



New York City Housing Authority
Department of Internal Audit & Assessment (IA&A)

Minutes of Audit Committee Meeting
July 21, 2020

Board and Audit Committee Members:

Victor A. Gonzalez, Co-Chair
Mark N. Kaplan, Independent Member
Richard P. Kuo, Independent Member

NYCHA Board and Staff Members- Present:

Gregory Russ, Chair & Chief Executive Officer
Vilma Huertas, Special Advisor to the Chair
Annika Lescott, Vice-President Finance & Chief Financial Officer
Tricia L. Roberts, Vice-President of Internal Audit
Jeffrey Lesnoy, Controller, Financial Accounting & Reporting Services
Hyacinth Jeffers, Acting Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Paula Mejia-Martinez, Administrative Assistant, Department of Internal Audit & Assessment

Deloitte & Touche LLP – Present:

Jill Strohmeyer, Lead Engagement Managing Director
Darshan Patel, Senior Manager

Technical Support Team – Present:

Luis Andre Sr, Frank Cavaleri, Frank Iannone, Humberto Rosero, Ray Zamaria.

A meeting of the Audit Committee members of the New York City Housing Authority (the “Authority”) was held remotely¹ on July 21, 2020 at approximately 10:15 AM.

Hyacinth Jeffers, Acting Director of the Department of Internal Audit & Assessment, commenced the meeting by welcoming the Audit Committee members and the attendees.

I. Approval of Minutes:

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the November 21, 2019 Audit Committee meeting, subject to one correction mentioned by Mr. Kaplan.

II. NYCHA Chair’s Remarks:

Ms. Jeffers introduced the NYCHA Chair & Chief Executive Officer, Mr. Gregory Russ to the Audit Committee, and invited him to make a presentation to the Audit Committee.

Mr. Russ stated that he has been working with public housing and HUD programs for 47 years. It is a great

¹ Because of the ongoing COVID-19 health crisis and in relation to Governor Andrew Cuomo’s Executive Orders, the Audit Committee Meeting of the New York City Housing Authority, held on Tuesday, July 21, 2020 at 10:00 A.M., was limited to viewing the live-stream or listening via phone instead of attendance in person.

pleasure and opportunity to be in New York and August 12th would mark his first anniversary in New York. Audit Committee is very important to the functioning and the structure of the agency.

Mr. Russ explained that the Authority's spending is predominantly Federal, which has changed over the years because of commitment from the State and the City to address the capital needs in light of the Compliance Agreement signed with HUD, the Southern District of New York and the City. The Authority is in the process of drafting a package of strategies: (1) Capital strategy, (2) Reorganization Plan, and (3) Investment Strategy.

New York must do a lot in terms of property and asset investment. As a normal landlord, the Authority would have invested every 20 years in our buildings. However, in 60 years, it has missed three cycles of investment because of lack of funds. The appropriations for capital funds can vary every year depending on the political winds in Washington. Mr. Russ stated that he is excited to begin the review process with Deloitte and the Committee.

Mr. Gonzalez thanked Chairman Russ for attending the committee. He inquired whether NYCHA is addressing privacy laws. Mr. Russ responded that the Federal Privacy Act governs a significant portion of what NYCHA does and the Act has specific requirements for sharing individual information. For example, we cannot disclose tenants' social security numbers. Chair Russ further elaborated that the privacy issue has also arisen regarding sharing certain information with the Department of Health related to COVID. It is very limited what the Authority can do at that level without the person's informed consent.

Mr. Kuo asked whether the reorganization plan is being driven by the City's and the State's current financial difficulties in terms of its possible impact on NYCHA. Mr. Russ responded that the plan is being driven by the Agreement, which is unprecedented and is HUD's version of a monitor ship. It has established compliance areas, such as lead, mold, pests, elevators, heat and HUD annual inspections, which need to be considered as part of the risk assessment. The Agreement also required the Authority to do reorganization.

Mr. Kaplan did not have any questions for the Chair.

Chair Russ stated that we would be glad to figure out a regular way to brief the committee on compliance areas. Ms. Jeffers thanked the Chairman Russ for his presentation and time.

III. Deloitte's Audit Plan for 2019 Audit:

Jill Strohmeyer, Managing Director from Deloitte & Touche ("Deloitte") presented the Audit Plan for an independent audit of the New York City Housing Authority.

