

NEW YORK CITY HOUSING AUTHORITY

Minutes of Audit Committee Meeting Wednesday, June 14, 2017

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

Tricia L. Roberts, Director, Department of Internal Audit & Assessment

Karina Totah, Vice President for Strategic Initiatives

Jeffrey A. Pagelson, Controller, Financial Reporting & Accounting Services

Daniel Frydberg, Deputy Director, General Ledger, Financial Reporting & Accounting Services

Adham Choucri, Deputy Director, Revenue & Receivables, Financial Reporting & Accounting Services

Michael Hudick, Assistant Director, GAAP Analysis, Financial Reporting & Accounting Services

Winston McCormack, Deputy Director, Department of Internal Audit & Assessment

Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment

Deloitte & Touche LLP - Present

Michael Fritz, Lead Client Service Partner

Jill Strohmeyer, Audit Senior Manager

A meeting of the Audit Committee members of the New York City Housing Authority (the "Authority") was held on June 14, 2017 at 10:00 AM in the Board Room of the Authority at 250 Broadway, New York, New York 10007.

I. Approval of Minutes:

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the May 10 and May 18, 2017 Audit Committee meetings.

II. Revised Consolidated Comprehensive Annual Financial Report (CAFR) for the Authority for 2016:

Jeffrey Pagelson, Controller, discussed Tab 3 of the Audit Committee package, which included the revised Comprehensive Annual Financial Report (CAFR) for 2016.

Subsequent to the May 10 and May 18, 2017 NYCHA Audit Committee meetings, NYCHA, LLC I and LLC II financial statements were revised in response to Deloitte's audit inquiries. Mr. Pagelson provided a summary of the changes made to the NYCHA's (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position and (3) affected Notes to the Financial Statements.

The net effect of the adjustments was an increase in Operating Loss of \$16,441,000 and an increase in Capital Contributions of \$46,247,000, resulting in an increase to Net Position of \$29,806,000.

The components of Net Position that changed significantly were increases in Accounts Receivable (\$46 million), Land and Construction in Progress (\$69 million) and Accrued Liabilities (\$86 million).

The most significant changes were related to:

- (1) Operating Expenses - an increase of \$16,299,000 due to accrual of the invoices paid during 2017 that were for goods received and services performed during 2016.
- (2) Capital Expenditures - \$69,332,000 of capital expenditures were paid and recorded in 2017 for capital work actually performed in 2016. This resulted in an increase in Capital Assets.

Mr. Kuo inquired why the financials were not recorded properly. The Controller, Mr. Pagelson explained that Deloitte's sample revealed invoices for work performed in 2016 but were paid in 2017. The Controller's staff reviewed other invoices and made the necessary corrections to the financial statements.

III. Revised Comprehensive Annual Financial Report (CAFR) for NYCHA Public Housing Preservation I, LLC ("LLC I") for 2016:

Mr. Pagelson provided highlights of the changes to the LLC I's Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2016.

An adjustment to the Tenant Revenue was based on an audit test of LLC I tenant files where a resident was overcharged rent by \$85, and NYCHA extrapolated the error across all LLC I residents with similar attributes and arrived at an adjustment of \$ 142,000.

In addition, changes to the Operating Expenses and Capital Expenditures categories were made due to accrual of expenses incurred in 2016 but paid in 2017.

Mr. Kaplan asked whether you are required to discount the non-interest bearing loan. Mr. Fritz responded that the government accounting standards do not require it to be discounted.

IV. Revised Comprehensive Annual Financial Report (CAFR) for NYCHA Public Housing Preservation II, LLC ("LLC II") for 2016:

Mr. Pagelson provided highlights of the changes to the LLC II's Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2016. Most significant changes related to the Operating Expenses and Capital Expenditure categories due to accrual of expenses incurred in 2016 but paid in 2017.

V. Deloitte's Management Letter Comments for Year Ended December 31, 2016:

Michael Fritz, Lead Client Service Partner from Deloitte presented the Management Letter Comments resulting from the 2016 audit. In this document, the auditors highlight any internal control issues noted during the audit to management's attention.

