AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, MAY 23, 2018
AT THE OFFICE OF THE COMPTROLLER

ATTENDANCE

Chair	Michael Spitzer
Private Members	Mark Kaplan Bud Larson Bernard Rosen
Public Members	**Representing the Comptroller –** Jacqueline Thompson
Secretary	Katrina Stauffer
Independent Auditors	**Ernst & Young LLP –** Samantha Culloo **Grant Thornton LLP –** Marla Hummel, Cosmo Saginario **KPMG LLP –** Mike Breen, Camille Fremont, Timothy Sheck, Maria Tiso **Marks Paneth LLP –** Hope Goldstein
Others	**New York City Comptroller's Office, Bureau of Audit –** Ed Carey, Julia Davis, Faige Hornung, Marjorie Landa, Michael Montemurro, Keith Schwam **34th Street Partnership, Inc. –** Dan Biederman, Peter Ciriello **New York City Housing Development Corporation –** Cathleen Baumann, Richard Froehlich, Mary John **New York City Other Postemployment Benefits Plan –** Raymond Lee **New York City Health and Hospital Corporation –** Timi Diyaolu, Jozef Dubroja, James Linhart, Jay Weinman **New York City Mayor's Office of Operations –** George Davis, Brady Hamed **New York City Office of Management & Budget –** Janice Arora, Enid Ellis, Xiaochao Jin, William Kennelly, Raymond Lee

New York City Law Department – Amber Thiel

New York City Office of the Actuary – Frankie Chen, Thomas O'Hara, Michael Samet

New York City Department of Small Business Services – Stephen Lee

New York City Comptroller's Office – Camille Arezzo, Leonel Ferreira, David Jeter, Carol Kostik, Preston Niblack, Jessica Sanchez, Joan Stapleton, Steve Veloric

Audit Committee Meeting – May 23, 2018

I. Call to Order and Roll Call

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

Ms. Katrina Stauffer, the Committee Secretary, took roll call. There was a quorum.

II. Motion to Accept Draft Minutes of the Audit Committee Meeting held April 25, 2018

The first agenda item was the approval of the draft minutes of the April 25, 2018 Audit Committee Meeting. Chairman Spitzer inquired if there were any comments on the draft minutes as presented. Hearing none, Chairman Spitzer 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 April 25, 2018 Audit Committee Meeting.

III. Bureau of Audit Annual Report

The next agenda item was the presentation of the Office of the New York City Comptroller's Bureau of Audit and Investigations' *Report to the Mayor and City Council on City Comptroller Audit Operations* for the fiscal year ended June 30, 2017. Ms. Marjorie Landa, Deputy Comptroller for the Audit Bureau, introduced herself and the other representatives of the Audit Bureau present.

The Audit Bureau conducted 76 audits and special reports that included 63 Generally Accepted Government Auditing Standards (GAGAS) audits, which consisted of 50 full reports and 13 letter reports. As a result of these audits, actual and potential savings were estimated to be approximately $66.2 million, with a cost avoidance of $1.5 million. A peer review of the group was conducted in October by George Shemo, CPA, an independent peer reviewer, which resulted in positive reviews.

Follow-ups of audit recommendations made by the Audit Bureau found that 83.8 percent of the recommendations were adopted by agencies. A general theme in this year's audits is language access. Several local laws and executive orders have been implemented and the Audit Bureau has been visiting affected agencies to ensure their websites and materials are accessible. Another area the Audit Bureau looked at was inventory, with a particular focus on computer inventory. In addition, the Audit Bureau is beginning to look at the local law requiring defibrillators in public buildings and parks. One audit was done this cycle and others will continue this year.

Audits have begun on clearances for child care workers at child care centers. Audits were conducted at three child care centers but, because of the very strict confidentiality, the State does not allow the Administration for Children’s Services access to the same information the centers have. One audit turned into seven audits related to that issue. The Committee suggested legislative remedies be pursued for a resolution to this problem.

