



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

Minutes of Audit & Finance Committee Meeting
April 16, 2024

Board and Audit & Finance Committee Members - Present:

Victor A. González, Chair of Audit & Finance Committee (also Vice Chair of New York City Housing Authority)
Mark N. Kaplan, Independent Member
Richard P. Kuo, Independent Member

NYCHA Staff Members - Present:

Annika Lescott-Martinez, Executive Vice President & Chief Financial Officer (“CFO”)
Jeffrey Lesnoy, Vice President & Controller, Financial Accounting & Reporting Services
Amita Patel, Deputy Controller, Financial Accounting & Reporting Services
Arlene Nieves, Senior Advisor to CFO
Katherine Magrane, Senior Counsel, Contracts Division, Law Department
Wilma Huertas, Special Advisor to the Chief Executive Officer
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Avik Das, Administrative Auditor, Department of Internal Audit & Assessment

Deloitte & Touche LLP (“Deloitte”) – Present:

Jill Strohmeyer, Lead Engagement Managing Director
Darshan Patel, Senior Manager
Bobby Soni, Audit Manager

A meeting of the Audit & Finance Committee (“AFC”) of the New York City Housing Authority (“NYCHA” or the “Authority”) was held on April 16, 2024, at approximately 10:00 AM.

Mr. Agrawal commenced the meeting by welcoming the AFC members and the attendees. Mr. Das conducted the roll call of the meeting attendees. The meeting had the required quorum.

I. Approval of the December 12, 2023, Audit & Finance Committee Meeting Minutes:

The motion to approve the minutes from the last meeting was moved by Mr. Gonzalez.

Before voting on the December 12, 2023 AFC Meeting minutes, Mr. Kuo raised a query regarding the reimbursement of indirect costs, suggesting that NYCHA is eligible to apply under OMB circular A87 to charge back Federal programs and recover some costs if possible. He further indicated in sum and substance that there are two (2) indirect cost rates for which the City is eligible. There is a central indirect cost rate for purchase for personnel where the City applies to the federal government for reimbursement.

He mentioned that it's unclear if NYCHA has applied for it or not and asked for clarification at some later point. Ms. Strohmeyer will look into this and advise.

Mr. Kuo also indicated that the way the minutes read is satisfactory.

Mr. Kuo further indicated that there are a couple of grammatical issues that may not need to be addressed at this point.

Mr. Agrawal commented that any grammatical corrections or spell-check errors could be communicated later and would be corrected before issuing the final minutes and posting on the website.

Upon motion duly made by Mr. Gonzalez and seconded by Mr. Kaplan, the AFC unanimously approved the minutes of the December 12, 2023 AFC meeting with the minor grammatical adjustment mentioned above.

II. Deloitte's Status Update for Fiscal Year 2023 Annual Comprehensive Financial Report (ACFR) of NYCHA and NYCHA Public Housing Preservation I, LLC:

Ms. Strohmeyer presented the update for the Fiscal Year 2023 Annual Comprehensive Financial Report ("ACFR") of NYCHA and NYCHA Public Housing Preservation 1, LLC. Ms. Strohmeyer began by outlining that Deloitte is in the process of completing the Fiscal Year 2023 audits for NYCHA as well as NYCHA Public Housing Preservation I, LLC.

Ms. Strohmeyer indicated that as of today, Deloitte has completed many planning procedures as outlined below:

- Assessed Deloitte team independence
- Updated our understanding of NYCHA and NYCHA Public Housing Preservation 1, LLC
- Updated our understanding of the control environment
- Determined materiality
- Performed preliminary analytical procedures on account balances
- Prepared audit confirmations related to legal, cash, investments, and debt
- Read meeting minutes of the Board of Directors and AFC

- Held internal planning meetings with audit specialists: IT, Pension, OPEB, Claims, Leases

Ms. Strohmeyer mentioned that testing of the following areas has started and presented the procedures in the process as outlined below:

- Testing of internal controls including IT controls, business process controls, controls over account balances and entity level controls
- Testing of the following areas:
 - Cash and investments
 - Capital assets, including construction in progress and asset retirement obligations
 - Operating receivables
 - Accounts payable and accrued expenses
 - Long-term debt
 - Pension and other post-employment benefits liabilities
 - Claims liabilities
 - Tenant revenue and unearned revenue
 - Subsidies and grants revenue
 - Capital Contributions

Additionally, Ms. Strohmeyer indicated that Deloitte has begun to review two (2) additional items as follows:

- GASB 94, which relates to Public-Private and Public-Public Partnerships. Ms. Strohmeyer explained that GASB 94 is a new implementation, and Deloitte is now commencing the completeness testing procedures related to that new adoption.
- GASB 96, which relates to Subscription-Based Information Technology Arrangements. Ms. Strohmeyer stated that GASB 96 is another new accounting standard that will be implemented this year, which is a retroactive adoption from the Fiscal Year 2022. Deloitte is beginning the process of testing both the Fiscal Year 2022 balances as well as Fiscal Year 2023 balances. Deloitte will be testing both for completeness and accuracy.