Deloitte has been engaged to audit the New York City Housing Authority, along with its two component units NYCHA Public Housing Preservation I, LLC and NYCHA Public Housing Preservation II, LLC, as well as the Single Audit in accordance with Uniform Grant Guidance for the year ended December 31, 2019. The Deloitte Audit is based on auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit is governed by two sets of standards because of the Federal funds received by NYCHA.

A critical facet of Deloitte's audit approach is the risk assessment process. The team designs the audit to identify and address significant audit risks so that they can conclude whether the financial statements are presented fairly in accordance with the generally accepted accounting principles. While conducting risk assessment, the Deloitte team focuses on "big-ticket" items – critical items that matter most to the users of financial statements.

Ms. Strohmeyer further stated that they also used various specialists to provide feedback on key management estimate areas:

- Actuarial specialists to test pension and other post-employment benefit liabilities
- Specialists in testing claims liability
- Pricing Center Specialists in independently valuing investments as of the end of the year
- IT Specialists in testing the internal controls around information technology controls, user access security, passwords, etc.
- Specialists in testing journal entries.

The engagement team will consist of the following members:

- Jill Strohmeyer, Lead Engagement Managing Director, is responsible for all services provided to the Authority, including signing the financial statements.
- Darshan Patel, Senior Manager, to assist in day-to-day activities of both financial audit as well as the single audit.
- Terry Kile, Engagement Quality Control Reviewer, as a second level review partner will be responsible for evaluating the overall conclusion of the audit for quality control purposes.
- John Potts is one of the specialists who is instrumental in reviewing the other post-employment benefits (OPEB) and pension liabilities.
- Emilia Maguire is the IT specialist who will review controls around IT.
- Santiago Jaramillo is the Senior Auditor on the account who is in charge of much of the substantive work.

Ms. Strohmeyer further elaborated that the team's risk assessment really begins with understanding the business and focusing on what matters most to users of the financial statements and in determining which material account balance or disclosure is critical.

The Deloitte team also tests control activities surrounding identified risks to ensure that they are designed and implemented as management has intended. Based on this testing, they determine the nature and extent of the substantive test and the detailed work to be performed on an account balance.

For the 2019 audit, Deloitte has identified one significant risk: "Management override of controls" which is generally identified as a primary area of significant risk for all the engagements. Because of its unpredictable nature, this risk could result in a material misstatement resulting from fraud and is thus an area of audit focus.

Deloitte team uses Deloitte Optix, a proprietary quantitative financial analysis tool, to identify unusual trends in journal entries, account balances and ratios. For example, it focuses on journal entries posted on weekends, unusual large amounts, rounded numbers, or entries posted to the general ledger by individuals who don't normally post journal entries, etc. The team performs detailed work on such entries. The team also reviews estimates for any bias or unusual transactions.

As a part of the risk assessment process, the Deloitte team also had discussions about fraud with key members of senior management, the Chair, the Chief Financial Officer, the General Manager, along with the Internal Audit department. They also reviewed relevant internal audit reports and the audit plan.

There are additional areas of focus for 2019 not considered significant risk but significant to the financial statements as follows:

- Capital assets, including construction work-in-progress

- Cash, Investments, and Debt
- Pension and Other Post Employment Liabilities
- Claims Liability
- Tenant revenues
- Subsidies and grants revenue – the team reviews these items not only as part of the capital but also as part of the single audit compliance work
- Environmental pollution and remediation liabilities (specifically lead paint remediation and abatement)
- Rental Assistance Demonstration (RAD) and PACT² transactions.

As mentioned previously, the team reviews the internal audit reports provided by the internal audit group; however, they do not use the internal auditors in performing any work and they do not rely on any work performed by internal auditors.

Ms. Strohmeier discussed a summary of reports to be issued related to 2019 and the timeline of the audit which has changed as a result of occurrence of COVID since March 2020. They will issue a report on the financial statements of NYCHA along with an independent auditor's report on both of the component units related to the Public Housing Preservation LLC's.

At the next Audit Committee meeting in September, Deloitte will issue the required communication letter to the Audit Committee describing the results of the audits and later in the year, they will also issue the Single Audit reports, reports on internal controls and compliance, and the reports on the major programs. At the conclusion of the audit, the Deloitte will also issue the agreed upon procedures on REAC submission to HUD.

