



**AUDIT COMMITTEE OF THE CITY OF NEW YORK  
MINUTES OF THE AUDIT COMMITTEE MEETING  
WEDNESDAY, JANUARY 24, 2018  
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> – John Grathwol <b>Representing the Comptroller</b> – Jacqueline Thompson <b>Representing the Public Advocate</b> – Umair Khan
<b>Secretary</b>	Katrina Stauffer
<b>Independent Auditors</b>	<b>Grant Thornton LLP</b> – Brian Guastella, Marla Hummel, Hassan Khan, Ben Kohnle, Michael Ryan, Cosmo Saginario <b>Israeloff, Trattner &amp; Co., P.C.</b> – Jim Filacanevo, Andrew Wilder <b>Marks Paneth LLP</b> – Warren Ruppel <b>Skody Scot &amp; Company, CPAs, P.C.</b> – Judith Feiertag, William Skody
<b>Others</b>	<b>Grand Central Partnership, Inc.</b> – Robert Adinolfi, Alfred C. Cerullo, Rochelle Patricof <b>Department of Education of the City of New York</b> – J.D. Cruz, Mark David, Dale Francisco, Suzette Irish, Tisa Lapadula, Erin Lester, John Shea, Katherine Tsamasiros, John Wall, Desmond White, Margaret Whittaker <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 School Support Services</b> – Stephan Brennan, Brooke Jenkins-Lewis <b>New York City Mayor’s Office of Operations</b> – Florim Ardolli, George Davis <b>New York City Comptroller’s Office</b> – Camille Arezzo, Leonel Ferreira, Berta Lara, Timothy Martin, Joan Stapleton, Michael Stern <b>New York City Office of Management &amp; Budget</b> – Xiaochao Jin, Raymond Lee

## Audit Committee Meeting – January 24, 2018

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

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

Audit Committee Secretary Ms. Katrina Stauffer took roll call; a quorum was present.

### **II. Approval of Draft Minutes of the Audit Committee Meeting held December 6, 2017**

The next agenda item was the approval of the draft minutes of the December 6, 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 any non-substantive editorial comments submitted to Ms. Stauffer; the Committee approved the draft minutes of the December 6, 2017 Audit Committee Meeting.

### **III. Presentation of the Financial Statements and Management Letters (where applicable)**

The next agenda item was the review of the financial statements and management letters (where applicable) of the following entities for the fiscal year ended June 30, 2017:

- Grand Central Partnership, Inc.
- Department of Education of The City of New York
- New York City School Support Services, Inc.
- New York City Educational Construction Fund
- New York City School Construction Authority

**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, 2017. 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.

GCP is a large business improvement district representing approximately 70 square blocks. The east midtown rezoning is complete, as are programs involving technology enhancements. The Park Avenue Viaduct LED lighting program is complete and working, and approval was completed for the LED lighting program for all streetlights in the Grand Central neighborhood. The conversion will begin this year. The second phase has been implemented in the asset inventory application, and field officers and supervisors are now able to identify assets needing work, repair, or cleaning in the field. This also allows for monitoring of repairs, damage trends, and other information. The GCP 'tourist greeters' provide information, brochures and maps, and tours to visitors, workers, residents and others, at multiple locations in the district.

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

- It is a requirement that net asset classes with zero balances are stated. GCP auditors confirmed that it is the firm's standard presentation.
- On Page 4, Statement of Cash Flows totals for Accounts Payable/Accrued Expenses going from positive to negative for approximately \$500,000 could have been due to the accrual for capital projects completed at the end of 2016.

- It was recommended that the bank balances be collateralized or a notation included on the next report addressing this issue.
- There is no increase of revenue when another building comes online. The amount of revenue collected is a fixed amount and split proportionately among the properties.

There are different formulas for different BIDs, and GCP assesses on a “per square foot” basis.

There being no further questions, Chairman Rosen thanked the representatives of GCP for their participation in 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, 2017. Mr. John Wall, Chief Administrator, introduced the other representatives of the DOE present and Mr. Cosmo Saginario, an Audit Partner with Grant Thornton LLP, the DOE’s independent auditors. A review of the management letter comments and a separate letter addressing the comments was reviewed, and addressed mainly information technology-related control deficiencies. The review is limited and is specific to financial reporting with the deficiencies relating mainly to the need for written documents of policies and procedures to be created and implemented. These include, but are not limited to, a formalized approved disaster recovery plan, a process for lowering the number of administrators for mainframe access, and the timely revocation of access when users leave or are terminated.

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

- Interface controls between applications were reviewed and there were no concerns.
- A manual process has been implemented for a monthly cleanup of accounts, along with the annual reconciliation process. A new identity management system should be in place by fiscal year 2019, which will automate the provisioning and de-provisioning of accounts based on Human Resources events.
- The math error identified in the calculation of pension expense on the government-wide financial statement was re-classed and corrected for 2016. There was no change in net assets on the governmentwide statements, and liabilities remained the same.

