

NEW YORK CITY HOUSING AUTHORITY

Minutes of Audit Committee Meeting Thursday, October 6, 2016

Board and Audit Committee Members:

Derrick Cephas, Chair
Victor A. Gonzalez, Co-Chair (*Absent*)
Mark Kaplan, Independent Member
Richard Kuo, Independent Member

NYCHA Staff Members- Present

Karen Caldwell, Executive Vice President and CFO
Karina Totah, Vice President for Strategic Initiatives
Tricia L. Roberts, Director, Department of Internal Audit & Assessment
Jeffrey A. Pagelson, Controller, Accounting & Fiscal Services
Daniel Frydberg, Deputy Director, General Ledger Division, Accounting & Fiscal Services
Suleima Crosby, Director, Leased Housing – Quality Assurance & Performance Management
Winston McCormack, Deputy Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Hyacinth Jeffers, Assistant Director, Department of Internal Audit & Assessment

Deloitte & Touche LLP - Present

Michael Fritz, Lead Client Service Partner (*via conference call*)
Darshan Patel, Audit Senior Manager
Jill Strohmeyer, Audit Senior Manager

A meeting of the Audit Committee members of the New York City Housing Authority (the “Authority”) was held on October 6, 2016 at 2:00 pm in the Board Room of the Authority at 250 Broadway, New York, New York 10007. The Audit Committee meeting commenced at 2:00 PM.

I. 2016 Internal Audit Status

Tricia Roberts, the Audit Director presented the status of the 2016 Internal Audit Plan to the Audit Committee. She explained that the plan is to perform 44 audits during the year. We have implemented a new audit report format which has been well received by the Senior Management. The Department has issued 12 audit reports in the third Quarter, and a number of audits are in hopper. The audits vary across different areas such as Administration, Capital Projects, Finance, Law, as well as a few special projects and requests. We will provide findings for management actions.

Mr. Kaplan asked whether reports would be made available to the Audit Committee, which will work as best practice. The Audit Director responded that it will be taken into consideration.

Mr. Kaplan inquired what kind of records and monitoring are in place regarding safety, since it is important to have records necessary to protect the organization. Karen Caldwell, CFO explained that NYCHA has data available, which is kept by Operations and Property Managers. The Audit Director added that our auditors have also started inspecting apartments and documenting conditions, and we hope that our work will add value.

Upon Mr. Kuo's questions regarding the risk rating methodology, Tricia Roberts explained that the audits are assigned a risk rating of High, Medium and Low based on past experience, past audit reports, impact on residents' safety, financial impact, HUD compliance, etc.

II. External Audits

The Audit Director also presented to the Audit Committee a summary of external audits in progress. In responding to Mr. Kuo's question regarding the role of the Audit Committee, she explained that we are disclosing and reporting to the Audit Committee what external audits are presently being conducted. We are currently working with NYCHA's Deputy General Counsel and NYC Comptroller's counsel to draft a Confidentiality Agreement, so that the tenants' personally identifiable information (PII) is protected. So far, we have received good feedback from both the NYC Comptroller's audit team as well as NYCHA management.

The Audit Director explained that the Department is monitoring areas audited externally and is also performing follow-up audits to assess progress made in the implementation plan, so that their impact is incorporated into the internal audit plan.

III. Minutes of June 16th Audit Committee Meeting:

Mr. Kuo requested an explanation for the term "Retainage Payables" which was used in the 2015 Management Letter. Jeffrey Pagelson, the Controller explained that the Retainage Payables account represents contract retention amount which has been placed in an escrow account. Mr. Kaplan inquired whether it is subject to escheatment laws. Jeffrey Pagelson responded that he would need to consult with the CFO as well as Internal Audit Department.

