



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
MONDAY, OCTOBER 28, 2024
AT THE OFFICE OF THE COMPTROLLER
AND REMOTELY VIA ZOOM MEETING**

ATTENDANCE

Chair

Michael Spitzer

Private Members

Larian Angelo
Mark Kaplan
Marcia Van Wagner (via Zoom)

Public Members

Representing the Mayor – Man Hon Cheung
Representing the Comptroller – Jacqueline Thompson
Representing the Public Advocate – Wesley Paisley

Secretary

Katrina Stauffer

**Independent
Auditors**

Grant Thornton LLP – Kyle Chuber, Marla Hummel, Richard Kohn, Nick Lazzaruolo (via Zoom), Michael Ryan

Deloitte & Touche LLP – Darshan Patel (via Zoom), Jill Strohmeyer

Others

New York City Housing Authority – Anil Agrawal, Jason Goldberg, Vilma Huertas, Jeffrey Lesnoy, Arlene Nieves (via Zoom), Xandree Norville, Amita Patel, Roger Shields, Eva Trimble, Cassiah Ward

New York City Mayor’s Office of Risk Management and Compliance – Julian Ross (via Zoom)

New York City Office of Management & Budget – Linda Maldonado, Sara Wong (via Zoom)

New York City Office of the Actuary – Anderson Huynh, Tom O’Hara

New York City Comptroller’s Office – Amaid Ali (via Zoom), Camille Arezzo, Francesco Brindisi, Elizabeth Brown, Rosa Charles (via Zoom), Grace Cheng,

Lynne Fleischman (via Zoom), Daniel Haas, Kristin Masek, Veronika Musheyva, Jay Olson, Jessica Sanchez, Joan Stapleton (via Zoom), Christopher Tinerva (via Zoom), Susanna Tregor, Marina Verba, Christopher Wong

Private Citizen – Lauren Hart

Audit Committee Meeting – October 28, 2024

I. Call to Order and Roll Call

Mr. Michael Spitzer, the Audit Committee Chairman, called the Audit Committee Meeting to order at 9:30 am. Ms. Katrina Stauffer, the Audit Committee Secretary, took roll call; a quorum was present.

II. Motion to Approve the Minutes of the June 26, 2024 Meeting

The first agenda item was the approval of the draft minutes of the June 26, 2024 Audit Committee meeting. The Committee approved the meeting minutes for the June 26 meeting, subject to any non-substantive editorial comments submitted to the Secretary.

III. Presentation 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 for the New York City Housing Authority (NYCHA) for the fiscal year ended December 31, 2024.

Mr. Mark Kaplan recused himself because he is on the Audit Committee for NYCHA.

Ms. Jill Strohmeyer, Managing Director with Deloitte LLP, the independent auditors for NYCHA, provided management letter comments.

There were three management letter comments, all low-level deficiencies.

There can be three levels of severity when it comes to an internal control deficiency, material weakness being the most severe significant deficiency. The three in this management letter are deficiencies, which are the lowest level.

Two of the deficiencies relate to information technology (IT) matters related to password configuration and ensuring that passwords are reset upon expiration policy.

The second IT comment relates to user deprovisioning, essentially making certain that when someone leaves the organization, that all access and responsibilities are removed from the relevant systems. Management has responded, has a plan in place to address these comments.

The third comment relates to risk assessment.

NYCHA has a process in place to address its internal risk assessment method. However, it is not formalized. The auditors recommended to formalize the process of internal risk assessment, including where risk may be, where fraud could occur, and overall enterprise risk management considerations. NYCHA provided a response, to which the auditors are in agreement.

Representatives of NYCHA present introduced themselves.

NYCHA discussed some of the new GASB pronouncements that were effective or significant in the fiscal year ended December 31, 2023.

GASB 96 defines a subscription-based information technology arrangement, which conveys the right to use another company's software in a non-cancelable transaction. For those qualifying transactions, NYCHA has recorded the right-of-use asset and the corresponding liability. This is separately disclosed in NYCHA's financial statement notes.

GASB 87 establishes a uniform approach for lease accounting, for which leased office space including, but not limited to, 90 Church Street and 250 Broadway in Manhattan and the Long Island City office are the largest drivers.

Right-of-use capital assets totaled close to \$746 million in 2023 and \$782 million in 2022.

