



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, FEBRUARY 19, 2020
AT THE OFFICE OF THE COMPTROLLER**

ATTENDANCE

Chair	Michael Spitzer
Private Members	Larian Angelo Mark Kaplan Bud Larson
Public Members	Representing the Mayor – Raymond Lee Representing the Comptroller – Jacqueline Thompson Representing the Public Advocate – Michael Twomey
Secretary	Katrina Stauffer
Independent Auditors	Grant Thornton LLP – Marla Hummel, Hassan Khan, Benjamin Klein, Nick Lazzaruolo, Michael Ryan, Cosmo Saginario Marks Paneth LLP – Daniel McElwee, Warren Ruppel
Others	New York City Department of Finance – Sue Wang New York City School Support Services – Stephan Brennan, John Cruz, Mark David, Brooke Jenkins-Lewis, Phil Napolitano, John Shea New York City Educational Construction Fund –Jennifer Maldonado, Cynthia Wong New York City School Construction Authority – Marianne Egri, Steven Lawitts, Yi-Wen Wang Department of Education of The City of New York – Carrie Bateman, Richard Carlo, Maria Conklin, Barry Elkayam, Amy Huang, Michael Jabbour, Tisa Lapadula, Desmond White New York City Mayor’s Office of Operations – George Davis New York City Comptroller’s Office – Camille Arezzo, Minyu Chen, Leonel Ferreira, Marjorie Henning, Vincenzo Lopes, Veronika Musheyva, Jessica Sanchez, Susanna Tregor, Alla Vayner New York City Office of Management & Budget – Enid Ellis

Audit Committee Meeting – February 19, 2020

I. Call to Order

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

II. Nomination for Chairman

The first agenda item was the appointment of the Audit Committee Chairman. Ms. Katrina Stauffer, the Audit Committee Secretary, asked for nominations for Chairman. Mr. Spitzer was nominated and, by a unanimous vote, was re-elected as Audit Committee Chairman.

III. Nomination for Secretary

The next agenda item was the appointment of the Audit Committee Secretary. Chairman Spitzer asked for nominations for Secretary. Ms. Stauffer was nominated and, by a unanimous vote, was re-elected as Audit Committee Secretary.

IV. Roll Call

Ms. Stauffer took roll call; a quorum was present.

V. Adoption of Committee By-Laws

The next agenda item was the adoption of the Audit Committee by-laws in accordance with Article IV, Section 3. A motion was made to adopt the by-laws; the by-laws were adopted, subject to minor modifications.

VI. Approval of the Draft Minutes of the Audit Committee Meeting held**January 22, 2020**

The next agenda item was the approval of the draft minutes of the Audit Committee Meeting held January 22, 2020. The Committee approved the minutes of the January 22, 2020 Audit Committee Meeting, subject to any non-substantive editorial comments submitted to the Secretary.

VII. Motion to Accept Annual Report of the Audit Committee of The City of New York

The next agenda item was the approval of the Audit Committee's Annual Report. A motion was made to accept the Report. The Committee approved the draft of the Annual Report, subject to non-substantive editorial comments submitted to the Committee Secretary.

VIII. City of New York Management Letter for Fiscal Year 2019

The next agenda item was the presentation of The City of New York Management Letter for Fiscal Year 2019. Representatives of Grant Thornton LLP, the City's independent auditors, noted that it did not identify or report any material weaknesses with respect to financial reporting for the citywide financial statements.

The auditors discussed the implementation of a new Property Tax System (PTS) used by the City's Department of Finance (DOF) to track and record property tax revenue. Among their comments on the system, the auditors stated that the PTS did not appear to permit timely and accurate preparation of transaction vouchers, and recommend that the PTS system reconciliation

and voucher support processes be strengthened to ensure timely preparation, review, and approval by the appropriate personnel.

Ms. Sue Wang, Director at the Department of Finance (DOF), noted that the DOF concurs with the auditors' findings and is working to correct the PTS.

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

- The auditors confirmed that both their team and the DOF identified the PTS issues during their testing procedures.
- The target completion date for the corrections to the PTS is February 28, 2020.

[Subsequent to the Audit Committee Meeting, the DOF confirmed that corrections to the PTS were completed as of February 28, 2020.]

There being no further questions, Chairman Spitzer thanked the representatives of Grant Thornton LLP and the DOF for their participation in today's meeting.

