



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

**Minutes of Audit & Finance Committee Meeting**  
**December 15, 2022**

**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, General Ledger, Financial Accounting & Reporting Services  
Judith Francis, Assistant Director, General Ledger, Financial Accounting & Reporting Services  
David Sunshine, Accountant, General Ledger, Financial Accounting & Reporting Services  
Jason E. Goldberg, Director & Chief of Corporate Affairs, Legal Affairs  
Wilma Huertas, Special Advisor to the Chair  
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

**Deloitte & Touche LLP – Present:**

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

**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 December 15, 2022, 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 September 13, 2022:**

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the September 13, 2022 Audit & Finance Committee meeting.

**II. Deloitte’s Audit Service Plan for NYCHA’s 2022 Single Audit:**

Jill Strohmeier, Managing Director from Deloitte presented the 2022 Audit Plan for an independent audit of the New York City Housing Authority, along with its component unit, NYCHA Public Housing Preservation I, LLC (LLC I), as well as the Single Audit in accordance with Uniform Grant Guidance for the year ended December 31, 2022.

Deloitte will perform the audits in accordance with generally accepted auditing standards, as well as government auditing standards, as done in prior years.

Deloitte determined that management override of controls to both NYCHA and the component unit is a significant risk for the 2022 audit. This risk pertains to management circumventing controls and potentially booking fraudulent entries. This risk is consistent across all the Single Audits that Deloitte performs and is a risk that appeared in Single Audits of prior years.

Deloitte performs test procedures to identify any management override of controls. The first test procedure is an assessment of journal entries. The audit team receives a data dump of all journal entries that were entered into the general ledger system over the year. Deloitte uses a sophisticated technology tool to analyze those journal entries for fraud characteristics, looking for such items as even amounts; weekend entries (management typically doesn’t work on weekends); entries posted by a President, Chief Executive Officer, or Chief Financial Officer, who typically do not post entries. The tool also looks for key words that may indicate fraudulent entries. Examples of such key words include “fraud”, “required to record”, or “fraud entry” that are recorded in the description field of the journal entry.

The second test procedure of management override of controls is a review of key accounting estimates to ensure there is no bias involved. Key accounting estimates impact significant assumptions or methodologies used to determine the value of liabilities or assets.

The final test of this significant risk is looking for significant or unusual transactions that are outside the normal course of business. Deloitte will have many conversations with NYCHA management throughout the audit process. Deloitte will ask about any significant or unusual transactions that occurred this year. If management’s response is affirmative, Deloitte will focus their attention on those transactions. Additionally, the audit team will also search for transactions that seem unusual.

Deloitte also identified additional areas of focus for important balances in the financial statements. These are large balances recorded in the financial statements that include, but is not limited to cash, investments, and leases. NYCHA will be subjected to a new accounting standard implementation this year that require leases meeting the criteria to be recorded on the balance sheet for the first time. Deloitte

will spend a good amount of time this year testing management's process, the accounting entries, and the related disclosures, pertaining to this new accounting standard implementation for leases.

Other areas of focus involve pensions, OPEB (Other Post-Employment Benefits), large balances on financial statements involving actuarial specialists, and pending or outstanding claims liabilities. NYCHA and Deloitte subject matter experts will be involved during the audit, examining these large balances. Also tested are tenant revenues and receivables.

In response to Mr. González's question regarding what the catalyst was that caused leases to be tested in this year's audit, Ms. Strohmeyer stated that GASB, or the Governmental Accounting Standards Board, are the standard setters that created the new accounting standards or pronouncements requiring government entities to record leases meeting certain criteria on the financial statements. The GASB standards require government entities to address these new lease accounting standards both from a lessor and a lessee perspective. These accounting standards were created about three years ago, but several extensions were granted that delayed the implementation date. Also audited are subsidies and grants received from federal, state, or New York City governmental agencies.

Deloitte's last area of focus relates to environmental pollution and remediation, which includes lead paint remediation and abatement. This is a big balance that was first recorded a few years ago, and each year Deloitte looks for any changes to the balance and any estimates that may have been used by management, including changes in response to new environmental regulations and local laws.

Ms. Strohmeyer spoke of a non-integrated audit of internal controls for NYCHA, which means Deloitte does not issue a report on internal controls. Deloitte will look at the design and implementation of internal controls, and in certain cases, will look at the operating effectiveness of internal controls. These internal control reviews are used in planning substantive testing of the actual account balances. In the event of a significant deficiency or material weakness of an internal control, the audit team would elevate the level of substantive testing over impacted account balances. Deloitte would not rely on internal controls to reduce the level of substantive testing. If a control deficiency is found, substantive testing levels would be elevated, but the testing would not be lowered.

