MINUTES OF THE MEETING OF
THE NEW YORK CITY HOUSING DEVELOPMENT CORPORATION
AUDIT COMMITTEE

September 15th, 2011

A meeting of the Members of the Audit Committee of the New York City Housing Development Corporation (the "Corporation") was held on Thursday, September 9th, 2011 at the offices of the Corporation, 110 William Street, 10th Floor, New York, New York.

The meeting was called to order at 12:15 pm by Mr. Felix Ciampa, Board Member, who noted the presence of a quorum. Mr. Ciampa called for approval of the minutes from the June 9th, 2011 meeting. The minutes were approved.

Mr. Ciampa turned to Mr. Rich Froehlich, Executive Vice President and General Counsel of the Corporation to provide an overview of the agenda. Mr. Ciampa then turned to Mr. Bharat Shah, Controller of the Corporation, to provide the third quarter unaudited financial report which covers from November 1st 2010 through July 31st 2011. Mr. Shah noted that growth in assets and liabilities has continued from last fiscal year through the third quarter of this fiscal year. The Financial highlights for FY 2011 include the following: More than \$446.2 million of bonds were issued by the Corporation. Total assets at third quarter end are \$11.5 billion, an increase of \$232.4 million or 2.1% from fiscal year end 2010. Total liabilities are \$10.1 billion, an increase of \$138.9 million or 1.4% from fiscal year end 2010. Total net assets are \$1.4 billion, an increase of \$93.5 million or a 7.2% increase from last fiscal year end. Mr. Shah reported that net income for the first 3 quarters of this fiscal year is \$93.5 million; this includes Non Operating Revenues of \$38.2 million of grant funds received from Battery Park City Authority for the 421-a fund. Otherwise, the net income from normal operations is \$55.3 million which is an increase of \$7.6 million or 16% compared to the same period last year.

Mr. Ciampa then turned to Ms. Ellen Duffy, Senior Vice President of Debt Issuance and Finance to present the debt report for the month of July 2011. Ms. Duffy noted that the Corporation. Since the last report, the Corporation issued \$195.68 million of Open Resolution bonds in June. In addition, the Corporation released \$41.81 million of NIBP bonds from escrow. Redemptions from May through July totaled \$224.995 million. Redemptions in the Open Resolution totaled \$121.185 million from 4 series of bonds. Redemptions in Stand Alone Resolutions were from 6 series of bonds and totaled \$103.81 million. Ms. Duffy reported that HDC's debt outstanding as of July 31, 2011 is approximately \$8.33 billion. The Corporation's statutory debt capacity stands at \$10.25 billion. Ms. Denise Scott, Board Member inquired about how the corporation monitors the debt exposure to avoid reaching the debt ceiling. Mr. Richard Froehlich, Executive Vice President and General Counsel of the Corporation noted that HDC tracks the Corporations debt exposure and requests capacity increases when necessary. Mr. Marc Jahr, President of the Corporation noted that when increases have been requested, approvals have been received without difficulty. This year the Corporation has not needed to request a debt capacity increase.

Mr. Ciampa then turned again to Ms. Duffy to provide the Corporations' Weekly Investment Report for the week of ending September 2, 2011. Funds under management totaled approximately $2.5 billion, consistent with the balances we have been experiencing this year. Ms. Duffy stated that this report reflects routine investment activity.

Ms. Ciampa then recognized Ms. Mary Hom, Deputy Director-Credit Risk, for the counterparty credit risk exposure report. Ms. Hom reported that the only change to the list of counterparties since the last report was the addition of a couple of new municipal investments in the investment portfolio. Ms. Hom noted that there were three downgrades of note: (1) the French banks were downgraded by Moody's yesterday – Credit Agricole to Aa2 (from Aa1), and Societe Generale to Aa3 (from Aa2); (2) Mizuho Securities was downgraded by Moody's on August 24th to A2 (from A1); and (3) the U.S. government was downgraded by S&P on August 5th to AA+ (from AAA). Since HDC conservatively looks to the lower of the two ratings from Moody's and S&P, Ms. Hom noted that the ratings breakdown of our exposures had shifted anything enhanced or issued by the U.S. government to double-A from triple-A. Ms. Hom reminded the Committee that the U.S. government remains rated triple-A by both Moody's and Fitch. Ms. Hom continued her report by noting that HDC's largest counterparty exposure continued to be with Fannie Mae, followed by Citibank. Investments rated double-A or higher were 68% of total investments (up from 62% at the last report), and the weighted average maturity of HDC's investment portfolio increased to 4.1 years (from 3.6 years at the last report). Ms. Hom concluded by reporting that exposure to liquidity providers continued to decline and was approximately $24 million at the end of August. Ms. Scott asked what the protocol was for downgrades, and Mr. Jahr responded that Ms. Hom closely monitors rating agencies actions, and that appropriate actions are taken where necessary, depending upon the individual circumstances.

