



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

Minutes of Audit Committee Meeting
December 15, 2020

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
Patti Bayross, Executive Vice-President and Chief Information Officer
Tricia L. Roberts, Vice President of Internal Audit
Sylvia Aude, Vice President for Public Housing and Tenancy Administration
Rassoul Azarnejad, Vice President of Healthy Homes
Jeffrey Lesnoy, Controller, Financial Accounting & Reporting Services
Adham Choucri, Deputy Director, Revenue & Receivables Division
Ah-Yat Lee, Deputy Director, Financial Accounting & Reporting Services
Mike Hudick, Assistant Director, GAAP Analysis, Financial Accounting & Reporting Services
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment

Deloitte & Touche LLP – Present:

Jill Strohmeier, Lead Engagement Managing Director
Darshan Patel, Senior 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 December 15, 2020 at approximately 10:10 AM.

Tricia L. Roberts, Vice-President of Internal Audit, 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 September 17, 2020 Audit Committee meeting.

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 Tuesday, December 15, 2020 at 10:00 A.M., was limited to viewing the live-stream or listening via phone instead of attendance in person.

II. Report to Management:

Jill Strohmeier, Managing Director of Deloitte, discussed deficiencies and other matters that the Deloitte auditors noted during the audit of 2019 financial statements.

Ms. Strohmeier stated that as part of the audit procedures, they did not find any material weaknesses or significant deficiencies related to the 2019 Audit. These are the two highest level severity of deficiencies; there were none of those. The 2019 Report to Management (also called Management Letter Comments) covers lower level deficiencies and other matters that the audit team wants to bring to the attention of management and the Committee Members.

Ms. Strohmeier discussed first comment related to lead paint contamination records. During the testing of the pollution and remediation liability related to lead paint, the auditors requested certain records for apartment units that were tested negative or cleared for lead paint contamination. They made a total of 26 selections; and of those 26 selections, they were provided audit support for 23. Those 23 pieces of audit evidence did confirm the fact that the items selected were either remediated or cleared for lead paint abatement. However, there were three (3) selections in which audit evidence could not be provided. Based on conversations with the Management Team, the reason the support could not be provided was due to a Federal government agency reviewing such documentation at a location outside of NYCHA.

As a result, the auditors extrapolated a projected misstatement of approximately \$45 million of potential understatement of the pollution remediation liability² as of December 31, 2019. This was not material to the financial statements and there was no adjustment required to the financial statements. However, based on this, Deloitte's recommendation is to consider implementing an electronic system to maintain the lead paint testing records to assure the availability of these records and to ensure that the source documents are retained for the appropriate period of time as prescribed by internal and external guidelines.

Upon inquiry from Mr. Gonzalez, Ms. Strohmeier clarified that the auditors also selected a sample of units which tested positive and they received all the required documentation to complete their audit procedures.

Mr. Kaplan inquired how extrapolation was performed and how close it came to reality when the information was received.

Ms. Strohmeier explained that the audit team developed an error rate based on three missing records out of 26 records and applied the error rate to the total amount of the liability using formulas to calculate the extrapolated amount.

Jeffrey Lesnoy, Controller added that there were about 34,000 units of 172,000 units which were determined to be exempted or previously abated³. Although the supporting documents for three units from this group could

² 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.

³ NYCHA presumes the presence of lead-based paint in target housing built prior to 1978 unless the unit is exempt due to negative lead findings of an inspection, exemption or record of prior abatement. Per HUD's Lead Safe Housing Rule, A covered dwelling unit is exempt from needing a risk assessment under the following scenarios:

- The property has been certified by a State- or EPA-certified lead inspector as lead-based paint free or all lead-based paint has been identified and removed through abatement, and clearance has been achieved.
- The dwelling unit is scheduled for demolition.

not be located, management believes strongly that all three units would be found to be clear and abated.

Rassoul Azarnejad, Vice President of Healthy Homes further added that X-Ray Fluorescence (XRF) testing was done on these units in the past. If the result was negative, NYCHA applied for exemption through Department of the Housing Preservation and Development (HPD). If the result was positive, NYCHA abated them based on the standards of Environmental Protection Agency (EPA) and Housing and Urban Development (HUD) and then submitted the application for exemption on the unit. So, the document and exemption that it was accepted by HPD was there. But all the documents were seized by the U.S. Attorney's Office for the Southern District of New York (SDNY). Upon return of these documents, NYCHA can provide them to the auditors.