Ms. Strohmeyer presented the timeline of the Fiscal Year 2023 audit process as outlined below:

- **April 2024**
 - Testing of real estate transactions
 - Testing of Leases (Right-Of-Use Assets, Liability, Receivable and Deferred Inflow)
 - Complete all other testing areas noted above
- **May 2024**
 - Testing of GASB 49 environmental and pollution remediation liabilities including

lead paint assessment

- Expense testing - corollary work with Deloitte internal specialists
 - Journal entries, including adjusting entries
 - Testing consolidation and elimination of journal entries (NYCHA and NYCHA Public Housing Preservation 1, LLC)
 - Testing Statement of Cash Flows
 - Reviewing the financial statements and testing footnotes
 - Drafting the management representation letter
- **June 2024**
 - Testing going concern assumptions.
 - Testing subsequent events (anything that happened after December 31, 2023)
 - Obtaining legal letter updates from internal and external counsel
 - **Early/Mid-June 2024**
 - Second-level review partner to begin review of the financial statements end of May/ early June.
 - Presentation of Deloitte's audit findings to the AFC
 - Anticipate being in a position to issue audit reports on the financial statements (on or shortly after June 11, 2024)

Ms. Strohmeyer paused for a moment before proceeding to discuss the Single Audit, and asked if there were any questions related to the status of the financial statement audits for NYCHA and NYCHA Public Housing Preservation I, LLC.

Mr. Kaplan inquired about the potential impact of the arrests reported in the newspaper on the audit. Ms. Strohmeyer responded by stating that Deloitte had been informed of the events that occurred last month. Conversations have taken place with NYCHA management, as well as internally within Deloitte. Ms. Strohmeyer mentioned that they would be examining controls specific to procurement and micro-purchases more closely. Mr. Kaplan expressed his hope that every single control would be examined. Ms. Strohmeyer assured Mr. Kaplan that Deloitte looks at all key controls related to the financial statements and will look at these this year. Ms. Strohmeyer mentioned that adjustments may be made as a result of actions taken by various parties following last month's events. Ms. Strohmeyer also advised that it was her understanding that policy and procedure changes are being made as well.

Mr. Gonzalez raised a question regarding the potential financial impact of the required retesting of apartments for lead. He asked about the significance of this impact in terms of percentages or numbers. Mr. Lesnoy responded, stating that while the results have not yet been finalized, the initial indications suggest a continued rise in the positivity rate as testing progresses. Last year's financial statements showed a positivity rate of about 35%, which was reflected in the pollution remediation liability. Currently, the rate is up to 43%, representing roughly a 25% increase in costs. He noted that there may be additional impacts on the liability, but this increase alone could amount to approximately \$800 million.

III. Deloitte's Status Update for Fiscal Year 2023 Single Audit of NYCHA:

Ms. Strohmeyer outlined the single audit update, mentioning that there are four (4) reports related to the single audit, which she will discuss further upon issuing the single audit report in September 2024. Ms. Strohmeyer indicated that she would like to have Mr. Patel provide an update on the preliminary assessment of major programs related to the single audit of NYCHA.

Mr. Patel explained that in the Fiscal Year 2023, the Authority received about \$4 billion in federal grants, surpassing the OMB threshold of \$3 million. There are approximately five (5) major programs with funding exceeding \$3 million. Based on the risk assessment, Deloitte will be auditing three (3) programs for Fiscal Year 2023 out of the five (5), totaling about \$2 billion, as follows:

- Public and Indian Housing - Operating Grants – ALN# 14.850 (selected because of a material finding for which the Authority did not complete all corrective actions relating to environmental contaminants in the prior fiscal year)
- Public Housing and Indian Capital Fund - ALN# 14.872 (HUD requires to certify expenditures from the prior fiscal year - close out program - tested every year)
- Community Development Block Grants – ALN# 14.218 (not tested in last 3 years - required to be tested in Fiscal Year 2023)

Mr. Kuo requested a broad definition of compliance concerning these grants, questioning whether it involves adhering to the amount of money given and spent according to the grant guidelines, or if it also includes performance along with financials.

In response, Mr. Patel explained that HUD issues compliance guidelines in April of every year for the Public and Indian Housing Operating Grant, Public Housing and Indian Capital Fund and Community Development Block Grant. He mentioned that auditors are required to follow 12 basic aspects outlined in the guidelines, although not all are applicable each year.

Ms. Strohmeyer added that there are 12 compliance requirements for every Federal grant, but auditors do not test all of them each year. She clarified that in many cases, the Office of Management and Budget (“OMB”) advised that auditors need to test five (5) or six (6) requirements, which are usually outlined by OMB in a publicly available compliance supplement on their website.

