



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

Minutes of Audit Committee Meeting
April 22, 2021

Board and Audit Committee Members:

Victor A. Gonzalez, Co-Chair
Mark N. Kaplan, Independent Member
Richard P. Kuo, Independent Member

NYCHA Board and Staff Members - Present:

Vilma Huertas, Special Advisor to the Chair
Annika Lescott, Executive Vice-President Finance & Chief Financial Officer
Jeffrey Lesnoy, Controller, Financial Accounting & Reporting Services
Terrence Clarke, Acting Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment

Deloitte & Touche LLP – Present:

Jill Strohmeier, Lead Engagement Managing Director
Darshan Patel, Senior Manager
Johnny Waldschmidt, Audit Manager

Technical Support Team:

Euripides DeLosSantos, Ramon Lugo, Frank Cavaleri, Frank Iannone, Ray Zamaria
Humberto Rosero, Andy Nagy

A meeting of the Audit Committee members of the New York City Housing Authority (the “Authority”) was held remotely¹ on April 22, 2021 at approximately 10:09 AM.

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

I. Approval of Minutes:

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the December 15, 2020 Audit Committee meeting.

II. Deloitte’s Status Update for 2020 Comprehensive Annual Financial Report (CAFR):

Mr. Clarke invited Deloitte team to provide a status update for 2020 Comprehensive Annual Financial Report of the New York City Housing Authority (NYCHA), NYCHA Public Housing Preservation I, LLC (LLC I) and NYCHA Public Housing Preservation II, LLC (LLC II).

¹ Because of the ongoing COVID-19 health crisis and in relation to Governor Andrew Cuomo’s Executive Orders, the Audit Committee Meeting of the New York City Housing Authority, held on Thursday, April 22, 2021 at 10:00 A.M., was limited to viewing the live-stream or listening via phone instead of attendance in person.

Jill Strohmeyer, Managing Director from Deloitte provided the status update for an independent audit of the New York City Housing Authority, along with its two component units: LLC I and LLC II for the year ended December 31, 2020.

Ms. Strohmeyer explained that the Deloitte team began their year-end audit procedures in March and has completed the following tasks so far:

- Assessed Deloitte team independence. Prior to any Deloitte professional performing any audit procedures for the Authority, they assess whether or not the individual is independent both fiscally as well as personally as far as relationships go with the entity. The Deloitte team has completed those independence procedures in accordance with both AICPA standards as well as Government Auditing Standards², issued by Government Accountability Office (GAO) and everyone serving on this audit this year has been deemed independent.
- Updated understanding of NYCHA, noting no significant changes from prior year.
- Updated understanding of the control environment, noting no significant changes from prior year. Deloitte performed this audit virtually last year, and management is currently performing many of their control functions remotely. Deloitte is also performing the audit remotely again this year. The team has been informed that there have been some enhancements to internal controls this year, particularly in the Finance and Treasury departments.
- Determined materiality for each of the three audits, which was calculated based on the same benchmark as last year. The Deloitte team uses expenses to determine the materiality, and has applied the same percentage factor to that benchmark to determine the ultimate materiality numbers.
- Performed preliminary analytical procedures on account balances. The team compared current year account balance information to prior year account balance information and looked for any significant fluctuations or variances. If the team notices significant variances, they are having further discussions with management to understand the reason why an account balance may significantly fluctuate, whether up or down.
- The team also performed scoping procedures to determine which account balances should be tested. There are two aspects of the scoping process: one relates to a quantitative review and the other relates to a qualitative review. Quantitative just means that an account balance is large compared to the auditors' materiality. Qualitatively, there may be an account balance that may not be large in comparison to materiality but may have other factors that the audit team considers to be important, such as complexity of the account, large volume of transactions, susceptibility to error or fraud, etc. Based on the scoping process, the audit team has determined which account balances are significant from both qualitative and quantitative perspective.
- The team has prepared audit confirmations and sent them to the respective parties, whether internal or external. Those areas relate to legal confirmations, cash, investments and debt.
- The team has received and read the meeting minutes of the Board of Directors and the Audit Committee. The Deloitte team reads those minutes to understand if there are any transactions or events that have occurred throughout the year, which could impact the audit. Based on the review of the minutes, the audit team noted the real estate transactions for which they are planning audit procedures to test those transactions. They also noted that there was a new service provider related to claims management, which the audit team will assess further to determine whether or not the service provider is relevant to the audit.
- The Deloitte team has held meetings with their internal specialists in the areas of IT, Pension, Other Post-Employment Benefits (OPEB) benefits and Claims. The Deloitte audit team had separate internal meetings

² The audit is governed by two sets of standards because of the Federal funds received by NYCHA.

with each of these groups of specialists to determine scope and the audit procedures.

