



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

**Minutes of Audit & Finance Committee Meeting
September 13, 2022**

Board and Audit & Finance Committee Members:

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

NYCHA Staff Members - Present:

Brad Greenberg, Chief Compliance Officer
Daniel Greene, Senior Vice President for Healthy Homes
Jeffrey Lesnoy, Vice President & Controller, Financial Accounting & Reporting Services
Terrence H. Clarke, Acting Director, Department of Internal Audit & Assessment
Ah-Yat Lee, Director, General Ledger, Financial Accounting & Reporting Services
Amita Patel, Deputy Controller, Financial Accounting & Reporting Services
Jason E. Goldberg, Director & Chief of Corporate Affairs, Legal Affairs
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Roger Shields, Deputy Chief Information Security Officer, Cybersecurity & IT Risk Management
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
Mariela Maldonado, Board Logistics Coordinator, Office of the Corporate Secretary

Deloitte & Touche LLP – Present:

Jill Strohmeyer, Lead Engagement Managing Director
Emilia Maguire, Managing Director, Enterprise Risk Services

Technical Support Team:

Humberto Rosero, Andy Nagy

A meeting of the Audit & Finance Committee (AFC) members of the New York City Housing Authority (“NYCHA” or the “Authority”) was held on September 13, 2022, at approximately 10:10 AM.

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

I. Approval of Minutes:

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the

June 16, 2022 AFC meeting.

II. Single Audit Report for 2021:

Jill Strohmeyer, Lead Engagement Managing Director from Deloitte, discussed the status of the 2021 Single Audit, including findings. The Single Audit is expected to conclude before the end of September. NYCHA is required to submit the Single Audit Reporting package to the Federal Audit Clearinghouse by September 30, 2022.

Ms. Strohmeyer discussed the three reports that are part of the Single Audit Report package. Each of the reports contains Deloitte's opinions on the areas audited: financial statements, Internal Controls Over Financial Reporting, and compliance with Uniform Guidance requirements for each major program including Schedule of Expenditures of Federal Awards (SEFA).

The first report is the Independent Auditor's Opinion on NYCHA's financial statements. This latest report is similar to an earlier draft reviewed by the Committee in June, but now includes references to Generally Accepted Government Auditing Standards (GAGAS). The report contains a clean or unmodified opinion on NYCHA's financial statements. The financial statements themselves are not included in the package since the Committee reviewed and approved them in the June meeting.

The second report contains a clean, unmodified opinion pertaining to Internal Controls Over Financial Reporting and on Compliance and Other Matters. This opinion is based on an audit of the internal control processes (operational and automated) that impact any activity affecting the financial statements. This report is required under GAGAS. There were no Internal Controls Over Financial Reporting matters that needed to be disclosed in this report.

The third opinion relates to the Report on Compliance for each Major Federal Program, Report on Internal Controls over Compliance and Report on Schedule of Expenditures of Federal Awards (SEFA) required by the Uniform Guidance. This opinion for 2021 audit does have a qualification that pertains to a compliance issue for one of the three programs audited under Uniform Guidance requirements.

Upon issuance of the Single Audit Report, Deloitte will perform agreed upon procedures and upload financial data to Housing and Urban Development's (HUD's) Real Estate Assessment Center (REAC)¹. Ms. Strohmeyer briefly discussed the Schedule of Expenditures of Federal Awards (SEFA). She stated that NYCHA spent a total of 3.6 billion dollars in 2021. HUD and Federal Emergency Management Agency (FEMA) are two of the largest awarding agencies for which NYCHA receives federal funding.

¹ 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.

Ms. Strohmeyer noted that NYCHA's SEFA for 2021 listed 12 programs with federal grant expenditure funds totaling approximately \$3.6 billion. After performing a risk assessment of the SEFA, Deloitte audit team selected three major programs for testing, as follows:

- Public Housing Operating Fund (\$1.128 billion total federal expenditure) - ALN² number 14.850/14 PHC
- Section 8 Housing Choice Voucher Cluster (\$1.417 billion expenditure) - ALN number 14.871/14.879/14 HCC/ 14 EHV
- Public Housing Capital Fund (\$591 million expenditure) - ALN number 14.872

The three programs audited totaled approximately \$3.1 billion of federal expenditures, which is 88% of the total SEFA expenditure of approximately \$3.6 billion subject to testing.

