



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

**Minutes of Audit Committee Meeting  
June 18, 2019**

**Board and Audit Committee Members:**

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

**NYCHA Staff Members- Present:**

PV Anatharam, Executive Vice-President For Finance & Chief Financial Officer  
Carolyn Jasper, Acting Executive Vice President of Operations  
Daniel Greene, Acting Chief Compliance Officer  
Tricia L. Roberts, Vice-President for Finance, Office of the CFO  
Celeste Glenn, Vice President, Office of the VP for Support Services  
Dan Frydberg, Controller, Financial Accounting & Reporting Services  
Stephanie Davis, Director of Public Housing Operations  
Arlene Orenstein, Director, Risk Management Department  
John Mauser, Director, Department of Real Estate Services  
Hyacinth Jeffers, Acting Director, Department of Internal Audit & Assessment  
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment  
Rajendra Shah, Auditor, Department of Internal Audit & Assessment  
Shital Biswas, Auditor, Department of Internal Audit & Assessment  
Ernestina Stanley, Auditor, Department of Internal Audit & Assessment  
John Gnesin, Compliance Manager, Risk Management  
Godfrey Charles, Field Deputy Director, Heating Management Services Department  
Michael Iezza, Deputy Director, Heating Management Services Department  
Xiomara Carcamo, Administrative Support Manager, Heating Management Services Department  
Shanee Graham, Special Counsel to SVP of Operations Support Services  
Sabinah Nimrod, Deputy Director, Compliance, Office of the EVP for Compliance  
Camille Ky-Smith, Senior Advisor, Office of the Chief Administrative Officer

A meeting of the Audit Committee members of the New York City Housing Authority (the “Authority”) was held on June 18, 2019 at 10:05 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 five tabs on the material presented to the Audit Committee. Ms. Jeffers asked whether the Audit Committee Members had any comments on the minutes of the May 13, 2019 Audit Committee meeting.

## **I. Approval of Minutes:**

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the May 13, 2019 Audit Committee meeting, subject to one correction.

## **II. Presentation on Enterprise Risk Management:**

Tricia L. Roberts, Vice-President for Finance provided a presentation on the topic of Enterprise Risk Management (ERM), so that roles of Audit versus Compliance can be clarified. She also introduced NYCHA's recently appointed Acting Chief Compliance Officer, Mr. Daniel Greene.

NYCHA takes a risk-based approach to managing the Authority by integrating concepts of internal controls and strategic planning. At the end of the year, Audit performs a risk assessment based on what was previously assigned and what risks are taking place in the universe, which helps us prepare the risk-based audit plan. Now we are going forward with monitoring the plan as well as monitoring risks identified in conjunction with Compliance.

There are four objectives of the ERM. i.e. to identify strategic risks, operational risks, reporting risks and compliance risks. The key elements of ERM are Board ownership, management buy-in, common risk framework (COSO framework, Institute of Internal Auditors and ERM standards), and methodology for measuring and identifying risks.

Everyone in the organization has responsibility for ERM. Everyone has a role. The role may not be the same, but it can have a similar impact. Management is accountable to the Board. However, Chief Executive Officer is ultimately responsible. Meanwhile, everyone owns the risks. So, compliance should be based on well-established standards. Compliance Department works with other managers in establishing and maintaining effective risk management in their areas of responsibility. Mr. Kaplan mentioned that management should also be accountable to the citizens of New York who are stake-holders in the process. Mr. Gonzalez expressed his concern regarding consistent and coordinated working of four wheels of management, line managers, Board and Compliance. Ms. Roberts responded that Audit will be sharing its findings with Compliance to ensure consistency of procedures and operations at all levels. Mr. Kuo commented that the Federal government, especially HUD also is a big stakeholder in terms of financing and responsibilities.

Ms. Roberts explained the Risk Management process under COSO framework, which includes:

- (1) identifying and prioritizing risks,
- (2) sourcing risks to their root causes,
- (3) measuring risks (low, medium and high)
- (4) evaluating risk responses (avoid, accept, reduce or share),
- (5) mitigating risks, and
- (6) monitoring risks, using tools such as scorecards or dashboards.

Ms. Roberts also explained three lines of defense:

- (1) Management controls and internal controls
- (2) Quality assurance, inspection and compliance – it has limited independence
- (3) Audit (internal audit and external audit) - it has greater independence. The focus of this meeting is

on internal audit.