Notable audits included a look at preventive maintenance and repairs of elevators and escalators in the subway system. Existing metrics indicate 93 percent to 94 percent of targets are being met, but further analysis revealed these metrics did not include repairs done by outside contractors. Some changes have already occurred based on items identified by Audit staff. Audits were also conducted of the privately owned public spaces (POPS). The gift of summer interns provided manpower to conduct 333 POPS inspections. Noncompliance was widespread and this is another area where legislative change is being pursued.

Audits continue for the Department of Finance (DOF) Senior Citizen Homeowners' Exemption (SCHE) program. The veterans' tax exemption was found to have issues, in that statutory checks were not being conducted to ensure property owner compliance to maintain the tax exemption status. It is Audit's calculated estimate that upwards of $50 million of revenue has been lost, as some properties have been transferred to corporations and LLCs that are receiving exemptions intended only for individual owners. DOF has begun recovering some of these funds and discussions are ongoing whether or not DOF will pursue collection of all funds owed for past years. Automated checks are now being conducted for these properties going forward.

During the audits conducted for homeless shelters, it was found that onsite daycare centers had no requirements for licensing or regulation due to a loophole in law. All unlicensed centers have been visited by audit and investigator staff, and the law has been changed to include those centers under the regulatory structure.

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

- With regards to the Committee's question about welfare funds, there is no clear answer or solution of how to address the broader topic of system-wide problems. This is also a State problem, and there is legislation in process that will address some of the existing issues. The Committee voiced its concern that there is over a billion dollars being administered with no oversight and repetitive problems, and feels information about the magnitude of the problem should be expanded and provided to people who can influence change. There have been some changes, and this remains a very active part of the Audit Bureau.

- Concessions problems are being addressed through coordination between the Audit Bureau and other Office of the Comptroller representatives. Past compliance problems may be addressed through the concession lease process.

- The Audit Committee members will be added to the distribution list for electronic versions of Audit Bureau reports.

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

IV. Mayor’s Office of Operations

During the next agenda item, Mr. George Davis, Deputy Director at the Mayor's Office of Operations and Director of Audit Services, introduced himself and addressed the Committee's questions regarding follow-up and enforcement of audit recommendations. He explained that the Mayor's Office of Operations is responsible for following external audit activity that includes audits by the City Comptroller, as well as other external entities. Audits are followed from the outset to the closing, and no audit is considered closed until all recommendations have been addressed. A database has been developed that allows for tracking of audit recommendations.

With regard to the concessions, the Parks Department has a concession audit team that works in coordination with the City Comptroller's audits.

There being no further questions, Chairman Spitzer thanked Mr. Davis for his participation in today’s meeting.

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

The next agenda item was the review of the financial statements and management letters (where applicable) of the following entities:

- 34th Street Partnership, Inc.
- New York City Housing Development Corporation
- The New York City Other Postemployment Benefits Plan
- New York City Health and Hospitals Corporation

34th Street Partnership, Inc.

Mr. Dan Biederman, President of the 34th Street Partnership (the Partnership), introduced the other representatives of the Partnership present and the representatives of KPMG LLP, the Partnership's independent auditors.

There have been no major changes for the fiscal year ended June 30, 2017. The budget is roughly $13 million and the City assists the Partnership, with assessments close to $11 million, and another $2 million are brought in by various business deals. An increase in budget over a three-year period was approved last year and goes into effect this year. Many programs have been added since the establishment of the Partnership, and Herald and Greely Square Parks are now included. Still outstanding is $12 million in debt from an original $24 million, with all assets, lighting, park improvements, trees, and planters paid for through that debt, which should be totally extinguished in 2031.

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

- The improvements adopted and expanded on by this administration have been a success. Traffic south of 40th Street down Broadway is 10 or 20 percent of what it was, and the improvements have calmed the traffic. The City is regarded as one of the more advanced street pedestrianization municipalities in the U.S.
- Regarding the footnote 3 reference to amortization of property and equipment, district improvements are considered to be amortized, as opposed to depreciated, because the City has title to those assets.
- IRS Revenue Ruling 63-20 allows nonprofits to take advantage of tax exempt treatment for the bonds it issues "on behalf of" the City.

