AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, JUNE 28, 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 –** Ben Kohnle, Cosmo Saginario **Crowe Horwath LLP** – Todd Thiesfeldt **Deloitte & Touche LLP–** Greg Koslow**,** Jill Strohmeyer **KPMG LLP** – James Martell, Maria Tiso **Marks Paneth LLP**– Edward Chen, Warren Ruppel
Others	**New York City Health and Hospitals Corporation** – PV Ananatharam, Jozef Dubroja, James Linhart, Jay Weinman **New York City Housing Authority** – Anil Agrawal, Karen Caldwell, Brian Clarke, Svetlana Cibic, Dan Frydberg, Shireen Riazi Kermani, 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, 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 – Mikeal Parlow, Jenny Zhang, Fengjuan Zheng

New York City Comptroller's Office – Camille Arezzo, Susan Cornwall, Peter Flynn, Carol Kostik, Manny Kwan, Berta Lara, Katrina Stauffer, Michael Stern

Audit Committee Meeting – June 28, 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. Approval of the Draft Minutes of the Audit Committee Meeting held May 25, 2017

The first agenda item was the approval of the draft minutes of the May 25, 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 May 25, 2017 meeting.

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

- City of New York Deferred Compensation Plan
- New York City Health and Hospitals Corporation
- WTC Captive Insurance Company, Inc.
- New York City Transit Authority
- Staten Island Rapid Transit Operating Authority
- New York City Housing Authority

City of New York Deferred Compensation Plan

The next agenda item was the review of the financial statements and management letter of the City of New York Deferred Compensation Plan (DCP) for the fiscal year ended December 31, 2016. Ms. Joan Barrow, Chief Accountant at DCP, introduced the other representative of DCP present and Mr. Warren Ruppel of Marks Paneth LLP, DCP's independent auditors.

Ms. Barrow reported that in 2016, the combined net position for the 457 Plan, 401 (k) Plan, NYCE IRA, and 401 (a) Plan exceeded $17.5 billion, an increase of $1.62 billion over the previous year. This increase was mainly attributed to the appreciation in fair value of the portfolio, which increased from $46 million in 2015 to $1.4 billion in 2016. There was also a net increase of approximately 10,000 participants in the Plans in 2016.

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

- Most of the assets and funds available for future retirees are in the 457 Plan, which accounts for $14 billion of the $17.5 billion. Most participants still invest in the Stable Income Fund. Loans continue to be made from the Plans.
- There were no new observations and recommendations for 2016 in the management letter.
- On Page 34, the purpose of reporting the depreciation and management fees was to show the components of net investment income.
- There was no lending of securities.
- Mr. Ruppel noted that the disclosure of the Foreign Currency Holdings, on page 38, is required by accounting standards, and that language could be added reflecting any substantive effect from foreign currencies on pages 34 and 35. The Small Cap, International

Active, Stable Income, and Social Responsible Funds are active and all the other funds are passive.

- There are approximately 15 City staff members managing the plans.

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

New York City Health and Hospitals Corporation (NYC Health + Hospitals)

The next agenda item was the review of the financial statements and management letter of the New York City Health and Hospitals Corporation (NYC Health + Hospitals) for the fiscal year ended June 30, 2016. Mr. PV Anantharam, Chief Financial Officer at NYC Health + Hospitals, introduced the other representatives of NYC Health + Hospitals present and Ms. Maria Tiso of KPMG, NYC Health + Hospital’s independent auditors. Chairman Rosen is a member of the NYC Health + Hospital’s Board and, as such, recused himself.

Mr. Anantharam provided an introduction to NYC Health + Hospitals, which is made up of 11 acute hospitals, 70 clinics, five nursing homes, and six Diagnostic and Treatment Centers (D&TCs). A major portion of NYC Health + Hospital’s revenue comes from government partners, as most of the business involves Medicaid and Medicare. Patient service revenue is about half of the overall budget, with a significant amount of revenue from supplemental payments.

Mr. Jay Weinman, Corporate Comptroller, provided NYC Health + Hospital’s financial highlights and stated that KPMG completed the audit with an unmodified opinion. Overall, the NYC Health + Hospital’s net position increased by $78.6 million from the prior year. The current ratio had increased slightly, to 0.95 from 0.84. The net day's receivable, a measurement of how fast cash is collected, dropped significantly by 16 percent to 51 days. The average for New York City is 71 days.

