



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

Minutes of Audit & Finance Committee Meeting
April 17, 2023

Board and Audit & Finance Committee Members:

Victor A. González, Chair of Audit & Finance Committee (Vice Chair of NYCHA)
Emma Wolfe, Board Member (*Absent*)
Mark N. Kaplan, Independent Member
Richard P. Kuo, Independent Member

NYCHA Staff Members - Present:

Annika Lescott-Martinez, Executive Vice President & Chief Financial Officer
Jeffrey Lesnoy, Vice President & Controller, Financial Accounting & Reporting Services
Amita Patel, Deputy Controller, Financial Accounting & Reporting Services
Ah-Yat Lee, Director, Financial Accounting & Reporting Services - General Ledger
Jason E. Goldberg, Director & Chief of Corporate Affairs, Legal Affairs
Wilma Huertas, Special Advisor to the Chief Executive Officer
Terrence H. Clarke, Acting Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Avik Das, Management Auditor, Department of Internal Audit & Assessment
James Ecock, Administrative Auditor, Department of Internal Audit & Assessment
Frank Han, Quality Assurance Specialist, Department of Internal Audit & Assessment
Mia Hippolyte, Board Committee Coordinator

Deloitte & Touche LLP – Present:

Jill Strohmeier, Lead Engagement Managing Director
Alexander Harvey, Manager

Technical Support Team:

Andy Nagy, Luis Gomez

A meeting of the Audit & Finance Committee (AFC) members of the New York City Housing Authority (“NYCHA” or the “Authority”) was held on April 17, 2023, at approximately 10:00 AM.

Terrence H. Clarke, Acting Director of the Department of Internal Audit & Assessment, commenced the meeting by welcoming the Audit & Finance Committee members and the attendees.

I. Approval of Audit & Finance Committee Minutes of December 15, 2022:

Upon motion duly made and seconded, the committee members approved the minutes of the December 15, 2022, Audit & Finance Committee meeting, subject to minor grammatical changes.

II. Status of the 2022 Financial Statements Audit:

Alexander Harvey, Audit Manager from Deloitte, discussed the status of the Deloitte 2022 audit of NYCHA's financial statements, along with its component unit, NYCHA Public Housing Preservation I, LLC (LLC I).

Mr. Harvey covered topics that included an assessment of the independence of all audit team members involved with the audit, including Specialists, to ensure no conflicts of interest; review of the internal control processes related to areas that can impact the financial statements; the audit team's performance of preliminary analytical procedures on certain account balances; preparation of audit confirmation letters to financial institutions that are holding NYCHA's cash and other financial assets, and to legal firms to confirm any legal contingencies or matters that might come up during the year; review of the Board minutes as well as Audit & Finance Committee minutes to identify any significant issues impacting the financial statements; and continue audit planning with Deloitte Audit Specialists in Information Technology (IT), pensions and OPEB (Other Post-Employment Benefits), claims, and leases.

Mr. Harvey discussed the test procedures that are in process, including testing internal controls over financial reporting, testing significant account areas, including cash and investments, capital assets and construction in-progress projects, asset retirement obligations, operating receivables, leases, accounts payable on accrued expenses, long-term debt, pensions and OPEB, liabilities, claims, and revenue (tenant revenue, unearned revenue received in advance), subsidies and grants (Single Audit review items), capital contributions, and expenses.

Jill Strohmeier, Lead Engagement Managing Director, discussed regarding Deloitte's focus on risk of management override of controls. Areas that are tested include manual and automated journal entries. Deloitte's IT Specialists are also used to review automated journal entries.

In response to Independent Committee Member Richard Kuo's question on Deloitte's review of NYCHA accounting and finance personnel's understanding of internal controls, Mr. Harvey indicated that assessments are performed of each control owner's competency and skills, including knowledge and experience. Later in the meeting Jeffrey Lesnoy, Vice President & Controller, stated there were no significant personnel changes of the accounting and finance staff. Ms. Strohmeier stated that changes in the Executive level over the last year typically does not affect Deloitte's review of the financial statements, but Deloitte does have meetings and discussions with all members of management, including the interim Chief Executive Officer.

In response to Mr. Kuo's question on materiality, Ms. Strohmeier indicated that for NYCHA, Deloitte has determined that expenses are important to the users of the financial statements. Therefore, the benchmark to determine materiality was total gross expenses. Deloitte applies a certain percentage to total expenses to determine materiality and then reduces the calculated materiality by a figure used to

determine sample sizes for testing; this figure is referred to as performance materiality. Professional judgement is a factor in determining materiality. Ms. Strohmeyer indicated that the materiality amount is based on the total gross expenses (approximately \$3 billion) for the year. She is not allowed to disclose the actual materiality level to prevent potential management override of controls by submitting fraudulent entries that are under the materiality level to evade detection by the auditors.

