



**AUDIT COMMITTEE OF THE CITY OF NEW YORK  
MINUTES OF THE AUDIT COMMITTEE MEETING  
WEDNESDAY, JUNE 26, 2019  
AT THE OFFICE OF THE COMPTROLLER**

**ATTENDANCE**

<b>Chair</b>	Mark Kaplan
<b>Private Members</b>	Bud Larson Bernard Rosen
<b>Public Members</b>	<b>Representing the Comptroller</b> – Jacqueline Thompson
<b>Secretary</b>	Katrina Stauffer
<b>Independent</b>	<b>Grant Thornton LLP</b> – Marla Hummel, Mike Ryan, Cosmo Saginario
<b>Auditors</b>	<b>Deloitte &amp; Touche LLP</b> – Greg Koslow, Darshan Patel, Reem Samra <b>CliftonLarsonAllen LLP</b> – Tim Rawal, Thomas Rey
<b>Others</b>	<b>New York City Housing Authority</b> – Anil Agrawal, PV Anantharam, Dan Frydberg, Carolyn Jasper, Kelly MacNeal, Tricia Roberts <b>City of New York Deferred Compensation Plan</b> – Joan Barrow, Beth Kushner <b>New York City Mayor's Office of Operations</b> – Florim Ardolli, George Davis <b>New York City Office of Management &amp; Budget</b> – William Kennelly, Raymond Lee, Mujeeb Shinwa <b>New York City Comptroller's Office</b> – Jessica Sanchez, Susanna Tregor, Alla Vayner

## Audit Committee Meeting – June 26, 2019

### **I. Call to Order and Roll Call**

Mr. Mark Kaplan, Acting Chairman of the Audit Committee, called the meeting to order at 9:30 a.m. Ms. Katrina Stauffer, the Audit Committee Secretary, took roll call; a quorum was present.

### **II. Motion to Accept Draft Minutes of the Audit Committee Meeting held May 29, 2019**

The first agenda item was the approval of the draft minutes of the May 29, 2019 Audit Committee Meeting. Acting Chairman Kaplan inquired if there were any comments on the draft minutes as presented. Subject to any non-substantive editorial comments submitted to the Secretary, the Committee approved the draft minutes of the May 29, 2019 Audit Committee Meeting.

### **III. Presentation of the Financial Statements and Management Letters (where applicable)**

The next agenda item was the review of the financial statements and management letters of the following entities for the fiscal year ended December 31, 2018:

- New York City Housing Authority
- The City of New York Deferred Compensation Plan

**New York City Housing Authority**

Mr. PV Anantharam, Chief Financial Officer of the New York City Housing Authority (NYCHA), introduced the other representatives from NYCHA present and the representatives from Deloitte & Touche LLP, NYCHA's independent auditors.

Over the past several years, most of NYCHA's senior management was revamped to address the significant issues arising from the continued depletion of resources from the federal government which, for the past 18 years, has ignored inflation and not provided sufficient resources to maintain NYCHA's properties (NYCHA has over 2,400 buildings and more than 300 developments).

NYCHA has several ongoing initiatives, including a recent agreement with the U.S. Department of Housing and Urban Development (HUD), the Southern District of New York, and The City of New York to provide for additional resources from the City.

NYCHA's finances have always been impeccable from a HUD perspective; NYCHA received a 24 out of 25 score from HUD in 2017, and 25 out of 25 this year.

Late last year, NYCHA announced a new strategy to address its continued deficits by bringing in external equity to support the aging infrastructure.

Several events impacted NYCHA's 2018 financial statements, including:

- The implementation of GASB Statement No. 83, *Certain Asset Retirement Obligations*.

The impact was a restatement of \$52.7 million in opening net position for 2017, which resulted in the recognition of an asset retirement obligation (ARO) liability, mainly due to

the decommissioning of fuel oil tanks. In addition, as of December 31, 2017, the ARO liability was \$70 million.

