



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

**Minutes of Audit Committee Meeting**  
**September 17, 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  
Daniel Greene, Chief Compliance Officer  
Tricia L. Roberts, Vice-President of Internal Audit  
Jeffrey Lesnoy, Controller, Financial Accounting & Reporting Services  
Theresa Puccio, Treasurer, Treasury Department  
Sara Kobocow, Associate General Counsel, Law Department  
Digser Abreu, Senior Environmental Planner, Real Estate Development  
Mike Hudick, Assistant Director, Financial Accounting & Reporting Services  
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment

**New York City Office of the Actuary – Present:**

Thomas O'hara  
Frankie Chen

**Deloitte & Touche LLP – Present:**

Jill Strohmeier, Lead Engagement Managing Director  
Darshan Patel, Senior Manager

**Technical Support Team:**

Luis Andre Sr, 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 remotely<sup>1</sup> on September 17, 2020 at approximately 10:05 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 July 21, 2020 Audit Committee meeting.

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<sup>1</sup> 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, September 17, 2020 at 10:00 A.M., was limited to viewing the live-stream or listening via phone instead of attendance in person.

## **II. Audit Committee Letter from Deloitte:**

Jill Strohmeier, Managing Director from Deloitte discussed the Statement of Auditing Standards (SAS) 114 which covers the Independent Auditors' required communication with the Audit Committee and senior management<sup>2</sup>. Key points relating to this communication are that:

- Deloitte is an Independent Auditor with respect to the Authority, and audited the financial statements for the New York City Housing Authority, NYCHA Public Housing Preservation I, LLC ("LLC I"), and NYCHA Public Housing Preservation II, LLC ("LLC II") for the year ended December 31, 2019.
- The report is expected to be dated on or about today (September 17, 2020).
- The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2019 financial statements. The auditors are not aware of any significant changes in previously adopted accounting policies or their application during the year ended December 31, 2019.
- The auditors evaluated the significant qualitative aspects of the Authority's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed and consistently applied by management.
- There were no material uncorrected misstatements or disclosure items identified during the audits of NYCHA and LLC's.
- There was no disagreement with management with regard to the financial statements, and the auditors received full cooperation from management and their team during the course of the audit.
- The audit was performed in accordance with generally accepted auditing standards, generally accepted government auditing standards, and the OMB Uniform Grant Guidance.
- The Deloitte's Independent Auditor report contains an unmodified opinion.
- There were no significant deficiencies noted during the audit.
- Other-Matter paragraphs relate to the Required Supplementary Information per GASB.

Mr. Gonzalez inquired whether the audit team had discussions with senior management only. Ms. Strohmeier responded that they had made inquiries with all levels of management.

Upon Mr. Gonzalez' inquiry, Ms. Strohmeier clarified that the audit team did review the Introductory Section and Statistical Section included in the document, but the auditing procedures are applied to the audit of the basic financial statements, and they do not express an opinion on supplementary information.

Ms. Strohmeier stated that Deloitte plans to issue the reports on the 2019 financial statements shortly after the Audit Committee meeting. However, the 2019 Single Audit Report will be issued later and will be discussed in a separate meeting.

She further provided a briefing on the accounting estimates tested during the course of audit. Deloitte's Actuary team was used in calculating estimated liability and testing accuracy of claims data. These accounting estimates mainly relate to Pension Benefits, Other Post-employment Benefits (OPEB), and Estimated Liabilities arising from injuries to persons. Based on the procedures performed, amounts reported related to pension benefits as well as worker's compensation and general casualty reserves appear reasonable in the context of the financial statements taken as a whole.

Mr. Kaplan asked whether OPEB and pension disclosure is similar to what The City of New York will include in its financial statements. Ms. Strohmeier explained that it is similar and NYCHA's information will also be included in The City of New York's financial statements.

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<sup>2</sup> It is also called "those charged with governance" letter.

Further, Ms. Strohmeyer discussed the draft management representation letter, which was attached as Appendix to the Audit Committee Letter. It will need to be signed by management prior to issuance of the audit reports. The management representation letter has been presented in Track Changes mode to show changes compared to the last year's letter, per the Audit Committee request in prior years. There is only one combined management representation letter compared with three separate management representation letters last year. In addition, the management representation letter contains:

- Representation related to COVID-19 and Going Concern assumption.
- Representation related to pollution liability, which increased significantly compared to last year due to management's efforts to obtain precise estimate in light of Federal monitorship/ HUD oversight.

Ms. Strohmeyer stated that the audit team requested evidence for 26 selections from the exempt housing units, but audit evidence could not be provided for three selections. The audit team extrapolated impact of the error to the entire population, which resulted in a potential understatement of approximately \$45 million of the pollution remediation liability. However, its effect is not material to overall financial statements.

Mr. Kaplan asked whether there are any Related Party Transactions. Ms. Strohmeyer replied that transactions with LLC I, LLC II and City of New York are considered Related Party Transactions for the GASB purposes. Mr. Kaplan further inquired whether there is any mechanism to control transactions with contracts and vendors. Annika Lescott, Chief Financial Officer responded that there are financial disclosure requirements for senior staff and certain employees, which is coordinated by Human Resources Department.

