

**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINIUTES OF THE AUDIT COMMITTEE MEETING**

HELD ON

WEDNESDAY, JANUARY 15, 2014 IN THE COMPTROLLER'S OFFICE BOARD ROOM

ATTENDANCE

**New York City
Comptroller**

Scott M. Stringer

Chair

Bernard Rosen

Private Members

**Bud Larson
Michael Spitzer**

Public Members

**Representing the Mayor – John Grathwol
Representing the Comptroller – Michele Mark Levine
Public Advocate – Letitia James**

Secretary

Jacqueline Warburton-Thompson

**Independent
Auditors**

**Deloitte & Touche LLP – James Curry, Mike Malloy, Jill Strohmeyer, Glenn
Friedrich**

Others

**NYC Educational Construction Fund (ECF) - Juanita Rosillo, Jennifer
Maldonado, Jim Filicanivo**

**NYC School Construction Authority (SCA) - John Hepburn, Marianne Egri, David
Mandelbaum, Theresa Anderson**

**34th Street Partnership Inc. (BID) - Dan Biederman, President, Peter Ciriello,
Lisa Hinkson, Partner KPMG**

Grand Central Partnership (BID) - Alfred Cerullo, Robert Adinolfi, Peter Lempin

**NYC Department of Education (DOE) - Suzette Irish, John Wall, Marisol
Martinez-Williams, Marc Alterman, Bill Goldband, Robert Parlato, Michael
Tragale**

New York City Office of Management & Budget – Nicole Fleming, Enid Ellis,

**NYC Financial Information Services Agency- Richard McCarrick, Adrienne
Edley, Rose Ellen Myers**

**New York City Mayor's Office of Operations – George Davis
Office of the Public Advocate - Lawrence Schimmel**

**New York City Comptroller's Office – Maria Tavares, Thema Holder, Susan
Cornwall, Berta Lara, Katina Stauffer, Nancy Brunner**

Audit Committee Meeting- January 15, 2014

Mr. Bernard Rosen, the Chair, called the meeting to order at 9:30 a.m.

I. Opening Remarks

Comptroller Scott Stringer greeted and assured the Audit Committee that he was aware of their concerns for the fiscal integrity of the City and in making the City whole. Comptroller Stringer stated that he is looking forward to working with the Public Advocate, Ms. Letitia James, who was present at today's meeting. Comptroller Stringer also commented, regarding the appointment of Ms. Michele Mark Levine as the Deputy Comptroller for Accountancy, that he is confident that she will do great things and is glad that she will be representing him. The Comptroller concluded by thanking Ms. Maria Tavares who has been an outstanding public servant with the Comptroller's office.

Public Advocate James introduced Mr. Lawrence Schimmel and announced that he will be the Public Advocate's representative at the Audit Committee meetings and that she would try to attend future Audit Committee meetings. She thanked the Audit Committee for welcoming her and is looking forward to serving with them.

The Chair thanked Comptroller Stringer and Public Advocate James for their interest and remarks. He then announced that Ms. Levine is going to be the Comptroller's representative on the Audit Committee and that Ms. Tavares is going to work with her as the Assistant Comptroller at the Comptroller's Office, Bureau of Accountancy. The Chair commented that they are outstanding individuals and thanked them for their past and continued service. The Chair introduced the new Mayor's representative on the Audit Committee, Mr. John Grathwol.

II. Review of the Draft Minutes of the Audit Committee Meeting held December 11, 2013

The first agenda item was the approval of the draft minutes of the December 11, 2013, Committee meeting. The Chair inquired if there were any comments on the draft minutes as presented. There being no comments, the Committee approved the draft minutes of the December 11, 2013 meeting.

III. Financial Statements and Management Letters for the Following

1. New York City Educational Construction Fund – Fiscal Year June 30, 2013

The next agenda item was the review of the financial statements of the New York City Educational Construction Fund (ECF) for the fiscal year ended June 30, 2013. Ms. Jennifer Maldonado, Executive Director at ECF, introduced the other representatives of ECF present and Mr. Jim Filacanio the representative at Israeloff, Trattner & Co., P.C., ECF's independent auditor.

