



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

Minutes of Audit & Finance Committee Meeting
December 12, 2023

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

Ah-Yat Lee, Director, General Ledger, Financial Accounting & Reporting Services

Judith Francis, Assistant Director, General Ledger, Financial Accounting & Reporting Services

Pakon Ho, Deputy Director, General Ledger, Financial Accounting & Reporting Services

David Sunshine, Accountant, Financial Accounting & Reporting Services

Jason E. Goldberg, Director & Chief of Corporate Affairs, Legal Affairs

Vilma 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

Seongmin (Daniel) Jo, Manager

A meeting of the Audit & Finance Committee (“AFC”) of the New York City Housing Authority (“NYCHA” or the “Authority”) was held on December 12, 2023, 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 September 12, 2023 Audit & Finance Committee Meeting Minutes:

Upon motion by Mr. Gonzalez to approve the September 12, 2023 AFC Meeting minutes was Mr. Kuo requested that the minutes reflect the following as discussed at the September AFC Meeting: In response to Mr. Kuo’s inquiry concerning why the Authority has not elected to use the de minimis 10 percent indirect cost rate, Ms. Strohmeyer indicated that it is not uncommon for many governments organizations to use their “own indirect cost rate” which is a common occurrence across many governmental organizations. Mr. Kuo also inquired that: if they do not have an indirect cost rate then how are they are getting reimbursed for indirect costs. Ms. Strohmeyer replied that they have their own calculated rate.¹

Adjustments were agreed upon for accurate reflection. Upon motion duly made by Mr. Gonzalez and seconded by Mr. Kuo, the AFC unanimously approved the minutes of the September 12, 2023 AFC meeting with a minor adjustment as discussed above.

II. Deloitte’s Audit Service Plan for NYCHA’s 2023 Single Audit:

Ms. Strohmeyer, Managing Director from Deloitte presented the 2023 Audit Plan for an independent audit of the financial statements of NYCHA and its component unit, NYCHA Public Housing Preservation I, LLC as of and for the year ending December 31, 2023 (the “financial statements”), in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Ms. Strohmeyer began by outlining Deloitte's engagement to audit the financial statements of NYCHA and NYCHA Public Housing Preservation I, LLC for the year ending December 31, 2023. She explained that Deloitte would adhere to two sets of auditing standards - one issued by the American Institute of Certified Public Accountants and the other by the Comptroller General of the United States. The focus of the audit would be to obtain reasonable assurance about the absence of material misstatements in the financial statements, particularly addressing the significant risk of management override of controls. She clarified that the management override risk is a standard consideration in all audits, not specific to NYCHA, and Deloitte would employ various methods to test and address this risk. Tools, including advanced technology, would be used to scrutinize journal entries, considering factors such as timing and the individuals making entries. She further emphasized that the identification of this risk did not imply any existing issues but was a precautionary measure taken in every audit. The testing process would include discussions with management regarding estimates, expert involvement, and examination of significant or unusual transactions.

¹ The request to clarify the September AFC Committee Meeting minutes, led to a detailed discussion at the December AFC Meeting involving Ms. Strohmeyer and Ms. Lescott-Martinez. Ms. Lescott-Martinez explained that the two (2) biggest programs are Operations and Capital. An indirect cost ratio charge is not allowable. There are other methods through which NYCHA costs to each AMP and Central Office for certain items. Developments are charged for reasonable services provided. There are specific thresholds to charge per unit. Grants do not work by indirect cost.

Ms. Strohmeyer then proceeded to discuss additional areas of focus for the Fiscal Year 2023 Financial Statement Audit, such as:

- Cash, Investments, and Debt,
- New accounting pronouncements,
- Leases, which involves monumental accounting pronouncement – Deloitte will review new leases, expired leases and their impact on financial statements,
- Claims liability, which is a large number and involves use of specialists
- Tenant revenues and receivables,
- Environmental pollution and remediation liabilities (i.e., lead paint remediation and abatement) – which is related to GASB 49 liability – Deloitte will focus on changes from prior year.

Ms. Strohmeyer also mentioned that Deloitte does not plan to use the work of the NYCHA internal audit function.