NYCHA adopted GASB 94, public-private partnerships, but determined that NYCHA's transactions do not qualify as they do not meet the exchange-like transaction criteria.

NYCHA adopted GASB 99, which clarified various prior GASB statements, such as GASB 87, GASB 94, and GASB 96. But this had no material impact on NYCHA's financial statements.

In 2019, NYCHA's baseline year, pre-COVID, it had \$1.06 billion of rent collections. In 2020, the first year of COVID, rent collections dropped to \$967 million; in 2021, \$921 million; and in 2022, \$870 million, a downward trend. But in 2023, NYCHA had \$1.03 billion in rent collections, which includes \$124 million from the Emergency Rental Assistance Program (ERAP) collections.

Excluding ERAP, there was a 4 percent increase in rent collections over the prior year, even though NYCHA had 5,200 apartment units that were transferred to developers where NYCHA was no longer collecting rent in 2023, under the Permanent Affordability Commitment Together (PACT) initiative. NYCHA has not reached the 2019 base year, but there are steps being taken to get closer to that total.

While there was no impact on the 2023 financial statements, NYCHA collected an additional \$36 million of ERAP funds in 2024, and a potential for up to \$35 million more in a supplemental ERAP program before the end of 2024. Beginning in 2025, a separate program, the HOME-ARP Program, could provide \$150 million of rental arrears support for their tenants.

As x-ray fluorescence testing for lead continued, there was an increase in positive lead findings from 35 percent of apartments to 43 percent of apartments, which resulted in a \$754 million special item expense within the financial statements. And largely a function of positive lead increases, lead-based paint obligations increased from \$3.7 billion in 2022 to \$4.3 billion in 2023.

Operating revenues, decreased by \$86 million, or 8 percent, to \$976 million. In 2022, NYCHA recorded \$116 million reversal of allowance for doubtful accounts for tenant receivables and a corresponding increase to tenant revenues due to the expectation of collections of ERAP funds in 2023, an accrual basis versus a cash basis. NYCHA generated the revenues for that, reversed the allowance in 2022, and received the cash in 2023. As a result, tenant revenues were \$56 million lower in 2023. But excluding the 2022 ERAP adjustment, operating revenues increased by \$30 million or 3 percent.

Operating expenses increased by \$453 million, 9.5 percent, to \$5.2 billion. The largest driver of increase in operating expenses is rent-for-lease dwellings (NYCHA's Section 8 program) which increased by \$211 million due to higher housing assistance payments per voucher and an increase in voucher units. However, this expense was completely offset by the \$258 million increase in Section 8 housing choice voucher subsidy. NYCHA pays its rent expense and collects its Section 8 subsidy from the Department of Housing and Urban Development (HUD).

Operating expenses in total have been impacted by \$92 million of gross wage increases accrued from recent collective bargaining agreements. This amount is distributed within both general administrative and maintenance and operation expenses.

General and administrative expenses increased by \$167 million, largely due to general inflationary increases, gross wage increases, and due to an increase in pension expense, which was largely

driven by changes in investment income on pension plan and increases in interest on pension liability. Maintenance and operation expenses increased by \$40 million, largely due to inflationary increases and gross wage increases.

Other post-employment benefits (OPEB) expenses increased by \$22 million due to changes in discount rate assumption from 4.31 percent in 2022 to 4.00 percent in 2023.

Depreciation expenses increased by \$34 million, as capital expenditures continue to rise. Partially offsetting the above expense increase were utilities, which declined by \$38 million.

Non-operating revenues grew by \$419 million, or 13 percent, to \$3.6 billion. The largest piece of this includes subsidies and grants, which increased by \$378 million. The public housing subsidy was \$1.3 billion, up by \$112 million. The Section 8 housing choice voucher subsidy was \$1.7 billion, up by \$258 million.

The City of New York subsidies of \$312 million, a slight reduction from 2022.

There was a \$17 million net loss on real estate transactions in 2023, primarily due to allowance for uncollectible accounts provided for on certain loans and notes.

The positive change in fair value of investments on the bond portfolio was \$19 million in 2023, in contrast to a \$42 million loss in 2022.

\$52 million of interest expense in 2023 was fairly consistent with 2022, as debt portfolio has fixed interest rates. Interest expense also includes interest on lease liabilities and subscription liabilities, as per the new GASBs.