Mr. Fritz explained that the Management Letter has observations and it does not provide an opinion on the internal controls. However, it notes comments on internal controls noted during the audit. The auditors noted control exceptions but no material weakness or significant deficiency. Mr. Fritz further stated that there are two comments related to NYCHA and one comment related to LLC I.

Jill Strohmeyer, Deloitte's Audit Senior Manager explained that the first comment on page 6 of the document relates to 9 instances in which accruals were not recorded at December 31, 2016 for goods and services received prior to December 31, 2016. The management made the necessary adjustments in the revised financial statements. Mr. Cephas inquired whether the process had changed at NYCHA. Mr. Fritz explained that the process had not changed; however, last year's audit sample did not identify this deficiency. Mr. Pagelson added that a process to review invoices posted in the Oracle financial system subsequent to year-end will be implemented.

The second comment page 8 of the document relates to an update on a prior year observation regarding lack of policy on review and assessment of potential capital asset impairment. It was noted that the Authority does have a procedure in place, but no documentation existed regarding a review/analysis of capital asset impairment performed in 2016.

The last comment on page 11 of the document relates to LLC I where one tenant's rent was higher than what the documents in file supported. Management extrapolated the error to the affected population and made an adjustment of \$141,000 to the tenant revenue in the financial statements.

Tricia L. Roberts, the Audit Director noted that NYCHA is converting from a legacy AS400 system to Siebel for rent calculation on public housing side, in conjunction with automating the annual recertification process as a part of the Chair's NextGen initiative. We are in negotiation with Deloitte to perform a review of rent calculation for a sample of tenants in public housing program. The sample will be stratified based on category of income, and scope of review is laid out by NYCHA management. Mr. Kaplan inquired whether this consulting work would affect Deloitte's independence. Mr. Fritz responded that it would not impair independence since management does the calculations and input them in the system.

Ms. Strohmeyer noted that the last page of the document includes the prior year comments which all have been corrected.

VI. Status Update on 2016 Single Audit:

Mr. Fritz discussed Tab 7 of the Audit Committee package, which included Update on 2016 Single Audit. The summary page of the 2016 Single Audit Report indicates that the financial audit did not identify any material weakness, significant deficiency or material noncompliance. Similarly, there was no material weakness or significant deficiency noted in internal control over major programs. The audit did not disclose any audit findings or questioned costs to be reported in accordance with the Uniform Guidance. The summary page also lists four major programs that were identified, along with the dollar threshold related to major programs.

Mr. Cephas inquired how you identify a Low Risk Auditee. Mr. Fritz explained that if the entity did not have material findings or questioned costs for prior two years, it is qualified as a Low Risk Auditee based on the guidelines.

Mr. Fritz further explained that Jeff Pagelson’s group would prepare the Financial Data Schedule for the United States Department of Housing and Urban Development (“HUD”), which is expected to be finalized in August. Then, Deloitte would be able to submit the 2016 Single Audit Report to HUD and Federal Clearinghouse in September 2017.

Daniel Frydberg, Deputy Director of General Ledger added that HUD reviews the submitted Financial Data Schedules which provide details for each program, and it usually has clarifying questions and comments.

VII. Management Representation Letters:

The Audit Committee was provided with three Management Representation Letters, one each for NYCHA, LLC I and LLC II – consistent with last year. The Audit Committee had no questions on these letters.

VIII. Audit Committee Recommendation Letters and Approval of Financial Statements:

Tricia L. Roberts, the Audit Director explained that Audit in conjunction with Finance had prepared the Audit Committee Recommendation Letters to the Board, based on the prior year Recommendation Letters as well as the Management Discussion and Analysis included in the current year financial statements. The letters are dated June 28, 2017, since Karen Caldwell, the Chief Financial Officer is expected to present the Board Resolution at the June 28th Board Meeting. The letters were also reviewed by NYCHA’s Law Department. These letters have historically recommended to the Board to approve the issuance of the financial statements.

Adjournment

The Audit Committee meeting was adjourned at about 11:20 AM.