Mr. Filacanio reported that ECF adopted Government Accounting Board Statement ("GASB") #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB #65, *Items Previously Reported as Assets and Liabilities*. The main changes resulting from the implementation of GASB #63 had to do with the terminology; for example, "net assets" became "net position," and "investment in capital assets net of related debt" became "net investment in capital assets." Mr. Filacanio stated that what used to be called "deferred revenue" or "deferred rent" is now titled "advance rental receipts."

Mr. Filacanio stated that the main effect of GASB #65 implementation on ECF was that bond issuance cost, which were presented as assets in the past, are now expensed in the year of issuance;

affecting the change in net position for the current year. He continued and stated that assets decreased by \$4.7 million, from what was reported in the prior year. Mr. Filacanio stated that because bond issuance costs are no longer presented as assets on the *Statement of Net Position*, the prior year's balances have been changed to reflect that requirement.

Mr. Filacanio stated that the increase in the net position was less in 2013 than in 2012 mainly because of the loss of revenue from for Norman Thomas High School. The Chair asked why the loss in revenues occurred. Ms. Juanita Rosillo, Director of Finance at ECF, explained because the lease between ECF and the High School had come to an end and lease payments, which in the past had been paid directly to ECF, were paid to the City. Ms. Rosillo stated that the Norman Thomas High School had been part of ECF's portfolio for 40 years. Ms. Michele Levine clarified that the lease payments to ECF occurred over the life of the related debt, and the debt had been paid off.

Mr. Filacanio stated that ECF's restricted investments decreased because of expenditures made on the 57th Street site. The net capital assets increased accordingly. General and operating expense increased mainly because of an increase in depreciation expense with PS 59 being put in service.

Ms. Maldonado reported that ECF is contemplating new projects in the future, but was not made any decisions. ECF hopes to have something finalized in the next year.

The Chair asked, for future reporting, if ECF could disclose more details on projects that were completed or coming due during the year that had provided revenues to ECF. Ms. Rosillo replied that ECF would comply with this request.

The Chair asked if ECF used a separate actuary from the City to prepare the other post-employment benefit ("OPEB") calculations. Ms. Rosillo replied that The City of New York's

("City's") actuary prepared the calculations. ECF is a member of the State pension fund but retiree's health insurance is provided through the City.

Ms. Levine asked if there were any management letter comments. Ms. Rosillo stated there was no management letter. Mr. Filacanivo commented that the auditors issued a letter reflecting no material weakness, which was included in today's package.

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

2. New York City School Construction Authority – Fiscal Year June 30, 2013

The next agenda item was the review of the financial statements and management letter of the New York City School Construction Authority ("SCA") for the fiscal year ended June 30, 2013. Ms. Marianne Egri, Vice President of Finance at SCA, introduced the other representatives of SCA present and Mr. David Mandelbaum, the representative of PricewaterhouseCoopers, LLP, SCA's independent auditor.

Ms. Egri provided a brief overview and reported that fiscal year 2013 was the fourth year of SCA's five-year capital plan, for which the total appropriation was \$11.9 billion. In 2013 SCA's total commitments were \$2.3 billion, which included \$449 million in construction contracts for 13 new schools and \$740 million for 475 capital improvement or renovation projects. In addition, in fiscal year 2013, SCA completed 19 new schools, which created 9,356 seat openings. For fiscal year 2014, SCA plans to open eight schools, and will have 539 capital improvement projects and 34 new school projects.

The Chair asked how many schools, in total, SCA had worked on in the five-year plan. Ms. Egri did not have the exact number with her. The Chair asked why there is an adjustment column for

construction projects in the *Statement of Net Position*. Mr. Mandelbaum explained that the adjustment column represents reconciliation. Ms. Levine explained that this presentation is the equivalent of an entire page in the City's comprehensive annual financial report which reconciles the government-wide financial statements to the funds financial statements. SCA had a small number of funds therefore the reconciliation is presented on the statement. The Chair asked if SCA had only \$3 million in purchase orders in 2013. Ms. Egri stated that this issue will be reviewed and, if necessary, corrected.

The Chair asked if the accrued annual leave obligation and accrued sick leave in the OPEB number is financed or amortized. Mr. Mandelbaum responded that the City finances these costs. The costs are paid on a pay-as-you-go basis. Ms. Levine explained that the liability is reported as part of the City's OPEB number.