Ms. Strohmeyer further explained that allowability is a common compliance requirement that auditors must test. This means ensuring that expenditures were made on allowable expenses as stated in the grant agreement. For instance, if the agreement specifies spending a dollar on equipment, the auditor tests to ensure that the dollar was indeed spent on equipment.

Another compliance requirement is procurement. If funds are allocated for equipment, they must go through a formal procurement process. The auditor then tests that the procurement process followed all necessary processes and procedures, in accordance with the grant agreement.

Additionally, the period of availability is important. If the grant agreement specifies spending the funds within a certain time frame, the auditor ensures that the funds were used within that period.

In conclusion, Deloitte tests various compliance requirements outlined by OMB to ensure that NYCHA is following the grant agreement. Any deviations found become a finding of the single audit report.

Mr. Kuo inquired about Deloitte's consideration of third-party reviews of programs, such as those from the City Comptroller. He asked if Deloitte would include such reviews or comments in their review process. Mr. Patel explained that federal regulations require Deloitte to follow up on any findings made by federal agencies reviewing HUD reports. If the findings by federal agencies are not remediated, Deloitte is required to include them in their report. However, Mr. Patel noted that comments from state or city agencies cannot be included in the federal report.

Ms. Lescott-Martinez requested a clarification from Mr. Patel, stating, "Could you please explain what the material finding was in the Public and Indian Housing Operating Program for the prior year? I believe this is important." Mr. Patel responded, "So, that pertains to the Public and Indian Housing Operating Fund, which is part of the special tests conducted for HUD programs over many years. Two years ago, HUD included new compliance requirements related to environmental remediation in one of these special tests. This encompasses any remediation activities, such as water, building, or other environmental remediation carried out in any given year. The key term here is 'given year.' It's not feasible to complete all remediation in one year. In the Authority's case, there is ongoing lead remediation, but it's not completed annually. We discussed with HUD that completing it in one year isn't practical, but HUD indicated that we need to report a finding regardless. Now, why is the finding material? Because the amount of the liability to remediate is material. OMB may advise that you are allowed to take 5% of expenditures as materiality."

Mr. Gonzalez inquired about who determines the internal audits that must be conducted and whether Deloitte maintains constant communication with those departments responsible for determining internal audits. Ms. Strohmeyer responded, "Deloitte does not determine the internal audits to be performed by our clients; that decision is made by management." She further explained that while Deloitte and internal auditors communicate regularly, Deloitte typically reviews a copy of the internal audit plan to understand where the focus will be. Deloitte may offer suggestions or comments, but the final decision on the focus of internal audits lies with the internal audit team.

Mr. Gonzalez then directed the question to the Internal Audit team, asking about the determination process. Mr. Agrawal replied, "Generally, the Department of Internal Audit decides based on their risk assessment. However, there are plans to outsource the internal audit function. An RFP was issued, and we have received proposals that are currently under evaluation."

Richard Kuo raised a question regarding the third major program to be tested by Deloitte - Disaster Grants from FEMA, specifically Super Storm Sandy money. He asked whether this was a disaster fund or a community block grant. Mr. Patel confirmed that the HUD disaster grant from FEMA in the earlier presentation is incorrect; it should be a Community Development Block Grant ("CDBG"). Ms. Lescott-Martinez further clarified, mentioning that there are two (2) kinds of CDBG - the disaster version and the regular version. Mr. Patel indicated that currently, Deloitte only has information on the Community Development Block Grant.

Ms. Strohmeyer confirmed that the allocation number is correct, 14.218, but apologized for the incorrect description in the presentation.

Mr. Kuo then asked if all the Superstorm Sandy money had been spent. Mr. Lesnoy indicated that it is still ongoing. Mr. Kuo inquired about the duration of the ongoing expenditure.

Mr. Gonzalez expressed understanding of the situation, stating, "I can only attest to the intense damage that it performed. The intense damage that hurricane caused is horrible, so it's going to take them some time. There are still developments going through problems with that issue. I too thought that this should be done by now, and it's not; there are still developments suffering from that." Mr. Kuo then inquired, "I understand that, but shouldn't the money be spent within a certain time frame?" Mr. Gonzalez responded that he doesn't know. Mr. Kuo requested clarification if FEMA is providing extensions every year.

Ms. Lescott-Martinez suggested that we may reach out to the Resiliency Team in Asset and Capital Management to provide us with an update regarding the timeline to spend Superstorm Sandy money and we would be very happy to follow up on that.

Adjournment:

Upon motion to adjourn the meeting duly made by Mr. Gonzalez and seconded by Mr. Kaplan, the AFC unanimously approved the motion to adjourn the meeting at 10:33 AM.