



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, MARCH 27, 2024
AT THE OFFICE OF THE COMPTROLLER
AND REMOTELY VIA ZOOM MEETING**

ATTENDANCE

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| Chair | Michael Spitzer |
| Private Members | Larian Angelo Mark Kaplan Marcia Van Wagner |
| Public Members | Representing the Mayor – Paul Tymus Representing the Comptroller – Jacqueline Thompson Representing the Public Advocate – Wesley Paisley (via Zoom) |
| Secretary | Katrina Stauffer |
| Independent Auditors | EFPR Group – Douglas Zimmerman Grant Thornton LLP – Sharon Campbell, Kyle Chuber, Nicholas Lazzaruolo, Kevin Morris, Michael Ryan Mayer Hoffman McCann P.C. – Krystal Dong, Phil Marciano, Daniel McElwee (via Zoom) RESF Advisers, Inc. – Thomas Gallagher |
| Others | The Mayor’s Fund to Advance New York City (the Fund) – Kamaria Brisseau, Najma Ali Chermin New York City Tax Lien Trusts (NYCTLs) – Man Hon Cheung New York City Water and Sewer System (System) – Raymond Lee, Joseph Murin, Kenny Narine, Omar Nazem, Laura Neesley (via Zoom), Nameca Sharma, Phil Wasserman, David Womack Hudson Yards Infrastructure Corporation (HYIC) – Raymond Lee, Kenny Narine, Laura Neesley (via Zoom), Nameca Sharma, Phil Wasserman, David Womack New York City Transitional Finance Authority (TFA) – Raymond Lee, Kenny Narine, Laura Neesley (via Zoom), Nameca Sharma, Phil Wasserman, David Womack |

TSASC, Inc. (TSASC) – Raymond Lee, Kenny Narine, Laura Neesley (via Zoom), Nameca Sharma, Phil Wasserman, David Womack

New York City Department of Education (DOE): Leonel Ferreira, Scott Strickland, Demond Waters (via Zoom), Desmond White

New York City Office of Management & Budget – Linda Maldonado, Anthony Odunsi

New York City Mayor’s Office of Risk Management & Compliance – Julian Ross (via Zoom)

New York City Comptroller’s Office – Nigelle Alleyne, Yvonne Beaubrun, Francesco Brindisi, Elizabeth Brown, Carmen Chan, Minyu Chen, Grace Cheng, Peter Flynn, Veronika Musheyeva, Kieran Persaud, Giovanna Quezada, Jessica Sanchez, Joan Stapleton, Vishal Sukhu, Susanna Tregor (via Zoom),

Audit Committee Meeting – March 27, 2024

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.

II. Motion to Accept Minutes of the February 28, 2024 Audit Committee Meeting

The first agenda item was the approval of the draft minutes of the Audit Committee Meeting held February 28, 2024. The Committee approved the minutes of the February 28, 2024 Audit Committee Meeting, subject to any non-substantive editorial comments submitted to the Secretary.

III. 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 ended June 30, 2023:

- The Mayor’s Fund to Advance New York City
- New York City Tax Lien Trusts
- New York City Water and Sewer System
- Hudson Yard Infrastructure Corporation
- Transitional Finance Authority

- Tobacco Settlement Asset Securitization Corporation
- New York City Department of Education

The Mayor's Fund to Advance New York City

The representatives of the Mayor's Fund to Advance New York City (the Fund) introduced themselves and the representative of EFPR Group, the Fund's independent auditors.

There was a restatement for the 2022 financial statements for accounts payable improperly recorded for \$148,000, and a material weakness regarding the recording of grant revenues and expenditures. The Fund lost \$886,000 in Fiscal Year 2023, a portion of which was attributable to investment losses.