Mr. Kaplan asked whether Deloitte audit team will retest the data against the extrapolation of \$45 million liability when the documents become available.

Ms. Strohmeyer responded that the audit team has historically not done it, but can review the documents during the 2020 audit procedures if the documents are available.

Mr. Gonzalez inquired regarding the procedure to eliminate the lead-based paint.

Mr. Azarnejad explained that under the current initiative, NYCHA has decided to perform XRF test on a total of 134,000 units instead of the units based on random sampling. Once all the units are tested, NYCHA plans to abate the units that test positive, and priority will be given to the units with a child under six. Based on the test results, the system creates the work order for abatement and if there is peeling paint, it creates another work order for immediate remediation. NYCHA has been working on contracts for abatement and will provide reports on the abatement in the future.

Responding to Mr. Kaplan's query regarding a child living in an apartment with a known lead problem, Mr. Azarnejad further explained that if NYCHA gets a report from the NYC Department of Health that there is a child under six with an Elevated Blood Lead level (EBL), the abatements are expedited and done in a few days or within a week.

Following the discussion of the deficiency related to lead paint contamination records, Ms. Strohmeyer discussed a deficiency related to the monthly bank reconciliation review. For NYCHA Public Housing Preservation I, LLC (LLC I), and NYCHA Public Housing Preservation II, LLC (LLC II), one bank account for each entity was closed during the year or in the prior year; however, their balances were included in the general ledger and in the preliminary trial balance. These errors were corrected by management prior to the release of the audited financial statements.

Responding to Mr. Kaplan's comment, Ms. Strohmeyer clarified that even the low dollar amounts for the bank accounts were cited as a deficiency from an internal control perspective, since there is room for possible control enhancement and improvement. Deloitte is recommending that management perform timely review of the general ledger account balances and ensure that any new or closed bank accounts are identified and properly reflected in the general ledger and ultimately the financial statements.

Finally, Ms. Strohmeyer discussed the deficiency related to access security and password configuration. Deloitte noted that current password settings lacked a combination of complexity and password expiration parameters. In addition, one user with administrative access to the Oracle Financials application had their password set not to expire, which is against the Authority's Baseline Policy. The users should be required to comply with strong password parameters which include minimum length, password expiration and account lockout. The users should be reminded of the importance to comply with the Authority's IT Policy.

In addition to the three deficiencies noted during the 2020 audit, Ms. Strohmeyer brought two other matters to the Committee's attention. One relates to the timeliness of providing tenant revenue source documents. She noted that it is a decentralized process given the number of complexes located throughout the City of New York. Deloitte's recommendation is that the Authority consider implementing an electronic system for maintaining the tenant files to ensure availability of the tenant revenue records as well as consistency across the different complexes throughout the city. Ms. Strohmeyer added that management is in the process of converting paper-based files to electronic image files.

Ms. Strohmeyer concluded her presentation on Report to Management with discussion of the last matter related to succession planning for the accounting team at NYCHA. Deloitte has had this comment for a couple of years and there have been some changes and progress around the appropriate accounting team. Mr. Kaplan remarked that the succession planning language was so interesting that he has already sent it to six different enterprises.

III. 2019 Single Audit Report Presentation:

Jill Strohmeyer, 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.

Ms. Strohmeyer introduced Darshan Patel, Senior Manager from Deloitte, to discuss the results of the Single Audit for 2019.

Mr. Patel stated that despite COVID-19, they were able to receive all the compliance documents through the Deloitte Connect and were able to complete the 2019 Single Audit Report in a timely manner.

The Single Audit Report contains three reports:

1. Opinion on Financial Statements, which was already discussed with the Audit Committee in the September 2020 meeting. Independent Auditors' Report is dated September 17, 2020, except for the report on the Supplementary Information - HUD, as to which the date is December 15, 2020.
2. Report on Internal Control over financial reporting, which is dated September 17, 2020.
3. Report on Compliance for each Major Federal Program, which will be dated December 15, 2020.