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

### **New York City School Support Services**

The next agenda item was the review of the management report of the New York City School Support Services (SSS) for the fiscal year ended June 30, 2017. Mr. John Wall, Chief Administrator, introduced the other representatives of the DOE present. During the review of the financial statements and management letter of SSS, Mr. John Shea, CEO of School Facilities for the Department of Education, provided a brief background of a previous "indirect system" where custodian engineers were managers of their own budgets and their own hiring and firing. With the current system, custodians are still employees of the DOE. Custodian helpers are employees of SSS, which is a separate, not-for-profit organization, a contractor to

the DOE, and is paid monthly to fund the wages and benefits for the helpers. This system has allowed for more transparency, with data that is now in a central location.

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

- A modified opinion was given on the government-wide statements because the pension costs were not able to be reported under the GASB rules.
- The Committee noted that SSS worked very closely with the Bureau of Accountancy regarding the process and requirements prior to the issuance of its financial statements. A GASB *Statement No.14 – The Financial Reporting Entity* classification test was conducted for class eligibility and was reported in the City’s Comprehensive Annual Financial Report (CAFR).
- Note 3 on Page 17 regarding uncollateralized funds needs to have a disclosure. The language regarding the money market funds value should be changed. The language will be clarified going forward.
- There was no change in union representation for the custodial helpers.
- Regarding the status of the pension insufficient notation, SSS’ noted there wasn’t sufficient time for the calculations to be redone in the GASB format. The qualification will not need to be done again in the next report.
- The SSS board is comprised of five members, three of whom are independent of the City and are in attendance at all meetings. The independent members have backgrounds needed to serve in their functions.
- Many of the 9,700 SSS employees are part-time or seasonal.

- The auditors examined payrolls for duplicated employee information (e.g. social security numbers), and discovered some issues. The issues identified were deemed transitional and are not expected to be repeated.
- SSS will report back to the Committee why it uses ADP for payroll processing.
- The DOE has the Personnel Eligibility Tracking System, which vets all staff working in schools and identifies inconsistencies or abnormalities, such as those noted in the management letter; processes are in place for monitoring going forward.
- There are approximately 28 to 30 administrative employees located at 321 West 44<sup>th</sup> Street.
- On a biweekly basis approximately 6,500 to 6,800 SSS employees are paid. A breakdown between full-time and part-time employees will be provided to the Committee.
- Conflicts of Interest Board filing responsibilities will be reported back to the Committee.

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

[On Friday, February 22, 2018, SSS provided responses to the Committee to questions left open at the conclusion of the January 24, 2018 Audit Committee 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, 2017. 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. ECF's net position increased by approximately \$12.9 million during fiscal year 2017. The developer of the 57<sup>th</sup> Street project initiated sales of the residential tower's condominium units in March 2017 and, in connection with the sales, ECF received a participating payment of \$10 million from the developer, which was reported as additional rent. ECF's rental income and tax equivalency revenues increased by approximately \$2.2 million, including a \$700,000 tax equivalency increase from ECF's Keith and Kelly Towers. In the prior fiscal year, ECF had extended the lease with a new tenant for an additional 38 years, preserving 613 units of affordable housing until the year 2090.

ECF coordinated with its tenant to oversee roof and maintenance work at West 133<sup>rd</sup> Street, now known as the Terence Tolbert project. The *Statement of Net Position* includes a \$1.3 million payable and receivable for this project, which will be reimbursed by SCA, as this is capital project for the school.

In April, ECF signed a term sheet with the developer, Alloy Development Company, for a new project at the Khalil Gibran School at 362 Schermerhorn Street in Brooklyn. Certification by the City Planning Commission is anticipated in February 2018, with construction anticipated to begin in 2019. The project, approved in August 2017 at 96<sup>th</sup> Street in Manhattan, has been delayed due to an ongoing conversation between the City and State on the use of the project's jointly-operated playground. ECF anticipates a resolution by the end of 2018. On July 14<sup>th</sup>, ECF released a Request for Expressions of Interest (RFEI) for the development of DOE's

administrative offices at 131 Livingston Street; ECF is hoping to leverage that office building to accommodate about 600 new school seats. ECF anticipates releasing another RFEI for a school site in Manhattan sometime this year.