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

- The Fund stated that it had been in a transitional period, with an interim Executive Director, but that it is aware of the issue regarding several million dollars that were exposed to custodial credit risk.
- The Fund noted plans to move funds from the general checking account to a money market account.
- The Fund raises money for programs identified by the City. Once the City identifies an initiative or public program, the Fund fundraises from the private sector. The Fund must secure all the funding upfront from the funder; once secured, it enters into a grant agreement and the funds are received in a lump sum upfront or in several installments. The secured funds are restricted for a specific City program.

- Money that comes into the Fund is restricted, therefore any investment losses are considered unrestricted losses and other unrestricted funds would offset, which happened in Fiscal Year 2023.
- There are nine employees at the Fund.
- The City agency identified in each program contracts work with the vendor and monitors expenses.
- The negative net position in unrestricted funds was a result of investment losses.
- The Fund stated that the trust filed for the Employee Retention Credit (ERC) was a portion of the stimulus received in 2021. Effectively, it was a refund of employment taxes from the Internal Revenue Service.
- The Fund explained that, as it is a nonprofit, non-City entity, it has its own procurement process, which is a streamlined version of the City process. The New York City Corporation Council reviews contracts instead of the Comptroller.
- The Committee discussed the material weakness of the recording of grants on a cash basis. The Fund confirmed the issue is being addressed.
- The Fund noted that the mayor selects the board members, and the management team actively supervises investments.
- The Fund stated that, while the Fund's contractors are not confidential, it is unsure if there is a central depository where all Mayor's Fund contractors and contracts could be viewed.

- The Fund acknowledged its history of cash accounting, but rectifying the situation has been its priority.
- The Fund recognizes the high turnover and notes that it is working to establish protocols to ensure longevity in processes and procedures. The Fund agreed that it would follow-up with the Committee Secretary about the continuity plan.

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

New York City Tax Lien Trusts

- NYCTL 1998 – 2 Trust
- NYCTL 2019 – A Trust
- NYCTL 2021 – A Trust

Mr. Man Hon Cheung, Assistant Director for Accounting Services for the New York City Office of Management and Budget, introduced the other representatives of the New York City Tax Lien Trusts (NYCTLs) present, and the representatives of EFPR Group, NYCTLs' independent auditors; RESF Advisers, NYCTLs' Program Managers; and Mayer Hoffman McCann, compiler of the NYCTLs.

During Fiscal Year 2023, all assets and liabilities were transferred back to the 1998 NYCTL, and there were no new offerings in 2023.

Total assets for the 2021-A NYCTL were \$56 million in Fiscal Year 2023, which decreased by \$47 million compared to Fiscal Year 2022.

The NYCTLs were primarily the enforcement vehicle for delinquent real property tax collection, and water and sewer charges. Properties have a certain eligibility requirement,

depending on their tax class and assessment, of sufficiently aged delinquencies. The City has an elaborate pre-sale noticing process requiring 120, 90, 60, 30, and 10 days prior to a sale.

To complete the sale, the City creates a special purpose Delaware trust, sells the liens to the trust, the trust purchases the liens from the City by entering capital markets, raising money from bond holders, and the bond proceeds were used to pay the City for the liens. The NYCTL then has collection agents notice property owners to attempt to collect the debt. If taxpayers do not voluntarily redeem the liens or enter payment plans with the NYCTL, foreclosure proceedings occur.

The NYCTLs have essentially been the City's property tax enforcement mechanism. Every sale creates a new trust, and when the bonds were paid off, any remaining collateral was consolidated into the residual repository 1998-2 NYCTL. As cash flow increases with collections, the funds were earmarked back to the City.

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

- The NYCTLs confirmed that the 1999 to 2018 NYCTLs were closed out.
- The NYCTLs stated the current service providers were easily able to scale up, and during the pause the Trusts have retained institutional knowledge to execute the sale, and did not expect any problems in going forward with a new sale on reauthorization.
- The NYCTLs noted that over 15,000 Class 1 properties were in the beginning of the sale process, and only 2,000 get sold in a typical sale. In the overall portfolio, about 2 percent of the sale balance will go to the foreclosure/liquidation process, which was 40 to 50 hours.