Ms. Strohmeier provided highlights of some of the technology tools that the audit team uses:

- Optix is used to test journal entries and to analyze risk of management override of controls.
- Iconfirm is used to send confirmations regarding cash, investments, debts, etc. to third parties electronically rather than sending them via mail or courier service.
- Deloitte Connect is used to transmit sensitive information, such as payroll information or data containing social security numbers, securely between NYCHA and Deloitte.

Ms. Strohmeier briefly discussed the Peer Review Report³ completed by Grant Thornton LLP. The most recent report was issued in November 2017, and Deloitte received the highest possible rating of “Pass”. Grant Thornton is conducting reviews of audits across the country, and the expected results for the 2020 peer review will be issued by the end of 2020 or into 2021.

Ms. Strohmeier stated that she is not aware of any other non-attest services for NYCHA that Deloitte is performing and as a result there are no independence conflicts to be reported to the Committee.

On technical updates, Ms. Strohmeier explained that Governmental Accounting Standards Board (“GASB”)

² Permanent Affordability Commitment Together (PACT) program creates public-private partnerships to repair and manage the developments. It generates a sustainable funding source for extensive repairs and ongoing property management while guaranteeing permanent affordability and protecting tenant rights. PACT is New York City's implementation of the federal government's Rental Assistance Demonstration (RAD), which includes collaboration between NYCHA, residents, and housing advocates.

³ Every three years, independent auditing firms are required to go through a Peer Review, in which the Peer Review firm reviews the firm's system of processes and controls as well as select engagements.

issued a Statement Number 95 in 2020, which has delayed implementation of GASB statements by one year to 18 months due to COVID⁴.

Ms. Strohmeyer concluded her remarks on Deloitte's 2019 planned audit approach and service plan for the New York City Housing Authority, and invited the audience for any questions that they may have.

Jeffrey Lesnoy, Controller asked for a confirmation as to whether there were any deficiencies in the area of Management Override of Controls. Ms. Strohmeyer affirmed that at this point Deloitte team has no evidence that there have been any control deficiencies to testing of management override of control.

Mr. Kuo inquired whether Deloitte has done any independent analysis of the numbers on the environmental liability related to lead or other environmental issues in the housing complex. Ms. Strohmeyer responded that Deloitte is currently in the process of completing their audit work regarding the environmental pollution remediation liability specifically lead paint, and they expect to complete it in two to three weeks. The Deloitte team is independently reviewing management assumptions, methodologies and estimates involved in calculating the liability amount, and they are asking for the appropriate audit evidence and support where necessary.

Mr. Kaplan raised concern regarding an approximate 20 billion dollars amount required to bring the physical assets up to date. He asked: "Considering that NYCHA has a huge physical plant, the depreciation account is based upon an assumption of a straight-line depreciation over a fixed period of time, and a huge amount would be needed to bring it up, has that affected the Deloitte audit approach at all and are you going to require some comment about that?"

Ms. Strohmeyer responded that the Deloitte team tests the capital assets including any construction work in process. They also have conversations with management around any type of impairment analysis under the GASB related standards. Deloitte inquires if management has identified a significant event and if so what the impairment looks like. Most notably Hurricane Sandy was an event that triggered impairment for many of the Deloitte's governmental clients. Currently no accounting literature requires reporting related to deferred maintenance.

Mr. Kaplan provided an example of the oil companies. They are all looking at the carrying value of their reserves and one of the big companies has just been severely criticized for not writing it down when others have taken multi-billion dollar write-offs.

Ms. Strohmeyer explained that there are differences between FASB (Financial Accounting Standards Board) and GASB literature. GASB is really more focused on recording fixed assets and capital assets at cost, where on the FASB side, there is more of a push for fair market value measurements. As it stands now, NYCHA's recording of capital assets at cost is appropriate under the accounting literature.

Mr. Lesnoy commented further on Mr. Kaplan's question that most of NYCHA properties are 30, 40, 50 years old, and they are either fully depreciated or depreciated to a great extent. They have not been adjusted to market value. In general, the actual market value of the buildings is higher than the book value.

⁴ The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. It postpones the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in some pronouncements are postponed by one year, and the effective dates of the Statement No. 87, Leases and Implementation Guide No. 2019-3, Leases are postponed by 18 months.