IX. Presentation of the Financial Statements and Management Letters (where applicable)

The next agenda item was the review of the financial statements and management letters of the following entities for the fiscal year ended June 30, 2019:

- New York City School Support Services
- New York City Educational Construction Fund
- New York City School Construction Authority
- Department of Education Management Report

New York City School Support Services

The first item was the review of the financial statements of the New York City School Support Services (NYCSSS) for the fiscal year ended June 30, 2019. Mr. John Shea, CEO of School Facilities, introduced the other representatives of NYCSSS present, and the representatives of Marks Paneth LLP, NYCSSS' independent auditors.

Since 2016, custodians for the New York City Department of Education (DOE) are DOE employees, while the staff who work for the custodians are employees of the NYCSSS.

NYCSSS noted that it continues to meet its goals of cost neutrality, and is moving toward cost savings. NYCSSS continues to have great partnerships with the City and the DOE, and services and efficiencies have increased.

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

- NYCSSS stated that it has conducted cost analyses prior to 2016 and up to the present, and can provide that information to the Committee. NYCSSS also noted, however, that such a comparison is difficult, because the current system uses prevailing wage, whereas 80% of the old system was not under prevailing wage.
- NYCSSS noted that it has met its budget every year.
- Under the new system, custodial supplies are handled centrally. Custodians no longer have the financial independence and personal fiscal responsibility that they used to.
- NYCSSS confirmed that the pension plan is administered through the union and, therefore, the director of retirement services is not an NYCSSS employee.
- NYCSSS will clarify the frequency of the \$100 benefit that is mentioned in Note 5A.

- The discrepancy on page 21 between NYCSSS's investment rate of return and the long-term expected real rate of return is due to inflation being included in the higher figures.
- NYCSSS confirmed that rates for cleaning and maintenance are significantly lower than other major urban school districts across the country.
- Regarding the difference between NYCSSS' 7.25% assumption for the pension investment rate of return and the City's general 7% assumption for its pension funds, NYCSSS underscored that the NYCSSS plan is not a City plan, but a pension through the union, which is a very large system that includes many plans.
- The Committee suggested that it would be useful to examine data reflecting the efficiencies and transparencies NYCSSS has achieved since its inception.

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

New York City Educational Construction Fund

The next item was the review of the financial statements of the New York City Educational Construction Fund (ECF) for the fiscal year ended June 30, 2019. Ms. Jennifer Maldonado, Executive Director of ECF, introduced the other representatives of ECF present, and the representatives of Marks Paneth LLP, ECF's independent auditors.

ECF's net position decreased \$21.3 million in Fiscal Year 2019, after increases of \$25 million and \$12.9 million in the previous years. This was in part due to a \$35 million distribution ECF made in April 2019 to the New York City Department of Education (DOE). Without that distribution, ECF's net position would have shown an increase of \$13.7 million.

In recent years, ECF received one-time participation payments associated with the sale of condominium units at 250 East 57th Street. In Fiscal Years 2019, 2018, and 2017, ECF received participation distributions of \$1.6 million, \$18 million, and \$10 million, respectively, from the developer. The developer has almost finished closing sales on the residential towers condominium units and, as such, future participation payments for the project will be minimal.

In Fiscal Year 2019, ECF's rental income and tax equivalency revenues from existing properties grew from \$27 million to \$28 million. In October 2018, ECF refunded its 2007 A Bonds at favorable pricing levels, achieving net present value savings of about \$6.9 million, or 14.4%.

In September 2018, the New York City Council approved the ECF project at the Khalil Gibran International Academy, which will include the construction of the new Khalil Gibran High School and a new district K-5 school.

ECF's COOP Tech project has been delayed through an appeal process of the Article 78 lawsuit on which ECF prevailed. The plaintiffs have been successful in extending the appeal period. ECF hopes to find a resolution to that this year.

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

- ECF stated that, in next year's financial statements, it would include a list of current projects in process.
- The \$35 million transferred to the DOE was a unique payment, having only occurred one other time in history, about 15 years ago.

- In Note 2B, *Use of Estimates*, ECF confirmed that pension plan estimates were not included because the State retirement system, not ECF management, provides the estimates.

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

New York City School Construction Authority

The next item was the review of the financial statements of the New York City School Construction Authority (SCA) for the fiscal year ended June 30, 2019. Ms. Marianne Egri, Vice President of Finance and Human Resources for the SCA, introduced the other representatives of SCA present, and the representatives of Marks Paneth LLP, SCA's independent auditors.

For Fiscal Year 2019, the SCA awarded construction contracts for 30 new schools and additions, with a construction value of \$814.2 million, and 544 capital improvement or renovation projects, with a construction value of \$1.5 million.

In 2019, SCA completed 18 new schools and added 3,992 seats to the school system.

SCA has 56 capacity projects and 1,174 capital improvement projects currently in construction.

This year, SCA is on track to open 22 new schools and to add over 7,000 new seats.