Mr. Gonzalez sought clarification on how the audit would incorporate changes related to lead remediation and other new rulings. Mr. Lesnoy explained the coordination with Operations management, the testing process, and the subsequent presentation of findings to the AFC as well as the Board.

Ms. Strohmeyer provided insights into the use of specialists for different aspects of the audit, including actuarial specialists, information technology specialists, and valuation specialists.

- Actuarial Specialists (Deloitte Consulting, LLP):
Human Capital Firm Actuary led by John Potts, to assist in testing actuarial valuations of pension obligations and other post-employment benefits measurements. Actuarial Specialists to assist in testing actuarial valuations of the worker’s compensation reserves.
- Information Technology Specialists (Deloitte & Touche, LLP):
IT specialists led by Scott Maker, new IT Director, to assist in testing relevant IT systems.
- Valuation specialists (Deloitte Transactions and Business Analytics, LLP):
Valuation specialists led by John Solomon, to assist in testing the Incremental Borrowing Rate (IBR) used in GASB 87 and 96.

Ms. Strohmeyer presented a timeline for issuing reports throughout Calendar Year 2024 and outlined the Fiscal Year 2023 Audit Service Plan’s timing for audits.

Ms. Strohmeyer concluded her presentation by sharing the most recent Peer Review Report² on

² 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.

Deloitte performed by the accounting firm Grant Thornton. A copy of the Peer Review Report was made available to the AFC, as required by government auditing standards. This is the most recent report, dated 2020, and Deloitte & Touche received the highest possible rating of Pass that a public accounting firm can receive in a peer review. Deloitte has undergone another peer review this year with Grant Thornton and results are expected to be issued in a month. Ms. Strohmeyer also mentioned that her engagement for a non-profit organization was selected by the peer review firm and was found to be compliant. She expressed confidence in a positive outcome and assured the AFC of her commitment to transparency.

In summary, Ms. Strohmeyer provided a detailed overview of Deloitte's Fiscal Year 2023 Audit Service Plan, addressing risks, methodologies, and the timeline for the audit process.

Mr. Kaplan raised a question about interaction with the federal monitor, to which Ms. Strohmeyer clarified that Deloitte has not engaged with the federal monitor.

In the meantime, Mr. Kuo sought clarification from Ms. Strohmeyer on the decision-making process for auditing programs like Public and Indian Housing and Section 8. Ms. Strohmeyer explained that such decisions are part of the Single Audit approach, influenced by factors like risk assessment and regulatory requirements.

Mr. Agrawal then prompted the AFC for any additional questions on Deloitte's Audit Service Plan for Fiscal Year 2023. After receiving no further inquiries, Mr. Agrawal called for a motion to approve the Audit Service Plan. Upon motion duly made by Mr. Gonzalez and seconded by Mr. Kuo, the AFC unanimously approved the motion to approve the Fiscal Year 2023 Audit Service Plan.

Mr. Agrawal proceeded to the last part of the agenda, inviting Mr. Lesnoy to provide a presentation on the financial impact of new accounting standards and pronouncements on the Fiscal Year 2023 financial statements.

III. DISCUSSION OF THE IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS ON NYCHA'S 2023 FINANCIAL STATEMENTS

Mr. Lesnoy provided a presentation on the financial impact of new accounting standards and pronouncements on the Fiscal Year 2023 financial statements. Mr. Lesnoy introduced three pronouncements, GASB 94, GASB 96, and GASB 99, providing acronyms for each. He explained that they were still evaluating the applicability of GASB statements, emphasizing the preliminary nature of their management conclusions, especially since Deloitte had not yet reviewed them.

Mr. Lesnoy indicated three GASB Statements are effective for NYCHA's Fiscal Year 2023, as follows:

- **GASB 94** relates to Public-Private and Public-Public Partnerships
- **GASB 96** relates to Subscription-Based Information Technology Arrangements

- **GASB 99** relates to Omnibus 2022 (partial adoption in 2023)

GASB 94 --- Public-Private and Public-Public Partnerships (“PPP”)

Mr. Lesnoy discussed the PACT transactions and how NYCHA would account for them if deemed as qualifying PPP’s under GASB 94. Mr. Gonzalez sought clarification on the previous assurance that the new conversions would not significantly impact the financial statements. Mr. Lesnoy reiterated that since NYCHA has land leases, NYCHA does not derecognize land and buildings upon a PACT conversion. This will not change under GASB 94. Based on initial review by NYCHA management, the PACT³ conversions do not meet the “exchange or exchange-like” criteria of GASB 94 and as a result are nonqualifying. NYCHA has shared its analysis with Deloitte, subject to Deloitte’s review.