Mr. Gonzalez asked who can be contacted in the Deloitte team if Audit Committee Members have any questions. Ms. Strohmeier responded that the Committee can reach out directly to her or Darshan with any questions related to financial audit, single audit or other services provided by Deloitte to the Authority.

III. Deloitte's Update on 2019 Audit:

Darshan Patel, Senior Manager from Deloitte provided the current status of the 2019 Audit, and its highlights are as follows:

- The Deloitte team has already completed the planning process, which includes the fraud discussion, independence, updating internal controls policies, IT control reviews, etc.
- The testing of the main areas such as capital assets, pension and other post-employment benefits, tenant revenues, journal entries, cash flows, etc. has been completed.
- The audit team expects to complete the testing of GASB 49 environmental and pollution remediation liabilities, and the real estate transactions by end of August.
- The audit team is also testing going concern assumptions and subsequent events, including a new note regarding COVID.
- The auditors have received legal letters from internal and external counsel and will update the legal letters again in the month of August.
- The second-level partner is expected to complete the review of the financial statements by end of August.
- The Deloitte team expects to issue the opinions on the financial statements around September 17th.

From Single Audit perspective, Mr. Patel stated that they will issue the Single Audit reports and the REAC submission in December. The initial target date was September; however, HUD has extended the due date due to COVID. As a result, the final reports will be issued in December 2020.

Mr. Patel further stated that the total Federal expenditure was three billion dollars for 2019. Based on the Federal guidelines, the Deloitte audit team has selected the following four programs for testing:

- Hurricane Sandy CDBG Disaster Recovery Grants
- Public Housing Capital Fund
- Disaster Grants, and
- Hazard Mitigation Grant Program.

Mr. Patel concluded the presentation with a comment that management was very helpful in providing the required documentation even though everybody was working from home this year.

Mr. Kuo inquired whether the financial statements will be presented to the New York City Audit Committee in September or December. Annika Lescott, Chief Financial Officer responded that they plan to submit the statements approved by the Audit Committee and the NYCHA Board by October 1, 2020. Ms. Lescott added that she would reach out to the NYC Comptroller's Office to confirm the date of the meeting.

Mr. Gonzalez asked whether the financial statements are ready. Ms. Lescott explained that the Deloitte team is in the process of testing some outstanding items, including the environmental liability per GASB 49. The Finance team expects a September 17th presentation for the NYCHA Audit Committee.

IV. IA&A Presentation – 2020 Proposed Audit Plan:

Tricia L. Roberts, Vice-President of Audit presented the 2020 Proposed Audit Plan. Ms. Roberts stated that her team does an enterprise risk assessment every year across the entire Authority, so that we can look at the risks operationally, financially and from the perspective of regulatory compliance.

In performing the risk assessment, the team reviewed the risk scores over the last three years to analyze trends in all operational units. They developed the plan based on the EVP input. We reviewed the draft audit plan with the Chair and the General Manager and are now presenting the plan to the Audit Committee. Upon review by the Audit Committee, it will be presented to the NYCHA Board for approval.

In developing the plan, the team considered the factors such as NYCHA's strategic goals, resident services, financial systems, optimal use of staff, HUD and City regulations governing NYCHA, etc. The Risk Assessment Questionnaires were sent out to all the executives who worked with their Director and staff to respond to the questionnaires. The operational units were asked questions such as what factors affected the operations in light of the Federal monitor ship, what challenges they faced in 2019, what were the biggest risks in their areas, what were important factors which kept them from achieving their goals, what were the current compliance and regulatory requirements, etc. The internal audit team has been working collectively with the compliance team as well as the executives to understand what they are doing, what systems they rely on, how they go about mitigating risk, and whether there are any significant turnovers or changes in their particular area.

Considering the potential impact, severity and likelihood of risk, and the team creates a raw score for each executive area. They calculate a weighted risk composite score based on number of risks.

In the last four years, the internal audit team has been keeping score of what the risks are across the entire Authority and looking at the changes and what are the issues impacting them. For example, Community Engagement score is going down because in the beginning when they were doing RAD program, they had to engage the community to gain an understanding of the program, but the community now understands the principles and the risk scores are moving down. In the areas of Finance, the scores have been historically going down, but they are now moving up because of the new funding that they're getting, and the use of those funds associated with the Agreement as the Chair mentioned. Similarly, Healthy Homes, which deals with lead remediation, and Compliance Department in light of the Federal Monitorship are new areas whose scores are pretty high because of changes stemming from the Federal Agreement.

