



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, FEBRUARY 15, 2023
REMOTELY VIA ZOOM MEETING**

ATTENDANCE

Chair	Michael Spitzer
Private Members	Larian Angelo Mark Kaplan Bud Larson
Public Members	Representing the Mayor – Man Hon Cheung Representing the Comptroller – Jacqueline Thompson Representing the Public Advocate – Wesley Paisley
Secretary	Katrina Stauffer
Independent Auditors	Grant Thornton LLP – Marla Hummel, Michael Ryan Mayer Hoffman McCann P.C. – Steven Lee, Philip Marciano, Daniel McElwee, Warren Ruppel BTQ Financial LLC – Surjeet Sehra
Others	New York City School Bus Umbrella Services – Matthew Berlin, Angela Mayo New York City School Support Services – Stephan Brennan, John Cruz, 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, Yi-Wen Wang Department of Education of The City of New York – Maria Conklin, Leonel Ferreira, Amy Huang, William Mardenborough, Omar Pereyra, Francine Perkins-Colon, Seritta Scott, Scott Strickland, Desmond White New York City Mayor’s Office of Operations – Doug Giuliano New York City Comptroller’s Office – Camille Arezzo, Marjorie Henning, Jessica Sanchez, Joan Stapleton, Susanna Tregor New York City Office of Management & Budget – Enid Ellis

Audit Committee Meeting – February 15, 2023

I. Call to Order and Roll Call

Mr. Michael Spitzer, the Audit Committee Chairman, called the Audit Committee Meeting to order at 9:30 a.m. Ms. Katrina Stauffer, the Audit Committee Secretary, took roll call; a quorum was present.

[Mr. Spitzer announced it will be Bud Larson’s last meeting. Mr. Larson was acknowledged for his contributions to the New York City Audit Committee and to the Office of Management and Budget.]

II. Nomination for Chairman

The first agenda item was the appointment of the Audit Committee Chairman. Ms. Katrina Stauffer asked for a nomination for Chairman. Mr. Michael Spitzer was nominated and, by 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 a nomination for secretary. Ms. Stauffer was nominated and, by unanimous vote, 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. A motion was made to adopt the by-laws; the by-laws were adopted, subject to minor modifications.

V. Approval of the Draft Minutes of the Audit Committee Meeting held January 15, 2023

The next agenda item was the approval of the draft minutes of the Audit Committee Meeting held January 15, 2023. A motion was made to accept the minutes. The Committee approved the minutes of the January 15, 2023, Audit Committee Meeting, subject to any non-substantive editorial comments submitted to the Secretary.

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

The next agenda item was the approval of the Audit Committee of The City of New York's Annual Report. The Annual Report of the Audit Committee was approved for the year ending February 28, 2023. The Committee noted inconsistencies on pages 10 and 12, for which Chairman Spitzer stated that the Charter language on the City's responsibility regarding auditors should be used.

VII. **Presentation of the Financial Statements and Management Letters**

The next agenda item was the review of the financial statements and management letters (where applicable) of the following entities for the fiscal year ending June 30, 2022:

- New York City School Bus Umbrella Services
- New York City School Support Services
- New York City Educational Construction Fund
- New York City School Construction Authority

New York City School Bus Umbrella Services

Mr. Matthew Berlin, Chief Executive Officer of the New York City School Bus Umbrella Services (NYCSBUS), introduced other representative of NYCSBUS present, the representative of financial management company BTQ Financial LLC, and Mayer Hoffman McCann P.C., NYCSBUS' independent auditors.

NYCSBUS is a non-profit school bus company formed two and a half years ago. On October 29, 2021, NYCSBUS acquired the assets of MV Reliant, including 850 school buses and hired virtually all 1,700 Reliant employees. NYCSBUS is under contract with the New York City Department of Education (DOE) and transports 9,500 children on 791 routes. The NYCSBUS annual budget is \$190 million.

