

Audit Committee Meeting – May 20, 2015

I. Call to Order and Roll Call

Mr. Bernard Rosen, Audit Committee Chair, called the meeting to order at 9:30 a.m. Ms. Jacqueline Thompson, Committee Secretary, took roll call. A quorum was present.

II. Review of the Draft Minutes of the Audit Committee Held April 22, 2015

The first order of business was the approval of the draft minutes of the April 22, 2015 Audit Committee meeting. The Chair inquired if there were any comments on the draft minutes as presented. Subject to the non-substantive editorial comments submitted to the Committee Secretary, the Chair called for a motion to approve the minutes; Mr. Michael Spitzer made a motion; the motion to approve the minutes of the April 22nd meeting carried unanimously.

III. Review of the Financial Statements for the following entities:

New York City Housing Development Corporation

The next agenda item was the review of the financial statements of the *New York City Housing Development Corporation* (HDC) for the fiscal year ended October 31, 2014. The representatives of HDC and Ernst & Young LLP, HDC's independent auditor, introduced themselves.

Ms. Cathleen Baumann, Senior Vice President and Treasurer at HDC, presented a summary of the year's events. She highlighted that HDC was once again the number one issuer of multi-

family housing bonds in the nation in 2014. During the year HDC's open resolution was upgraded from AA to AA+ by Standards and Poor's. Twenty-two bond series were issued during the year, totaling almost \$1.1 billion, to create and preserve affordable housing. HDC's assets grew by almost \$2.2 billion, to \$12.97 billion, and total liabilities decreased by approximately \$331 million, to \$11.03 billion in 2014 from the previous year. Change in net position increased by \$333 million in 2014 from the previous year. Ms. Bauman stated that HDC received an unqualified opinion on its financial statements and had no management letter in 2014. HDC adopted Government Accounting Standards Board's Statements 68 and 71, relating to pension accounting during 2014. The impact from implementation was not material and resulted in a net pension liability of \$9.7 million.

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

- HDC plans to provide over \$1.2 billion in direct subsidies over the Mayor's ten-year plan.
- In 2014 the amounts of tax credits that were created from HDC's financing provided an additional \$725 million in subsidy.
- One of the members pointed out that custodial credit rating is affected by who holds the securities. Investments in highly-valued institutions reduces credit risk, not custodial credit risk.
- Housing is limited in that HDC does not have the authority to advance refund debt. HDC refunds debt on a steady basis, which allows for it to raise money, lowering the cost of

capital. In 2014 HDC put in \$185 million of revenue as loans to reduce the cost of capital.

- In December, HDC worked with the New York City Housing Authority to finance the next-generation plan to build affordable housing. HDC expects to be a partner in those transactions over the next ten years.

There being no further questions, the Chair thanked the representatives of HDC for their participation at today's meeting.

The New York City Other Postemployment Benefits Plan

The next agenda item was the review of the financial statements of the *New York City Other Postemployment Benefits Plan* (the Plan) for the fiscal year ended June 30, 2014.

Representatives of Deloitte and Touche LLP (D&T), the Plan's independent auditors, and representatives of the responsible agencies introduced themselves, as follows: Ms. Nicole Fleming, Director of Accounting Services at The Mayor's Office of Management and Budget (OMB), Ms. Sherry Chan and Mr. John Gibney, Chief and Deputy Actuary, respectively, from The Office of the Actuary (OA), and Mr. David Jeter, Assistant Comptroller from the Comptroller's Office Bureau of Asset Management (BAM). These three agencies collectively function as the management of the Plan.

Ms. Fleming presented a summary of the Plan activity for the year. The Plan is composed of two parts: (1) The activity, which flows through the New York City Retiree Health Benefits Trust (Trust) that is used to receive, hold, and disburse assets accumulated to pay for some post-retirement benefits other than pensions (referred to as "other postemployment benefits" or

“OPEB”) provided by the City to its retired employees, and (2) the OPEB that are paid for directly by the City out of its general resources. There was a large increase in the Plan net position at the end of the year due to the City making net deposits of \$864 million into the Trust for 2014. Payments from this Trust have remained relatively steady over the past three years with a slight increase due to increased costs of health benefits of \$100 million. The accrued unfunded liability was \$71 million in 2014.