IV. Deloitte & Touche LLP's Audit Service Plan for 2016 Single Audit:

Mr. Mike Fritz, the Lead Client Service Partner, presented the Audit Service Plan for the 2016 Single Audit. Mr. Fritz explained that the Deloitte audit is performed in accordance with the Government Auditing Standards prescribed by the Comptroller General of the United States. Based on their risk-based audit approach, the Deloitte team has identified "Management override of controls" as a preliminary area of significant risk. In addition, they have also identified the following key areas of focus:

- Adoption of new Government Accounting Standards Board ("GASB") statements – Deloitte is not aware of any new significant standards which may significantly impact the audit.
- Capital assets, where the audit looks at mainly construction in progress in terms of how it moves to basic financial statements, draw-down on FEMA funds, review of controls, review of unamortized balances and reviewing capitalization issues.
- Pension and other post-employment benefits, where the team will be testing mainly demographic information and balances.

- Tenant revenue, where they select some developments and do detail testing to confirm a sample of revenue transactions.
- Balance Sheet items.

Mr. Fritz said that he will continue as the Lead Client Service Partner, and the audit team for the NYCHA audit will be the same as last year. They will review the internal control system as a part of the audit, and will also provide reports on financial controls as well as on controls over major programs.

In responding to Mr. Kuo's question regarding audit procedures for tenant revenue, Mr. Fritz explained that the audit looks at analysis and comparison; changes in population – for example move-outs, elderly families. They review tenant files for specific units for move-ins, move-outs, proper recording, eligibility of tenant, etc. Jill Strohmeyer, the Audit Senior Manager added that during last year's audit, about 65 tenant records from different developments were reviewed, based on a statistically valid sample.

Regarding subsidies and grants, Mr. Kuo asked whether the auditors look at what was applied for and obtained. Mr. Fritz explained that the audit team performs a comparative analysis between two years and reviews any variances to ensure that the grants and subsidies are recorded properly. The audit does not look at what opportunities were lost; it mainly looks at whether amounts received were properly recorded or not.

To Mr. Kuo's question regarding how the audit accounts for the subsidies for HUD Fiscal Year vs. NYCHA Calendar Year, Karen Caldwell, CFO explained that subsidies are received every month; so it is an ongoing process.

Regarding the timing of the audit, Mr. Fritz elaborated that for the last year's 2015 audit, they were not able to perform year-end review since the contract was awarded after December 2015. However, for the current 2016 audit, they have started some work in September to review year-end account balances. They also met with the Audit and the Controller teams to see what can work well. They have started using Deloitte connect – a web-based system to track items requested and received. Tricia Roberts added that it will provide for better communication since large files can be uploaded in a secured way (instead of emails) and there are e-mail alerts.

Mr. Kuo asked how Deloitte reviews management overrides of controls. Jill Strohmeyer explained that all management overrides are reviewed. For example, inquire why there are Journal Entries on weekends; ask for supporting documents for the journal entries; review transactions with big liabilities; inquire management regarding significant transactions; etc. Upon Mr. Kaplan's question regarding thresholds, Jill Strohmeyer responded that the threshold is about \$5 million for NYCHA, and it is lower for the LLC entities. Mr. Fritz added that it is based on a summary of misstatements, analyses and adjustments under professional standards.

Mr. Fritz asked the Audit Committee members: "Are you aware of any fraud at NYCHA that maybe material to the financial statements?" Mr. Kaplan responded in negative and Mr. Kuo seconded.

Mr. Kaplan asked whether NYCHA's work is affected by the work the City is doing. Daniel Frydberg stated that NYCHA receives OPEB information from the City, which we have just received. Jill Strohmeier added that they will review the data in February during the field work.

In responding to Mr. Kaplan's question regarding number of people involved in the audit, Jill Strohmeier stated that 20 to 25 individuals (including IT, Actuary, Specialists, support staff, etc.) may be involved during the entire audit process; however, basic core consists of 6 to 8 team members.

Tricia Roberts added that the Deloitte audit team has provided us with timeline as well as the Deloitte Connect instructions. Also, on the compliance side, the Deloitte will decide on programs to test based on the Uniform Guidance.

IV. Approval of Minutes:

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the June 16, 2016 Audit Committee meeting.

V. Approval of Audit Plan:

Upon motion duly made and seconded, the committee members unanimously approved the internal audit plan presented by the Department of Internal Audit & Assessment.

VI. Executive Session:

The Audit Committee met with the Deloitte audit team in executive session at 3:15 pm.

Adjournment

The meeting was adjourned at about 3:30 PM.