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

- NYCSBUS has an audit committee; its board reviews audit matters.
- Financial management was outsourced to BTQ Financial LLC because it was not a good time to hire more staff during the rushed transition.

- NYCSBUS noted that professional fees were associated with significant outsourcing in Fiscal Year 2022, a management agreement with Reliant Transportation, the city's largest school bus contractor, and increased fees associated with buying the bus company. Fees will be substantially reduced in Fiscal Year 2023.
- NYCSBUS stated that professional fees services outsourced by NYCSBUS, including financial management, human resources, legal and insurance services, and bus repair.
- If NYCSBUS gets paid for undelivered school busing services, it is a liability.
- The "issuance of lease financing" at \$7 million was related to Governmental Accounting Standards Board (GASB) 87, *Leases*, the lease standard.
- The valuation of buses was completed by the parties who negotiated the deal.
- NYCSBUS noted there was a difference in the fund balance classifications. The assigned, committed, and the unassigned classifications involve constraints; restricted fund balances versus non-spendable fund balances would be more of a restricted item; it is terminology related to generally accepted accounting principles.
- The approximate value of the expenses not properly accrued at year end was largely one large expense due to the newness of the company and uncertainty about expenses.
- A fleet management system maintains the buses; NYCSBUS stores a minimal inventory of bus repair parts and supplies.
- COVID did not interfere with obtaining parts during the auditing period.

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

New York City School Support Services

Ms. Brook Jenkins-Lewis, Chief Financial Officer of the New York City School Support Services (SSS), introduced other representatives of SSS present, and representatives of Mayer Hoffman McCann P.C., SSS' independent auditors.

SSS provides custodial service for NYC schools and employs 6,500 to 7,500 workers, depending on the time of year, including cleaners, handy persons, and engineers. SSS works with the DOE custodial engineers, who manage employees to keep schools clean and safe.

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

- SSS confirmed that custodian engineers are employees of the City, and custodian helpers were contracted through SSS.
- Regarding prior issues with custodian engineers, SSS noted that, in 2016, the DeBlasio administration asked the DOE to move away from indirect systems that gave custodian engineers excessive latitude in budgets and hiring. Custodial services were consolidated and centralized for better efficiency and control.
- Custodian engineers are still DOE employees but no longer have personal financial responsibility over their assignments.
- SSS explained that, when schools locked down due to COVID, only essential staff were retained, which was reflected in the decreased salaries from 2019 to 2020. In 2021 and 2022, in addition to incremental union increases, extra COVID cleaning and widespread staffing shortages created the need for more overtime hours.

- SSS was not able to provide exact overtime hours but will send the information to the Secretary.
- SSS has an audit committee.
- SSS does not own real property.
- Regarding the difference between protected and actual earnings, SSS stated that it considers it an actuarial-adjusted fluctuation that was related to their measurement under GASB 68, *Accounting and Financial Reporting for Pensions*. The number reflected changes in the asset value in the pension plan versus the liability.
- The SSS staffing levels are almost back to pre-pandemic levels.
- Staffing and overtime fluctuations are often due to unforeseen events, such as the lead removal initiative and clearing major snowfall.

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

New York City Educational Construction Fund

Ms. Jennifer Maldonado, Chief Executive Officer of the Educational Construction Fund (ECF), introduced other representatives of ECF present, and representatives of Mayer Hoffman McCann P.C., ECF's independent auditors.

ECF is a state authority tasked with building DOE schools through mixed-use public partnerships. ECF currently manages 16 properties, with another under construction and more under consideration.

For Fiscal Year 2022, the ECF generated a net operating income of \$17.8 million compared to \$15.3 million in Fiscal Year 2021, which was restated due to the GASB 87 provisions. ECF's rental income and tax equivalency payments from the 16 properties grew from \$35 million in Fiscal Year 2021 to \$36.5 million in Fiscal Year 2022.