The core role of Audit is to evaluate risk management processes and provide assurance on those risk management processes. It can educate management to understand ERM, and it can facilitate risk assessments. However, it is very important that Audit remains objective and independent in its evaluation. Accordingly, it does not own risks and it cannot dictate implementation of its recommendations. It does not set risk appetite of the organization and it cannot make management decisions. It cannot be accountable for risks.

Audit can coordinate across organization to ensure there is consistent deployment of safeguards across the organization. In that regard Audit shares its findings with Compliance, so that Compliance can closely monitor the related areas. With this remark, Ms. Roberts invited Daniel Greene, Acting Chief Compliance Officer to share his views.

Mr. Greene stated that he is an environmental lawyer by trade, has a regulatory background and has overseen a lot of construction projects. He understands NYCHA's issues and challenges. He has been working with Audit to review audits and ensure compliance. Compliance is monitoring the plan to ensure compliance with Lead Based Paint (LBP) regulations, is looking at other potential risks and will hold a series of training sessions related to internal controls, PHAS<sup>1</sup> inspections, etc.

Mr. Greene also talked about various units in Compliance Department, such as Procedures (to develop procedures that align with laws and regulations), Monitoring (to oversee compliance), Reporting (to ensure accuracy of regulatory reporting), and Complaints (to investigate complaints). He meets weekly with Internal Audit. He is also trying to manage environmental risks at individual job sites. Mr. Gonzales commented that Compliance has now come a long way and asked whether the department has all the resources needed. Mr. Greene responded that he will reevaluate the available resources at the end of six months. Currently, his focus is on completeness of files and records.

To Mr. Kuo's inquiry regarding the reporting structure, Mr. Greene replied that he reports to the Chair, and is also regularly working with the Monitor. Mr. Kuo asked whether there are work plans for all the projects Compliance is working on. Mr. Greene responded that they are developing the plans.

To Mr. Kaplan's question regarding number of people in the department, Mr. Greene stated that the department currently has 15 individuals and expects to have 27 by the end of summer.

### **III. Discussion of Three Internal Audit Reports:**

Ms. Roberts mentioned that there have been a lot of changes at executive management level since 2018. She further stated that the Audit Committee members had selected three internal audit reports for further discussion and follow-up with the management team.

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<sup>1</sup> HUD's Real Estate Assessment Center (REAC) measures the performance of a public housing agency (PHA) using the Public Housing Assessment System (PHAS). REAC electronically collects individual subsystem scores in the areas of (1) physical inspections, (2) financial condition, (3) management operations, and (4) resident satisfaction, and provides a composite score to the PHA. About 20,000 physical inspections are conducted each year to ensure that assisted families have housing that is decent, safe, sanitary and in good repair.

Ms. Jeffers elaborated that the members had selected the following three audit reports:

- A. Compliance with NYCHA Procedures Regarding Heating Plant Operations
- B. Audit of Contracts Close-out Process in Capital Projects Division
- C. Audit of Adequacy of Oversight of Commercial Space Rentals

The discussion of each audit with the related management team followed.

**A. Compliance with NYCHA Procedures Regarding Heating Plant Operations**

Michael Iezza, Deputy Director of Heating Management Services Department (HMSD) stated that the Standard Procedure related to heating and hot water was reviewed and is now being updated.

Mr. Gonzalez commented that NYCHA has addressed issues with boiler systems, but inquired what is being done for the developments that have other types of heating systems. Godfrey Charles, Field Deputy Director of Heating Management Services Department responded that they are currently working with requirement contracts to address other heating systems, and the number of boilers varies depending on the size of the development.

Mr. Kaplan asked why it would take 180 days to correct a boiler system. Arlene Orenstein, Director of Risk Management Department stated that most inspections are done off-heat season (*so that it does not affect heating operation in winter*) and 180 days is a Department of Buildings requirement.

Ms. Roberts commented that we have another audit scheduled to test implementation of new corrective actions initiated by HMSD. Mr. Gonzalez added that he can see the difference and it is really working.

Mr. Kaplan inquired how the contractors are selected. Mr. Charles responded that the contractors are selected based on bidding process for the contracts above a certain amount.