In response to Mr. González's question regarding who Deloitte would speak to about internal controls, Ms. Strohmeyer indicated the Deloitte audit team would speak with the control process owner. As an example, if the control is a bank reconciliation and then someone else reviews the bank reconciliation, Deloitte will speak with both the bank reconciliation preparer and the bank reconciliation reviewer and perform a walkthrough of the entire control process. If other people are involved with control ownership, then Deloitte may speak with upper management as well.

In response to Mr. Kaplan's question regarding if Ms. Strohmeyer sees the New York City Comptroller's audit reports on NYCHA, Ms. Strohmeyer stated she and her team review only those audit reports that are relevant to NYCHA's financial statements, but generally have not looked at audit reports concerning operational matters. Mr. Kaplan spoke about the NYC Comptroller's audit report on Broken Locks and Doors at the developments' entrances into the buildings. Mr. Kaplan stated that Ms. Strohmeyer should read all audit reports about NYCHA, as some of them are important to the Authority. Ms. Strohmeyer stated she will look at this report. Ms. Annika Lescott-Martinez, Executive Vice President & Chief

Financial Officer, added that she read the audit report and agreed it was important operationally but found that the issues raised did not impact accounting internal controls or the financial statements of NYCHA.

Mr. Kuo stated he would like to see the future Comptroller's audit reports of NYCHA and asked of their availability. Ms. Lescott-Martinez stated these external reports are all public documents and are available online for public access. The reports are circulated within NYCHA and can be shared formally with the AFC members as soon as they are made available.

In response to Mr. Kaplan's statement regarding Ms. Strohmeyer's review of the internal audit reports, Ms. Strohmeyer stated she would review internal audit reports that are relevant to the financial statements or are financial in nature, and if there are any reported findings, she may alter Deloitte audit test procedures. However, Deloitte does not use internal audit staff to assist in its audit procedures.

In response to Mr. Kaplan's question about any interaction between Ms. Strohmeyer and the internal audit staff regarding the internal audit program, Ms. Strohmeyer stated that in the past she has received a copy of the internal audit plan and would provide comments. Mr. Kaplan indicated this was good.

Ms. Strohmeyer indicated that Deloitte plans to use specialists during the audit. These would include Actuarial Specialists and Information Technology (IT) Specialists. The IT Specialists will look at controls over relevant IT systems. Deloitte may also use a Lease Specialist but has not decided at this time.

Ms. Strohmeyer indicated that the reports to be issued during the year will be similar to the reports issued in prior years, but there will be one exception. This year there will not be a report for NYCHA Public Housing Preservation II, LLC, as Deloitte was notified that there won't be an audit required for that organization since the entity is inactive. Reports will be issued on a similar timeline as in prior years with June 2023 being the target date for the issuance of the audited financial statements (Annual Comprehensive Financial Report) and September 2023 being the target date for the issuance of the Single Audit Report.

Ms. Strohmeyer stated that planning procedures were performed in November and December 2022. The audit team was in the field and met with management during those months and performed activities related to establishing scope and understanding internal control changes. The audit team will return in March 2023 to start the year-end testing procedures of account balances, as well as to start procedures related to the Single Audit. The plan is to meet with the NYCHA Financial Team in June to communicate results.

Ms. Strohmeyer shared the results of the Peer Review Report<sup>1</sup> on Deloitte & Touché performed by the accounting firm Grant Thornton. A copy of the Peer Review Report was made available to the Committee, as required by government auditing standards. This is the most recent report, dated 2020,

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<sup>1</sup> 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.

and Deloitte & Touché received the highest possible rating of Pass that a public accounting firm can receive in a peer review. This year Deloitte & Touché will be going through another peer review with Grant Thornton and results are expected to be issued next year.

In response to Mr. Kaplan's question if any of Deloitte's offices were sanctioned by the PCAOB, Ms. Strohmeyer indicated she did not know and will get back to Mr. Kaplan with an answer. Mr. Kaplan asked another question if Deloitte had meetings or otherwise interacted with the Federal Monitor. Ms. Strohmeyer stated she had not received any request from the Federal Monitor to meet with her. Ms. Lescott-Martinez indicated that the Federal Monitor is technically allowed to speak with anyone employed by NYCHA but confirmed Ms. Strohmeyer's statement that the Federal Monitor has not requested to meet or speak with Deloitte. Ms. Lescott-Martinez stated that she has spoken with the Federal Monitor. Ms. Lescott-Martinez added that the Federal Monitor issues public reports on a quarterly basis, and they are available on the Federal Monitor's website.