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

New York City Water & Sewer System, Hudson Yard Infrastructure Corporation, Transitional Finance Authority, and Tobacco Settlement Asset Securitization Corporation

Mr. Raymond Lee, Comptroller for the New York City Water and Sewer System (the System), Hudson Yard Infrastructure Corporation (HYIC), Transitional Finance Authority (TFA), and Tobacco Settlement Asset Securitization Corporation (TSASC) introduced the representatives of those entities present; the representatives of Grant Thornton (the System's independent auditors), and the representatives of Mayer Hoffman McCann (independent auditors for HYIC, TFA, and TSASC).

New York City Water & Sewer System

The System is comprised of the New York City Municipal Water Finance Authority and the New York City Water Board and, collectively, the two entities finance the water and sewer system and collect water revenues while the New York City Department of Environmental Protection operates the System.

Overall, the System's revenue increased by \$450 million from Fiscal Year 2022 to Fiscal Year 2023. Operating revenues increased by \$324 million, which reflected the 4.9 percent water rate increase, along with an overall increase in water consumption in Fiscal Year 2023.

Non-operating revenues increased by \$128 million from Fiscal Year 2022 to Fiscal Year 2023, primarily due to boosted investment earnings. The System's overall expenses increased by \$438 million at the end of Fiscal Year 2023. Operations and maintenance expenses increased by \$135 million, attributed to the City's collective bargaining settlement with DC-37.

Other operating expenses increased by \$75 million, primarily due to program expenses, pollution remediation expenses, and the System's Filtration Avoidance Determination. Interest expenses increased \$112 million from Fiscal Year 2022 to Fiscal Year 2023, due to the issuance of bonds and overall higher interest costs. Restricted cash, cash equivalents, and investment at the end of Fiscal Year 2023 were around \$3 billion, up \$400 million from Fiscal Year 2022. Total capital assets net of depreciation increased by \$497 million, reflecting the construction work in progress and the recognition of \$1 billion of depreciation expense.

In Fiscal Year 2023 the Water Authority issued \$2.4 billion in bonds, of which \$1.8 billion was used for refunding, and \$600 million was new money bonds. The Authority also issued \$367 million in refunding bonds and \$538 million in new money to the State ECF. Overall, the Authority reimbursed \$1.7 billion to the City for construction costs, and the refunding transactions resulted in gross present value savings of \$200 million.

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

- The System confirmed that the bank accounts for the local water fund are collateralized.
- The System is still on pace with the Ashokan project and its preliminary fieldwork and design are underway; core design work is scheduled to start in Fiscal Year 2027 or 2028.
- System customers were offered amnesty on accrued interest if they paid their base balance in full. The amnesty program generated \$105 million of additional revenue and forgave \$22 million in late interest, which the System considers successful.

- The System stated that the bad debt expense was an offset to current revenue collections, which is why the bad debt expense was reported as part of the operating revenues.
- System stated that the bad debt was against collections, which were part of the operating expenses.
- The Authority used bond proceeds to pay upstate contractors for watershed protection.

Hudson Yard Infrastructure Corporation

The audit of Fiscal Year 2023 financial statements for HYIC resulted in an unmodified report. There were no material weaknesses over internal controls, and there were no material findings in terms of compliance that related to the financial statements.

Transitional Finance Authority

TFA collected \$17.2 billion of income tax revenue in Fiscal Year 2023, an increase of \$2.2 billion from Fiscal Year 2022, and TFA retained \$1.3 billion of income tax revenue. TFA also received a \$2.2 billion debt service prepayment grant from the City, which was an increase of \$21 million from the previous year. Investment earnings totaled \$55 million, \$74 million more than Fiscal Year in 2022.

TFA distributed \$3.9 billion of capital bond proceeds to the City, a decrease of \$173 million from the prior year. TFA paid \$1.6 billion of principal and \$1.8 billion of interest on tax-secured bonds, and paid \$192 million on principal, and \$370 million of interest on the building aid revenue bonds.