Regarding the lack of action on 2016 inspection reports cited in the audit report, Mr. Kuo asked what has been done to improve the process to correct the deficiencies. Mr. Iezza replied that NYCHA now receives the inspection reports electronically. After the work is done, photos can be taken and attached to the electronic system. The process is now working very well. Ms. Orenstein added that the finding regarding 2016 inspections was also due to a disconnect between priority – high risk items vs. low risk items. Many items were of low risk. In addition, previously, it was a manual process. Ms. Roberts elaborated that the focus is on allocating resources to high-risk areas.

**B. Audit of Contracts Close-out Process in Capital Projects Division**

Celeste Glenn, Vice President of Office of the VP for Support Services stated that this audit is based on four-year old data. Capital Projects has recently implemented a new system called e-Builder. It tracks all types of capital projects, and we should see a major improvement next time. Also, sometimes, due to dispute or lien, work may have been completed, but contract cannot be closed out in the system.

Mr. Gonzalez inquired regarding scaffolding projects done to comply with Local Law 11. Ms. Glenn responded that NYCHA has made a real strive in this area, so that shed should not be there for a long period without actual construction repairs taking place.

Ms. Glenn stated that the cited project balance of unclosed contracts of \$29 million is misleading. Mr. Frydberg added that funds are placed in contract retention escrow accounts for various reasons. Mr. Anantharam further explained that HUD allows four years total to spend the fund. Oldest grants are used first to pay for the construction projects. Ms. Glenn stated that plan can be amended only with HUD approval. Mr. Frydberg further stated that putting money in escrow is counted as expenditure; so, NYCHA does not lose funds. However, The City does not allow similar treatment; so, we have to use funds within the time-frame.

### **C. Audit of Adequacy of Oversight of Commercial Space Rentals**

John Mauser, Director of Department of Real Estate Services (DRES) stated that his department enters into leases. However, bulk of issues pertain to Property Management. Mr. Kuo inquired who administers leases. Mr. Mauser replied that billing is done centrally; however, rent collect activities are performed by Property Management.

Mr. Gonzalez inquired about administration of parking. Mr. Mauser responded that it is generally administered by Revenue Accounting in Finance. It is generally not part of the commercial portfolio which DRES administers. However, there are three “one-off” agreements for three parcels, where NYCHA has leased out portions. Currently, 27 NYCHA developments have commercial stores (3 or 4 went to RAD<sup>2</sup> developments).

To Mr. Kuo’s inquiry regarding the rental value of the commercial portfolio, Mr. Mauser responded that it is about \$6 million. Mr. Gonzalez asked about the usage, and Mr. Mauser replied that there are some constraints regarding the allowed use – for example, bars are not allowed; it should be lawful use. Mr. Kuo asked whether it includes senior centers. Mr. Mauser responded that senior centers are not included in the commercial portfolio. Community leases are not really third-party arm’s length transactions – they are held for community purpose.

Mr. Kaplan asked whether the “unsatisfactory” rating was justified. Mr. Mauser said that it is mainly due to record keeping in the field. Carolyn Jasper, Acting Executive Vice President of Operations added that Property Management is responsible for collecting rent, for inspections and for keeping records. Mr. Kuo inquired what her area was doing to correct the deficiencies. Ms. Jasper responded that they are meeting with all the boroughs and will follow up on rent collections.

Mr. Gonzalez inquired regarding (1) average life span of store front lease, (2) how rent is based, and (3) “high end” tenants. Mr. Mauser explained that NYCHA typically has five years lease.

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<sup>2</sup> Rental Assistance Demonstration (RAD) is federal government’s program which includes collaboration between NYCHA, residents, and housing advocates, and 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.

There is one tenant who has been there for more than 40 years. Average life span of tenancy is probably between five and ten years. Rent is based on market rent. For example, First Houses on Avenue A is a prime real estate location. We are looking into possibility of having a high-end store like Starbucks.

Mr. Kuo inquired what is the process for marketing these spaces. Mr. Mauser replied that marketing is done by DRES, through websites.

Ms. Roberts thanked all the management personnel from Operations, Capital Projects and Real Estate Services for attending the meeting.

**Adjournment**

The Audit Committee did not have an Executive Session and the meeting was adjourned at about 11:50 AM.