

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

***January 27th, 2020***

A meeting of the Members of the Audit Committee of the New York City Housing Development Corporation (the “Corporation”) was held on Monday January 27th, 2020 at the offices of the Corporation, 110 William Street, 10<sup>th</sup> Floor, New York, New York.

The meeting was called to order at 10:00 am by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the December 12th, 2019 meeting. The minutes were approved.

Mr. Gould turned to Mr. Richard Froehlich, First Executive Vice President and Chief Operating Officer of the Corporation to provide an overview of the agenda.

Mr. Gould then turned the Committee’s attention to Ms. Cathleen Baumann, Senior Vice President and Treasurer of the Corporation, to provide a summary of the Fiscal Year 2019 Audited Financial Statements. Ms. Baumann noted that 2019 was another exceptional year for the Corporation. Ms. Baumann further noted that the financials of the Corporation, as well as the strong leadership and hard work of a dedicated staff, are a strong measure of HDC’s continued success. Ms. Baumann reported that during FY 2019, the Corporation issued 27 new bond series totaling \$2.2 billion. In addition, proceeds from debt obligations issued during the fiscal year amounted to \$40 million. Total HDC assets were \$21.5 billion, an increase of \$2.1 billion or almost 11% from fiscal year end 2018 due to the Corporation’s robust mortgage lending and bond financing activities throughout the year as well as an increase in the HPD Section 661 funds granted to HDC for making loans on HPD’s behalf to developments that are also financed by HDC. Total liabilities were \$18.4 billion, an increase of \$1.9 billion or 11.8% from 2018 as a result of the Corporation’s ongoing debt and lending activities. HDC’s Total Net Position at fiscal year-end was \$3.13 billion, an increase of \$300.5 million or 10.61%. Of this amount, \$258.8 million was generated from the Corporation’s normal operating activities and \$41.7 million were funds received from the 421-A Grant Revenue Program with the Battery Park City Authority. The increase to net position will allow the Corporation to continue to play a critical role in the Mayor’s Housing Plan and provide subsidies to the affordable housing developments that we finance. Ms. Baumann took the opportunity to recognize Mary John, HDC’s Controller, and the HDC Accounting staff for all of their hard work and dedication in producing the financial statements and footnotes, as well as working diligently with the new E&Y and Mitchell Titus teams in wrapping up another successful audit. Ms. Baumann then noted Mr. Louis Roberts of Ernest & Young would walk the Members through the audit results.

Mr. Gould then turned to Mr. Louis Roberts of Ernst & Young who provided an overview of the audit results. Mr. Roberts noted that Ernst & Young did not issue a management letter and there were no issues that required the issuance of the letter. Mr. Roberts noted the audit was consistent with what was communicated to the Members back in December. Mr. Roberts noted there the communications between HDC’s staff and the new E&Y staff

were exceptional while working on the audit. Mr. Roberts noted that with the new E&Y team in place that there were new sets of eyes on the audit. Mr. Roberts further noted that there were no corrected misstatements or material uncorrected misstatements. Mr. Roberts stated that all internal controls over financial reporting are designed effectively. He also noted that as a going concern all trends financially were looking very good for the Corporation. Mr. Roberts stated that there were no instances of fraud, no pushback from management and no issues regarding oversight of process. He also reported that the MWBE firm of Mitchell Titus performed about 15% of the audit including working on the HPD loans and the Single Audit. Mr. Gould then requested approval of the Corporation's Financial Statements and the Members approved the 2019 Financial Statements.

Mr. Kimball asked if E&Y audited any of HDC's borrowers or lenders and what kind of internal controls E&Y had to ensure independence. Mr. Roberts replied that confidentiality is key and that concerns about those relationships had never come up but that E&Y also had a Professional Practices Group whose focus is on ensuring independence and flagging any conflicts.

