

ANNUAL REPORT
OF THE
AUDIT COMMITTEE
OF
THE CITY OF NEW YORK



March 1, 2013 – February 28, 2014

EXECUTIVE SUMMARY

This is the thirty-fifth annual report of the Audit Committee of The City of New York (the Committee). This report covers activities of the 2014 Committee Year, which ended on February 28, 2014.

The Committee reviewed and evaluated the audit approach and monitored the progress of the audit of The City of New York's (The City's) financial statements which were performed by the independent certified public accountants. Based upon a representation from the auditors and its own review, the Committee is satisfied that the audit was performed in accordance with generally accepted auditing standards and *Government Accounting Standards Board (GASB)* and that The City's financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP) for governments.

The Committee is pleased with the cooperative efforts between The City and its independent certified public accountants, Deloitte & Touche LLP, in the audit of The City's financial statements. The Committee congratulates the Comptroller of The City of New York and his staff on being awarded, for the thirty-third consecutive year, the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for The City's Comprehensive Annual Financial Report for Fiscal Year 2012. The Committee also congratulates the Executive Directors and staffs of the following entities for being awarded the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting:

- New York City Employees' Retirement System
- Teachers' Retirement System of The City of New York - Qualified Pension Plan
- New York City Board of Education Retirement System Qualified Pension Plan
- New York City Police Pension Fund
- New York City Fire Pension Fund
- New York City Water and Sewer System
- New York City Deferred Compensation Plan
- New York City Housing Authority

During the year, the Committee continued its review and evaluation of the audit process of the various City component units, covered organizations and Business Improvement Districts (BIDS) that issue bonds. Such involvement includes reviewing the audited financial statements and management letters of these entities. Additionally, the Committee met with the appropriate levels of management and the independent auditors of various component units, covered organizations and BIDS.

On March 20th, 2013 Audit Committee Secretary, Jacqueline Thompson opened up the floor to nominations for the appointment of an Audit Committee Chair. There was a motion for Mr. Bernard Rosen to Chair the Audit Committee. A vote was taken and Mr. Rosen was unanimously voted Chair of the Audit Committee. Mr. Rosen's appointment is for the remainder of a two-year term which began on March 1, 2012 and will expire on February 28, 2014.

On January 13, 2014 New York City Budget Director, Mr. Dean A. Fulreihan appointed Mr. John Grathwol as the Mayor's representative to the Audit Committee of the City of New York. Ms. Nicole Fleming was also appointed by Mr. Fulreihan as Mr. Grathwols representative in his absence. In addition, Ms. Michele Mark Levine was appointed by Comptroller Scott M. Stringer as the Audit Committee representative for the Comptroller and Public Advocate Letitia James appointed Mr. Larry Schimmel as the Audit Committee representative for the Public Advocate.

Respectfully submitted,

Private Members

Bernard Rosen
Mark N. Kaplan
Michael Spitzer
Bud Larson

Public Members

Bill DeBlasio
Scott M. Stringer
Letitia James

February 28, 2014

SECTION I
RESPONSIBILITIES AND OPERATIONS

The Audit Committee of The City of New York is established by, and functions pursuant to, Section 97 of the City Charter, (see Appendix A). The Committee was created in 1979 by the Mayor's Executive Order No. 29. In 1987, the Committee was reorganized by Executive Order No. 111, which superseded the prior order.

The seven-member Committee is constituted as follows:

Private Members:

Two individuals with expertise in finance
Two individuals with expertise in accounting

Public Members:

The Mayor
The Comptroller
The Public Advocate

The Mayor appoints the four private members, two upon the recommendation of the Comptroller. Private members serve two-year terms and continue in office until their successors have been appointed and qualified.