Ms. Levine asked for the amount that SCA expended for Superstorm Sandy and the amount that SCA anticipates receiving from Federal Emergency Management Agency ("FEMA") in terms of reimbursements. Ms. Egri explained that, in terms of emergency work, SCA had expended about \$96 million and is working with FEMA to obtain reimbursement. To date \$32 million had been approved and, of that, SCA had received \$15 million. As far as the schools that require permanent work, SCA is in negotiations with FEMA to move forward on the work and to determine how much FEMA will reimburse. Ms. Egri stated that by law the reimbursement is 90 percent and SCA is working to maximize the reimbursement levels. Ms. Levine explained that some agencies plan to make improvements, but that does not qualify for FEMA funding as rebuilding. Mr. Mandelbaum pointed out, on page 10, that \$62 million had been spent, and of that SCA determined that \$38 million was non-capital eligible. SCA is strictly a capital fund and will recognize the funds on the books as a receivable from the Department of Education ("DOE").

The Chair asked about SCA's pollution remediation cost. Mr. Mandelbaum explained that SCA has an Environmental Hygiene Department which investigates whether there is asbestos or lead paint at the schools and it provide abatement. Ms. James requested the list of the schools visited. The Chair asked if SCA capitalizes pollution remediation. Mr. Mandelbaum responded that SCA uses capital funding but the costs get charged to the expense budget. Charges to the capital project are transferred to the General Fund and the bond proceeds are also transferred. The Chair asked if DOE does any of its own construction work. Ms. Egri stated that DOE does some of its own capital work, which becomes a pass-through. The DOE bills SCA for work that it does and SCA pays for it.

The Chair referred the Committee to Note 8, *Transactions with the Department of Education and Operating Transfers*, page 13 and asked what would be considered a "technology enhancements." Ms. Egri responded any upgrade to computer wiring or capital purchases that are system-wide. She continued and stated that these enhancements are handled through DOE who work to get the matching grant funding. These enhancements include the large capital technology investments. The Chair asked if SCA employees are members of the DOE retirement system. Ms. Egri responded yes for the most part.

With regard to the management letter, the Chair asked what SCA was doing to rectify the difference between SCA's Human Resources headcount and the number of retirees receiving benefits included in the Office of the Actuary's ("OA") report. Mr. John Hepburn, Comptroller at SCA, commented that SCA met with OA and provided a list of the people that SCA felt should be included. The OA headcount was corrected. Mr. Hepburn stated that the headcount has not changed much over the last year.

The Chair asked whether SCA has its own Audit Committee. Ms. Egri responded yes. The Chair asked, regarding the issue pertaining to "Enhance security controls within Contract Management

13(CM-13) and Oracle Application 11i”, what CM-13 was. Ms. Egri explained that CM-13 is one of SCA’s main systems and is what the construction management department uses to track projects while they are in construction. All of the contractors have access to that system. The Chair asked if SCA had a lot of change orders in fiscal year 2013. Ms. Egri responded that SCA had change orders but they fell within SCA’s budget. The number of change orders varied by groups of projects. The percentage is looked at historically to see if adjustments should be made and the numbers are submitted to the Office of Management and Budget as part of the Certificate to Proceed request. The Chair asked if SCA contracts with general contractors, who contract with sub-contractors. Ms. Egri responded yes. The Chair asked whether contractors receive incentives for completing a project early. Ms. Egri responded no, however there may be penalties if contractors are late, depending on the situation. The Chair asked about the retainage. Mr. Hepburn explained that SCA holds five percent in cash from every payment until the contract is complete. Retainage is released as the punch list items are completed. Contractors are allowed to substitute securities in order to get the cash. Ms. Levine asked if SCA accepts substitutions of letters-of-credit or bonds. Ms. Egri responded no. Contractors may substitute government bonds which may be State of New York bonds or from any governmental entity within the State. At the point of final payment, SCA gets the Certificate of Occupancy and the final retainage is released. A school can be opened with a temporary Certificate of Occupancy, which is when the asset is transferred to the DOE.

There being no further questions the Chair thanked the representatives of SCA for their participation at today’s meeting.

3. 34th Street Partnership Inc. Fiscal Year June 30, 2013

The next agenda item was the review of the financial statements of the 34th Street Partnership Inc. (“34th Street”) Business Improvement District (“BID”) for the fiscal year ended June 30, 2013. Mr. Dan Biederman, President of 34th Street, introduced the other representatives of 34th Street present and Ms. Lisa Hinkson, the representative of KPMG, LLP, 34th Street’s independent auditor.