- Discussed risks and fraud with key members management. The discussions were held with the Chair, the General Manager, Chief Financial Officer (CFO), Controller, the Internal Audit Team as well as other members of management.

In addition, the Deloitte team is in the process of testing internal controls, which include both business process controls as well as information technology controls. While Deloitte does not issue an opinion on internal controls similar to a publicly traded company, they are required to review the Authority's controls and test the design and implementation of such controls.

Further, the Deloitte team has started testing the following account balance areas:

- Cash and investments
- Capital assets, including construction in progress and asset retirement obligations
- Receivables
- Prepaid expenses
- Accounts payable and accrued expenses
- Pension and other postemployment benefits liabilities
- Claims liabilities
- Tenant revenue and unearned revenue
- Subsidies and grants revenue
- Long-term debt
- Journal entries, including adjusting entries

During end of April or early May, the Deloitte team will begin testing of the real estate transactions. In May, they will also begin our testing of GASB 49³ - the environmental and pollution remediation liabilities, which includes the lead paint assessment. Management is currently in the process of completing their work and their review of liability in this area.

The Deloitte team will also test the consolidation and elimination entries during May. These are the entries or transactions that occur between NYCHA and the two component units, LLC I and LLC II. Those type of related party transactions are eliminated at the consolidated level.

In addition, the Deloitte team will test the cash flow statement for each of the entities. They will do an in-depth review of the financial statements, making certain that information agrees from general ledger and trial balance to the actual financial statements. They will also start testing of the footnote disclosures.

Deloitte will also draft the management representation letter that will be signed by management at the conclusion of the audits.

Further, during the month of June, Deloitte team will test the going concern assumptions and test subsequent events, i.e. any event that may have occurred from January 1, 2021 through the issuance date in June. Deloitte will also obtain any legal letter updates from internal and external counsel prior to issuing their report in June.

³ Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. These obligations relate to addressing the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

Ms. Strohmeyer also elaborated on the timeline for issuance of the report. She anticipates the second level review partner to begin his review at the end of May or early June. Every audit report that Deloitte issues goes through a second partner review. As a part of system of quality control, an independent individual at the partner level reviews the financial statements and key audit work papers prior to releasing the report.

The Deloitte team will meet with the Audit Committee in June to present the results of the audit. Deloitte's governance letter will be presented to the Audit Committee. It outlines if there are any findings or control deficiencies as well as audit adjustments that were posted and made by management. The Deloitte team anticipates being in a position to issue their reports on the financial statements at the conclusion of the June 17, 2021 meeting.

Ms. Strohmeyer asked the committee members if they had any questions for Deloitte regarding their progress on the financial statement audit.

Mr. Kuo inquired regarding the methodology used to test the tenant revenue. Ms. Strohmeyer responded that the audit team selects a sample of tenant files from all developments. The Deloitte team reviews the documentation in each tenant file in the sample and recalculates rental revenue to confirm accuracy. They also vouch for payments received for a sample of tenant accounts.

Mr. Gonzalez asked whether they were able to find missing documentation related to remediation of lead paint for three of the 26 apartments discussed in the previous meeting. Ms. Strohmeyer responded that the Deloitte team has not begun their testing yet for the pollution and remediation liability, which includes the lead paint abatement.

Mr. Gonzalez also inquired regarding the units which were converted to Section 8. He raised concern regarding the units with a child under six, where the X-ray fluorescence (XRF) testing was performed before the conversion, but the abatement was never done. Annika Lescott, Chief Financial Officer stated that she would check with the lead abatement team regarding this issue.

Mr. Gonzalez further inquired whether there a timeline imposed on internal audits. Ms. Strohmeyer responded that Deloitte does not independently audit Internal Audit department. Deloitte does work with Internal Audit department and have discussions with the department. The Deloitte team reviews the reports issued by the Internal Audit department as part of risk assessment procedures to know if there is an issue or a severe finding that could impact the financial statements. Internal Audit department and Deloitte work together in this manner.

Mr. Clarke added that there are about 10 audit reports in the reporting stage. Subject to the completion of the final reviews, these reports will be made available to the committee and also to the external auditors.

