



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

**Minutes of Audit Committee Meeting
October 19, 2018**

Board and Audit Committee Members:

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

NYCHA Staff Members- Present:

Tricia L. Roberts, VP for Finance
Daniel Frydberg, Acting Controller, Financial Reporting & Accounting Services
Hyacinth Jeffers, Acting Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Jacqueline Palmer, Assistant Director, Department of Internal Audit & Assessment

Deloitte & Touche LLP – Present:

Michael Fritz, Lead Client Service Partner
Jill Strohmeyer, Managing Director
Megan Martin, Audit Senior Manager

A meeting of the Audit Committee members of the New York City Housing Authority (the “Authority”) was held on October 19, 2018 at 10:50 AM in the Board Room of the Authority at 250 Broadway, New York, New York 10007.

Hyacinth Jeffers, Acting Director of the Department of Internal Audit & Assessment, commenced the meeting by referring to the agenda for the meeting.

I. Approval of Minutes:

Upon motion duly made and seconded, the Audit Committee Members unanimously approved the minutes of the September 20, 2018 Audit Committee meeting.

II. Board Resolution for 2017 Single Audit Report:

A copy of the approved Board Resolution number 18-9/27-52, regarding authorization to approve issuance of the Authority’s Fiscal Year 2017 Single Audit Report was presented to the Audit Committee Members.

III. Final 2017 Single Audit Report:

A copy of the Final 2017 Single Audit Report was presented to the Audit Committee Members.

IV. Deloitte's Audit Plan for 2018 Audit:

Ms. Jeffers, the Acting Audit Director indicated that the focus of the meeting was Deloitte's Audit Service Plan for the 2018 audit.

Jill Strohmeyer, Managing Director from Deloitte & Touche, introduced herself and her audit team - Michael Fritz, Lead Client Service Partner and Megan Martin, Senior Manager on financial audit. She stated that Darshan Patel, Senior Manager, who takes care of compliance with Federal grant requirements, was currently abroad.

Ms. Strohmeyer further stated that they also use various specialists on the engagement to perform analysis and testing of journal entries, to review accuracy of valuation of investments, to assess financial IT systems and to perform actuarial analysis of pension and other employment benefit obligations.

Ms. Strohmeyer stated that the audit plan is essentially similar to prior year audit and they follow the Risk Based Audit approach – i.e. the auditors spend more time on significant risk areas and less time on other areas. Ms. Strohmeyer further stated that the Deloitte team has identified “Management override of controls” as a primary area of significant risk for the upcoming 2018 audit.

Ms. Strohmeyer explained that they review all journal entries as a part of testing of “Management override of controls” to look for anomalies and special characteristics. For example, they pay attention to journal entries posted on weekends, or unusual large amounts, rounded numbers, etc. They also review estimates for any bias or unusual transactions. The audit team will also review year-end and closing period transactions in March 2019.

Mr. Cephas inquired: (1) How easy is it, in general and not specifically for NYCHA, for someone to successfully override management controls? (2) Can a single person do it or does it require a collusion with more than one person? Ms. Strohmeyer responded that in her experience, it definitely involves more than one person to successfully override controls. For example, a superior may pressure someone to make a certain journal entry. That's why they focus on journal entries to make sure that entries are properly recorded and are supported by appropriate documentation. Mr. Fritz added that they also look at access controls on IT side for this reason. Tricia L. Roberts, VP for Finance further added that NYCHA has approval hierarchy, and checks and balances in the financial transactions.

Mr. Kaplan asked whether there was any specific reason for selecting this area as high risk for NYCHA. Ms. Strohmeyer explained that it is a standard practice for all engagements.

Mr. Kuo inquired whether there is a dollar threshold for such review. Ms. Strohmeyer stated that there is a \$2 million threshold; however, they would look at the transactions below that threshold if it contains buzz words such as “adjustments.” Mr. Fritz added that they also use a data analytical tool to identify unusual trends.