Ms. Strohmeyer further stated that additional changes to management representation letter were circulated previous day – the changes related to mostly wording or language changes based on additional review by Finance, IT and NYCHA's Law Department.

Ms. Strohmeyer concluded her remarks, and Tricia L. Roberts, Vice-President of Internal Audit invited Finance team to discuss the financial statements.

### **III. Comprehensive Annual Financial Reports (CAFR) for 2019:**

Annika Lescott, Executive Vice-President Finance & Chief Financial Officer invited Jeffrey Lesnoy, Controller to discuss the financial results presented in the Comprehensive Annual Financial Reports (CAFR) for NYCHA, NYCHA Public Housing Preservation I LLC (LLC I) and NYCHA Public Housing Preservation II LLC (LLC II).

Mr. Lesnoy commenced his presentation with discussion of the main drivers such as Pollution Remediation liability related to Lead-based Paint pursuant to HUD Agreement, covered under GASB 49<sup>3</sup> and Real Estate transactions which affected 2019 operations and financial results.

New York City Local Law 1 requires landlords of buildings built before 1960 to take certain actions to prevent

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<sup>3</sup> 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. The scope of the Statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care.

lead poisoning in children under 6 years old. Lead is a major issue - one of the six pillars of the HUD Agreement. Per the Agreement, NYCHA is required to perform annual visual assessments, control lead-based paint hazards identified by the visual assessments, abate lead in all apartments and interior common areas within 20 years, and abate lead in exterior common areas at an agreed upon timeline.

GASB 49 requires recording of pollution remediation liability, including both internal and external costs. Since some housing units are exempt<sup>4</sup>, 134,000 of the 173,000 apartments require testing. Based on 30% of the apartments tested, it is estimated that 32% apartments in the target group may have positive lead findings, and total costs and related liability recorded in 2019 is \$2.8 billion.

Mr. Gonzalez inquired whether the developments going into RAD (Rental Assistance Demonstration) conversion are also affected and whether XRF testing and dollar value will be affected due to COVID. Digser Abreu, Senior Environmental Planner in Real Estate Development advised that the abatement work is being done at all the conversion developments. Ms. Lescott added that the conversion developments are also included in the estimated pollution liability.

Mr. Kaplan inquired whether the estimated numbers are adjusted for inflation and what rate of inflation is used. Mr. Lesnoy responded that the numbers are current for 2019 and will be adjusted in future.

Mr. Kuo asked whether the \$2.8 billion amount includes any lawsuit liabilities. Mr. Lesnoy responded negatively adding that it is not probable to estimate the legal liability amount at present time.

Mr. Lesnoy further discussed about another major driver, namely Real Estate transactions. In 2019, NYCHA closed on the Hope Gardens/Bushwick transaction, and it issued Promissory Notes for \$71 million. We will recognize revenue beginning when cash is received over the shorter of the lease term, when the Purchase Option or Right of First Refusal can be exercised or the tax compliance period. Developer fees will be recorded when earned, if collected or when collection is reasonably probable.

NYCHA initiated a review of historical accounting for real estate transactions, engaging BDO to support review of historical accounting and disclosure, and engaging a third-party appraisal firm (Goodman-Marks Associates) to support a valuation of certain Notes and Loans Receivable. Based on the review with BDO, the Notes Receivable of \$169 million were re-classified from current to non-current revenue, since these Notes are payable depending on cash flow of developers. Based upon the appraisal by Goodman-Marks Associates, NYCHA adjusted its net book value of certain Ocean Bay notes, as of December 31, 2019 resulting in an \$80 million Loss on real estate transactions. In addition, based on legal input and other departments, NYCHA determined that a \$89 million investment made in a second Ocean Bay parcel was not recoverable as the improvements were not determined to increase market value. As a result, an impairment was reflected as of December 31, 2019 resulting in an \$89 million Loss on real estate transactions. In the Statement of Revenue, Expenses and Changes in Net Position for 2019, these two Ocean Bay transactions are reflected within the total \$146.4 million Loss on real estate transactions.

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<sup>4</sup> 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. Of the total 173,000 units in the NYCHA portfolio, the target housing consists of approximately 134,000 units and associated common areas, The remaining are considered exempt housing units. 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.