In response to AFC Committee Chair Victor González’s question on the classification of construction in-progress projects as “assets” instead of “expenses”, Mr. Harvey stated that construction in-progress projects are treated as capital assets when certain criteria for capitalization are met. As an example, Mr. Harvey cited large building improvements that benefit the building over the life of the building are depreciated each year over the useful life of the building. This covers major renovations and restoration projects; however, regular repairs and maintenance expenses cannot be capitalized. Ms. Strohmeyer explained that costs recorded in construction in-progress on the balance sheet are not depreciated until the construction project is completed. When the construction is completed, the construction cost starts depreciation over the useful life of the building.

Mr. Harvey continued with the status of the Deloitte audit, including the GASB¹ 87 implementation review. Under GASB 87, additional lines will appear on the Statement of Net Position to account for right-of-use assets under lease and lease liabilities. In April, certain real estate transactions were tested. GASB 49 transactions, which deals with pollution remediation obligations, was also reviewed; this includes a review of lead paint remediation assessments and adequacy of current liability coverage for pollution remediation obligations on NYCHA properties. Also reviewed is the Statement of Cashflows, the accounting treatment between NYCHA and LLC1 entity, and the consolidation of the different legal entities on the financial statements. In June, the Audit Team will review going concern assumptions, subsequent financial events after the audit date, and review of updated legal letters from internal and external attorneys to ensure all legal matters/claims are accounted for.

In response to Independent Committee Member Mark Kaplan’s question about the safety and management of NYCHA’s cash, Ms. Strohmeyer indicated that she held meetings with management on this topic, and Deloitte Specialists reviewed cash, cash management, and collateralization test procedures for potential changes. Annika Lescott-Martinez, EVP and CFO, indicated that the NYCHA Treasurer has about ten years of experience managing cash and investments at NYCHA, and bank balances are fully collateralized. NYCHA follows HUD investment guidelines, which focus on risk, and financial investments with low-risk yield to ensure safety of the investments. The investment strategy and results are reported to the Board annually.

In response to Mr. González’s question regarding real estate transaction testing, Ms. Strohmeyer indicated that Deloitte reviews management’s conclusions on real estate transactions and how these transactions are reported in the financial statements. The accounting treatment for real estate transactions must follow the accounting literature.

In response to Mr. González’s question regarding the accounting of construction in-progress related to RAD and PACT², Mr. Lesnoy indicated that construction in-progress for RAD and PACT

¹ Governmental Accounting Standards Board

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

developments are accounted for on the developer's financial statements, not on NYCHA's. At the date when the property is converted over to RAD/PACT, new construction costs are no longer reflected on NYCHA's financial statements.

III. Status of the 2022 Single Audit:

Jill Strohmeier, Lead Engagement Managing Director, provided status update on the Single Audit of NYCHA's operations in accordance with the Uniform Grant Guidance for the year ended December 31, 2022.

Ms. Strohmeier discussed the four reports that are part of the Single Audit reporting package, which will be issued in September 2023. All four reports are consistent with last year's Single Audit Reporting Package.

- The first report is the Independent Auditor's Report prepared in accordance with Government Auditing Standards and covers Deloitte's opinion on the financial statements.
- The second report is the report on Internal Controls Over Financial Reporting and includes a review of the control environment impacting financial reporting, compliance, and other matters.
- The third report covers compliance with federal requirements for each program that receives federal awards. The following programs have been selected for review: (1) Public & Indian Housing Operating Grants, and (2) Public Housing Capital Fund. Both programs were tested last year. The Public & Indian Housing Operating Grants Program is required to be tested again this year due to a material finding related to lead paint remediation. The Public Housing Capital Fund has a closeout process that requires it to be reviewed every year. Ms. Strohmeier indicated there is a chance that an additional program may be selected for review.
- The fourth report is the REAC, (Real Estate Assessment Center) Agreed Upon Procedures Report³.

Ms. Strohmeier noted Darshan Patel, Deloitte Specialist Leader, started work on the two programs. He has selected samples for specific tests and provisions, with more work to do related to compliance review. Ms. Strohmeier has no findings or control deficiencies to report at this time.