The project at 80 Flatbush Avenue is on track for the school opening in the fall of 2024. The project includes the first "passive house" school in NYC, which is a state-of-the-art energy efficient technology, and the City's first all-electric residential high-rise.

ECF worked with the City's Department of Housing Preservation and Development and Office of Management and Budget to extend the lease of a property in West Harlem to 99 years. The tenant will convert over 500 apartments in the building into affordable units over the lease term.

ECF has restarted its Co-op Tech project in East Harlem, which was stalled by litigation and COVID for over five years.

Analysis of potential development sites is ongoing.

ECF noted that GASB 87 was the biggest influence on financials in Fiscal Year 2022.

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

- The \$10 million development distribution was adjusted in 2021 due to a loss of zoning opportunity through the Uniform Land Use Review Procedure process, and meeting the obligation of the entire school floor plan meant adjusting payments to the developer by adding \$10 million. The number was based on initial construction costs for the building.

- ECF noted that the management discussion and analysis provides an explanation about investment income. Most of the investments were short-term and carried at amortized cost, but one or two bonds were carried at fair value, which decreased because of the increased interest rates after purchase.
- ECF stated that it did not suffer monetarily due to COVID but did suffer construction goal setbacks.
- Almost all ECF investments are in treasury bills, and ECF has a money market account with, and collateralized by, Chase Bank.
- ECF noted that “shelter rent” refers to the funding mechanism for affordable housing; the wording was used in the original agreement from the 1970s.

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

Ms. Marianne Egri, Vice President of Finance and Human Resources at the New York City School Construction Authority (SCA), introduced other representatives of SCA present, and representatives of Mayer Hoffman McCann P.C., SCA’s independent auditors.

Fiscal Year 2022 was the third year of SCA’s seventh five-year plan, with a current total of \$20.1 billion. In 2022, SCA committed \$4.37 billion and awarded construction contracts for 40 new schools. with a construction value of \$1 billion.

Construction contracts were awarded for 404 capital improvement projects with a construction value of \$1.7 billion. In September of 2022, SCA opened 35 new schools and added 8,863 seats

to the school system. Currently there are 73 capacity projects, and 754 capital improvement projects, and SCA is on track to open 25 new schools in September 2023, adding 6,500 seats to the school system.

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

- SCA confirmed it did fall behind on construction due to COVID but was able to make it up. Projects were reprioritized based on need when construction resumed, and capacity projects moved first.
- The Committee noted that the report did not mention the fact that the negative pension performance in 2022 was erasing the gains made in 2021, when pension valuations were favorable.
- SCA confirmed that its high annual insurance premium was due to the volume of work, SCA has wrap-up insurance to cover all contractors, and it has always been SCA's practice.
- Americans with Disabilities Act obligations are billed into construction projects.
- SCA now has cyber insurance because of management letter recommendations. The cyber insurance primarily covers ransomware attacks. Controls and stipulations are assessed and upheld by SCA and the insurance carrier.

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

VIII. New York City Department of Education Management Report

The next agenda item was the review of the New York City Department of Education Management Report for the fiscal year ending June 30, 2022.

Ms. Maria Conklin, Executive Director of Financial Operations at the New York City Department of Education (DOE) introduced other members of DOE present.

DOE stated progress has been made since the last meeting in terms of the security findings.

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

- Many of the recommendations were tied to 2024 because the same product would be configured to solve all the issues related to access and changing roles within the organization. Given the size and complexity of the system, and the variety of roles and ongoing transitions of employees, it was a large task. Individual logging and monitoring are in place as automatization is developed.
- DOE noted that GASB 87 required recording the value of the leases and the related liability as of the date of implementation, which was July 1, 2021. The date used during implementation was the beginning of each lease. The City is reviewing the process for next year.
- DOE confirmed it used valuation data from the New York City Comptroller's Office.

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

IX. Executive 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

Following the Audit Committee's return to Public Session, there being no further business before the Committee, a motion was made to adjourn the February 15, 2023, Audit Committee Meeting; the motion was unanimously approved.