Ms. Strohmeyer noted that the Housing Choice Voucher Cluster program was classified by the U.S. Office of Management and Budget (OMB) as a High Risk program due to the significant amount of COVID funding associated with the program. It was tested in 2020 and tested again for 2021, as required by OMB. Deloitte is only required to test 20% of grant monies according to prescribed guidelines but tested 88% this year due to the fact that the Housing Choice Voucher Cluster program was a High Risk program based on the OMB guidelines and because the Public Housing Operating Fund was selected due to the three-year rotation cycle for major programs.

Ms. Strohmeyer provided details on the Schedule of Findings and Question Costs. The audit report on the financial statements is unmodified which is clean. The report on Internal Controls Over Financial Reporting also is clean. However, the third section relates to the Uniform Guidance, where the Deloitte audit team has identified a material weakness related to grant number 14.850, which is Public Housing Operating Fund. This material weakness relates to one particular compliance requirement called Special Tests and Provisions. The test involved lead paint testing and remediation, which will not be completely remediated in the audit period. Deloitte determined that lead paint remediation was a Material Weakness due to the large liability attached to it and that the remediation process would take many years to complete. Deloitte is required to report this as a material finding.

Ms. Strohmeyer noted that the Uniform Guidance related opinion is actually many opinions in one report, consisting of an opinion on each audited major federal program and each compliance requirement tested. The Deloitte audit team tested three major federal programs. There were tests of six compliance requirements for each federal grant, which actually results in 18 opinions. The qualification (a Material

² The Assistance Listing Number (ALN), formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all federal assistance award mechanisms, including federal grants and cooperative agreements. The first two digits of the Assistance Listing Number reflect the major federal agency. The final three digits (following a decimal) indicate the federal program funding the project.

Weakness) is one of those 18 opinions impacting just one compliance requirement for one grant - Public Housing Operating Fund (Grant Number 14.850). This Material Weakness relates to a new Special Test added by HUD for 2021 as part of the Compliance Supplement. This program was tested in 2018 and came up for testing in 2021 following a three-year rotation test cycle for major programs. The Special Test is specifically related to environmental contaminants testing and remediation, and this was the first time Deloitte performed procedures pertaining to NYCHA's testing and remediation for environmental contaminants. Based on professional judgment, Deloitte audit team selected for review extermination, heat outage, mold inspections, annual apartment inspections, and elevator outages, and also inquired about lead paint testing and remediation for the year ended December 31, 2021. Ms. Strohmeyer noted that the Authority did not complete all corrective actions to remediate environmental contaminants, particularly as it relates to lead paint. Its significance is also evident by the large pollution remediation obligation recorded in the financial statements at the end of the year³ and the fact that this remediation process is going to take multiple years to complete.

Ms. Strohmeyer responded to Mr. González's concerns regarding the wide ongoing topic of environmental issues and the required follow-up on the environmental contaminants in the Single Audit Report. As long as HUD continues to require this Special Test to be performed, then Deloitte is required to perform the test as part of the Single Audit Report. Specifically, if the HUD requirements for environmental contaminants testing and remediation remain the same, this finding could be in future Single Audit reports for many years to come until such time when all environmental contaminants are remediated. As to which environmental contaminants will be reviewed each year, Deloitte audit team will select significant environmental contaminants based on their inquiry to management. If HUD eliminates this Special Test, then Deloitte will no longer have to test and report it.

Mr. Kuo noted that the audit finding does not indicate that the NYC-HUD agreement includes a 20-year remediation period for lead paint. Mr. Lesnoy responded that the Views of Responsible Official section of the finding includes language relating to the Authority working towards meeting the multi-year obligations laid out in the HUD agreement.