Ms. Strohmeier stated that the GASB 87 implementation is a major change to the financial statements that will now show large balances related to lease transactions. Since NYCHA is both a lessor and

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 NYCHA's financial data is electronically uploaded to HUD's REAC (Real Estate Assessment Center). REAC's mission is to provide and promote the effective use of accurate, timely and reliable information assessing the condition of HUD's portfolio; to provide information to help ensure safe, decent and affordable housing; and to restore the public trust by identifying fraud, abuse and waste of HUD resources. REAC's "product" is information -- To deliver a quality product, REAC depends on the successful partnership of people and technology. At the heart of this technology is an internet-worked data base of comprehensive and objective information drawn from existing government systems and from an on-going program of property inspections, analysis of financial and management reports, and resident surveys.

lessee, new balances related to right-to-use assets, lease liabilities, lease receivables and deferred inflows of resources will appear on the Statement of Net Position for the first time as a result of the GASB 87 implementation. Due to the GASB 87 implementation requirements, the 2021 financial statements will be restated starting from January 1, 2021 and carried through 2022. Deloitte’s opinion will highlight the GASB 87 implementation to emphasize its impact to the financial statements. This matter of emphasis will not affect an otherwise clean opinion, but the highlighted information will draw the user’s attention to the GASB 87 impact on the financial statements, including the restatement of the 2021 financial statements.

Mr. Lesnoy reviewed the GASB 87 implementation expectations discussed in the December 2022 AFC meeting against the current work status of the implementation. He noted that approximately \$700 million⁴ of a variety of right-to-use assets from the lessee perspective will be reflected on the financial statements and approximately \$30 to \$40 million from a lessor perspective will be reflected in the financial statements. These matters are still to be finalized and audited. Mr. Lesnoy also stated that discussions were held with Deloitte on the methodology used to achieve GASB 87 implementation, including the Incremental Borrowing Rate⁵ (IBR), which is a key variable for estimating value of assets and liabilities under GASB 87.

IV. Other Matters:

Mr. Lesnoy spoke about Local Law 1⁶ and the impact on the lead level requirements in New York City, where the previous standard and the federal standard were at 1.0 milligrams, but the City standard decreased to 0.5 milligrams under Local Law 66⁷. NYCHA has been testing for lead aggressively, tracking about 35% of the apartment units with some positive lead findings. That compares to the previous testing results of 27%, or about a 25% increase in lead findings. This increase in high lead findings has increased the cost estimation of the 2022 pollution remediation obligation.

In response to Mr. González’s question on the Federal Monitor’s involvement with aspects of NYCHA’s operations, Ms. Lescott-Martinez indicated that the Federal Monitor is allowed to be involved with any part of NYCHA’s operations. The Federal Monitor’s quarterly reports can be accessed by the public at its website.

In response to Mr. González’s question about Local Laws 97 and 33 concerning energy efficiency and gas emissions as they relate to public housing, Ms. Lescott-Martinez indicated she has no information on these Local Laws and will follow up on this matter.

In response to Mr. Kuo’s question on vendors Energy Performance Contracts (EPC) and their impact on NYCHA financial statements, Mr. Lesnoy stated that such contracts are currently being reflected as long-term debt in the financial statements. These contracts are technically written on Master Lease

⁴ As per Mr. Lesnoy, the \$700 million estimate discussed in this meeting has since been updated. The new estimate to be presented to Deloitte is expected to be in the \$850 to \$900 million range.

⁵ GASB 87 states that future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee or lessor, the estimated Incremental Borrowing Rate should be used.

⁶ Local Law 1 covers a building owner’s obligation to address lead-based paint issues.

⁷ Local Law 66 amends Local Law 1 and includes lead testing to a level of 0.5 milligrams of lead per square centimeter from a previous level of 1.0 milligrams.

Agreements (MLA), and Finance concluded that they are not technically leases from a GASB 87 perspective. Legally, they may be leases but they do not meet GASB 87 definition of a lease. Mr. Lesnoy further stated that with these EPCs, the title to the equipment is transferred to NYCHA on the execution of the transaction (the closing date), so NYCHA actually owns the equipment. These MLAs typically run 10 to 20 years.

In response to Mr. Kuo's question on the energy savings financial impact related to EPCs on HUD subsidies, Ms. Lescott-Martinez stated that NYCHA can keep around 100 percent of the energy savings generated from the EPCs, but the retained energy savings become part of the full subsidy submission and can be subject to subsidy proration.

Adjournment:

Mr. Clarke thanked everyone for their participation in the meeting. Upon motion made and duly seconded, the meeting was adjourned at 11:05 AM.