Pension and Other Postemployment Benefits (OPEB), which represented an increase of $684 million of expense and just over a billion dollars in liability from the prior year, continue to be reported based on the reports of the City Office of the Actuary. Salaries increased by six percent due to collective bargaining. NYC Health + Hospitals assumed an additional responsibility from the New York City Department of Health and Mental Health Hygiene (DOHMH) in Fiscal Year 2016 for the provision of services related to Correctional Health Services, which added an approximate $34 million increase in expense. There were some increases in full-time equivalent staff during the year that were eventually reduced back to the numbers at the end of 2015. Other than personal services (OTPS) increased 12 percent primarily due to the addition of Correctional Health Services, which was $155 million.

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

- The Mayor initiated a plan 18 months ago to address the fiscal deficits at NYC Health + Hospitals. Also, in 2017, a plan to close NYC Health + Hospitals' deficit gap, originally valued at $780 million, was exceeded by approximately $120 million. To date, the workforce has been reduced by about 3,000 people from the prior year, and NYC Health + Hospitals is working diligently to improve revenues. Significant information systems are being implemented, which will allow visibility across the system, resulting in better management and understanding.

- The ERP, or Enterprise Resource Planning, is a new financials management program that has back-up systems in place, as well as significant roll-out resources. Over the past two months, NYC Health + Hospitals has begun to engage employees in training and user acceptance.
- Work is being done on expanding the ambulatory care sites. A few have been renovated, and they will all be brought under the umbrella of Gotham Health FQHC, Inc., which is a New York not-for-profit corporation (Gotham Health) organized to participate with NYC Health + Hospitals in the governance of certain community health centers. NYC Health + Hospitals also has successfully submitted and received approval for all of its D&TCs to be classified as FQHCs, or Federally Qualified Health Centers, for which NYC Health + Hospitals will receive a premium bump up of approximately 20 percent in rates. The Vanderbilt Clinic is on schedule to open in the next few months in Staten Island. Plans are underway to open three more clinics soon.
- Physicians laid off from the Carter facility were not part of the union. The changes related to the full-time employee count include reduction in overtime and reduction in hourly employees.
- Private financing was sought for a short term, pertaining to IT equipment. NYC Health + Hospitals has relied on the City to support the debt.
- The period of time for collecting outstanding bills has improved. Billing is done on a timelier basis, and Accounts Receivable metrics are distributed to the facilities.
- Due to staff turnover, Gotham Health Federally Qualified Health Center (FQHC), Inc., which is a co-applicant with NYC Health + Hospitals for the purposes of operating certain community health centers together, failed to file its 990 forms, which resulted in a loss of

tax exempt status. The appropriate forms have since been filed. Moving forward, Gotham Health FQHC, Inc. will file on a timely basis.

- Mr. Anantharam will investigate whether Gotham will be included in the upcoming Request for Proposal process for future review by auditors. He will also review and report back to the Audit Committee as to whether the principal enterprise is required to have a 990.
- The diagnostic and treatment centers are still part of the NYC Health + Hospitals license and part of the consolidated audit.

Among the questions regarding the management letter:

- Since Gotham is a related party, and 990s are scrutinized by regulatory agencies, management felt that the comments related to Gotham were significant enough to be included in NYC Health + Hospital's management letter. Including the management comment that there was an issue with Gotham's 990, the Audit Committee has been made aware of the situation. Gotham management had responded that it filed the required forms as of November, 2016. In 2017, KPMG will review whether there are other entities that may have a 990 issue.

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

WTC Captive Insurance Company, Inc.

Mr. Rosen resumed his position as Chairman.

The next agenda item was the review of the financial statements and management letter of the WTC Captive Insurance Company, Inc. (WTC) for the fiscal year ended December 31, 2016. Mr.

David Biester, President and CEO at WTC, introduced the other representative of WTC present and Mr. Todd Thiesfeldt, the representative of Crowe Horwath LLP, WTC's independent auditors.

Mr. Biester reported that WTC is a not-for-profit corporation licensed and regulated by the New York Department of Financial Services. WTC was formed in the aftermath of 9/11 and originally funded with $1 billion dollars from the Federal Emergency Management Agency (FEMA) to defend the City and its contractors against lawsuits arising out of the debris removal. WTC is required pay any resulting damages covered under the WTC insurance policy. Two new claims were filed since the last time WTC presented before the Committee, both of which are still in litigation. With respect to its 2016 audit, WTC received an unmodified opinion. At present, WTC has just over $291 million in assets invested in fixed income instruments.

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

- The charter for WTC goes through 2029 and contains specific procedures for winding down at that point, depending on the financial statements.
- There is a federally-funded provision for care for individuals with ongoing health problems that can be traced to exposure at the site. Claims that come to WTC are generally those that are filed as lawsuits against either the City or contractors who worked at the debris removal site.
- It is anticipated that there may be a few more future claims.