Upon issuance of the Single Audit Report, Deloitte will perform agreed upon procedures and upload financial data to HUD's Real Estate Assessment Center (REAC)⁴.

The page 141 of the report includes a list of all the Federal programs that NYCHA had in 2019. The Deloitte auditors audited four major programs cited below:

1. Hurricane Sandy Community Development Block Grants Disaster Recovery Grants program
2. Public Housing Capital Fund
3. Disaster Grants – Public Assistance (Presidentially Declared Disasters)
4. Hazard Mitigation Grant program

⁴ 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.

The auditors did not find any material weaknesses or significant deficiencies in internal controls over major programs. The threshold for selection of major programs was \$9.2 million, which means every Federal program receiving more than \$9.2 million was subject to audit based on the risk assessment.

Ms. Strohmeyer summarized that Deloitte audited four major programs as part of the 2019 audit and had no material weaknesses or significant deficiencies. Upon the Board's approval based on the Audit Committee recommendation, Deloitte will be able to issue the 2019 Single Audit Report.

Upon Mr. Kuo's inquiry regarding a financial footnote on page 144, Mr. Patel clarified that the Uniform Guidance allows entities to use 10 percent indirect cost rate; however, the Authority has not elected to use the 10 percent de minimis indirect cost rate. The Authority uses its own indirect method.

A motion was made to recommend approval of issuance of the 2019 Single Audit Report by the Board, and the motion was unanimously approved by the Audit Committee.

IV. Deloitte's Audit Service Plan for 2020:

Jill Strohmeyer, Managing Director from Deloitte presented the 2020 Audit Plan for an independent audit of the New York City Housing Authority, along with its two component units: NYCHA Public Housing Preservation I, LLC (LLC I) and NYCHA Public Housing Preservation II, LLC (LLC II), as well as the Single Audit in accordance with Uniform Grant Guidance for the year ended December 31, 2020. The Deloitte Audit is based on auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The audit is governed by two sets of standards because of the Federal funds received by NYCHA.

The engagement team will consist of the following members:

- Jill Strohmeyer, Lead Engagement Managing Director, is responsible for all services provided to the Authority, including signing the financial statements.
- Darshan Patel, Senior Manager, who is our Single Audit expert will assist in day-to-day activities of both financial audit as well as the single audit.
- Greg Koslow, Engagement Quality Control Reviewer, will be responsible for evaluating and concurring with the significant judgments made by the team and the overall conclusion of the audit.
- John Potts is one of the specialists who is instrumental in reviewing the other post-employment benefits (OPEB) and pension liabilities.
- Emilia Maguire is the IT specialist who will review controls around Information Technology (IT).
- Santiago Jaramillo is the Senior Auditor on the account who is in charge of much of the substantive work.

Deloitte's specialists will regularly update management on technical accounting industry and other matters that affect the Authority to minimize surprises and provide timely information to improve your understanding and ability to respond when new standards are issued, or accounting developments occur. Deloitte uses various specialists to provide feedback on key management estimate areas, such as:

- Actuarial specialists to test pension and other post-employment benefit liabilities
- Specialists in testing claims liability
- IT Specialists in testing the internal controls around information technology controls, user access security, passwords, etc.
- Specialists in testing journal entries.

To Mr. Kaplan's question regarding number of "accountants" involved in the audit, Ms. Strohmeyer responded that the number is between 50 and 55, including all the specialists behind the scenes and reviewers consulted within national office during the audit.

Ms. Strohmeyer discussed Deloitte's audit approach and risk assessment process. The team designs the audit to identify and address significant audit risks in order to determine whether the financial statements are presented fairly in accordance with the generally accepted accounting principles.

In developing the audit plan for each material account balance or disclosure, they consider:

- What could go wrong to cause a material misstatement of the consolidated financial statements
- Control activities relevant to these risks of material misstatement
- The nature and extent of substantive testing needed

For the 2020 audit, Deloitte has identified once again "Management override of controls" as a significant risk which is pervasive for all the engagements. Because of its unpredictable nature, this risk can result in a material misstatement resulting from fraud and is thus an area of audit focus.