TSA issued \$3.8 million of tax-secured bonds for capital purposes, \$2.1 billion of tax-secured refunding bonds, and \$564 million of building aid revenue bonds.

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

- TFA was authorized to issue \$13.5 billion outside of the City's debt limit, and all other bond issuances were included under the constitutional debt limit. The estimated outstanding debt for TFA was close to \$47 billion.
- TFA does not generally hold cash balances because the money typically goes to the City, or is invested immediately, but it will review the issue with internal counsel. The Committee Chairman requested a follow-up be sent to the Audit Committee Secretary for distribution to Committee members.

Tobacco Settlement Asset Securitization Corporation

TSASC collected \$198 million of tobacco settlement revenues in Fiscal Year 2023, an \$11 million decrease from Fiscal Year 2022. Revenues were sufficient to fully fund the scheduled debt service payments and partially replenish liquidity reserves. TSASC had \$3.3 billion of investment earnings, which was \$3.4 million more than Fiscal Year 2022. TSASC transferred \$124 million of unpledged tobacco settlement revenue to the trust, which was \$7 million less than the prior year, and paid \$28 million in bond principal and \$48 million in interest in Fiscal Year 2023. TSASC has \$938 million of bonds outstanding as of June 30, 2023.

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

- Regarding an unamortized loss on refunding, TSASC stated that, although a refunding may show an accounting loss, it would still have a positive economic benefit.
- TSASC confirmed that bonds have not been issued in approximately seven years, referring to the outstanding debt footnote.

There being no further questions, Chairman Spitzer thanked the representatives of the System, HYIC, TFA, and TSASC for their participation at today's meeting.

Department of Education Management Report

The representatives of the Department of Education (DOE) introduced themselves and the representative Grant Thornton LLP, DOE's independent auditors.

DOE noted several Information Technology (IT) findings in its reports. There was a significant deficiency and several control deficiencies.

There is a plan to migrate the legacy FAMIS database to an up-to-date version that does not allow sharing of accounts. Resources are being allocated for the transition to begin in the next fiscal year.

Segregation of duties was another item in the report. Non-IT personnel had administrative access to the operating system and application level.

The management letter item about a terminated employee was resolved.

The user access review item resulted in the DOE recognizing their lack of procedures to review users of the FAMIS and the Galaxy application.

The item regarding shared accounts on the FAMIS SQL Server indicated current recommended password complexity settings were not being enforced, which DOE equivocated to the issue of

the shared accounts using SQL authentication. The DOE will migrate the FAMIS SQL Server to a standard active directory-based authentication which has greater password complexity.

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

- The DOE confirmed that all administrative rights on the accounts were designed around a legacy database structure. In the new structure, administrative (privileged) access will be elevated as needed and removed automatically when no longer required. To make the necessary changes, the migration of the FAMIS SQL Server is necessary. The shared accounts used by the system will continue to show up on the audit until the database is migrated to the current standard.
- The database has been in use for over 20 years.
- DOE confirmed all system transactions are logged and actively monitored by trusted personnel. There is no external access to the databases.
- The DOE will clean up the eight identified accounts.
- The DOE stated that, as a follow up to last year's finding, the DOE conducted a manual review of all the FAMIS access accounts to develop an automation process, and the manual review will occur again this year.
- Users with FAMIS system access will have their ID disabled automatically when they separate from service, but the account will still appear to have access when queried. The user ID must be manually modified to read clean on an audit. The manual review will be replaced by future automation.

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

IV. Executive Session

Chairman Spitzer asked for a motion to enter Executive Session. A motion was made to enter Executive Session for the purpose of discussing non-public financial information about The City of New York. The motion was unanimously approved.

V. Adjournment

There being no further business before the Committee, a motion was made to adjourn the March 27, 2024 Audit Committee Meeting; the motion was unanimously approved.