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

- The \$10 million payment was attached to the sales of the condominiums at 57<sup>th</sup> Street. There will be additional payments as more condominium are sold. ECF had taken advantage of a delay in the project to renegotiate with the developer. ECF plans to apply these funds toward the costs of future ECF projects.
- ECF is examining increased needs for affordable housing in projects; there will be some use of reserves in order to supplement the affordable housing.
- At East 57<sup>th</sup> Street, approximately 250 are condominiums and approximately 100 are rentals.
- Both the 96th Street and the project at 362 Schermerhorn Street will be subject to the City's Mandatory Inclusionary Housing program (MIH).
- Locations where the land values can support the schools are primarily in Manhattan and Brooklyn. The ability to build in the Bronx would probably come at some subsidized cost to the City. ECF is self-sustaining and does not look to the City to subsidize its projects.
- Regarding projects in process, 362 Schermerhorn Street will commence a full Uniform Land Use Review Procedure (ULURP) in February 2018 with a City Council vote expected by August 2018; one RFEI is at 131 Livingston Street, and another RFEI is to

be issued for 131 6<sup>th</sup> Avenue in Manhattan. Each building site is project specific. ECF often looks to rehabilitate a current school building, while adding seats to that building or site to meet DOE capacity needs. The determining factors of building mix are general land use parameters and responses from the RFEI. The financial model and school configuration determines the project.

- The developers are responsible for maintenance of the non-school buildings.

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**

Ms. Marianne Egri, Vice President of Finance and Information Technology for the New York City School Construction Authority (SCA), introduced the other representative of SCA present and Warren Ruppel of Marks Paneth LLP, SCA's independent auditors.

Ms. Egri provided an overview of SCA's financial statements. Fiscal year 2017 was the third year of SCA's sixth five-year plan, spanning from 2015 to 2019. The City's appropriation for the five-year capital plan is \$15.2 billion. There is a proposed amendment for it to go up to \$16.4 billion. SCA awarded construction contracts for 26 new schools and additions with a construction value of \$932.7 million, and 328 capital improvement or renovation projects with a construction value of \$1,038.6 million. SCA completed 25 new schools and additions as of September 2017, which created 8,390 seat openings for the 2017/2018 school year. There are 35 capacity projects in construction and 449 capital improvement projects in construction. For 2018, SCA is on track to open 13 new schools and add 4,400 seats to the school system.

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

- All funding involves capital funds.
- A construction management department oversees construction, and SCA uses external construction managers on certain types of programs.
- There is no benchmark for cost per seat but, rather, cost per square foot.
- OPEB to be added to the Use of Estimate footnote on Page 17.
- “Half-year” convention refers to how depreciation is calculated in the year placed into service.
- FEMA reimburses 90 percent of expenditures.
- SCA has more than 800 employees.
- Demographic studies are conducted every year to identify the need for new seats.
- When a school is completed, it is transferred to the Board of Education.
- The audit advisory committee is independent.

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

#### **IV. Internal Control Matters of The City of New York**

The next agenda item was the *Internal Control Matters of The City of New York*, presented by Cosmo Saginario, Audit Services partner; Marla Hummel, Managing Director; and other representatives of Grant Thornton LLP, the City’s independent auditors.

Various levels of internal control matters were reviewed including, but not limited to, material weaknesses, significant deficiencies, and control deficiencies. No material weaknesses or significant deficiencies were identified. Opportunities were identified for the City's management to continue some of the processes already in place. There were no control deficiencies.

A process is in place to make sure receivables and deferred inflows of resources are tracked and released from the *Statement of Net Position* on a timely basis. It is suggested that the City continue to keep open the lines of communication with City agencies regarding the amounts, extent of receivables, and timetables for collection. With the recommendation that the Bureau of Accountancy also obtain copies of Single Audit reports for component units, the process has begun of updating Comptroller's *Directive #22 – Accounting, Financial Reporting, and Audit Requirements for Entities Included in the Financial Reporting Entity of The City of New York* (currently entitled *Component Unit and Fiduciary Fund Accounting, Audit and Financial Reporting*), which will be updated and issued before March 31<sup>st</sup>. This will be submitted and delivered to all units and included in the year-end annual letter that also includes all requirements and due dates.

Continuous improvement opportunities have been outlined and best practices have been identified by the IT portion of the audit team. All items are best practices from a controls perspective and compensating controls are in place. All deficiencies reported last year have been addressed.

IT recommendations addressing policy update timing, administrative privileges for personnel, parameters regarding passwords, as well as upgrades for manual processes and the need for more complex passwords, were reviewed and discussed.

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

- All prior year's comments have been addressed.
- All Sandy grants are in the grant management system that was solely designed for those grants resulting from the funding streams that came with the disaster. The City still needs a grant management system for a number of other grants.

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

## **V. Executive Session**

Chairman Rosen asked for a motion to enter into Executive Session. A motion was made and seconded to go into Executive Session for the purpose of discussing non-public financial information about the City of New York.

## **VI. Adjournment**

There being no further business before the Committee, Chairman Rosen called for a motion to adjourn the January 24, 2018 Audit Committee meeting; the motion was unanimously approved.