Mr. Kaplan inquired regarding the Federal Monitor's reaction to the disclosures in the report. Brad Greenberg, Chief Compliance Officer responded that the Federal Monitor is not involved in the Single Audit activities. Mr. Greenberg further explained that the Federal Monitor primarily interacts with the Compliance Office, which provides the Federal Monitor with regular reports and on-line dashboards that contain the latest NYCHA data on work and performance related to each of the "pillars" that impact the developments and residents. The qualified opinion shows a material finding related to environmental contaminants testing and remediation, and is based on source material provided by the Compliance Office. Deloitte audit team reviewed a sample of the same reports that were provided to the Federal Monitor. The Federal Monitor will be notified of the material finding. Mr. Greenberg added that bi-weekly meetings are held between the Federal Monitor's office and the Compliance Office. Reports of Certifications of lead

³ NYCHA has recorded \$3,189,191,000 of pollution remediation obligations as of December 31, 2021, which relates to costs to inspect for and correct deficiencies associated with environmental contaminants.

paint corrections are sent to the Federal Monitor, HUD, and the U.S. Attorney's office. The Federal Monitor team members and the Compliance Office staff are assigned to various work streams pertaining to "pillar" matters. They can interact daily as needed.

Mr. Kuo inquired about the scope of the Single Audit as it related to program testing and financial testing. Ms. Strohmeyer responded that the Single Audit is required to address both programmatic and financial matters. The programmatic piece is tested for compliance to the grant agreement, which would involve use of funds for environmental contaminants testing and remediation. Every grant program has different compliance requirements. Many of them include testing of an item called allowability, where the auditors have to make certain that the expenditures were allowable and in accordance with the grant agreement. Another test relates to cash management, where the auditors have to make certain that the expenditure and the reimbursement are within a certain period of time from one another. Some grants may require testing of eligibility. In testing an adoption program, the audit team would be testing to make certain that eligibility was maintained. Every grant program is different.

Mr. Kaplan inquired if the reserves set aside and recorded in the financial statements were reasonable to account for pollution remediation obligations and if the Federal Monitor signs-off on the reserve numbers. Ms. Strohmeyer indicated Deloitte confirmed that the reserves appeared to be reasonable. Mr. Greenberg indicated that it was not in the Federal Monitor's scope to sign-off on the reasonableness of the reserves.

Mr. Lesnoy emphasized to Mr. Kuo and Mr. Kaplan that the financial statements have a clean unmodified opinion, and the \$3.2 billion for environmental remediation has been audited and there is no issue with the amount. The testing of remediation of environmental contaminants was due to the new compliance requirement under the Special Test. NYCHA continues to be transparent with the Monitor and the public.

Mr. González inquired if RAD was a federal program under SEFA. Mr. Lesnoy stated that RAD is not a separate program because it does receive program funding and would not appear anywhere in the report. Section 8 Housing Choice Vouchers is a program that received federal grant money.

Mr. González also asked why there were two ALN numbers given to programs that were funded by FEMA (Federal Emergency Management Agency). Ms. Strohmeyer replied that although FEMA awarded the funding, they are two different grants and were required to be listed separately.

III. Report to Management

Emilia (Lia) Maguire, Managing Director, Enterprise Risk Services of Deloitte, discussed Report to Management (also known as Management Letter Comments) for the year ended December 31, 2021. This report provides deficiencies and other matters that the Deloitte auditors noted during the audit of 2021 financial statements.

Ms. Maguire discussed comments which pertained to IT security controls. Two deficiencies (each with sub-parts) were identified related to access security. More specifically, the deficiencies were related to password

controls and terminated users retaining access after their termination. The deficiencies in the aggregate and individually did not rise to the level of a Material Weakness or a Significant Deficiency. Some of the deficiencies were remediated upon bringing it to the attention of management while others are slated to be remediated by October of 2022 based on moving to a new infrastructure environment where it takes time to test and implement the password controls that Deloitte suggested.

Mr. González inquired how Oracle Financials application users would have passwords that do not expire. Ms. Maguire explained that if a user profile was not set up with the proper parameters where the password expiration date feature was not enabled for that profile, then the system would not require the user to change the password. Ms. Maguire also explained that there could be valid reasons for terminated employees to not have their accounts deleted from the system right away. For example, the terminated user's account may be used to access data that was saved under the terminated employee's account, or it could be human error that allowed the terminated user's account to stay active in the system.