Mr. Ciampa then turned the Committee's attention Ms. Cathleen Baumann, Treasurer of the Corporation to request the approval of the independent auditor proposal. Ms. Baumann reported that HDC's Finance department recently solicited proposals for the performance of the Corporation's annual financial audit by an independent auditor. The engagement will cover four fiscal years, FY 2011 thru FY 2014. We solicited bids from four accounting firms: Ernst & Young; Deloitte; KPMG; and Pricewaterhouse Coopers. Two firms, Ernst & Young, and Deloitte, responded with bids while KPMG & Pricewaterhouse declined to bid. The proposals from Ernst & Young and Deloitte have been included in your memo packets.

Ms. Baumann continued her report noting that there are two parts to the audit fees – the annual audit fee and the fees for consent letters. The memo includes the detailed bids from both firms. As the chart in the memo shows, for the first part of the fee – the annual audit fee – both firms submitted comparable bids. The other part of the fee pertains to consent letters which are required by underwriters when HDC issues its bonds throughout the year. From the bids, Ernst & Young's fee for consent letters is $9,000 per letter, whereas Deloitte's fee is $20,000 per letter. For just one letter the fee difference is substantial, and when you factor in the Corporation averaging at least four consent letters per year, depending on bond issuance, the difference becomes significant – a $44,000 difference based on 4 consent letters. Combining both parts of the fees, the average annual audit fees are about $38,000 lower with Ernst & Young with 4 consent letters per year. Ms. Baumann further noted that as part of HDC's due diligence, the staff also met with both firms to discuss their audit approach and audit plans for HDC. These discussions were helpful and also demonstrated that each audit firm had a similar audit approach and plan. In addition to submitting the lower annual fee of the two firms, Ernst & Young has also provided excellent audit services to HDC for the past twelve years, and our experience working with them has been very positive. For these reasons, HDC staff recommends retaining Ernst & Young as HDC's auditor. Through the years Ernst & Young has gained a deep and solid understanding of HDC, and is familiar with what is involved in the audit process for the Corporation. This established knowledge of HDC's processes and systems of internal control has led to efficiencies throughout the annual audit process over the years, which has led to early completions of the audits for the past 4 years. It should also be noted that although Ernst & Young has been our auditor for twelve years, the engagement partners have been rotated through the years to comply with the Public Authorities Accountability Act ("PAAA"). Mr. Ciampa asked if the Corporation should also consider expanding to include other auditing firms. Mr. Froehlich noted that the Corporation will broaden the list in the future to include mid-size auditing firms. Mr. Jahr noted that the rotation of partners throughout Ernst & Young's tenure with HDC along with Ernst & Young's affiliation with the auditing firm Mitchell & Titus serves as a check and helps in avoiding too much familiarity, and due to the complex finances of the Corporation a large and experienced firm is needed. Ms. Baumann also noted that most large governmental agencies use one of the big 4 accounting firms.

The Members are being asked to approve Ernst & Young as the independent auditor for the Corporation for the next four years. The Members voted and approved Ernst & Young as the independent auditor.

Mr. Ciampa then turned the Committee's attention to Ms. Shirley Jarvis, Vice President of Internal Audit to present the audit reports. Ms. Jarvis noted that since the last audit committee meeting in June Internal Audit had completed the construction loan audit and were currently performing the Development compliance review and a review of Loan Servicing, the revenue billing process. She noted that the reports on the results of the 2011 Employee Expenses audit and the President's Office Expenses audit were included in the Audit Committee package. Ms. Jarvis than briefly summarized the outcome of each review. Ms. Jarvis stated that in both the required Employee Expenses and the President's Office expenses reviews the primary objectives were to: 1.) Evaluate the effectiveness of the controls over the employee expense reimbursements and related expenses; 2.) Verify compliance with the Corporation's policy and procedures relating to these types of expenses. The scope of the review covered payments made for employee expenses in ten expense categories during the period of February 1, 2010 through January 31, 2011. Internal Audit determined that the control systems were effective in ensuring that employee reimbursements and vendor payments are authorized, appropriate, and properly recorded. Internal Audit found that the Corporation's employees generally complied with the policies and procedures for processing employee reimbursements and the payment of vendor invoices for those expenses.