Additionally, over the time, Quality Assurance and Real Estate are those particular areas which either didn't exist or there is a more need for them in this current environment. In performing the risk assessment, the team also considers prior internal audit reports as well as the audit reports issued by the NYC Comptroller's Office.

NYCHA management and staff have been open, very willing and many times are suggesting many of the audits or the assessment to get a perspective on what is going on and what is the root cause of the issues.

Based on the analysis performed of the risk universe at NYCHA, the internal audit team is proposing a total of 40 assignments: 21 audits and 19 assessments, which are included in the 2020 Proposed Audit Plan.

The internal audit team will review the Federal Agreement to provide a high-level assessment how NYCHA is doing on those particular areas. Ms. Roberts elaborated that the team has been working closely with the Compliance team, and she herself meets with the Chief Compliance Officer on a regular basis.

Ms. Roberts further briefed the Committee regrading Audit Metrics and stated that the internal audit work is now more involved.

Concluding her presentation, Ms. Roberts pointed out that the Audit Committee Members were sent copies of the audit reports completed in 2019. She requested the Audit Committee Members to select particular areas to discuss with the respective Executives. Ms. Roberts invited Hyacinth Jeffers, Acting Director of Audit to provide a high-

level overview of the reports that were sent to the Audit Committee.

Ms. Jeffers briefed that the 2019 audit plan contained 42 audits, of which 31 audits have been completed. Most of the IT audits were carried forward to 2020 in light of the risk assessment performed by Experis, which was presented to the Committee in November 2019 meeting.

Ms. Jeffers stated that the team was awaiting final responses from various departments and upon receipt of their responses, the reports will be issued as final.

Ms. Jeffers further stated that internal audit team reviewed the Rental Assistance Demonstration (RAD) program, operating subsidies, door lock monitoring system, etc. where they were able to point out areas to be improved.

Mr. Kuo questioned about the Audit Metrics slide: Ms. Roberts explained that the number identifies the areas reviewed by the audit team and is based on the areas of findings and need for corrective actions. It is based on the impact of those particular areas, where if the corrective actions are not implemented or fixed, the areas would probably be at risk. Mr. Kuo commented that you are looking at “Scope” or the total cost element. Ms. Roberts agreed.

Mr. Kaplan stated: “From the public company context, I am used to seeing internal audit identify actual savings and the amounts recaptured. Can you demonstrate that the internal audit function actually captured money or saved money?” Ms. Roberts responded that NYCHA is not a public company. However, we are basically highlighting the amounts of impact for each audit or assessment. In terms of the budget, we may ask for additional staff based on our needs, but it is really not a one-for-one absolutely, since we have to share the savings, or the revenue increases amongst the entire executive staff and the Authority. Our main objective in providing the impactful information is to ensure that corrective actions are taken to address the deficiencies and issues associated with a particular process.

Concluding the discussion regarding the presentation, Ms. Jeffers mentioned that the Audit Committee Members were sent the 2020 Proposed Audit Plan and sought the Committee approval if everyone was in agreement, so that the plan can be presented to the Board for its approval in the upcoming Board meeting.

Mr. Kaplan asked whether the plan was discussed with the external auditors. Ms. Strohmeyer commented that internal audit will share the approved plan with Deloitte during their 2020 audits. Ms. Jeffers added that internal audit will add any critical area to the plan during the year if suggested by Deloitte or others.

Mr. Kuo inquired why External Affairs did not respond to the request for their input in the audit plan. Ms. Jeffers stated that the responses were not received despite the follow-ups. Vilma Huertas, Special Advisor to the Chair clarified that NYCHA did have an EVP for External Affairs previously. However, there is no such position in the current organization chart.

Mr. Gonzalez said that he would discuss his concerns offline, so that the approval process is not on hold.

Upon motion duly made and seconded, the Audit Committee members accepted the 2020 Proposed Audit Plan, subject to review of items and subject to additional audit areas as needed.

Adjournment:

The Audit Committee meeting was adjourned at approximately 12:10 PM.