The private members are:

Finance:

Mr. Bernard Rosen
Financial Consultant
Term End: February 28, 2014

Mr. Mark N. Kaplan
Of Counsel, Skadden, Arps, Slate, Meagher & Flom, LLP
Term End: February 29, 2016

Accounting:

Mr. Michael Spitzer
Financial Consultant
Term End: February 28, 2015

Mr. Bud Larson
Financial Consultant
Term End: February 28, 2015

Responsibilities and Accomplishments

The Committee performed the following activities in the 2014 Committee year:

- Reviewed the Report to the Mayor and the City Council on City Comptroller Audit Operations for fiscal year 2012.
- Reviewed and advised on the independent auditor's audit plan for The City.
- Reviewed the progress of the audit of The City's financial statements.
- Provided comments, reviewed and accepted The City and Department of Education Draft financial statements and received explanations for items included in the financial statements.
- Reviewed and evaluated the independent auditors' management letter for The City and the Department of Education, including management's responses.
- Reviewed and accepted The City of New York Single Audit Reports for the fiscal year ended June 30, 2012.
- Reviewed and approved the Comptroller's Office final results of the Request for Information process that was initiated as a way to encourage competition leading up to the issuance of the Request for Proposal (RFP) to select the City's next Independent Auditor.
- Accepted the Audit RFP Selection Committee recommendation to enter into a two year contract with Deloitte & Touche LLP as the City's independent certified public accounting firm to perform the annual audit of the City's financial statements.
- Published an annual Committee report.

Responsibilities Not Assumed

The Committee did not assume responsibility comparable to the above activities with respect to the audits of certain component units, covered organizations, Business Improvement Districts (BIDS) and the various fiduciary funds maintained by The City. The Committee, however, as more fully discussed in SECTION VI, has extended its purview to include involvement with respect to certain of these organizations.

The Comptroller is obligated by the City Charter to undertake audits and investigations of all financial operations of The City and to perform essentially the equivalent of an internal audit function. The Committee receives the annual report on the results of the Comptroller's audit activities. The independent auditors reviewed the Comptroller's audit reports to the extent necessary under generally accepted auditing standards. The Committee did not consider it necessary to make a further review of

the Comptroller's activities.

Operations

The Committee held eight public meetings and six private executive sessions during the Committee Year ended February 28, 2014.

In addition to the members of the Committee (or their representatives, in the case of the Public members), the public meetings were attended at all times by representatives of Deloitte & Touche LLP, the independent auditors for The City.

Minutes of all meetings are on file at the Comptroller's Office and are available for public inspection.

SECTION II

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

The firm of Deloitte & Touche LLP was The City's independent auditors for The City's fiscal year ended June 30, 2013. This firm was not engaged in any non-audit work for The City which would have been considered an impairment of their independence.

The Committee undertook a review of the audit scope, as outlined in the *Audit Plan for The City of New York for the Fiscal Year Ended June 30, 2013*, submitted by the independent auditors.

The Committee is satisfied that the independent auditors performed an audit in accordance with GAAP and *Government Auditing Standards*.

SECTION III

REVIEW OF THE ANNUAL FINANCIAL STATEMENTS

The Committee reviewed the draft financial statements of The City for the year ended June 30, 2013 with representatives of the Comptroller's Office, the Mayor's Office of Management and Budget, and the independent auditors. The Committee considered the draft statements fairly presented. The independent auditors found The City's financial statements to be in conformity with GAAP and rendered an unqualified opinion.

The fiscal year 2013 financial statements include component units and fiduciary funds.

To include these component units and other entities in The City's financial statements, The City relied on the audit reports issued by the independent auditors of the component units and fiduciary funds. A detailed list of independent auditors and associated entities is included in the Audit Committee Schedule at the end of this Annual Report.

SECTION IV

REVIEW OF ACCOUNTING ISSUES

During the year there were no material accounting issues referred to the Committee.

SECTION V

REVIEW OF THE INDEPENDENT AUDITORS' MANAGEMENT REPORT

The City's independent auditors are required by contract to provide The City with comments and suggestions regarding internal controls in a management letter. Review of The City's management report for the fiscal year ended June 30, 2013 occurred at the January 15, 2014 Committee meeting. The auditors reported that no material weaknesses in internal control were found.

