



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, OCTOBER 21, 2015, IN THE
COMPTROLLER'S OFFICE BOARDROOM**

ATTENDANCE

Chair	Bernard Rosen
Private Members	Mark Kaplan Bud Larson Michael Spitzer
Public Members	Representing the Mayor – John Grathwol Representing the Comptroller – Michele Mark Levine Representing the Public Advocate – Lawrence Schimmel
Secretary	Jacqueline Thompson
Independent Auditors	Deloitte & Touche LLP – Glenn Friedrich, Bogdan Geambasu, Darshan Patel, Jill Strohmeyer Ernst & Young LLP – Louis Roberts Grant Thornton LLP – Jamie Cote, Cosmo Saginario
Others	New York City Housing Authority – Anil Agrawal, Adham Choucri, Brian Clarke, Richard Couch, Dan Frydberg, Mike Hudick, Bob Marano, Jeffrey Pagelson, Theresa Puccio, Josephine Russo, Barbara Turkewitz Department of Education of The City of New York – Marc Alterman, Bill Goldband, Suzette Irish, Marisol Martinez-Williams, John Wall, Desmond White New York City Mayor's Office of Operations – Florim Ardolli, George Davis New York City Office of Management & Budget – Enid Ellis, Nicole Fleming, Xiaochao Jin, Raymond Lee

New York City Comptroller's Office – Susan Cornwall, Leonel Ferreira, Carol Kostik, Berta Lara, Tim Mulligan, Veronika Musheyeva, Chernow Sowe, Joan Stapleton, Katrina Stauffer, Enver Velovic

New York City Office of the Actuary – John Gibney

Audit Committee Meeting – October 21, 2015

I. Call to Order and Roll Call

Mr. Bernard Rosen, Audit Committee Chair, called the meeting to order at 9:30 a.m., and took roll call. A quorum was present.

II. Draft Minutes of the June 17, 2015 Audit Committee Meeting

The first agenda item was the approval of the draft minutes of the June 17, 2015 Audit Committee meeting. The Chair inquired if there were any comments on the draft minutes as presented. Subject to the non-substantive editorial comments submitted to the Committee Secretary, the Chair called for a motion to approve the minutes. Mr. Michael Spitzer made a motion; the motion to approve the minutes of the June 17, 2015 meeting carried unanimously.

III. Review of the Financial Statements and Management Letter for the New York City Housing Authority

The next agenda item was the review of the financial statements and management letter of the *New York City Housing Authority* (NYCHA) for the year ended December 31, 2014. Mr. Richard Couch, Executive Vice President & Chief Financial Officer at NYCHA, introduced the other representatives of NYCHA present and the representative of its independent auditor, Ernst & Young LLP.

Mr. Couch reported that NYCHA had two programs, a traditional public housing program and the Section 8 housing program. In total, NYCHA received about \$3.1 billion of funding in 2014.

Mr. Couch noted:

- Through the ability to reduce vouchers given out for the Section 8 program, NYCHA usually manages to achieve a relatively balanced budget.
- In 2015 NYCHA was eligible to receive \$1 billion in funding from the federal government. That amount was subject to proration, therefore NYCHA received about 89 cents on the dollar, bringing the number down to about \$890 million. In addition, NYCHA received rental income in excess of \$900 million.
- Since 2008, public housing funding has remained flat nationally, but there has been a shift in monies going to the Section 8 housing, reducing the amount available for traditional public housing programs.
- NYCHA adopted a budget with a \$98 million deficit, \$3.1 billion of funding, and \$3.2 billion in expenses.
- Progress has been made against NYCHA's deficit this year, mostly in conjunction with a waiver of approximately \$30 million provided by the City for the payment in lieu of taxes (pilot). NYCHA has also received some energy rate incentives through a federal operating subsidy.

Mr. Jeffrey Pagelson, NYCHA Controller, presented the audited financial statements and reviewed the financial highlights:

- The most significant event in 2014, although it did not have a major impact on income, was the sale of six project-based Section 8 developments comprising 875 housing units for a total of \$300 million. The sale took place on December 23, 2014 and was sold to a newly formed limited liability company, Triborough Preservation LLC, in which NYCHA retained a 0.005% membership interest.
- While this Federalization of the State and City-built developments has helped to reduce the Authority's budget deficit, ongoing structural operating deficits are projected to continue, primarily attributable to federal underfunding of public housing and increased employee entitlement costs.
- NYCHA implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27*, which involves accounting and financial reporting for pensions. The financial impact of implementing GASB 68 was a reduction to opening net position on January 1, 2013 of \$1.18 billion and the recognition of a net pension liability of \$1.16 billion. At the end of 2014, the pension liability was \$940 million.
- Other postemployment employee benefit costs (OPEB) decreased in 2014 due to an actuarial gain resulting from lower than expected premium increases for Medicare Part B, Welfare fund contributions, and health insurance.
- Tenant revenue has increased slightly, due to the increase in rent. However, the rate of rental increase does not correspond directly to an increase in revenue as tenant rents are capped at 30 percent of tenant income.

- Non-operating revenues, subsidies, and grants increased by \$124 million.
- Maintenance and operating expenses increased by \$87 million, mainly because of additional pollution remediation costs associated with building improvements.

[Mr. Mark Kaplan joined the meeting at 9:55 a.m.]

A question and answer session took place after the presentation. Several matters were discussed including:

- The decrease in protective services costs from 2013 to 2014, resulted from the relief NYCHA received from the City for the cost of police services and not from a decrease in Federal Funding.
- The increase in operating revenues is primarily due to an increase in the average rent per unit as there was an increase in the number of households required to pay 30 percent of family income towards rent.
- The obligation for pollution remediation and control increased during 2014 due to the exposure of, and the need to remediate, lead-based paint and asbestos during the course of building rehabilitations and modernizations.
- NYCHA has over 400,000 tenants in traditional Public Housing developments; and more than 80,000 vouchers are issued for Section 8 Housing.

There being no further questions on the financial statements the Chair turned the discussion to NYCHA's management letter. The auditors did not identify any deficiencies in internal control that they considered to be a material weakness but did identify certain deficiencies in internal

control over compliance that they did consider to be significant deficiencies. Management agreed with the auditor's recommendations and is in the process of remedying them.

There being no further questions the Chair thanked the representatives of the New York City Housing Authority and its independent auditor for their participation at today's meeting.

IV. Executive Session

The Chair asked for a motion for the Committee to enter the Executive Session to discuss non-public financial matters. The motion was made by Michele Mark Levine, was unanimously approved, and the Committee moved into Executive Session.

V. Return to Public Session: Vote on Comprehensive Annual Financial Report

When the Audit Committee returned to public session, the Chair called for a motion to accept the auditors' report on, and approve the issuance of, the 2015 Comprehensive Annual Financial Report of The City of New York. Mr. Spitzer made the motion. There were no objections, and the motion carried.

There being no further business before the Committee, Ms. Levine made a motion to adjourn the October 21, 2015 Audit Committee meeting; the motion was unanimously approved; and the Committee adjourned until the next scheduled meeting on December 16, at 9:30 a.m.