Mr. Kuo raised the question as to whether a waiver can be obtained on the HUD (Housing and Urban Development) requirement to have lead paint compliance tested by Deloitte due to the Agreement with HUD. Mr. Kuo expressed that since there is a pre-existing HUD agreement for compliance on the lead paint over 20 years, having it tested each year, reported as an exception while incurring additional testing expense, does not provide any additional value.

Ms. Strohmeyer indicated that Deloitte follows strict compliance guidelines that are set forth in the Office of Management and Budget (OMB) Compliance Supplement when Deloitte tests certain federal major programs, which includes lead paint remediation guidelines. The guidelines are worded in a certain way that if lead paint was identified, it needed to be remediated in the current year or else it could result in a finding. Deloitte did have some correspondence with HUD on this topic and whether this needed to be an exception. Based on how material this matter was to the financial statements, the professional judgment was to disclose this as a finding. Unless the Compliance Supplement changes or the balance amount is not so significant or material, the finding will recur in 2022 and in subsequent years.

Mr. Kuo understood Ms. Strohmeyer's explanation but believed that the time and money spent on this Special Test each year should not be required by HUD, since the parties to the HUD agreement all know what the estimates are, the remediation requirements and timeline, and all parties agree. Ms. Lescott-Martinez stated they would have that conversation with HUD and raise those points again but may have to follow HUD's guidance in order to get clean audits. The members requested that NYCHA management draft a waiver request on this Special Test requirement for the AFC to send to HUD. Ms. Lescott-Martinez indicated that NYCHA will draft the waiver and share with AFC members for review and signature.

Upon motion made and duly seconded, Deloitte's Audit Service Plan for NYCHA's 2022 Single Audit was accepted by the Audit & Finance Committee.

### **III. DISCUSSION OF IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS ON NYCHA'S 2022 FINANCIAL STATEMENTS**

Jeffrey Lesnoy, Vice President & Controller, Financial Accounting & Reporting Services, provided a presentation on the expected impact of the new accounting standards implementation on NYCHA's 2022 financial statements.

There are six new GASB Statements are in effect this year. GASB 87, Leases will have the most impact on NYCHA's resources and will require material adjustments to the financial statements. Mr. Lesnoy emphasized that management's evaluation, documentation, and conclusion of GASB 87 effect on lease accounting is preliminary at this stage and subject to change.

The main reason GASB 87 came about was that prior GASB 62 did not require that most leases be reflected on the Balance Sheet. The risk of leases and the exposure that leases have on NYCHA's financial condition could not be determined when leases were not accounted for on the Balance Sheet.

Mr. Lesnoy explained that leases impacted by GASB 87 must meet certain criteria. Some of the criteria considered are as follows:

- A lease term greater than 12 months.
- The lease must be non-cancelable.
- The maximum term must be the non-cancelable period of the lease.
- It must be an exchange-like transaction. (Each party to the lease needs to exchange same value in order to be an exchange-like transaction.)
- Variable payments based on future performance of lessees should not be included.
- Contracts that transfer ownership by term end or before term end are not subject to GASB 87.

Mr. Lesnoy explained the lessee point of view for GASB 87 qualified leases, which are accounted for as Right to Use Assets and lease liabilities on the financial statements.:

- A "right to use assets" and lease liability is reflected by considering the present value of all future lease payments. The present value is calculated by using NYCHA's incremental borrowing rate (based on the secured overnight financing rate that can be found on Bloomberg financial data plus a spread).
- The "right to use assets" are amortized or depreciated depending on the shorter of the term of lease or useful asset life.
- The lease liability is amortized like debt, where lease payments made are allocated between principal and interest.

Mr. Lesnoy emphasized that the financial statements will look very different under GASB 87 and will be materially impacted under GASB 87. From a lessor point of view, GASB 87 qualifying leases will be recorded as a lease receivable. A discount rate will be applied to the future lease payments resulting in the recording of deferred inflow of resources. Such deferred inflow of resources is to be recognized to revenue over the lease term. Based on preliminary analysis at the time of the December 15, 2022, Audit and Finance Committee meeting, NYCHA has not yet identified any GASB 87 material qualifying leases from a lessor point of view. *(However, certain non-material transactions have been discovered since.)*

Mr. Lesnoy indicated that the most significant change to the financial statements due to GASB 87 will come from leases with the lessee point of view. The first category of such leases pertains to NYCHA's six office leases, including Long Island City, 90 Church, and 250 Broadway as these three largest leases, which make up 95 percent of the future lease payments. Financial statements will be restated from the opening balance of January 1, 2021, so that there will be comparative statements between 2022 and 2021. The second category of leases with lessee point of view are equipment leases, which will have significant but not material impact to the financial statements. Twenty equipment leases have been identified for consideration.