SECTION VI

REVIEW OF COMPONENT UNITS AND FIDUCIARY FUNDS INCLUDED IN THE CITY'S REPORTING ENTITY, COVERED ORGANIZATIONS AND BIDS

The financial reporting entity is defined in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity".

GASB No. 14 defines component units as those units of government for which the elected officials of the governmental reporting entity have financial accountability. The Committee's scope also includes those units of government identified as "covered organizations" in the New York City Emergency Financial Control Act.

In addition to the component units, and fiduciary funds mentioned in SECTION III, Committee involvement included the review of the financial statements and management letters of covered organizations and BIDS and also included discussions with the responsible management, when warranted.

The following schedule details the 2014 Committee year review of financial statements,

management letters and other reports and presentations of the following:

- Covered organizations (COV) which are not component units of The City,
- Component units (CU),
- Fiduciary funds (F),
- Business Improvement Districts (BIDS).

APPENDIX A

BY-LAWS
ADOPTED APRIL 4, 1991

ARTICLE I

ESTABLISHMENT OF AN AUDIT COMMITTEE OF
THE CITY OF NEW YORK

SECTION 1. An Audit Committee of The City of New York (the "Audit Committee") has been established pursuant to Section 97 of the City Charter approved by the voters on November 7, 1989, which is incorporated herein and attached hereto.

SECTION 2. The operational guidelines of the Audit Committee ("By-Laws") are set out herein.

ARTICLE II
MEMBERSHIP

SECTION 1. MEMBERS. The Audit Committee will consist of the Mayor, the Comptroller, the President of the City Council*, each of whom serve ex-officio (collectively the "City Members"), and four other persons (the "Private Members").

• On January 1, 1994 the office of the City Council President became the office of the Public Advocate.

SECTION 2. SELECTION OF PRIVATE MEMBERS. The four Private Members will be appointed by the Mayor, two of whom will be appointed upon the recommendation of the Comptroller. The Private Members will include (i) two individuals with expertise in finance, and (ii) two individuals with expertise in accounting.

SECTION 3. TERMS OF PRIVATE MEMBERS. Two Private Members, one of whom will be recommended by the Comptroller, will serve for two year terms commencing March 1, 1990; and two Private Members, one of whom shall have been recommended by the Comptroller, will serve for two year terms commencing March 1, 1991. Succeeding Private Members will serve for a two-year term. Private Members will continue in office until their successors have been appointed and qualified.

SECTION 4. DESIGNATION OF REPRESENTATIVES TO ATTEND AUDIT COMMITTEE MEETINGS ON BEHALF OF CITY MEMBERS. The City Members, who will serve on the Committee as part of their official responsibilities, may designate representatives to attend Audit Committee meetings on their behalf.

SECTION 5. COMPENSATION OF PRIVATE MEMBERS. Private Members will serve without salary. Each Private Member will be entitled to reimbursement for his actual and necessary expenses incurred in the performance of his official duties as a Private Member of the Committee and a per diem allowance of \$150 when rendering services as a Private Member provided that the aggregate per diem allowance to any one Private Member in any one annual term of office will not exceed the sum of \$1,500.00.

ARTICLE III
AUDIT COMMITTEE RESPONSIBILITIES

SECTION 1. The Audit Committee shall advise the City in connection with:

- a. the selection of an independent certified public accounting firm or consortium of firms which shall perform the annual audit of the City's financial statements; and
- b. the establishment of the scope of the aforesaid audit; and
- c. the suspension or withdrawal of authority delegated to an agency pursuant to subdivision H of Section 93 of the City Charter; and
- d. the selection of the independent actuary to perform the actuarial audit required by Section 96 of the City Charter.

SECTION 2. It is recognized that the City's independent auditors shall have final responsibility for determining whether the City's financial statements have been prepared in accordance with generally accepted accounting principles, provided, however, that the Audit Committee may review the progress of the audit and be available for consultation in connection with accounting issues which may arise during the course of the audit.