- As per HUD Regulations, an annual lead paint inspection is required of all target housing built prior to January 1, 1978. For NYCHA, the target housing consists of approximately 135,000 units. Through 2018, NYCHA has completed visual inspections of all target units. The visual inspections identified areas with the possible presence of lead paint. To determine if lead paint is present in excess of legal thresholds NYCHA has entered into contracts totaling \$92 million to conduct x-ray fluorescence (XRF) testing at all units built prior to 1978. NYCHA cannot reasonably estimate the range of cleanup outlays because it has not completed the lead paint testing. In addition, based on a 2017 settlement agreement, an \$8 million liability was recognized to remediate approximately 3,500 open work orders for mold.
- In 2018, NYCHA entered into four real estate transactions involving nearly 2,500 units at 18 developments under the Permanent Affordability Commitment Together (PACT) program. The total lease amounts under these transactions was \$180 million, of which \$20 million has been received. NYCHA will recognize cash received as revenue over the shorter of the lease term, or when the purchase option or right-of-first-refusal can be exercised.
- NYCHA's 2018 financial results showed a loss before capital contributions of \$268 million versus a loss of \$331 million for 2017. Operating revenues were \$1.1 billion and remain virtually unchanged versus 2017. Operating expenses increased by \$296 million, due to factors including an increase in housing assistance payments under the Section 8

program of \$20 million, an increase in utilities of \$28 million, and an increase in maintenance and operations costs of \$202 million.

- The \$361million increase in non-operating revenues and expenses, net, was primarily comprised of \$131million in insurance recoveries related to Superstorm Sandy and \$233 million in subsidies and grants, led by increases of \$86 million for City of New York Subsidy, \$66 million in Capital Funds used for operating purposes, \$47 million in Federal Operating Subsidy, due to an increase in the eligible amount due from Housing and Urban Development (HUD) and an increase in the proration factor from 93.1% to 94.74% and \$40 million in Section 8 Housing Assistance Program (HAP) subsidy to cover the increased costs in the Leased Housing Program. These increases in subsidy were partially offset by a decrease of \$6 million in subsidy from FEMA.

A question and answer session then took place, which covered topics including:

- Under the PACT program, NYCHA seeks to identify resources and opportunities to make major physical and operational improvements while preserving long-term affordability, maintaining strong resident rights, and stabilizing developments by providing them with a more stable flow of federal subsidy.
- NYCHA's schedules of demographic data, including the decline in the number of residents in public housing properties, is due to the Rental Assistance Demonstration program, and fluctuations in the number of apartments waiting to be rented.
- NYCHA is following Deloitte's management improvement recommendations.

There being no further questions, Acting Chairman Kaplan thanked the representatives of NYCHA for their participation in today's meeting.

**The City of New York Deferred Compensation Plan**

Ms. Joan Barrow, Chief Accountant of The City of New York Deferred Compensation Plan (DCP), introduced the other representative present and the representatives of CliftonLarsonAllen LLP, DCP's independent auditors.

DCP's combined fiduciary net position decreased from \$20.3 billion in 2017 to \$19 billion on December 31, 2018. The plan had a combined net loss of \$0.8 billion during 2018, versus \$2.4 billion in income in 2017. The Stable Income Fund was the sole positive investment option in 2018.

Participants' deferrals of compensation and rollovers exceeded \$1 billion in 2017 and 2018, and the total participants increased by approximately 10,000 members during 2018.

The presentation then moved into a question and answer session, which included topics such as:

- DCP investment funds recapturing some of their 2018 loss during the first months of 2019.
- DCP works with a few investment consultants that review the performance of the funds and report them to the board quarterly. The consultants also assist with searches for money managers.
- The plan's poor performance was generally in line with the rest of the economy.
- For the 457 plan, the Equity Index Fund's assets have increased and exceeded the Stable Income Fund at 12/31/18.
- Due to fund manager transitions, there are a number investment accounts with minimal balances. This is due to the receipt of ongoing dividend and interest payments credited

to those accounts. As these payments settle, DCP will sweep out all remaining funds and close the accounts.

- DCP will ensure consistency among references to gains and losses between the 457 plan and the 401(k).
- DCP noted that when the board bids for a manager, it asks for best and final pricing as well as the best pricing based on all the assets they hold with the City, including the pension funds.
- Regarding DCP's practice of referring to stock market appreciation or depreciation of assets as part of income (as opposed to counting income just as dividends and interest, separate from appreciation or depreciation of securities), DCP separates the numbers out for the Comptroller's office.
- DCP confirmed that its list of foreign currency holdings is based on a table provided by the Plan's international fund managers.
- DCP's board reviews the expense ratio for all its funds quarterly, including the Stable Income Fund.
- DCP has not had any cyber security problems to date. However, DCP's board is being proactive and as part of the annual financial audit has included an IT Audit and Cyber Assessment to be sure that the Plan is meeting industry standards and best practices around cyber security.

There being no further questions, Acting Chairman Kaplan thanked the representatives of DCP for their participation in today's meeting.

#### **IV. Adjournment**

There being no further business before the Committee, a motion was made to adjourn the June 26, 2019 Audit Committee Meeting; the motion was unanimously approved.