



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, FEBRUARY 27, 2019
AT THE OFFICE OF THE COMPTROLLER**

ATTENDANCE

Chair	Michael Spitzer
Private Members	Mark Kaplan Bud Larson Bernard Rosen
Public Members	Representing the Mayor – John Grathwol Representing the Comptroller – Jacqueline Thompson
Secretary	Katrina Stauffer
Independent Auditors	Grant Thornton LLP – Marla Hummel, Hassan Khan, Benjamin Klein, Ben Kohnle, Michael Ryan, Cosmo Saginario Marks Paneth LLP – Warren Ruppel, Melissa Szot
Others	Department of Education of The City of New York – Carrie Bateman, Richard Carlo, Richard Cocchiara, Maria Conklin, Mark David, Barry Elkayam, Suzette Irish, Ali Khan, Marisol Martinez-Williams, John Shea, Dan Stone, Matthew Torell, Katherine Tsamasiros, Desmond White, Margaret Whittaker New York City School Support Services – Stephan Brennan, Brooke Jenkins-Lewis New York City Educational Construction Fund – Jennifer Maldonado, Cynthia Wong New York City School Construction Authority – Marianne Egri, Steven Lawitts, Yi-Wen Wang New York City Mayor’s Office of Operations – Florim Ardolli, George Davis New York City Comptroller’s Office – Camille Arezzo, Minyu Chen, Man Hon Cheung, Leonel Ferreira, Marjorie Henning, Vincenzo Lopes, Veronika Musheyva, Jessica Sanchez, Joan Stapleton, Susanna Tregor New York City Office of Management & Budget – Enid Ellis, Xiaochao Jin, Raymond Lee Mayor’s Fund to Advance New York City – Frederic Begley, Chris Kelsaw Queens College Government and Not-for-Profit Accounting – Jian Xiao (Teacher), 7 Students

Audit Committee Meeting – February 27, 2019

I. Call to Order and Roll Call

Mr. Michael Spitzer, Chairman of the Audit Committee, called the meeting to order at 9:40 a.m.

Ms. Katrina Stauffer, the Audit Committee Secretary, took roll call; a quorum was present.

II. Nomination for Chairman

The first agenda item was the appointment of the Audit Committee Chairman. Mr. Bernard Rosen nominated Mr. Spitzer as Chairman of the Audit Committee. By a unanimous vote, Mr. Spitzer was elected as Audit Committee Chairman.

III. Nomination for Secretary

The next agenda item was the appointment of the Audit Committee Secretary. Mr. Bernard Rosen made a motion to nominate Ms. Stauffer to serve as Audit Committee Secretary. By a unanimous vote, Ms. Stauffer was re-elected as Audit Committee Secretary.

IV. 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. Mr. Rosen made motion to adopt the by-laws. The Audit Committee by-laws were adopted by unanimous vote.

V. Approval of the Draft Minutes of the Audit Committee Meeting held January 23, 2019

The next agenda item was the approval of the draft minutes of the January 23, 2019 Audit Committee Meeting. Chairman Spitzer inquired if there were any comments on the draft minutes as presented. Subject to any non-substantive editorial comments submitted to the Secretary, the Committee approved the draft minutes of the January 23, 2019 Audit Committee Meeting Minutes.

VI. Approval of Annual Report of the Audit Committee of The City of New York

The next agenda item was the approval of the Annual Report. Chairman Spitzer inquired if there were any comments on the Annual Report of the Audit Committee of The City of New York as presented. Subject to the non-substantive editorial comments submitted to the Committee Secretary, the Committee approved the draft of the Annual Report.

VII. 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, 2018:

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

Department of Education of The City of New York Management Report

The first item was the review of the management report of the Department of Education (DOE) of The City of New York for the fiscal year ended June 30, 2018. 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.

Corrective action and improvements are underway for all findings regarding DOE's financial reporting and accounting practices.

Work continues on the process of putting in place the Disaster Recovery Plan. Mainframe operations are backed up and recoverable at the IBM Sterling Forest facility and the facility in Piscataway, New Jersey will have the same abilities. The Business Continuity Plan work will continue throughout the year.

The privileged access project has been completed. Orphan identifications have been removed and the system is linked to the HR system for the ability to provision and de-provision IDs in less than ten minutes. Both distributed systems and mainframe operations for provisioning and de-provisioning at the time of staff terminations are now automated. User administration terminations are also included in this automation.

The Identity Management System will automate the removal of access, such as when someone moves from one school location to another. Appropriateness of access is determined by employee profile.

With regards to donated commodities, meetings have been held with the Financial Management Center that handles the commodities to ensure that calculations are correct and that in-kind contributions are shown on the financial statements in the statement of activities to produce proforma financial statements. For accounting practices, reviews, and approval processing, work continues to ensure DOE complies with all recommendations.

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

- The mainframe systems have been tested at the Sterling Forest facility and backup and recovery of the distributed systems is in place, but will need to be tested at the Piscataway Center once the move is complete.
- Equipment belonging to the DOE is returned as part of the offboarding process and, with the centralization toward single sign-in ID, access to any equipment owned by DOE can be removed.