Mr. Kuo expressed that there has been significant growth in the PACT program over the past few years and questioned the financial incentives for developers, banks, and NYCHA. Ms. Lescott-Martinez responded from the NYCHA perspective, emphasizing the collaboration with developers and banks to secure capital for much-needed capital improvements since NYCHA has \$80 billion unmet needs. However, she noted that she could not speculate on the motivations of developers and banks. Mr. Kuo suggested a separate session to delve into the impact of this PACT program on financial statements, expressing the AFC's interest. Ms. Lescott-Martinez agreed and committed to arranging a briefing with the Real Estate Department. Mr. Agrawal advised that a separate meeting would be taken under consideration.

GASB 96 - Subscription-Based Information Technology Arrangements (“SBITA”)

Mr. Lesnoy detailed how GASB 96 applied to NYCHA, requiring reflection of a new right-to-use subscription asset and subscription liability. Mr. Lesnoy explained that GASB 96, a subscription-based Information Technology Arrangement would have a material impact on financial statements, as it involves a government contracting with a third party for IT licensing or software services for more than twelve (12) months. He emphasized the need for transactions to be exchange or exchange-like under GASB 96 and discussed the criteria for qualification. Mr. Gonzalez sought clarification on the recurring nature of these contracts and how they would impact NYCHA. Mr. Lesnoy responded that it's an ongoing process, requiring an annual review of existing contracts, consideration of new contracts, and reflection of assets and liabilities. Mr. Kuo raised questions about the necessity of all 150 contracts, suggesting a review for consolidation or elimination. He also questioned the possibility of selecting the highest-value contracts, as part of the audit, but Ms. Strohmeier explained that GASB standards don't typically consider materiality thresholds.

Mr. Kaplan raised the question of whether some contracts could be abandoned due to the new rule. Mr. Kuo clarified that his concern was about reviewing all contracts to determine their essentiality and potential consolidation or elimination. Mr. Lescott-Martinez assured collaboration with the

³ 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.

Procurement Department and IT Department and emphasized the preliminary nature of the analysis. Mr. Gonzalez requested a separate meeting for the AFC to discuss these numbers. Ms. Lescott-Martinez clarified that the discussion pertained to financial statements under GASB rules, not Internal Audit, and proposed a meeting if the AFC desired one. Mr. Agrawal suggested gathering all data before determining the next steps. Mr. Kuo reiterated the need to review all contracts for essentiality, efficiency, and potential consolidation.

GASB 99 -- Omnibus 2022

The meeting concluded with Mr. Lesnoy presenting GASB 99. Some requirements of GASB 99 were implemented in 2022, some will be effective in 2023, while the remainder will be effective in 2024. For those requirements effective in 2023, GASB 99 includes minor clarifications and refinements to GASB 87 (Leases), GASB 94 and GASB 96. In addition, accounting and reporting for derivative instruments will be subject to change as part of GASB 99, although this will have no impact on NYCHA since NYCHA does not hold any derivatives. Mr. Lesnoy indicated that implementation of GASB 99 is expected to be much less challenging than the other GASB's.

IV. OTHER MATTERS

Mr. Kuo inquired regarding the date of the next comprehensive report presentation scheduled for AFC. Ms. Strohmeyer advised that this presentation would take place at a meeting in April, which Mr. Agrawal affirmed, indicating that it would be a status meeting in March or April 2024 to discuss the financial statement audit progress. Mr. Agrawal advised that the schedule had not been established yet, but would be developed soon in consultation with the Finance team and Deloitte. It would then be shared with the AFC members to ensure their respective availability.

Adjournment:

Mr. Agrawal thanked everyone for their participation in the meeting. 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 11:17 AM.