

NEW YORK CITY HOUSING AUTHORITY

**Minutes of Audit Committee Meeting
October 12, 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
Karen Caldwell, Executive Vice President and CFO
Karina Totah, Vice President for Strategic Initiatives
Jeffrey A. Pagelson, Controller, Financial Reporting & Accounting Services
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Hyacinth Jeffers, Assistant Director, Department of Internal Audit & Assessment
Natalie Wright, Confidential Investigator, Office of the Inspector General

Deloitte & Touche LLP – Present:

Michael Fritz, Lead Client Service Partner
Jill Strohmeyer, Managing Director

A meeting of the Audit Committee members of the New York City Housing Authority (the “Authority”) was held on October 12, 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 September 14, 2017 Audit Committee meeting.

II. Board Resolution and Audit Committee Recommendation Letter signed by NYCHA Board regarding 2016 Single Audit Report:

Tricia L. Roberts, the Audit Director stated that the Audit Committee was provided with copies of the Board Resolution as well as the Audit Committee Recommendation Letter signed by NYCHA Board regarding 2016 Single Audit Report.

III. Deloitte's Audit Plan for 2017 Audit:

Tricia L. Roberts, Audit Director stated that the focus of the meeting was Deloitte's Audit Service Plan for the 2017 audit.

Michael Fritz, Lead Client Service Partner from Deloitte, introduced Jill Strohmeyer as the Managing Director of the firm, who will be signing the audit reports. Mr. Fritz will provide the oversight on this audit.

Mr. Fritz presented the Audit Service Plan for the 2017 Audit, and mentioned that the audit plan has no significant changes compared to prior year audit, and the same team will be providing the services.

Jill Strohmeyer, Managing Director, discussed about timing and the focus of the audit. Ms. Strohmeyer stated that the Deloitte team has identified "Management override of controls" as a primary area of significant risk. Ms. Strohmeyer explained that they review all journal entries to look for anomalies and ensure that the journal entries had a business purpose and whether any entries had special characteristics. For example, they pay attention to journal entries posted on weekends, or unusual accounts and transactions. The Deloitte team uses a unique, innovative analytical tool called Optic to review all journal entries to look for red flags such as weekend transactions, large dollar transactions, rounded amounts, transactions processed by individuals not connected with the process, etc. Based on the results of the analysis by this tool, which uses artificial intelligence, they will select a sample for further review. The program has thresholds looking at individual postings as well as multiple small entries in the ledger. They also inquire with management regarding significant transactions.

Mr. Cephas inquired whether the tool had been helpful to the audit team based on their experience. Ms. Strohmeyer stated: "Absolutely."

Ms. Strohmeyer further discussed the following key areas of focus:

- Adoption of new Government Accounting Standards Board ("GASB") statements – Deloitte is not aware of any new significant standards, which may significantly impact the audit.
- Capital assets, including construction in progress – the team may perform site visits if necessary.
- 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.
- Tenant revenue, where they would select a sample of revenue transactions, recalculate rent and compare to the General Ledger.
- Subsidies and grants revenue.

Mr. Kuo inquired whether the auditors review uncollected accounts, which have been increasing. Ms. Strohmeyer responded positively and Karen Caldwell, the CFO, added that NYCHA has been conservative in establishing the reserve. It has been a challenge due to increasing rents due to HUD regulations. Mr. Fritz explained that the team looks at the methodology used to establish reserves.

Ms. Strohmeyer also stated that the team involves the use of IT Specialists to review IT systems as well as the use of actuarial specialists to review OPEB transactions.

Ms. Strohmeyer further added that the team is already in the field performing planning procedures, which they expected to complete by the end of the month. In addition, they expect to complete control testing by the end of February 2018, and then will be performing testing of financial statements balances during March to May 2018.

Mr. Kaplan asked whether the Deloitte team had found any evidence of management overrides of controls. Jill Strohmeyer responded in negative and explained that all management overrides are reviewed in detail.

Tricia L. Roberts, the Audit Director emphasized that NYCHA would use Deloitte Connect again – a web-based system -- to provide files and data in a secured way (instead of emails). Mr. Fritz mentioned a cyber-incident at the firm, which affected some associates, but no confidential information was leaked.

Mr. Fritz further stated that the firm was currently going through a Peer Review by Grant Thornton and he was not aware of any issues. The Peer Review report should be issued by December 2017. Mr. Kaplan inquired who selects the Peer Reviewer. Mr. Fritz responded that the firm selects the Peer Reviewer; however, AICPA approves it.

IV. Deloitte's Presentation Regarding Total Tenant Payment Calculation:

Michael Fritz provided a status update on the Total Tenant Payment Calculation project. Mr. Fritz advised the Audit Committee that they were looking at different buckets of rent classes, and had found no major issues so far.

Tricia L. Roberts, Audit Director, explained that the purpose of the project was to ensure that data from the current AS400 system for the public housing tenants was transferred to correctly in the new system Siebel. Section 8 had been already converted to Siebel last year, and IT is now involved in converting the tenant data for public housing to Siebel. NYCHA team had selected the sample for the testing by Deloitte. The purpose is to ensure that the new system is calculating rent correctly, so that we have an opportunity to reprogram if necessary.

Adjournment

The Audit Committee meeting was adjourned at about 10:35 AM.