Mr. Kuo inquired what was meant when a user had inappropriate system access. Ms. Maguire explained that inappropriate system access means that a user generally has more system privileges needed than what his or her work responsibilities required. This situation could have occurred if a user was transferred to a different position but the system access profile was not changed to match new work responsibilities.

Jill Strohmeier, Lead Engagement Managing Director from Deloitte, discussed a financial deficiency pertaining to OPEB (Other Post-Employment Benefits) which was noted during the 2021 audit. Ms. Strohmeier explained that this matter involved the classification of OPEB liability between current and non-current. In accordance with GASB⁴ guidance if an OPEB plan is unfunded, which NYCHA's plan is unfunded, amounts that are expected to be paid within the next year should be recorded as current in the financial statements and the remaining amount should be classified as non-current. This was brought to the attention of management during the course of the audit and was deemed to be non-material. It was described as a financial deficiency. Deloitte felt that a comment should be written so that management continues to assess this each year as part of their closing process to determine whether or not if the current portion is in fact material. And if it ever does rise to the level of materiality, then reclassification adjustment should be considered. This is a low level deficiency that does not rise to the level of Significant Deficiency or Material Weakness. It is based on the fact that it is classification; it does not change the net position of the financial statements and the dollar amount itself was considered to be immaterial.

Mr. Kuo inquired about why the OPEB liability in the financial statements was all classified as non-current, with no current amount. Mr. Lesnoy replied that the pension liability is all non-current because it is a funded program, so it is net of the investments in the program, which means that there is no GASB accounting requirement to reflect anything in current. However, as OPEB is not funded, \$87 million should have been recorded as a current liability. NYCHA and the Office of the Actuary of The City of New York have discussed and will get a reliable estimate prior to finalizing the 2022 financial statements in order to

⁴ GASB is an acronym for Government Accounting Standards Board. It is a private non-governmental organization that creates accounting reporting standards, or generally accepted accounting principles (GAAP) for state and local governments in the United States.

determine what portion to record as current vs. non-current.

Referring to a statement in the Appendix B of the report pertaining to inherent limitations of internal controls over financial reporting that cannot be detected or corrected for misstatements, Mr. González inquired whether there was a way to proactively check for such item. Ms. Strohmeier responded that this is really just meant to be informative statement about limitations on internal controls. Internal controls are meant to prevent and detect fraudulent activity or misstatement. However, there is always a risk that management could override controls whether individually or in collusion with other individuals. There cannot be 100% assurance that controls are properly in place, designed and operated, or that every amount in the financial statement is 100% accurate. Financial statement balances are tested; every transaction cannot be reviewed.

Mr. Kaplan inquired about a statement in the Appendix B of the report concerning the Authority management's responsibility for "overall accuracy" of the financial statements, and not that the financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP). Mr. Kaplan was concerned that this was setting up a dichotomy; he was used to seeing the comment of management preparing financial statements in accordance with GAAP.

Mr. Kaplan also commented on the wording on receipts and expenditures as covered in the last page of Appendix B, which noted that receipts and expenditures are made in accordance with authorizations of management and those charged with governance. Mr. Kaplan was concerned the phrasing may be setting up a differential; the point is that receipts and expenditures are recorded in accordance with GAAP. Ms. Strohmeier indicated that much of the information in Appendix B comes directly from AICPA literature, accounting literature or auditing literature from the GASB, and is meant to be informational.

IV. Approval of 2021 Single Audit Report

Since there were no other items on the Agenda, Terrence Clarke, Acting Director of Department of Internal Audit & Assessment, requested a motion to recommend approval of the 2021 Single Audit Report to the NYCHA Board.

A motion was made to recommend approval of issuance of the 2021 Single Audit Report by the Board, and the motion was unanimously approved by the Audit & Finance Committee.

Executive Session:

Upon motion made and duly seconded, the Audit & Finance Committee met in an executive session at about 11:17 AM to discuss non-public financial matters of the Authority with the Independent Auditors Deloitte and Touche.

Adjournment:

The Audit & Finance Committee meeting resumed at 11:24 AM. Mr. Clarke thanked everyone for their participation in the meeting. Upon motion made and duly seconded, the meeting was adjourned at 11:25 AM.