Vilma Huertas, Special Advisor to the Chair explained that based on an annual risk assessment, the Audit Department prepares an audit plan, and after approvals, executes the audit plan. Sometimes audits get moved either because of another priority project or because it may not make sense to proceed after the audit plan was approved with that particular audit. For example, right now, some audits may not make sense to proceed with this year because COVID was such an unusual situation. As a result, some of them may not be completed, some may be deferred, and it may not make sense to proceed with some audits because of unusual circumstances such as COVID. Different circumstances can arise at any time.

Upon inquiry from Mr. Gonzalez regarding delays related to GASB Statement 95, Jeffrey Lesnoy, Controller explained that Governmental Accounting Standards Board (GASB) issued a Statement Number 95 in 2020, which

has delayed implementation of GASB statements by one year to 18 months due to COVID⁴. As a result, there are no new GASB statements that NYCHA is implementing for the year 2020. In 2021, NYCHA will not have any new GASB statements to be implemented. In 2022, NYCHA will have five known statements to be implemented including one major one relating to lease accounting changes (GASB 87), which will require significant preparation. However, for the 2020 and 2021 financial statements, no action is required by NYCHA.

III. Deloitte's Status Update on 2020 Single (Compliance) Audit:

Jill Strohmeier, Managing Director from Deloitte made the opening remarks that because the New York City Housing Authority receives significant federal funding and expends more than \$750,000 in federal funds, it is required to have a "Single Audit" performed.

Deloitte plans to issue three reports as part of the Single Audit:

1. Independent Auditors' Report in accordance with Government Auditing Standards.
2. Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance in accordance with Government Auditing Standards
3. Independent Auditors' Report on Compliance for Each Major Federal Program tested during 2020.

Deloitte will also issue a small Agreed Upon Procedures Report related to the Real Estate Assessment Center or REAC⁵.

Ms. Strohmeier informed the Audit Committee that the Office of Management and Budget (OMB) has provided a six-month extension on the due date for the Single Audit submission. In a normal year, NYCHA's Single Audit submission would be due nine months after the Fiscal Year End or September 30th. With this six-month OMB extension, the 2020 single audit is now considered due in March of 2022.

NYCHA management does anticipate using part of that extension and plans to have a Single Audit ready for issuance in December 2021. This timeline is the same as it was last year.

We have received a preliminary Schedule of Federal Expenditures of Awards (SEFA) from management at this time. Per this schedule, NYCHA has approximately 3.3 billion dollars in total federal expenditures for 2020 consisting of various federal awarding agencies.

Based on the Uniform Guidance issued by the Office of Management and Budget, Deloitte team has performed a risk assessment and has selected the following programs for testing:

- Community Development Block Grants/Entitlement Grants - CFDA 14.218
- Public Housing CARES ACT Funding - CFDA 14.PHC

⁴ The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. It postpones the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in some pronouncements are postponed by one year, and the effective dates of the Statement No. 87, Leases and Implementation Guide No. 2019-3, Leases are postponed by 18 months.

⁵ 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.

- Housing Voucher Cluster:
 - Section 8 Housing Choice Vouchers - CFDA 14.871
 - Mainstream Vouchers - CFDA 14.879
- HCV CARES Act Funding - CFDA 14.HCC
- Public Housing Capital Fund (CFP) - CFDA 14.872: Deloitte tests this program every year. They are required to test this program every year because of a closeout component related to it.

Ms. Strohmeier stated that the Deloitte audit team has started the Single Audit procedures. Darshan Patel on the line is Deloitte's Single Audit Specialist. They have begun making requests for populations to determine the samples for testing. The team expects to complete a part of the audit work before the end of June and then ultimately complete the rest of the procedures by Fall, ahead of the December submission deadline.

Ms. Strohmeier concluded her remarks on Deloitte's status of the 2020 audits.

IV. Discussion of Other Matters:

Mr. Clarke asked whether there were any further comments.

Annika Lescott, Chief Financial Officer announced that NYCHA has received the Government Finance Officers Association Award for Excellence in Financial Reporting for the 2019 Financial Statements. This Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting and its attainment represents a significant accomplishment by NYCHA and its management. Ms. Lescott thanked the Audit Committee for their work and for supporting the team. She also thanked Jeffrey Lesnoy, Controller for his leadership.

Adjournment:

Mr. Clarke thanked everyone for the participation in the Audit Committee meeting. Upon motion made and duly seconded, the Audit Committee meeting was adjourned at approximately 10:52 AM.