There being no further questions, Chairman Spitzer thanked the representatives of the 34th Street Partnership, Inc., for their participation in today's meeting.

New York City Housing Development Corporation

Ms. Cathleen Baumann, Senior Vice President and Treasurer of the New York City Housing Development Corporation (HDC), introduced the other representatives of HDC present and Ms. Samantha Culloo, the representative of Ernst & Young LLP, HDC's independent auditors.

Ms. Baumann provided an overview of the financial statements for the fiscal year ended October 31, 2017.

HDC currently has two active subsidiaries that are presented as blended component units in its financial statements. The New York City Residential Mortgage Insurance Corporation

(REMIC) insures residential mortgages in New York City. The New York City Housing Assistance Corporation (HAC) made mortgage loans for affordable housing in the 1980s. Presently, it provides rental subsidy assistance to one residential development.

No management letter was issued this year from the auditors.

HDC has maintained its position as one of the nation's leading housing finance agencies and continues to play a central role in the Mayor's Housing New York program. The year was active in terms of bond issuances and loan closings. Twenty-six bond series were issued for total of $1.5 billion; $160.8 million of proceeds were drawn down on previously issued bond series; and one new certificate of participation with the federal financing bank of $103 million, for a total of $1.7 billion in proceeds.

Total HDC assets were $16.1 billion, an increase of $1.7 billion, or 11.85 percent, due to ongoing lending and bond financing activities. Total liabilities were $13.7 billion, an increase of $1.5 billion, or 12.3 percent, as a result of HDC's ongoing debt and lending activities. HDC's total net position at fiscal year-end was $2.5 billion, an increase of $204.8 million, or 9 percent, due to normal operating activities and non-operating revenue of grant income.

During fiscal year 2017, HDC adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and this implementation resulted in adjustment to salaries and related expenses on financials in the amount of $1.3 million. The increase to net position will allow the corporation to continue to play a critical role in the Mayor's housing plan and provide subsidies to the affordable housing developments that HDC finances.

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

- There are still a little under 100,000 units in Mitchell-Lama. A lot of work has been done to preserve the Mitchell-Lama housing. Some have converted to other forms of affordable housing. A new program was developed as part of the Mayor's housing plan to continue the work as it continues to be a source of affordable housing for the City.

There being no further questions, Chairman Spitzer thanked the members of HDC for their participation at today's meeting.

[Subsequent to the meeting, HDC provided a letter of no material weakness from their auditors, which was a topic of discussion at the Audit Committee Meeting. A copy of the letter was forwarded to all Committee members.]

The New York City Other Postemployment Benefits Plan

Mr. Raymond Lee, a representative of The New York City Other Postemployment Benefits Plan (Plan), and Director of Accounting Services at the City's Office of Management and Budget, introduced Ms. Hope Goldstein, the representative of Marks Paneth LLP, the Plan's independent auditors.

Mr. Lee provided an overview of the financial statements and management letter for the Plan for the fiscal year ended June 30, 2017.

The Plan is composed of two parts, the New York City Retiree Health Benefits Trust and the Non-Trust Other Postemployment Benefits, which includes contributions to the retirement benefits through the City's general resources. There was little change in benefits activity, but there was an increase in the net position of almost $600 million, primarily due to a $100 million discretionary deposit the City put into the trust and also a $400 million prepayment for next year's expenses. The trust is nearly up to $5 billion in assets. Benefit payments having increased by approximately $100 million between this year and last year.

One of the major changes for the Plan was the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which mirror GASB Statement No. 67 and Statement No. 68, implemented a few years ago for the pension side of the retirement benefits.

GASB Statement No. 74 did not have a financial impact on the Plan’s net position.