The third category of leases from the lessee point of view are equipment lease purchase agreements. There are six such leases, but these leases have no impact, as they do not qualify for GASB 87 since title transfers of underlying equipment are made to NYCHA at the beginning of each lease term.

Mr. Lesnoy provided presentation of leases with a lessor point of view. There are three to four categories for such leases:

- The leases made between NYCHA and tenants, of which there are 163,000 such leases, do not qualify under GASB 87, since these leases have less than 13-month terms and are considered short term leases. The accounting for these leases will not change.
- The second category of leases with lessor point of view are commercial leases, such as leases made between NYCHA and business owners that rent space on development property, including storefronts, medical offices, preschools, and laundromats. There are approximately 300 such leases, and a large majority of these leases charge rent below fair market value. Where lease payments are below fair market value, they are not considered exchange of equal value transactions between lessee and lessor and therefore do not qualify for GASB 87 accounting treatment. There are only a small handful of commercial leases that may be GASB 87 qualified and material, but a final determination has not been made for these leases. *(Note that since the 12/15/22 Audit and Finance Committee meeting, NYCHA management has discovered certain GASB 87 qualifying commercial leases from a lessor point of view which may need to be recorded within the financial statements. However, it is not expected that these amounts will be material).*
- The third category of leases with lessor point of view are the RAD PACT<sup>2</sup> transactions. Based on management review, the RAD PACT transactions do not meet the exchange of equal value requirement, or include variable payments based on lessee performance, so are exempt from GASB 87.
- The last category are leases with other City agencies from a lessee or a lessor point of view. There are about ten such leases, but they all involve nominal rent value, so do not meet the exchange for equal value requirement under GASB 87, and therefore are exempt from GASB 87.

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<sup>2</sup> 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.

In response to Mr. Kuo's question about who decides to accept management's determination of which leases qualify under GASB 87 and which do not, Ms. Strohmeier stated that Deloitte will test the leases to determine if management's determination of leases that qualify or do not qualify under GASB 87 are accurate and complete, as part of their test procedures.

In response to Mr. Kuo's question of the 163,000 leases made with tenants are no more than one year in term, Mr. Lesnoy confirmed that there are no tenant leases with a term greater than one year.

In response to Mr. González's question about how long NYCHA waits before taking action against tenants that have rents in arrears, Mr. Lesnoy indicated NYCHA cannot pursue legal action against tenants in arrears while tenants are enrolled in the ERAP<sup>3</sup> Program, which protects them against claims of late payments. Ms. Lescott-Martinez further stated that NYCHA cannot pursue legal action against tenants with an outstanding ERAP application. The outstanding ERAP applications affect 31,330 tenants and worth about \$120 million, but actual amount owed is closer to \$240 million. However, these tenant lease terms are not more than one year and therefore do not qualify under GASB 87.

Mr. Lesnoy indicated there are five other GASB Statements that are effective next year, as follows:

- **GASB 91** relates to Conduit Debt Obligations. This GASB does not affect NYCHA.
- **GASB 92 Omnibus 2020** relates to a variety of topics that does not impact NYCHA. For example, Accounting for Asset Retirement Obligations (AROs) will not impact NYCHA as NYCHA did not acquire assets that meet GASB 92 criteria.
- **GASB 93** relates to Replacement of Inter-bank Offered Rates. This does not impact NYCHA.
- **GASB 97** relates to Component Unit criteria and accounting for Section 457 Deferred Compensation Plans. While a preliminary conclusion was reached, further management evaluation with consultation from Deloitte is required to determine if this GASB impacts NYCHA.
- **GASB 99 Omnibus 2022**, of which most requirements are not effective, and won't be adopted, until 2023 or 2024. Those requirements effective in 2022 include further guidance on LIBOR-based transactions, SNAP, pledging future revenue on Component Unit's debt, disclosure of certain non-monetary transactions and terminology change. For those requirements effective in 2022, this GASB is expected to have minimal impact on NYCHA's financial statements.

In response to Mr. Kuo's question on COVID's impact on NYCHA staff in providing information needed by Deloitte for the audit, Ms. Strohmeier stated there was no adverse impact on getting the information needed by Deloitte from NYCHA staff.

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<sup>3</sup> The New York State Emergency Rental Assistance Program (ERAP) provides significant economic relief to help low and moderate-income households at risk of experiencing homelessness or housing instability by providing assistance with applications for rental-arrears and utility arrears.



**Adjournment:**

Mr. Clarke thanked everyone for their participation in the meeting. Upon motion made and duly seconded, the meeting was adjourned at 11:21 AM.