the auditee disagree, the auditors response. This level of detail in the Audit Reports are too voluminous to be included in the summary provided in the Report. The Audit Bureau is trying to provide clearer details without lengthening the report. This is a goal for next year's reports.

- An audit was performed on the Metropolitan Transportation Authority's (MTA) controls over Access-A-Ride (AAR), which included services delivered and contract management. The auditors found that MTA was not utilizing tools in its contracts, such as sanctions for vendors' failure to meet requirements.
- The Audit Bureau's goal is to call attention to problem areas and provide departments/agencies with facts and information for them to correct and follow-up.
- Formatting changes to the Report are planned for next year's presentations.

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

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

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

The New York City Other Postemployment Benefits Plan

The next agenda item was the review of the financial statements of the New York City Other Postemployment Benefits Plan (Plan) for the fiscal year ended June 30, 2016.

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 Kaplan, the representative of Marks Paneth LLP, the Plan's independent auditors.

Ms. Fleming provided a review of the financial statements. There have been no net drawdowns against the New York City Retiree Health Benefits Trust (Trust) since fiscal year 2013. In addition to the annual pay-as-you go (Pay-Go) amount, the City made an additional contribution to the Trust for fiscal year 2016 of \$500 million. The increase in net position is due to a combination of the additional contribution of \$500 million and a decrease in liabilities of approximately \$250 million, which was the result of the timing of payments made before the end of the fiscal year. In fiscal year 2015, the City introduced the healthcare savings plan. Ms. Fleming noted that savings are reflected in the actuarial valuations when they are realized, not when they appear in the City's financial plan. There is no plan to decrease the assets in fiscal year 2017. The City's fiscal year 2017 Executive Budget allows for a \$400 million budgeted prepayment of the fiscal year 2018 Pay-Go.

This is the fourth year of using the entry age accrued liability. There were mortality changes to the calculation last year, which changed the Actuarial Accrued Liability (AAL) from \$87 billion four years ago, to \$76 billion in fiscal year 2016. The AAL of \$76 billion reflects the amount that would be needed for the Plan to cover benefits to individuals in the Plan currently receiving benefits, as well as actuarial estimates of future benefits.

Ms. Fleming noted that all of the requests and suggestions made by the Committee last year were implemented in the fiscal year 2016 financial statements.

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

- The annual estimated cost of the full reimbursement of Medicare Part B is approximately \$300 million.
- The change in the mortality table impacted the numbers, and the City will be adopting the new Government Accounting Standards Board (GASB) guidance in fiscal year 2017, which might also cause adjustments to the totals. Substantive changes to the plan benefits are not yet being made and different health benefits are being negotiated.
- For other postemployment benefits (OPEB) purposes, the actuarial value of assets is equal to the market value of assets.
- In reference to page 17 – an increase in the Monthly Basic Rate changes for the Health Insurance Program in the ‘Others’ category will be researched and the results submitted to the Secretary. [Response was received and distributed to Audit Committee members on June 14, 2017.]
- OPEB totals are projected benefits, which are not necessarily benefits due to specific individuals at this point in time. The Plan description does note that the City’s only obligation is to fund the Pay-Go benefits for actual retirees and beneficiaries for the reporting period.

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

New York City 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, 2016.

Mr. Richard Froehlich, Chief Operating Officer, Executive Vice President, and General Counsel at HDC, introduced the other representatives of HDC present and Mr. Louis Roberts, 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 2016. 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 2016.

HDC has maintained its position as one of the leading housing finance agencies and continues to play a central role in the Mayor's Housing New York plan. In fiscal year 2016, 21 bond series were issued for almost \$1.2 billion; \$120 million of proceeds were drawn down on previously issued bond series. HDC closed on three new certificates of participation with the Federal Financing Bank, totaling \$29.5 million. Total proceeds raised this fiscal year were \$1.3 billion.

Assets increased \$66 million, to \$14.4 billion, due to HDC's ongoing debt issuance and lending activities. This year debt issuances are lower due to large mortgage prepayments during the year. Some of HDC's larger mixed income borrowers have paid off their debt. Total liabilities were \$12.2 billion; the decrease of \$62.3 million is attributable to bond redemptions related to

unscheduled mortgage prepayments. Total net position at fiscal year-end was \$2.26 billion, an increase of \$128.1 million (or six percent) from 2015, due to normal operating activities. Another highlight includes funding of \$143.2 million loan to Stuyvesant Town–Peter Cooper Village through HAC. The transfer enabled HAC to provide monies to fund a subordinate participation interest. HDC had been reimbursed by the City for \$82.2 million through April 2017.

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

- HDC provided the loan funding, at the City’s request, through HAC, and entered into a new regulatory agreement with Stuyvesant Town to extend affordability for 20 years. Reimbursement from the City should be completed by the end of the calendar year.
- Proceeds that come in through HAC have been used for an agreement to provide assistance to residents of Ruppert Yorkville after the project left the Mitchell–Lama program.
- HDC does not own the 55,000 units in the Mitchell–Lama Program. HDC finances, conducts inspections, and financial reviews of the independent audits performed on each Mitchell Lama in its asset management portfolio. Engineers are sent to all properties. HDC has advisors for cash flows for rating agencies, a pricing advisor for negotiated sales, and a swap derivatives advisor. HDC has no advisors for investments.
- The volume cap is a limitation from the federal government of the amount of bonds HDC can issue and is similar to a debt limit.

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

VIII. Adjournment

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