- a. The City anticipates that any issues referred to the Audit Committee will have first been reviewed by the Office of Management and Budget and the Office of the Comptroller.
- b. Subsequent to the aforesaid review, the Audit Committee shall review

the issue and advise the auditor as to its views on said issue.

SECTION 3. The Audit Committee shall review the financial statements and the accompanying auditor's reports of the City and its component units, and where appropriate, shall comment on any material in the financial statements or in the accompanying auditor's reports.

SECTION 4. The Audit Committee shall review the auditor's management letter and any City and component units' response thereto and where appropriate, shall comment on said letter and the City's and component units' responses.

SECTION 5. The Audit Committee shall be entitled to receive an explanation of any item included in the financial statements, or proposed to be included in the financial statements from the Comptroller, the auditors, or both, and the managements, the auditors, or both, of the component units.

SECTION 6. The Audit Committee may rely on the conduct of an audit committee of a component unit.

SECTION 7. The Audit Committee shall not have the authority to establish accounting policy for the City or the component units and shall not conduct its activities in such a manner as to create the appearance or impression that it has the authority to so establish accounting policy.

SECTION 8. The Audit Committee shall publish an annual report no later than February 28 of each year detailing the activities and decisions of the Audit Committee for the prior twelve (12) months. Members shall have the privilege to dissent and express their dissent or dissents in this report.

SECTION 9. All actions of the Audit Committee shall be on a majority vote unless otherwise specified.

ARTICLE IV
MISCELLANEOUS PROVISIONS

SECTION 1. AUDIT COMMITTEE MEETINGS. The Audit Committee will meet in the beginning of each year for organizational purposes and at such other times as it shall determine are necessary for the fulfillment of its duties and responsibilities. A majority of members shall constitute a quorum. An agenda will be prepared for each meeting and sent to each member of the Audit Committee in advance of such meeting.

SECTION 2. MINUTES OF AUDIT COMMITTEE MEETINGS. The Committee will keep and maintain written minutes of each of its meetings.

SECTION 3. ADOPTION OF BY-LAWS. The Audit Committee, at its initial meeting, or as soon thereafter as is practical shall adopt the aforesaid by-laws to govern its organization and internal management. The Audit Committee may, from time to time, amend said by-laws.

NEW YORK CITY CHARTER EFFECTIVE JANUARY 1, 1990

Section 97 Audit Committee:

a. There shall be an audit committee which shall consist of the Mayor, the Comptroller, the President of the Council*, and four private members appointed by the Mayor, two of whom shall be appointed upon the recommendation of the Comptroller. The members of the committee shall elect a private member as chair for an annual term commencing on the first day of March.

b. The private members of the audit committee shall include (i) two persons with expertise in finance, and (ii) two persons with expertise in accounting. Two private members, one of whom shall have been recommended by the Comptroller, shall serve for two-year terms commencing on the first day of March, nineteen hundred ninety; and two private members, one of whom shall have been recommended by the Comptroller, shall serve for two-year terms commencing on the first day of March, nineteen hundred ninety-one. Private Members shall continue in office until their successors have been appointed and qualified. Private members shall serve without salary but shall be reimbursed for expenses actually and necessarily incurred in the performance of official duties and shall also receive a per diem allowance when rendering services to the committee.

c. The Audit Committee shall:

- (1) approve or disapprove the Comptroller's suspension or withdrawal of authority delegated to an agency pursuant to subdivision H of section ninety-three;
- (2) select a firm or firms of certified public accountants to perform the annual audit of the City's accounts required by section ninety-five;
- (3) assist in the determination of areas of inquiry for, review the progress of, and evaluate the results of, the annual audit required by section ninety-five;
- (4) approve the selection of the independent actuary to perform the actuarial

audit required by section ninety-six; and

(5) perform such other functions as are agreed to by all of the members.

* On January 1, 1994 the office of the City Council President became the office of the Public Advocate.