Mr. Biederman reported that 34th Street has 32 million square feet of office and retail space which includes Madison Square Garden and Penn Station. In 2013, 34th Street had about a \$12 million budget. About 88 percent of 34th Street’s money came from assessments, and the rest came from revenues earned in the parks, other sponsorships and contributions beyond assessments. About half of 34th Street’s budget is used for security and sanitation. SCA’s triple tax exempt loan originated in 1994 and the debt service number has always been about \$1.6 to \$1.7 million. The Debt was refinanced some time ago and the City had been very helpful and cooperative with regard to that refinancing.

Mr. Biederman stated that there were about 160 individuals in 34th Street in 2013 with more than half of them in the sanitation and security area. Sanitation and security is principally unionized, with two different unions. 34th Street does work that other BIDs do not get involved in, including the role of park management.

The Chair asked if 34th Street contracts for services or hires employees to do the work. Mr. Biederman explained that the only contracting that 34th Street does is to water and replace the plants. The litter pick-up is done by an in-house crew, as well as security. The Chair asked if 34th Street maintains its pedestrian mall or is that a City obligation. Mr. Biederman responded that 34th Street does maintain the mall, which includes sweeping and replacing chairs and tables.

There being no further questions the Chair thanked the representatives of the 34th Street for their participation at today's meeting.

**4. Grand Central Partnership, Inc. Grand Central District Management Association, Inc. –
Fiscal Year June 30, 2013**

The next agenda item was the review of the financial statements the Grand Central Partnership, Inc. Grand Central District Management Association, Inc. ("GCP") for the fiscal year ended June 30, 2013. Mr. Alfred Cerullo, President/CEO of GCP, introduced the other representatives of the GCP present and Mr. William Skody, the representative of Skody, Scot & Co., GCP's independent auditor.

Mr. Cerullo stated that 2013 was a significant year for GCP because it was the 100th year anniversary of Grand Central Terminal and GCP celebrated its 25th year as a BID. GCP worked on some very exciting projects in 2013 including the Pershing Square Plaza. GCP, in partnership with the Department of Transportation ("DOT"), plans to create an outdoor plaza on the west side of the viaduct on Park Avenue between 41st and 42nd Street. The GCP and DOT are also working on their Citywide Wayfaring Program, and they are excited about what that will mean to the neighborhood and the millions of people who access the Grand Central community during the course of the year.

Mr. Cerullo stated that GCP was successful at the end of 2013 in refunding its debt. The last time GCP had a refunding it was very successful and resulted in about a \$230,000 per year savings. The bonds will mature in 2022 and GCP estimates a total savings from the refunding of over \$1.7 million.

The Chair commented that the GCP area is becoming more residential. Mr. Cerullo added that BIDs were originally created to capture commercial areas. Over time, however, while the core of GCP is still primarily commercial, there are growing residential areas not only on the periphery but also on

the inside. Mr Cerullo stated that the regrouping of east midtown rezoning will help to tell the story of what the future holds in terms of mixed-use neighborhoods, particularly in the GCP area.

The Chair commented on the homeless population in Grand Central Terminal and how a social welfare program had been implemented to try to help them. Mr. Cerullo commented that historically GCP was involved in that effort, but over time a division spun off into its own not-for-profit, which became the Grand Central Neighborhood Social Service Corporation. That entity continues to exist and is one of the City's largest homeless drop-in centers. The Metropolitan Transit Authority and Metro North now have their own homeless service vendor who is contracted with to handle whatever population in need exists inside the terminal. GCP is under contract with Common Ground to provide services around the terminal and throughout the district, and it works with the drop-in and intake centers and the network that the City has created with the goal of providing long-term housing. Mr. Cerullo stated that GCP has a food event in Grand Central, and the money that is raised gets turned over to the homeless service provider.

Ms. James asked if GCP employees provide sanitation, security and maintenance or if those services are contracted out. Mr. Cerullo responded that only maintenance is contracted out. All other services are performed by GCP employees. Sanitation and public safety employees are also members of collective bargaining unions.

With regard to the auditor's letter, Ms. Levine asked the auditors to identify which estimates were "particularly sensitive" and how they were evaluated. Mr. Skody commented that the most notable estimate had to be the depreciation which is a sensitive and important number but not particularly difficult to validate. Ms. Levine stated that the auditor's letter reads that management has indicated that it intends to correct and record all adjustments and misstatements. She continued and

asked if all of the identified items were actually incorporated into the financial statement. Mr. Skody responded yes. Ms. Levine suggested that GCP revise the letter.