Ms. Strohmeyer discussed additional areas of audit focus for 2018, which are not considered significant risks, as follows:

- Adoption of new Government Accounting Standards Board (“GASB”) statements – Deloitte will perform testing procedures on new GASB standards the Authority may adopt.

- Capital assets, including construction in progress – the team may perform physical observation of certain assets. They review additions and dispositions of fixed assets, and the related depreciation calculations. Mr. Gonzalez inquired at what point assets move from “in-progress” category to “complete” category. Ms. Strohmeyer explained that once the in-progress construction project is 90% complete in terms of actual work or budgeted dollar amount, it can be considered “fixed asset”, and depreciation process can start.
- Cash and Investments – The Deloitte audit team will send confirmations to banks and test transactions from investment portfolio. Their specialists will also perform independent valuation of investments to verify accuracy of realized and unrealized gains reported in financial statements.
- Pension and other post-employment benefits (OPEB), where the team will work with the actuarial experts to test demographic information and balances. The team will also review OPEB and pension reports from The City of New York. The City has already issued its Actuary’s report. So, the Deloitte team will start reviewing actuarial information in Fall of 2018 instead of the Spring of 2019.
- Tenant revenue, where they would select a sample of revenue transactions for some developments, recalculate rent and compare to the system-reported amounts in General Ledger. They will analyze month-to-month balances and compare with last year’s balances to identify variances.
- Subsidies and grants revenue.

Mr. Kuo inquired whether NYCHA sets aside any funds to pay for a large amount of OPEB liability. Daniel Frydberg, Acting Controller explained that NYCHA is on a “pay-as-you-go” basis and pays an annual amount to the City. It also pays an annual amount for pension to NYCERS.

Ms. Strohmeyer discussed the timeline of the audit and stated that the team is already in the field performing planning procedures, which include risk assessment, meetings with management, understanding changes that may have occurred, reviewing account balances, reviewing meeting minutes, reviewing internal audit reports, reviewing internal controls around business areas, etc. The audit team expects to perform substantive testing and field work during March to May 2019. Ms. Roberts added that the Deloitte team will be performing both CAFR (financial) and Single (compliance) audits simultaneously to complete them in a timely manner.

Mr. Kaplan inquired regarding subcontractor, and Ms. Strohmeyer confirmed that N. Cheng & Co. is a subcontractor to Deloitte on this engagement, which will be reporting to Deloitte.

Ms. Strohmeyer highlighted the tools that Deloitte team uses during performance of audit:

- Journal Entry Data Analytics Tool (Optix), which as previously mentioned is used to identify unusual transactions based on special characteristics.
- Deloitte Connect, which is used to securely upload data files and documents to fulfil the requests from the audit team.
- Deloitte Audit Confirmation System, which is a new tool they will be using this year to send confirmations to banks, attorneys, vendors, etc. rather than sending confirmations via mail. It will enable the team to track confirmations electronically.

Ms. Strohmeyer briefly discussed the Peer Review Report completed by Grant Thornton LLP. Every three years, Deloitte is required to go through a Peer Review, in which the Peer Review firm reviews

Deloitte's system of processes and controls as well as select engagements. The report was issued in November 2017, and Deloitte received the highest possible rating of "Pass". Ms. Strohmeyer further stated that every Partner and Managing Director of Deloitte, who signs audit opinions, is also required to go through internal inspection process every 3 or 4 years. During the past summer, she was selected for inspection on this engagement and she received a highest possible firm's rating of "compliance".

Ms. Strohmeyer stated that for 2018 audit, Deloitte will issue Independent Auditor's Report on NYCHA consolidated financial statements as well as LLC I and LLC II financial statements. In addition, they will issue Single Audit Report and Management Letter Comments for NYCHA.

Executive Session:

The Audit Committee met in an executive session at 11:30 AM.

Adjournment:

The Audit Committee meeting was adjourned at about 11:53 AM.