Ms. Jarvis continued with the audit of the President's Office expenses. Ms. Jarvis noted that the scope of the review covered all expenditures charged to the President's Office for eight expense categories from November 1, 2010 to April 30, 2011. Internal Audit found that expenses for the selected categories were processed correctly according to the travel and business expense policies in the Employee Handbook and that all expenses included the proper documentation and authorization. Ms. Jarvis further noted that the results of the reviews are more fully presented in each report. President Marc Jahr noted that the frequency of audit of the President's office should be discussed with Department of Investigation (DOI) and perhaps a change from auditing twice per year to once per year is warranted at this point. Mr. Jahr further noted that the amount of time devoted to multiple Presidents office expenses audits per year can be used by Internal Audit for some other area.

Mr. Ciampa then turned to Ms. Jarvis to present the final report on the results of the quality assessment review (QAR) performed by the Institute of Internal Auditors in April. Ms. Jarvis noted that the report was received too late to include in the Members package. A hard copy of the report was distributed to the Members at the meeting by Zenaida Bhuiyan, an IA staff member. Ms. Jarvis stated that the primary objectives of the assessment were to: 1.) Assess the Internal Audit (IA) conformance to The International Standards for the Professional Practice of Internal Auditing (the Standards); 2.) Evaluate IA effectiveness in carrying out its' mission. 3.) Identify opportunities to enhance IA management and work processes, as well as enhance its value to HDC. Ms. Jarvis noted that the Internal Audit Activity received an overall opinion of "partially conforms to the Standards and the definition of internal auditing". She stated that the recommendations in the final report mirrored those in the draft report that was previously presented to the members. The recommendations were made to address what the QAR team judged to be deviations noted in practice from the Standards. Ms. Jarvis described the actions Internal Audit has taken or planned to take to address those recommendations which were specific to IA. 1.) Internal Audit has updated the audit charter and pending approval by executive management, will submit for the Members approval at the next meeting. 2.) Internal Audit has had preliminary discussions with senior management regarding creating information/training sessions conducted by senior staff to give the IA staff a high level understanding of HDC business. The form this training will take will be developed in the coming months.

Ms. Jarvis continued her report noting that Internal Audit feels by addressing the recommendation to strengthen the annual planning process, which involves building a functional HDC audit universe, developing an appropriate risk methodology and establishing frequency guidelines will also address the following recommendations: 1.) Expanding scope of IA activities; 2.) Strengthen communication of IA resource requirements to Executive Management and the Audit Committee; 3.) Strengthen IA support of HDC governance process and 4.) Strengthen IA coverage of the IT environment. Ms. Jarvis stated that Internal Audit will take the following actions: 1.) Define HDC audit universe and perform the risk Assessment. Internal Audit is working with the CIO, Pellegrino Mariconda to define the IT audit universe. IA will perform similar process for all HDC departments. IA anticipates this process will be completed by the 2nd quarter of FY 2012. Ms. Jarvis stated that the continued development and implementation of the Department's Quality Assurance Improvement Program ("QAIP") is ongoing and would be done over time. IA is also considering ways to improve the quality of the reports and have already implemented some changes. Going forward IA will give the Members periodic reports on the progress addressing each recommendation. Regarding strengthening communication between the Audit Committee members and the Vice President of Internal Audit, the Members and Ms. Jarvis will have a separate discussion of the method of communication and the rate of occurrence. Mr. Jahr noted that the Corporation has assets over $10 billion and it made sense for the Corporation to bring in an outside consultant to review ways that the Corporation's Internal Audit can be stronger and to ensure that we are auditing the right things within a relevant time line.

At 12:30 pm, with no further business, Mr. Ciampa moved to dismiss and the meeting was adjourned.

Respectfully submitted,

Violine Roberty

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ATTENDANCE LIST

NAME	**AFFILIATION**
Denise Scott	Audit Committee Member
Felix Ciampa	Audit Committee Member
Marc Jahr	NYC Housing Development Corp.
Richard Froehlich	NYC Housing Development Corp.
Joan Tally	NYC Housing Development Corp.
Eileen O'Reilly	NYC Housing Development Corp.
Cathy Baumann	NYC Housing Development Corp.
Ellen Duffy	NYC Housing Development Corp.
Urmas Naeris	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Shirley Jarvis	NYC Housing Development Corp.
Bharat Shah	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.
Mary John	NYC Housing Development Corp.
Uyen Luu	NYC Housing Development Corp.
Mei Wang	NYC Housing Development Corp.
Jaclyn Moynahan	NYC Housing Development Corp.
Zenaida Bhuiyan	NYC Housing Development Corp.
Violine Roberty	NYC Housing Development Corp.