Ms. Scott asked whether HDC's new relationship with NYCHA raised any issues for E&Y. Mr. Roberts replied that E&Y performed no services for NYCHA. Mr. Froehlich then suggested Ms. Scott's question was more about risk management and outlined the structure of the Housing Impact Bond issuance, noting the Freddie Mac wrap which limits HDC's risk as well as the rating agency scrutiny the deal has been put through. He noted that HDC will continue to monitor the risk issues as it gets more involved with NYCHA and that the Corporation may increase reserves if warranted.

Mr. Gould asked about the term of E&Y's contract with the Corporation, and Mr. Roberts responded that it was five years. He noted the total E&Y team change on the engagement with HDC that had just occurred, and the resulting benefit of having fresh eyes on the audit. He also said E&Y does no other consulting work for HDC.

Mr. Gould turned to Ms. Ellen Duffy, Senior Vice President of Debt Issuance and Finance to present the Corporation's Debt Report as of December 31, 2019. Ms. Duffy noted that the last debt report presented to the Audit Committee was as of October 31, 2019. During this time, the Corporation issued three series of Open Resolution Bonds totaling \$337.5 million and one financing with the Federal Financing Bank in the amount of \$65.6 million. There were bond redemptions in two series of Open Resolution bonds in the amount of \$38.4 million and four stand-alone bond series in the amount of \$63.3 million. The Corporation's debt outstanding as of December 31, 2019 was approximately \$12.5 billion. The Corporation's statutory debt capacity stands at \$14.5 billion.

Mr. Gould then turned again to Ms. Duffy to provide the Corporation's investment report as of January 13, 2020. Funds under management totaled approximately \$5.8 billion. This report reflects routine investment activity.

Mr. Gould then asked whether the Corporation would request more debt capacity, and Mr. Froehlich answered that the Corporation will request an additional \$1 billion.

Mr. Gould then recognized Ms. Mary Hom, Chief Risk Officer, for the counterparty credit risk exposure report. Ms. Hom reported that the report before the Committee is dated as of December 31, 2019, and the last report to the Audit Committee was dated October 31, 2019. Ms. Hom reported that there were not many changes since the last report. There were no new counterparties, and there were no credit rating agency actions of note. HDC's counterparty exposure remains well-diversified with the largest exposures continuing to be with Fannie Mae followed by Freddie Mac. Investments rated double-A or higher were 48% of total investments, versus 49% at the last report, and the weighted average maturity of the investment portfolio was unchanged at 2.6 years. Ms. Hom concluded her report by noting that exposure to liquidity providers was approximately \$219 million.

Mr. Gould then called upon Ms. Hom to present the Annual Audit Committee Report. Ms. Hom reported that pursuant to the New York City Comptroller's Office, Directive No. 22, the HDC Audit Committee is required to publish an annual report detailing its activities for the prior calendar year. The report before the Committee is a compilation of the minutes from all the Audit Committee meetings that occurred during the 2019 calendar year. Ms. Hom then requested approval of the Annual Audit Committee Report for 2019, at which time the Members approved the report.

Mr. Gould then called on Ms. Hom for the presentation of Internal Audit reports. Ms. Hom reported that two audits had been completed since the last report to the Audit Committee: (1) 2019 Loan Servicing/Revenue Billing, and (2) 2019 Income Certification. Regarding the Loan Servicing/Revenue Billing audit, Ms. Hom reported that the objective of the audit was to determine if adequate controls are in place and have been operating effectively for the revenue billing process. Ms. Hom reported that the audit determined that management has effective controls in place. There were no matters involving internal controls that were considered material weaknesses. Recommendations were made regarding the waiver of late fees and the securing of personally identifiable information (PII). Ms. Hom then reported on the Income Certification audit. There, the objective was to determine if adequate controls are in place and have been operating effectively for the Income Certification process. Ms. Hom reported that the audit determined that management was effectively reviewing tenant applicant files to ensure that owners were complying with the program requirements pertaining to Income Certification. There were no matters involving internal controls that were considered material weaknesses. Recommendations were made regarding staffing and the protocols for securing PII.