In addition, last year was the fifth and last year in SCA's sixth five-year plan it; is now in its seventh five-year plan, which is funded at \$18.7 billion.

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

- SCA strives every year to find new contractors, especially electricians, plumbers, and others who can work on the many small SCA jobs.
- SCA stated that it will review the language regarding collateralized deposits (page 6), and will adjust it next year.

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

Department of Education Management Report

The next item was the Department of Education (DOE) management report. Ms. Maria Conklin, Executive Director, Division of Financial Operations, of the New York City Department of Education (DOE), introduced the other representatives of DOE present, and the representatives of Grant Thornton LLP, DOE's independent auditors.

Two significant control deficiencies were identified.

The first significant deficiency addressed the accounting for fiduciary fund cash accounts. Testing identified some cash accounts that were not properly reconciled and recorded to the general ledger. In response, DOE management reviewed the rest of the balances and this resulted in an aggregate reduction in cash and the related liability of approximately \$1.2 million. Grant Thornton recommended that DOE strengthens the controls over the process of reviewing those accounts, as well as providing additional feedback and training to the schools reporting those balances.

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

- Grant Thornton confirmed that the money in question was not a tax levy, but rather school fundraising (e.g. cupcake sales, etc.).
- Schools sometimes have multiple accounts; DOE has been working on a process to ensure that schools close accounts as appropriate.

The second significant deficiency related to the accounting for capital assets. During 2019, the DOE and the SCA performed a detailed review of all fixed assets, which led to the identification of approximately \$1.5 billion of capital assets that were placed in service in prior years but were not previously depreciated. The DOE and SCA subsequently performed a detailed review of their assets, ensured that everything was correctly coded to the right capital asset category, and brought depreciation up to speed based on when the assets were physically placed into service. Grant Thornton recommended that DOE improve communication with SCA and improve the process to review capital assets.

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

- As a result of this deficiency, \$1.1 billion in depreciation had not been recorded.
- The issue affected a significant number of buildings and structures.

Page 5 of the report lists deficiencies that are similar to findings from the prior year.

For employee time entry, Grant Thornton identified certain instances where approvals were not taking place in a timely basis, and recommended that DOE strengthen those procedures to ensure that all timesheets are approved on a timely basis.

The second item in that section of the report relates to accounts receivable write-offs.

Approximately \$45 million of receivable balances relating to prior years were written off directly during Fiscal Year 2019, rather than through the establishment of an allowance account. Grant Thornton recommended that the DOE conducts ongoing reviews of receivable balances to identify potentially troubled and/or uncollectible accounts and establish allowances as appropriate in accordance with US GAAP.

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

- The DOE will work with the Office of Management and Budget to obtain the DOE's allocated portion that's included in the citywide calculation and record that amount for financial statement purposes. The DOE will continue to adhere to the City's write-off process with respect to those items.
- Grant Thornton stated that the issue with write-offs had not been identified previously. The significance of the issue was recognized in this year's reconciliation process.
- With regard to the entry of time, the issue was not a lack of access to timesheets; it was a lack of timely reviews and approvals. Steps are being taken to create quarterly reports to send to supervisors.

Grant Thornton provided an overview of items 3 and 4 in the management letter, related to information technology issues.

Item 3, regarding user administration, notes that, in its termination sample testing of FAMIS, Grant Thornton found that nine of 25 terminations retained access to the system post-termination. Eight of the nine, however, were marked for deletion, so those user IDs could not access the application.

DOE management has a plan in place to deal with systemic reconciliation between employee IDs and system IDs.

Item 3 also notes that Grant Thornton was unable to locate one employee's name in the active employee listing. There is now a systemic process in place to match employee names with the system IDs.

Item 4 addressed access reviews and found that, on a consistent and formal basis, management has not examined who has access to which areas within FAMIS and Galaxy. DOE does perform a user access entitlement review, but it's ad hoc and Grant Thornton did not have the documentation showing that it was done appropriately throughout the year. Moving forward, DOE management is examining how to automate and simplify this process and, hopefully, remediate this risk completely.

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

- The DOE noted that, regarding cyber insurance, the guidance was that the City was self-insured as it relates to cyber incidents, so the recommendation was not to proceed with acquiring a specific cyber insurance policy.

- A member of the Committee noted that conversations have taken place with the Law Department about the City's overall cyber policy and that it would be discussed in this meeting's Executive Session.

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

X. Executive Session

There being no further business for the public session, Chairman Spitzer asked for a motion to enter into 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.

XI. Adjournment

After returning from Executive Session, there being no further business before the Committee, a motion was made to adjourn the February 19, 2020 Audit Committee Meeting; the motion was unanimously approved.