There was a question and answer session. Several matters were addressed, including:

- The \$71 million liability represents the City’s responsibility for OPEB liabilities as of the date of June 30, 2014.
- The actuarial accrued liability declined from \$87 billion to \$71 billion, as a result of experience that has been more positive than assumed in past actuarial calculations.
- The first biennial actuarial audit on pension assumptions, data, and calculations – many of which are used for both pensions and OPEB – was completed by the City’s independent actuarial auditors, Gabriel, Roeder, Smith & Company (GRS), who are currently working on the second audit. GRS’ review of actual results compared to projections used in actuarial calculations found that there has been increasing longevity, therefore they may recommend a change to the mortality assumption. The effect from this change would be an increase to accrued liability, which would impact valuations based on data from 2016.
- Projected increases in health care costs look sound, and there are no recommendations to change them.

- For 2016, another \$280 million net addition to the Trust is proposed in the Executive Budget.
- The actuary uses the same mortality assumptions/tables when computing the other postemployment benefit and pension numbers.

There being no further questions, the Chair thanked the representatives of the Plan for their participation at today's meeting.

IV. Bureau of Audit Annual Report

The next agenda item was the review of the *Report to the Mayor and City Council on City Comptroller Audit Operations* (Report), for the fiscal year ended June 30, 2014. Ms. Marjorie Landa, Deputy Comptroller for Audit and Investigation, introduced Ms. Alma Fana, Assistant Deputy Comptroller for Financial Audits at the Audit Bureau.

Ms. Landa provided a summary of the Audit Bureau's accomplishments in fiscal year 2014. The Comptroller's Office issued 43 audits and special reports in 2014. The actual savings and revenues were \$2.5 million and potential cost savings or revenue were \$46.2 million.

Ms. Landa reviewed several key audits, including one at the Department of Environmental Protection regarding the reliability of its billing system. Typically, agencies will follow the recommendations made in an audit; that was not the case with DEP. To address this, the Audit Bureau created the Comptroller's Audit Assessment Team, which can step in and mediate when an agency chooses not to follow the audit's suggestions.

Another audit, at the Department of Education (DOE), determined that DOE lacked adequate procedures for detecting the warning signs of possible collusion.

Ms. Landa also highlighted an audit at the Department of Homeless Services regarding weaknesses in the oversight of controls over billings and payments made to Aguila Inc., and an audit at Department of Parks and Recreations on health and safety conditions.

The Audit Bureau created a research and investigations unit to delve into matters uncovered by audits, and a forensic audit group to help assist the Audit Bureau when an issue needed further analysis.

Several matters were discussed during the presentation, including:

- Unlike private agencies, where audit findings can be addressed by governing bodies and senior management to resolve any conflicts on issues, public audit agencies typically have a more difficult time enforcing audit recommendations.
- It would be helpful if, in the event of a contentious issue, the Mayor's Office of Operations would address the issues on behalf of the Administration, indicating what work is being done to bring an agency into compliance or articulating the Administration's basis for disagreeing with the Comptroller's Audit findings and recommendations, in order to help the audit committee to fully understand conflicting viewpoints.
- There has been a lot of improvement, now that digital information makes matters more transparent. Going forward, reporting will be more systematic and more informative.
- Mr. Spitzer requested an Executive Summary of audit recommendations by agency, whether the audit recommendations were implemented, and identifying cross-cutting (multiple agency) audit findings. The Chair recommended that, after the Committee

receives the Executive Summary, the Audit Committee and the Audit Bureau should work with the Mayor's Office of Operations regarding possible responses to various important issues.

There being no further questions the Chair thanked the representatives of the Bureau of Audit for their participation at today's meeting.

V. Executive Session

The Chair asked for a motion for the Committee to enter the Executive Session to discuss non-public financial matters. The motion was made by Ms. Levine, was unanimously approved, and the Committee moved into Executive Session.

VI. Other Matters

When the Audit Committee returned to public session, the Chair called for a motion to approve the two requests made by D&T to perform non-audit services on (1) Working with the NYC Mayor's Office through an initiative called the "Center for Youth Employment" on improving employment opportunities for NYC youth, and (2) Working with the Economic Development Corporation to provide recommendations on attracting additional life-science industry investments to NYC and the summer intern program.

The Chair called for a motion to approve the request by D&T to perform non-audit services; Mr. Larson made a motion; the motion to approve the request carried unanimously.

Ms. Levine expressed gratitude for Mr. Jim Curry's service to the City and the Audit Committee. A letter thanking Mr. Curry for his service will be drafted and signed by the Chairman.

Ms. Levine stated that the request for proposal for a new independent auditor for the City has been issued. The Comptroller's Office has responded to all of the questions that were posed by potential providers and are awaiting the final proposals due May 21st.

There being no further business before the Committee, Mr. Grathwol made a motion to adjourn the May 20, 2015 Audit Committee meeting; the motion was unanimously approved; and the Committee adjourned until the next scheduled meeting on June 17, at 9:30 a.m.