- All recovery system applications have been tested. The network operations are located at 2 MetroTech Center, and the mainframe operation is at 11 MetroTech Center.
- The Galaxy System is a budgeting system that interfaces with the DOE's Financial Management System (FMS) to create various budget and spending plans.
- An assessment is underway by the Deputy CFO and revenue team to evaluate the current collectability of certain receivables. New reporting models are moving towards reflecting a more accrual-based type of accounting in the future.

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

New York City School Support Services

Steven Brennan, Executive Director of the New York City School Support Services (NYCSSS), introduced other representatives of NYCSSS present and the representatives of Marks Paneth LLP, NYCSSS' independent auditors.

This is the second year NYCSSS is presenting to the Committee. The main focus of NYCSSS is to supply personnel to clean and maintain the schools, and provide payroll and HR functions.

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

- NYCSSS personnel are not City employees; they have a union pension, either under 32BJ or Local 94. They are directly supervised by the school custodians.
- Prior to August 11, 2016, employees worked directly for the custodians.

- NYCSSS is required to report the pension liability but the pension funds are managed by the unions.
- Under all school facilities there is a line for NYCSSS for custodial services that does not include the custodians, who are employed by the DOE.

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

New York City Educational Construction Fund

Ms. Jennifer Maldonado, Executive Director of the New York City Educational Construction Fund (ECF), introduced other representatives of ECF present and the representatives of Marks Paneth LLP, the Fund's independent auditors.

Ms. Maldonado provided an overview of ECF's financial statements. ECF's net position increased by approximately \$25 million. The rental income and tax equivalency revenues from its existing properties grew from \$23.3 million to \$27 million, an increase of 15.8 percent. The developer of the 250 East 57th Street project has continued to close sales on the residential tower's condominium units, which began in March 2017. In connection with the sales from fiscal year 2018, ECF received participation payments of \$18.7 million from the developer, reported as additional rent.

School Construction Authority (SCA) leased approximately 17,000 square feet of space at the 57th Street facility for the new Pre-K at PS 59, which is anticipated to have a capacity of 144 seats.

In September 2018, the City Council approved the project at the Khalil Gibran School and ECF is continuing to work through the development process. The City Council also approved the Coop Tech project, which has been delayed by legal procedures regarding the playground.

ECF was approved by the New York City Comptroller's Office and Office of Management Budget for refunding of its 2007 bonds in fiscal year 2019. In October 2018 new bonds were issued to replace the old bonds at a lower interest rate, achieving a net present savings of about \$6.9 million.

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

- Regarding the Murry Bergtraum and Norman Thomas High Schools, ECF controls the schools, but the non-school portions were sold by the City.
- The Chief Executive is appointed by the Board who is appointed by the Chancellor and the Mayor. There are three board members.

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

New York City School Construction Authority

Ms. Marianne Egri, Vice President of Finance and Human Resources of the New York City School Construction Authority (SCA), introduced other representatives of SCA present and the representatives of Marks Paneth LLP, the Fund's independent auditors.

Ms. Egri provided an overview of SCA's financial statements. This was the fourth year of the sixth five-year plan, which goes from 2015 to 2019. SCA's current appropriation for that is

\$16.5 billion. 2018 was the largest commitment year, during which SCA committed \$3.6 billion, including construction contract awards for 25 new schools with a construction value of \$799 million, as well as construction contract awards for 451 capital improvement projects with a construction value of \$1.5 billion. In 2018, 15 new schools were completed, adding 4,748 seats to the school system.

Currently in construction are 42 new capacity projects and 661 capital improvement projects. For fiscal year 2019 SCA is on track to open 12 new schools, with 3,362 seats. A capital plan for the next five years of \$17.5 billion has been proposed.

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

- There are still controls in place for construction change orders. There is a group that focuses on negotiating change orders and a new system is being implemented in that area.
- The cost per seat is higher in New York, due to state Labor Law 220 requirements and real estate acquisition prices.
- The “half-year convention” is the depreciation method for the first year on capitalized assets.
- All expenditures are funded from capital appropriations.
- The Disaster Recovery plan is behind schedule, but continues forward.
- The draft of the Business Impact Analysis is being reviewed for consistency among all departments and is expected to be completed by March 2019.
- The Business Continuity Plan will be completed by May 2019.

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

VIII. The City of New York Management Letter

The next agenda item was the review of The City of New York Management Letter for the fiscal year ended June 30, 2018.

Grant Thornton, independent auditors, completed the audit of the Comprehensive Annual Financial Report (CAFR) at the end of October, which was previously reported to the Committee. There were no material weaknesses, significant deficiencies, or other control deficiencies. The Committee has been provided formal documentation that there were no material weaknesses identified.

There being no questions, Chairman Spitzer thanked the auditors for their participation in today's meeting.

IX. 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.

X. Adjournment

There being no further business before the Committee, a motion was made to adjourn the February 27, 2019 Audit Committee meeting; the motion was unanimously approved.