In addition, Deloitte team will focus on journal entries posted on weekends, unusual large amounts, rounded numbers, or entries posted to the general ledger by higher level management, etc. The team performs detailed work on such entries. The team also reviews estimates for any unusual transactions.

As a part of the risk assessment process, the Deloitte team also will have discussions about fraud with key members of senior management, the Chair, the Chief Financial Officer, the General Manager, the Controller along with the Internal Audit department. They will also review relevant internal audit reports and the audit plan.

There are additional areas of focus for 2020 not considered significant risk but significant to the financial statements as follows:

- Capital assets, including construction work-in-progress
- Cash, Investments, and Debt
- Pension and Other Post Employment Liabilities
- Claims Liability
- Tenant revenues and receivables
- Subsidies and grants revenue – the team reviews these items not only as part of the capital but also as part of the single audit compliance work
- Environmental pollution and remediation liabilities (specifically lead paint remediation and abatement)
- Real estate transactions

The team will review the relevant internal audit reports provided by the internal audit group; however, they do not use the internal auditors in performing any work and they do not rely on any work performed by internal auditors.

Ms. Strohmeyer discussed a summary of reports to be issued related to 2020 and the timeline of the audit. They will issue a report on the financial statements of NYCHA along with an independent auditor's report on both of the component units related to the Public Housing Preservation LLC's.

In addition, Deloitte will issue the required communication letter to the Audit Committee describing the results

of the audits and later in the year, they will issue the 2020 Single Audit Report, including reports on internal controls and compliance, and the reports on the major programs. At the conclusion of the audit, the Deloitte will also issue the agreed upon procedures on REAC submission to HUD.

Ms. Strohmeyer discussed the expected impact on the audit due to COVID-19. It is expected that for a good portion of the upcoming 2020 audit, Deloitte team will be completing the majority of their audit procedures working in a virtual environment. The audit team will have more frequent discussions with management, specifically accounting team, regarding open audit requests, using Zoom or Microsoft Teams. They will perform certain control walkthroughs as well as physical observations of capital assets or construction in progress virtually using Zoom or Microsoft Teams.

Ms. Strohmeyer briefly discussed the Peer Review Report⁵ completed by Grant Thornton LLP. The most recent report was issued in November 2017, and Deloitte received the highest possible rating of “Pass”. Grant Thornton is currently conducting the 2020 peer review and Deloitte will share the results with the Audit Committee when they become available.

Ms. Strohmeyer stated that she is not aware of any other non-auditing services that Deloitte is providing to NYCHA and as a result there are no independence conflicts to be reported to the Committee. She also added that if they will advise the Committee of any significant changes to the audit plan. Similarly, if there are any material weaknesses or significant deficiencies found, they will communicate such matters to the Committee.

On technical updates, Ms. Strohmeyer 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 COVID⁶. Jeffrey Lesnoy, Controller confirmed that NYCHA has not considered to early adopt any GASB pronouncements at this point.

Ms. Strohmeyer concluded her remarks on Deloitte's 2020 Audit Plan, and invited the Committee for any questions that they may have.

Mr. Gonzalez thanked the Deloitte team for looking into consistency of accounting functions and processes amongst various boroughs, which is very important.

Mr. Gonzalez inquired regarding the term “electronic data interrogation techniques” used in the planning document, and Ms. Strohmeyer clarified that the Deloitte team uses a proprietary program to analyze all of the journal entries posted by management in the General Ledger system.

Mr. Kuo remarked that it is important to test tenant revenue and receivables because it is a major source of income for the Housing Authority. He also asked what is done to confirm that cash receipt is not missing. Ms. Strohmeyer responded that the audit team selects tenant files, recalculates rent charges to confirm accuracy and vouch for payments received for a sample of tenant accounts.

⁵ 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.

⁶ 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.

Annika Lescott, Executive Vice-President Finance & Chief Financial Officer clarified that cash is not accepted at management offices. Adham Choucri, Deputy Director of Revenue & Receivables Division added that there are eight different ways for the residents to pay their rent and we don't accept cash. If there is cash delivered to the office via mail, two individuals have to witness it and count it per standard procedure.

Mr. Kaplan stated that he urges the organization to think about the proper disclosures and the language about the environmental pollution and remediation liabilities in light of the growing public focus in this area.