The special item of \$754 million in 2023 was due to higher positive lead findings of 43 percent in 2023 versus 35 percent in 2022.

Capital contributions were \$1.1 billion in 2023, up by \$287 million. The largest capital contributions were from Federal Public Housing Capital Fund, \$511 million up by \$184 million. City and State of New York contributions were \$392 million, up by \$186 million. FEMA disaster grants were \$156 million in 2023, down by \$72 million.

The net position of \$943 million at December 2023 was down by \$261 million from 2022. If not for special item related to lead cost, 2023 net position would have been \$493 million greater than 2022 net position.

The total cash and investments were \$1.2 billion versus \$1.3 billion at December 31, 2022, largely due to continuing shortfalls in rental collections versus billed, growing expenses and timing differences of reimbursements from grantors.

Account receivable net decreased by \$154 million, largely due to decreases from FEMA, decreases in tenant receivable, partially offset by increases from the city, due to the lead abatement program and amounts to being reimbursed for gross wage increases.

Capital assets in the aggregate increased by \$693 million to \$10.5 billion due to continued increase in building improvements. Current liabilities were \$1.5 billion, \$121 million lower than 2022.

Much of this reduction was due to decreases in the portion of lead paint remediation costs, previously classified as current in 2022, and since reclassified as non-current.

OPEB non-current liability increased by \$210 million, largely due to a decrease in discount rate. This increase was largely offset by \$239 million decrease in deferred inflow of resources on OPEB. Pollution remediation liability, non-current, increased by \$723 million, largely due to the increase in lead positivity rate to 43 percent.

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

- NYCHA remains under federal monitorship. HUD and the Southern District, with The City of New York, appointed a new firm to be the monitor. The first five years of the monitorship was under one firm. Jenner & Block is the monitor overseeing the implementation of NYCHA's HUD agreement that NYCHA signed in 2019 with the City and HUD. NYCHA also has a special master. The special master is court-appointed as part of the settlement of the Baez suit regards to mold implementation. NYCHA works with a special master appointed by the courts to oversee its implementation for mold on the Baez case.
- While NYCHA is under HUD guidance and compliance in that there is a federal monitor, there aren't financial aspects to that from a financial statement perspective. NYCHA follows all the accounting rules, the GASB rules, and the GAAP rules.
- The cost of the federal monitor is paid for by The City of New York. The federal monitor is under contract through the city's Law Department. It is not contracted or paid for by NYCHA because it would be a conflict. There is no financial auditing component specifically laid out in the HUD agreement. The federal monitor does not oversee financial matters. The HUD agreement lays out deliverables in regards to operational performance and performance and compliance with environmental hazards.
- NYCHA's lead program is overseen by its managers as well as a major environmental consulting firm that's also working on the lead abatement program. NYCHA just announced that it completed 10,000 units of lead abatement. NYCHA has significant

internal controls to ensure the lead work is done appropriately and in compliance.

NYCHA has internal quality assurance processes through independent departments and internal controls within the Lead department that reviews dust wipes. They go through significant quality assurance and quality control procedures. NYCHA's Compliance department and Office of Quality and Cost Control review all of the operations. The Compliance department, Environmental health and safety department, and Quality and Cost Control department are three internal oversight departments that were required to be created as part of NYCHA's HUD agreement and are fully matured and working to oversee all of the work within operations, running those checks to make sure the work is done appropriately.

[There was a disagreement between NYCHA and a few members of the Audit Committee regarding the definition of cost for accounting purposes. Although NYCHA does not pay for the federal monitor, they are burdened by added financial costs because of the Federal Monitor's remedial requirements. Those additional costs should be accounted for in some aspect of the audit report or discussion before the Audit Committee.]

There being no further questions, the Chair thanked the representatives of NYCHA for their participation at today's meeting.

IV. Executive Session

Chairman Spitzer asked for a motion to enter Executive Session. A motion was made to enter Executive Session for the purpose of discussing non-public financial information about The City of New York. The motion was unanimously approved.

V. Return to Public Session and Approval of Financial Statements

When the Committee returned to Public Session, the Chairman thanked the City for its presentations. A motion was made to approve the financial statements and authorize the Comptroller's office to release those statements. The motion was unanimously approved.

VI. Adjournment

There being no further business before the Committee, a motion was made to adjourn the October 28, 2024 Audit Committee meeting; the motion was unanimously approved.