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

5. Department of Education of The City of New York Report to Management – Fiscal Year June 30, 2013

The next agenda item was the Department of Education of The City of New York (“DOE”) Report to Management for the year ended June 30, 2013. Mr. John Wall, Chief Administrator at DOE, introduced the other representatives of DOE present and Mr. Glenn Friedrich, the partner of Deloitte and Touche LLP, DOE's independent auditor.

The Chair stated that the comments did not appear to be serious. Mr. Friedrich added that there were no material weakness but there were deficiencies under the standards, and the auditors reviewed those with management.

Ms. Levine asked, with regard to succession planning, how DOE responded specifically with regard to central administration and the financial administration. Mr. Wall explained that in mid-August the individual who prepared the financial statements resigned. The situation took management somewhat by surprise. In areas that DOE used to have directors and deputy directors, lines have disappeared as a result of budget cuts. Mr. Wall stated that going forward the supervisors will have to take a more active role in preparing financials. Ms. Levine stated that financial reporting is key to transparency and not insignificant, even though the sizing of the staff may be dwarfed by the size of the pedagogical staff. Ms. Levine asked, as far as the timing of the financial statements, whether the work could be started earlier and completed earlier. Mr. Wall responded that when work on the Single Audit

begins in late spring, the audit sample is sent out to the field for the Principals to get payroll and personnel records. The work is directed toward getting the Single Audit completed. The auditors take a second sample for the financial audit; work is not begun on the financial audit until after the Single Audit. Mr. Wall stated that sometimes the sample goes to different entities, and sometimes the sample is not ready to be sent out by June 30th. Ms. Levine asked if school Principals work year round. Mr. Wall responded that not all Principals work year round. Sometimes Principals work in different schools than where the information is stored. Principals do not routinely go into the file cabinets to pull records. Mr. Friedrich confirmed that the process is started prior to June 30th, as the auditors know that DOE staff will be away for the summer. Mr. Wall stated that a concerted effort takes place to address the Single Audit first. The timing is something that DOE is collectively trying to address. Ms. Levine commented that she would like to explore with DOE the possibility retaining records centrally or making sure that the records are more readily available so that the financial statements and audit can be completed in a timelier manner.

The Chair commented that the amount of cash was especially high in some of the larger high school funds in fiscal year 2013. Mr. Wall agreed, and noted that the cash was high, especially in some of the big high schools. He continued and stated that the Principal is responsible for the money. Ms. Levine asked if the DOE has policies with regard to the control of the school funds. Mr. Wall responded that school accounts are audited on a three-year cycle by the Office of the Auditor General. He continued and stated that there is a standard operating procedure for how the funds should be raised, kept, monitored and signed-off on as checks are issued.

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

6. The City of New York Report to Management- June 30, 2013

The next agenda item was The City of New York Report to Management for the fiscal year ended June 30, 2013. The Chair commented that given the size of the City the comments were not very serious. There were very few current year comments, which was a compliment to the management team, as well as to the fact that the City runs well as a business.

Ms. Rose Ellen Myers, Deputy Executive Director at the Financial Information Services Agency (“FISA”), commented on the issue of user access recertification from the prior year and stated that FISA is continuing to work with the agencies to complete security re-certification annually. The agencies are improving marginally every year. With regard to the comment on off-site tape backup, FISA implemented a new process to maintain documentation. The off-site tapes are in kept at a site in New Jersey. Ms. Levine commented that there is a long series of comments and responses regarding the grant management system, but Citywide grant management has yet to be fully explored and prioritized. The City's central accounting system does not have a way of automatically matching specific grant revenues with the specific expenditures that they are intended to fund. Therefore, in order to submit claims, agencies must maintain off-line systems that allow them to accumulate the specific expenditures for which they are seeking reimbursement. All of the records are maintained at the agency level, and different agencies have different systems. It is difficult to generate the Schedule of Expenditures of Federal Awards (SEFA). A systems upgrade and training will be required providing a platform of expertise across the City at a variety of agencies who are aware of federal grant issues.

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

There being no further issues before the Committee, the Committee went into executive session at 11:30 a.m.