

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE
OF
NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION
December 14, 2016

A meeting of the Audit Committee (the “Committee”) of New York City Economic Development Corporation (the “Corporation” or “NYCEDC”) was held, pursuant to notice by an Assistant Secretary on Wednesday, December 14, 2016 at the Corporation, 110 William Street, Conference Room 5B, New York, New York 10038.

The following members of the Committee were present in person or by means of a conference call at the above-indicated meeting of the Committee (the “Meeting”), constituting a quorum:

- William Candelaria, Chairman (present in person)
- James McSpirtt (present in person)
- Gail Mellow (attended by phone)

In addition, the following members of NYCEDC staff were present:

- Finance: Kim Vaccari – CFO, Spencer Hobson – Treasurer, Fred D’Ascoli – Controller, Raafat Osman – Deputy Controller
- Internal Audit (“IA”): David Price

Also present was a representative- from Ernst & Young LLP (“E&Y”):

- Chris Sullivan – Senior Auditor

The meeting was called to order at 9:00 a.m. by Mr. Candelaria.

1. Approval of the Minutes of the September 21, 2016 Audit Committee meeting

Mr. Candelaria asked if there were any questions or comments relating to the minutes of the September 21, 2016 Committee meeting as submitted. There being no questions or comments, Mr. Candelaria motioned to approve the minutes, Ms. Mellow seconded the motion and the minutes were approved.

Mr. Candelaria stated that the next item on the agenda was Internal Audit Activity Update.

2. Internal Audit Update

Mr. Price directed everyone's attention to Tab 2 in the hardcopy book or page 8 if using Board Effects.

Mr. Price began the update with audits completed during FY17. It was noted that reports had been issued for five (5) Projects. Projects 1, 2 and 3 were projects related to the year-end close by E&Y, whereby, NYCEDC Internal Audit staff performed testing to help E&Y complete NYCEDC's year-end financials. No deficiencies were found as part of that testing. Project #4 was a pre-construction audit of the West Thames Bridge. Mr. Price noted that based on the testing, four (4) issues were found relating to:

1. Lack of oversight of invoice payments
2. Lack of controls on an internal budget tracker tool
3. Lack of formal MWDBE reviews
4. Lack of formal policies and procedures for the Capital Group

As construction did not begin on the West Thames Bridge during the course of testing, Mr. Price noted that Internal Audit plans to perform additional testing now that the construction phase has commenced. Results of the construction phase testing will be distributed as an appendix to the completed report or as a separate memorandum.

Project #5 Prevailing Wage Compliance was an audit from the FY16 Audit Plan which resulted in three (3) findings related to:

1. Vendor non-compliance
2. Lack of monitoring and oversight
3. Lack of prevailing wage training

Mr. Price reported that final reports have been distributed accordingly and are available for review.

Ms. Vaccari stated that there had been a general concern with the monitoring of prevailing wages so an audit was initiated. NYCEDC has since implemented an extensive action plan and added a dedicated headcount to monitor prevailing wages, and fix this problem going forward.

Mr. Price then discussed the status of the FY17 Audit Plan. He noted that fieldwork has been completed on an additional three (3) projects and the reports are currently in draft form. Management responses are being drafted as well as target remediation dates. There are four (4) audits currently in progress with testing underway, leaving six (6) projects on the plan that have not started. Mr. Price reported that IA is on target and on schedule to complete all audits by end of fiscal year 2017.

Next, Mr. Price discussed the status of open issues. At the September 2016 Audit Committee meeting, Internal Audit reported that 115 issues dating back to 2013 were catalogued and being followed up on. 28% of the issues were closed as of the September Audit Committee meeting, and at present, 48% of the open issues are now closed. IA is working closely with management and performing tests to ensure that the open issues have been addressed and remediated.

Mr. Candelaria inquired about MIS audits being conducted. Mr. Price stated that the MIS process was previously audited by outside consultants and also noted an internal IT Auditor was recently hired to lead these types of projects. Ms. Vaccari noted until recently, there have been few MIS audits compared to most corporations that perform several a year. NYCEDC has gradually included MIS testing into the annual audit plan and after having completed a few, a number of issues have been raised, such as access control.

Ms. Mellow asked about a new technology audit process that contains metrics and reports. Mr. Price explained that IA has not defined the scope of the IT audits as of yet; however, those metrics will be considered in future planning. Ms. Vaccari further explained that our current MIS department does have metrics that management looks at on a weekly basis (including stress on the system, down time, etc.). We started to undertake a very significant project for the automating of our Accounts Payable process. NYCEDC has dedicated the funds and the resources to build a system that will help us improve that.

Mr. Candelaria stated that next item on the agenda is the Implementation of New Policies. The first policy to discuss is the Change Order Policy.

3. Change Order Policy

The first policy Mr. Price discussed was the Change Order Policy. As part of a FY16 audit, KPMG was engaged to document the current change order review and approval process at NYCEDC and provide recommendations to improve the efficiency. Some of the recommendations from their review included formalizing the guidelines across

the organization which governs the change order review process ensuring that change orders and approval letters are reviewed (and approved) in a timely manner. One of the most important recommendations made was to ensure that change orders/approval letters are approved before work is completed in the field. A new Change Order Policy has been distributed to department heads and this is intended to go into effect on January 1, 2017. Management is going to monitor this procedure for three months to observe the response time and then re-evaluate the results.

Mr. Candelaria stated that the next policy on the agenda is the Equipment Tracking Policy.

4. Equipment Tracking Policy

Mr. Price provided an update on the Equipment Tracking & Disposition policy. NYCEDC is required to follow strict guidelines and regulations regarding the treatment of property and fixed assets. This requirement comes from a number of areas including GASB rules, PAAA, federal grant compliance rules, City capital spending rules, etc. A policy and procedure for the tracking and disposition of equipment and other personal property by NYCEDC is currently being revised. Equipment used for NYCEDC operations, as well as purchases by a contractor or consultant (in connection with an NYCEDC project) for use during the course of the project will also be addressed in this revised policy. Management is working closely with the business units to finalize the policy and is expecting to have this completed by year end.

5. Energy Price Risk Management Program

Ms. Vaccari stated that the Energy Price Risk Management Program (fuel hedging) is a policy that NYCEDC will be bringing up at the Board Meeting next week. The purpose of this program is to establish some parameters around NYCEDC being able to hedge some new cost exposures that the corporation will now have to the fuel market. NYCEDC is in charge of implementing the new Citywide Ferry System ("CFS") that will be launched next summer. In an effort to mitigate that risk, the corporation has hired an experienced fuel hedging advisor to advise on the different types of products and structures that can be used to protect NYCEDC against the rising cost of fuel. Mr. Candelaria stated that given the scope of the CWS project, it would make sense to hedge, but he asked if this had been discussed with the auditors to understand the accounting impacts. Mr. Hobson stated that NYCEDC will be speaking to a specialist from E&Y to discuss the different scenarios and how they will potentially be treated in the financials. It will be in compliance with the applicable GASBs and will be adequately disclosed. Ms. Vaccari specified that we are trying to lock in budget certainty for CFS fuel costs only, and that the program will not be used for any speculative purposes. Ms. Vaccari asked the Audit Committee if this program was satisfactory; and if so, that she would present this to the Board. Mr. Candelaria and the Audit Committee had no objections.

6. Session with Auditors

Session with Auditors was not required by the Committee.

7. Session with Management

Ms. Vaccari had a closed discussion with the Committee.

8. Adjournment

There being no further business to come before the Committee, the meeting was adjourned at 9:50 a.m.