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 and management letter of the New York City Transit Authority (TA) and Staten Island Rapid Transit Operating Authority (SIRTOA) for the fiscal year ended December 31, 2016. Mr. William Vazoulas, Controller at the TA, introduced the other representatives of TA and SIRTOA present and Mr. Greg Koslow, the representative of Deloitte and Touche LLP, TA and SIRTOA's independent auditors.

Mr. Vazoulas reported that TA ended 2016 with a surplus of $93 million, compared to a $614 million surplus in the prior year. Increased operating expenses and problems in the commercial real estate market negatively affected portions of TS's funding. Total revenue from fares was $4.4 billion, an increase of $44 million from the prior year. This increase was due mostly to the annualization of the March 2015 fare increase in 2016. Ridership in 2016 was 2.4 billion, a decrease of 0.7 percent from 2015.

Total paratransit revenue and funding was $196.5 million, a decrease of $12 million, due mostly to a reduction in the urban tax proceeds of which para transit received six percent. Paratransit expenses were $467 million, an increase of 1.1 percent.

A critical part of the capital program over the past several years had been the implementation of communications-based train control (CBTC) technology to increase capacity and improve reliability. Other key parts of the plan are to purchase new subway cars and buses and to improve performance.

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

- Chairman Rosen suggested a reduction of the verbiage and do a tabular presentation of the Capital Program and Report presented in the MD&A.
- “Commercially insured funds on-hand” is the physical cash on hand. The cash on hand is insured.
- The financial statements were restated because of corrections that were made to the capital assets. The corrections related to assuring that credits were attached to the correct asset when depreciation began. The auditors did a significant review of the restatement and tested it both for accuracy and completeness. The restatement was not material.
- The Public Liability Claims on page 9 increased in 2016 due to higher awards for lawsuits and increases in worker’s compensation claims.
- Expired fare media revenue refers to expired fare cards with a remaining balance.

The Audit Committee then asked questions with regard to SIRTOA.

- City funding of the deficit is an estimate because SIRTOA bills the City after year end. In August, MTA, on behalf of SIRTOA, will send the actual bill for 2016, as well as an estimate for 2017.
- Building turnstiles at all of the stations would defeat the purpose because SIRTOA wouldn’t regain the operating expense in terms of revenues.

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

New York City Housing Authority

The next agenda item was the review of the financial statements and management letter of the New York City Housing Authority (HA) for the fiscal year ended December 31, 2016. Ms. Karen Caldwell, Chief Financial Officer at HA, introduced the other representatives of HA present and Mr. Greg Koslow, the representative of Deloitte and Touche, HA's independent auditors.

Ms. Caldwell presented the financial statements, including the financial results of LLC1 and LLC2, which are component units of HA. In 2016, HA's loss before capital contributions was $411 million. The leading factors in the $451 million unfavorable variance as compared to 2015 was an increase in OPEB and the absence of actuarial gains from the prior year. HA's cash and investment position increased by $80 million, due to the proceeds from the Rental Assistance Demonstration Program and the equipment purchase lease agreement to finance the energy performance contracts.

Mr. Kaplan recused himself, as he is a member of the HA Audit Committee.

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

- Regarding the number of households dependent on the Section 8 financing, there are 85,000 vouchers representing about 200,000 people.
- Revenues consist of about $1 billion in tenant rent; $1 billion that HA receives to be paid out to Section 8 landlords; and another $1 billion from a federal subsidy. In addition, HA receives a few hundred million dollars from the City.
- The backlog of maintenance work is related to the financial condition of the apartments, where there is a $17 billion capital need. The backlog on work orders is approximately

147,000 orders, which was consistent with the prior year. Routine repairs have decreased to under five days. The largest amount of outstanding work is for painting, which comprise approximately 45 to 50 percent of the work orders.

- On Page 125 of the financial statements, the decline in operating expenses was attributed to a reduction of approximately 2,000 units in the programs. The units off the rent roll are the ones that require significant repairs or are needed for alternative uses. For example, developments were constructed without management offices and, therefore, apartment units were converted to management offices.
- The controls over the management of HA's supplies are overseen by a working group created to look at the overall program inventory and tracking. For day-to-day management, there is an electronic inventory that was launched within the last year, and quarterly updates have been provided to the Comptroller's Office with regard to implementing the corrective action plan.

With regard to the management letter, the auditors and management are both in agreement with the responses and comments.

There being no further questions, Chairman Rosen thanked the representatives of HA 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 June 28, 2017 meeting; the motion was unanimously approved.