Mr. Gould then called on Ms. Hom for presentation of the 2020 Internal Audit Plan. Ms. Hom reported that after careful performance of the risk assessment process which included ranking various areas of risk and conducting extensive interviews with management and the Members of the Audit Committee, the proposed plan for 2020 includes the performance of eight audits and two special projects, and the outsourcing of two specialized audits. Ms. Hom highlighted one of the special projects which is focused on PII. Ms. Hom noted that the Members of the Audit Committee, as well as management deemed this as an area that needed further attention. Additionally, Ms. Hom noted that, in response to an earlier question, the 2020 audit plan includes a look at Asset Management's capacity given the expected additional work required by the NYCHA projects. Mr. Gould asked if HDC had any interaction with NYCHA's Federal Monitor. Mr. Enderlin replied yes, when the Corporation had a meeting with NYCHA's budget team the Federal Monitor was also in

attendance. He further noted that NYCHA had requested a meeting with HDC to discuss the upcoming NYCHA reorganization and that the Federal Monitor would be part of that discussion. Ms. Hom continued her presentation by extending thanks to the Members of the Audit Committee and HDC staff for their invaluable participation and feedback in this year's risk assessment process. Noting no further questions, Ms. Hom requested approval of the 2020 Internal Audit Plan, and the Members approved the Plan.

Mr. Gould then turned the Committee's attention to Mr. Paul Cackler, Chief Information Officer of the Corporation to provide a Cyber Security update. Mr. Cackler noted that the Corporation has an active cyber security program. IT staff completed many projects in the last year and have many more initiatives in progress. To further advance the cyber security program, HDC engaged The New York State Technology Enterprise Corporation (NYSTEC) that provides technology and security consulting services to public sector clients. They recently conducted a compliance assessment using the Cyber Security Framework published by the National Institute of Standards and Technology. This assessment will serve as a road map to prioritize cyber security projects and ensure that the Corporation is following industry best practices. Mr. Cackler further noted Jeff Pereira, the Corporation's NYSTEC consultant from their security practice who has been working closely with HDC, will present a summary of the assessment for the Audit Committee Members at the next meeting.

Ms. Scott voiced concerns about cyber security at some of the not-for-profits with which HDC does business. While larger organizations such as HDC have resources to focus on cyber security, there is "a lot of money moving around" among the not-for-profit players, some of which are not as sophisticated. Ms. Scott asked if the Corporation had thought about offering training or help to that sector. Mr. Froehlich noted that this issue would be part of any discussion with partners. Mr. Kimball also suggested that consideration be given to cyber-incident response, not just prevention, and Mr. Cackler agreed that will be a focus as well, and also noted that HDC scored higher in incident response and disaster recovery on NYSTEC's assessment.

At 10:30 am, with no further business, Mr. Gould moved to dismiss, and the meeting was adjourned.

Respectfully submitted

Violine Roberty

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**ATTENDANCE LIST**

<b><u>NAME</u></b>	<b><u>AFFILIATION</u></b>
Harry Gould	Audit Committee Member
Denise Scott	Audit Committee Member
Kyle Kimball	Audit Committee Member
Louis Roberts	Ernst & Young
Eric Enderlin	NYC Housing Development Corp.
Richard Froehlich	NYC Housing Development Corp.
Anthony Richardson	NYC Housing Development Corp.
Ellen Duffy	NYC Housing Development Corp.
Susannah Lipsyte	NYC Housing Development Corp.
Cathy Baumann	NYC Housing Development Corp.
Terry Gigliello	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Paul Cackler	NYC Housing Development Corp.
Elizabeth Strojan	NYC Housing Development Corp.
Mary John	NYC Housing Development Corp.
Uyen Luu	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Trisha Ostergaard	NYC Housing Development Corp.
Patrick Ogoke	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Carol Micalizzi	NYC Housing Development Corp.
Violine Roberty	NYC Housing Development Corp.