Upon motion duly made and seconded, the Audit Committee members unanimously approved the Deloitte's 2020 Audit Plan.

V. Status of 2020 Internal Audits:

Tricia L. Roberts, Vice-President of Internal Audit provided an overview of the status of 2020 Internal Audit activities.

Although the Department of Internal Audit & Assessments (IA&A) commenced the Risk Assessment process in March 2020, the 2020 Internal Audit Plan approval process was delayed due to COVID-19. The audit plan was presented to the Audit Committee in July 2020. Subsequent to the Board approval, the execution of the audit plan really commenced in August 2020.

Ms. Roberts explained that engagements are assigned to staff auditors based on expertise and competency of the auditor. The Internal Audit Engagement Process usually includes the following phases:

- Audit Engagement Letter
- Entrance Conference
- Walkthrough, Narrative and Flow Charting Process
- Fieldwork (Sampling, Testing and Developing Findings)
- Preliminary Draft Report
- Exit Meeting
- Draft Report
- Final Report, which includes auditee's comments.

The final reports are distributed to the auditee, the Chair, the General Manager, the Audit Committee, etc. as we see fit. They are also shared with the Independent Auditors.

The Follow-Up process has changed a little bit. Instead of doing a post-audit or assessment of the previously audited areas, all audit reports are shared with Compliance Department as part of their continuous monitoring process to identify risks to business units and ensure NYCHA's policy and procedures are updated in a timely manner.

Upon Mr. Kaplan's inquiry, Ms. Roberts clarified the difference between Audit and Assessment. The Audit is normally a full-blown and comprehensive process, where a large sample is taken and processes from the beginning to the end are reviewed. The Assessment may be done for a process that may not be fully mature, but we are stepping in and giving feedback based on a smaller sample – it is more focused in a particular area. Some entities may call it a "Desk Audit".

Ms. Roberts further stated that there are total of 40 audits planned, of which all have been assigned except for two. Two audits are on hold to allow for the Compliance Department to address the affected areas before the audit. Eighteen audits are in research phase, seven audits are in planning phase, six are in fieldwork phase and

the remaining seven are in the reporting phase. Once the reports are finalized, they will be provided to the Audit Committee.

Mr. Kuo inquired whether the audits cover the core issues of the Authority such as mold, lead paint, pest control, elevators, etc. and to what extent. Ms. Roberts responded that those particular areas are being shared between IAA and Compliance. Compliance Department is working on monitoring these areas to bring them up to a certain level in accordance with the Federal Agreement, before Audit steps in.

Ms. Roberts mentioned that the following external audits are in progress:

- Department of Housing and Urban Development (HUD) - Review of Section 3 Program
- US Department of Homeland Security Office of Inspector General (DHS-OIG): Review of State of New York and FEMA's Oversight of FEMA's Public Assistance Program - NYCHA is included in the review as a Sub-recipient
- NYC Comptroller's Office - Audit of NYCHA's Oversight of Day Care Centers
- NYCHA Office of Inspector General's Policy and Procedure Recommendations (PPRs) - Total of 73 PPR's resulting from 29 NYCHA IG Reports

In conclusion, Ms. Roberts discussed collaboration between IA&A and Compliance Department. Both continue to work with the business units to ensure that the corrective actions are completed. Both departments work collaboratively with each other to ensure that if IA&A is identifying risks and issues of control on the front end, then Compliance is working with the business units to ensure implementation of the corrective action plan.

VI. Discussion of Other Matters:

Mr. Kuo inquired regarding the timing of the next Audit Committee meeting. Ms. Roberts responded that IA&A will work with Deloitte and Finance to develop a schedule of the Audit Committee meetings for the upcoming year. We will probably still have the virtual meetings until stated otherwise.

Mr. Kaplan raised an issue of having Executive Session. Ms. Roberts stated that technical issues of having an Executive Session in the virtual environment will need to be addressed. Vilma Huertas, Special Advisor to the Chair, advised that the Committee will need to have a motion to enter the Executive Session and also state the purpose of entering into Executive Session.

Adjournment:

Ms. Roberts thanked everyone for the participation in the Audit Committee meeting. Upon motion made and duly seconded, the Audit Committee meeting was adjourned at approximately 12:20 PM.