Discussing the notes to the financial statements, it was noted that at the last meeting the Committee stated that the term "investment income” was vague. While the term is a GASB term, the Plan will break out the interest income and changes in fair value in future Plan financial statements. Changes to the notes section as a result of GASB Statement No. 74 include:

- The investment section now includes a description on the procedures and authority for establishing and amending investment policy decisions.
- Concentration risk is now calculated differently, using net fiduciary position instead of total investments as the denominator.
- A new disclosure was added to disclose the annual money weighted rate of return on investments.

- Significant changes were made in required supplementary information. The Plan now includes a schedule of changes in the City's net OPEB liability and a schedule of Plan expense.

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

- Changes of assumption of $10.9 billion is a reduction to the liability, with the key driver being the drop in the discount rate.
- Non-Trust OPEB referenced are activities that do not happen in the trust, but are part of the Plan activity.
- The monthly rates table should be made clearer.
- On page 17, the $100 contribution for the Medicare Part B premiums should be clarified to read per individual.
- Classification of inputs of money market funds as level 2 will be verified.

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

New York City Health and Hospitals Corporation

Mr. Jay Weinman, Corporate Comptroller the New York City Health and Hospitals Corporation (HHC), introduced the other representatives of HHC present and the representatives of KPMG LLP, HHC’s independent auditors.

Mr. Weinman provided an overview of the financial statements and management letter of the HHC for the fiscal year ended June 30, 2017.

The financial statements of the MetroPlus Health Plan, Inc. (MetroPlus), a component unit of the HHC, are presented discretely from HHC. However, the management discussion and analysis focuses primarily on HHC.

An overall decrease in net position of $194 million ended the year with $1.2 billion, which is consistent with, and slightly above, 2016. Accounts receivable decreased by $64 million while maintaining patient service revenues. Grants revenue increased by $502 million requiring less appropriations from the City. A MetroPlus increase was a result of an increase in membership. There was a significant decrease in personal services, as the savings in headcount initiated in 2015 continues and HHC is now down approximately 5,000 full-time equivalents (FTEs) since that time, which includes temporary agencies. Operating expenses remain consistent with the prior year, except for MetroPlus, which expanded its coverage to members. KPMG conducted extensive testing on HHC's liquidity and found no problems.

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

- There are just over 34,000 FTEs.
- The Statutory Reserve Investments referenced on Page 21 are requirements for MetroPlus because it is treated as an insurance company. Most of the document refers to the Health and Hospital portion, with some notes in the back related to MetroPlus.
- A number of initiatives have been implemented to reduce the headcount without sacrificing clinical care. Most reductions are in non-clinical care areas.

- The Committee noted that the disclosure for Level 2 fair value contains different wording than seen for other entities and suggested the City consider standardizing the disclosures for all units to alleviate confusion.
- Inconsistencies referenced in the management letter have been noted and will be corrected.
- The sentence found on Page 29 stating "deposits in process of collection are not collateralized" should be reviewed and possibly applied as a consistent notation to other City organizations in the same position.
- Priority mitigation projects noted on Page 33 refers to FEMA-related mitigation work and will be made clearer on the next report.
- The Management Letter reference of overpayments refers to an amount of approximately $37 million over a nine-year period. A tentative settlement of $30.5 million is being discussed between MetroPlus, internal and external legal counsel, and both providers.
- The Committee strongly recommended a review of the five-day window of access still available to terminated employees and suggested access be cut off immediately when employees leave their employment.

There being no further questions, Chairman Spitzer thanked the members of HHC for their participation at today's meeting.

VI. Executive Session

There being no further business for the public session, Chairman Spitzer asked for a motion to enter Executive Session; a motion was made to go into Executive Session for the purpose of discussing non-public financial information about the City. The motion was unanimously approved.

VII. Adjournment

Following the conclusion of the Executive Session, a motion was made to adjourn the May 23, 2018 Audit Committee Meeting; the motion was unanimously approved.