



**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 – June 27, 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 Audit Committee Secretary, took roll call. There was a quorum.

II. Motion to Accept Draft Minutes of the Audit Committee Meeting held May 23, 2018.

The first agenda item was the approval of the draft minutes of the May 23, 2018 Audit Committee meeting. Chairman Spitzer inquired if there were any comments on the draft minutes as presented. Subject to any editorial comments submitted to the Secretary, the Committee approved the draft minutes of the May 23, 2018 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 December 31, 2017:

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

WTC Captive Insurance Company, Inc.

Mr. David Biester, President, CEO, and General Counsel of the WTC Captive Insurance Company, Inc. (WTC), introduced the other representatives of WTC present and the representatives of Crowe Horwath LLP, WTC's independent auditors.

WTC was formed in the aftermath of September 11 and was 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. Nearly all of WTC assets are held as cash or investments; as of December 31, 2017, these assets totaled approximately \$289 million. WTC efforts in 2017 included enhanced cyber security. WTC is invested solely in fixed income instruments.

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

- Revenue is from investment income and expenses are solely related to operating expenses. Results of operation from 2017 investment income was \$5 million, with a 1.7 percent rate of return. The assets were fully invested in fixed income securities.
- Operating expenses in 2017 were \$1.9 million, resulting in a net operating loss of \$1.3 million.
- The low-level claim activity is due to the Victim Compensation Fund still being in operation, and due to expire in December 2020.
- The actuary prepares statements for quarterly reports.

- BlackRock Financial Management, Inc. was selected as WTC's investment manager, based on the 2010 selection criteria and following the RFP process; performance is evaluated relative to benchmarks of similar portfolio production.

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

The City of New York Deferred Compensation Plan

Ms. Joan Barrow, Chief Accountant of The City of New York Deferred Compensation Plan (DCP), introduced the other DCP representative present and the representative of Marks Paneth LLP, DCP's independent auditors.

Net position for all four plans exceeded \$20 billion in 2017, with net investment income of \$2.4 billion. All investments had strong positive returns with domestic equity index fund 21.8 percent and international equity fund 34.8 percent. Membership increased by 10,000 participants.

Deferral of compensation and participant rollover exceeded \$1 billion in 2017.

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

- There is no securities lending as determined by the board in 2008.
- Interest income missing from page 29, is on page 36 as the stable income fund portion.

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

New York City Transit Authority and Staten Island Rapid Transit Operating Authority

Mr. William Vazoulas, Controller at the New York City Transit Authority (TA) and Staten Island Rapid Transit Operating Authority (SIRTOA), introduced the other representatives of TA and SIRTOA present, and the representatives of Deloitte & Touche LLP, TA's and SIRTOA's independent auditors.

Mr. Vazoulas reported that the TA ended 2017 with a deficit of \$288 million, primarily due to decreases in funding from taxes, the largest decrease coming from urban tax proceeds. Revenues from fares were \$4.5 billion in 2017, an increase of 1.6 percent from 2016, due mostly to a fare increase in March 2017. Ridership decreased by 2.7 percent from 2016, in line with the rest of the country, due to ride sharing growth. Transit revenue decreased \$15 million. Paratransit expenses rose by \$8 million due to the higher costs of increased trips and staffing call center and the expense of automated vehicle locator system.

With regard to SIRTOA, total operating revenue increased by \$119,000 or 1 percent, mainly due to the March 2017 fare increase. Total operating expenses increased by \$9.9 million. Non-operating revenue went up by \$3.4 million, or 6 percent, mainly due to the increase in estimated 2017 NYC operating recovering subsidy. Total current assets increased by \$400,000, or 1 percent, partially offset by a decrease in cash. Net capital increased by \$42 million, or 17 percent. Total current liabilities increased \$1.3 million, or 2 percent.

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

- Allowance for doubtful accounts is related to reimbursable work for third party agencies and is not related to funding from City or State.

- A more careful oversight of MTA projects is done through constant review by project managers under the new president and Fast Forward Plan.
- Management letter comments will be presented at MTA Board Meeting in July.

The Audit Committee then asked questions with regard to SIRTOA.

- Disclosure of number of participants in the New York City Employees' Retirement System (NYCERS) pension plan in is not required.
- Reimbursement for student fare: \$45 million is from the City and \$23 million from the State. Elderly fares are also reimbursed by the City and State.
- The Committee noted that, on page 20, market prices are not level 2, and this needs to be revised.

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

New York City Housing Authority

Mr. Mark Kaplan recused himself, as he is a member of the New York City Housing Authority (HA) Audit Committee. Ms. Tricia Roberts, HA's Vice President of Finance, introduced other representatives of HA present, and the representatives of Deloitte & Touche LLP, HA's independent auditors.

Chairman Spitzer noted private members of the Audit Committee did not receive HA's financial statements and the management letter.

Ms. Roberts apologized for missing documents to Committee members and will have them resent. Audited financial statement includes financial results of LLC1 and LLC2, which are

component units of HA. Auditors found no deficiencies in internal controls over financial reporting. The Authority's loss before capital contributions for 2017 was \$329 million, compared to a loss of \$361 million for 2016. This favorable variance of \$32 million is comprised of favorable variances of \$21 million in operating revenues, \$10 million in non-operating revenues, net, and \$1 million in operating expenses.

The \$21 million increase in operating revenues is comprised of \$10 million in tenant revenue, net, due to an increase in the average monthly rent, including households required to pay 30 percent of family income towards rent, plus \$11 million in other income, primarily representing an \$8 million reduction of contract retention liabilities and \$5 million in Developer Fees recognized in connection with the Section 8 Recap transaction.

Utilities increased \$20 million; Maintenance and Operations decreased \$36 million; and OPEB decreased by \$31 million.

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

- Ms. Roberts stated an agreement between HA and the City is in the process of being worked out regarding financial and operational impacts of a Federal consent decree.
- Regarding implementation of Verizon Ethernet services, HA's IT department communicates with DoITT. HA will provide details of this in the future.
- There were no significant deficiencies regarding lead matter in HA properties.
- HA did not have any transactions that met the definition of fiduciary activities and, as a result, the implementation of GASB Statement No. 84 did not have a significant impact on HA's financial statements.

The Audit Committee reserves the right to invite the HA back after materials have been received and reviewed.

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

[Subsequent to the meeting, the private members confirmed receipt of the HA financial statements and management letter. HA, therefore, did not have to resend these items.]

IV. 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 of New York. The motion was unanimously approved.

V. Adjournment

Following the conclusion of the Executive Session, a motion was made to adjourn the June 27, 2018 Audit Committee Meeting; the motion was unanimously approved.