Further, Mr. Lesnoy provided the following overview of the financial results for 2019:

- There was no major change in Cash and Investments. Theresa Puccio, Treasurer added that cash and investments portfolios have been relatively stable, and there are no changes to be highlighted.
- On Accounts Receivable side, there is a \$130 million increase in amounts to be collected from FEMA (Federal Emergency Management Agency) and \$90 million decrease in certain Accounts Receivable from The City of New York, relating to XRF testing, which was classified as Subsidies Receivables at December 31, 2019 – split near evenly between The City of New York and the CDBG (Community Development Block Grant) program.
- As previously discussed, the Notes Receivable of \$169 million were re-classified from current to non-current revenue. In addition, NYCHA adjusted its net book value of certain Ocean Bay notes, as of December 31, 2019 resulting in an \$80 million Loss on real estate transactions.
- The current liability amounts mostly relate to timing issues. The Pollution Remediation Obligations amounted to \$266 million included in current liabilities and \$2.6 billion recorded as non-current liabilities.
- Tenant revenue went down mainly due to RAD conversion and reduced collection.
- In the Other Income category, increase is mainly due to developer fees accrued in 2019.
- Subsidies increased by about \$110 million mainly due to Housing Assistance Payments (HAP) from Section 8 Program.
- The Maintenance and Operations expenses actually increased due to focus on improving properties, but was offset by accrual of \$92 million for XRF testing in 2018.
- We have recorded \$2.8 billion of “Pollution remediation costs - lead based paint” as a Special Item<sup>5</sup> per GASB guidelines.

To Mr. Kaplan’s question regarding impact of COVID on NYCHA costs and revenue, Mr. Lesnoy responded that NYCHA incurred \$100 million incremental costs due to COVID, which includes items such as building sanitization, fencing around playgrounds to keep people out, air conditioning systems, additional staffing costs, etc. We also estimate reduction of \$60 million revenue in rent collection due to tenants’ inability to pay. In addition to these costs in public housing side, we expect increased costs of up to \$37 million in Section 8 housing. There are also operating costs related to water and utilities. On the revenue side, we estimate \$150 million to be received under the CARES Act, and we have already started to draw down on some funds. Under the CARES Act, we will also be able to draw down up to \$37 million for Section 8 housing costs. In addition, we are working with FEMA to recover additional costs of \$18 million. Ms. Lescott added that the COVID impact is also included as a Note 28 to the financial statements, which discloses Subsequent Event.

Mr. Lesnoy concluded his presentation with brief discussion about financial information regarding NYCHA Public Housing Preservation I LLC (LLC I) and NYCHA Public Housing Preservation II LLC (LLC II). He stated that \$2.8 billion costs for pollution liability also includes the amounts for LLC I and LLC II. These amounts are distributed to both LLC’s based on number of units for each entity.

- For LLC I, the Pollution Remediation Obligations amounted to \$20 million included in current liabilities and \$223 million was recorded as non-current liabilities. In addition, we have recorded \$242 million of “Pollution remediation costs - lead based paint” as a Special Item per GASB guidelines.
- For LLC II, the Pollution Remediation Obligations amounted to \$7 million included in current liabilities and \$88 million was recorded as non-current liabilities. In addition, we have recorded \$95 million of

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<sup>5</sup> Per GASB 34, a special item is a significant transaction or other event within the control of management that is either unusual in nature or infrequent in occurrence. For NYCHA, this is the first time in its history of more than 90 years that such massive effort of Pollution Remediation has been initiated.

“Pollution remediation costs - lead based paint” as a Special Item per GASB guidelines. The tenant Revenue decreased due to PACT<sup>6</sup> transactions (Baychester and Murphy) that closed in 2018.

#### **IV. Transmittal Letter:**

Annika Lescott, Executive Vice-President Finance & Chief Financial Officer discussed the Transmittal Letter included in the package. She stated that the Transmittal Letter confirms that the financial statements are presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and were audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* by a firm of independent certified public accountants.

It includes information on the Profile of the Authority. In addition to the financial results and various factors affecting NYCHA’s financial condition, the Transmittal Letter includes information on HUD Agreement and Pollution Remediation. It also includes a paragraph about “Blueprint for Change” - a comprehensive set of ideas that outlines potential pathways for the Authority’s reorganization and investing of capital to stabilize and improve its properties, with additional impacts that could drive jobs and recovery strategies, which was presented by NYCHA Chair and CEO Greg Russ in July 2020.

#### **V. Approval of Financial Statements:**

Upon motion duly made and seconded, the Audit Committee members unanimously approved the financial statements and the related reports for (1) NYCHA, (2) LLC I and (3) LLC II.

Mr. Kuo raised concern that the Transmittal Letter does not mention regarding the Audit Committee. Ms. Lescott stated that they will add a statement regarding presentation to the Audit Committee and the approval by the Audit Committee. Ms. Lescott thanked the Audit Committee for their efforts.

#### **Adjournment:**

Tricia L. Roberts, Vice-President of Internal Audit, thanked everyone for the participation in the Audit Committee meeting. The Audit Committee meeting was adjourned at approximately 12:15 PM.

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<sup>6</sup> Permanent Affordability Commitment Together (PACT) program creates public-private partnerships to repair and manage the developments. It generates a sustainable funding source for extensive repairs and ongoing property management while guaranteeing permanent affordability and protecting tenant rights. PACT is New York City’s implementation of the federal government’s Rental Assistance Demonstration (RAD), which includes collaboration between NYCHA, residents, and housing advocates.