

New York City Housing Development Corporation

2020 audit plan

October 29, 2020



Building a better
working world

Executive summary

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What's new

- ▶ COVID-19 impact (page 3)
- ▶ GASB Statement No. 84, *Fiduciary Activities*

What's next

Actions the team is taking in the near term:

- ▶ Complete walkthrough documentation of all processes
- ▶ Sample selections for year-end audit testing

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Digital commitment

We are committed to enhancing the audit experience through the use of collaborative technology in the virtual work environment:

- ▶ EY Canvas Client Portal
- ▶ Expansion in the use of data analytics

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2020 audit plan

- ▶ Year-end procedures - November to January
- ▶ Expected filing - January 29, 2021
- ▶ Areas of emphasis (page 4)
- ▶ Required communications (page 7)

2020 audit services

2020 audit and related services

Express an opinion on, and report to the Audit Committee the results of our audits of:

- ▶ The financial statements of the Corporation and the accompanying supplementary information in relation to the financial statements as a whole.
- ▶ The Corporation's Schedule of Federal Awards as required by the Uniform Guidance
- ▶ The Corporation's Schedule of Investments

Issue a written communication to:

- ▶ Management and the Audit Committee describing significant deficiencies and material weaknesses identified during our audit, if any
- ▶ Issue a management letter including recommendations for improvements in controls and procedures (if applicable)

Internal Control and Compliance Communications

- ▶ Issue a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*
- ▶ Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Other attestation services

- ▶ Report on the Corporation's compliance with minimum servicing requirements

COVID-19: risk factors and audit considerations

Note - The items below are listed for discussion purposes and do not necessarily present actual risks or all risk factors for HDC.

01

Effects on the business

- ▶ Unfavorable economic conditions within the industry; the geographic area in which the entity or its customers operate is becoming less competitive
- ▶ Decrease in demand for borrowings or inability to collect from borrowers that are also affected by the pandemic
- ▶ Impact from reliance on supply chain disruptions in affected areas and identification of alternate supply chain scenarios
- ▶ Crisis management and development of business contingency plans

02

Overall risk factors

- ▶ Potential increase in operating costs as a result of supply chain disruptions (e.g., replacing affected suppliers with more expensive substitutes, factory closures).
- ▶ The business has shifted to a remote working model, thus cyber threats have become more prevalent.
- ▶ Ongoing business disruption has led to a reduction in demand for luxury and other non-essential products, thus causing pressure on sufficient liquidity.
- ▶ The entity has violated, or is at risk of violating, debt covenants (e.g., failure to meet an interest coverage ratio.)

Four areas to consider for COVID-19

- ▶ **Revenue recognition.** The entity's expectation about the recognition of revenue and its collectability assumptions.
- ▶ **Going concern evaluation.** The entity has updated its cash flow projections to assess its ability to meet obligations as they become due.
- ▶ **Disclosures.** Financial statement disclosures (e.g., going concern, subsequent events) might be affected by the pandemic.

03

Account-specific risk factors

04

Considerations impacting our audit

- ▶ **Remote location.** There may be challenges associated with working remotely on audit and finance teams including access to information.
- ▶ **Estimates.** There may be heightened estimation uncertainty and its impact on management's assumptions within financial information and fair value analysis in light of the pandemic.
- ▶ **Internal control over financial reporting.** Change in the design and operation of controls in a remote working environment; the inability to test controls that have been affected by business disruption; understanding changes in sources of information in the execution of management review controls.

Areas of emphasis

Topic	Summary of planned procedures
Internal controls over applications that affect the financial statements	<p>▶ During our audit we will update our understanding of internal control and evaluate the various internal controls over financial reporting as a basis of determining our overall audit approach and scope. We will evaluate the following significant processes:</p> <ul style="list-style-type: none"> - Payroll - Purchases/Accounts Payable/Cash Disbursements - Mortgage Revenue/Accounts Receivable/Cash Receipts - Grant Management - Financial Statement Close - Debt Issuance, recording and monitoring - Recording Changes in Net Position - Recording Pension and OPEB Liability and Expense - Risk Management - Investment Process
Cash and investments	<p>▶ We will confirm significant cash and investment balances and agree responses to the Corporation's accounts and related reconciliations. Investments will be tested to determine that they are properly valued and all risk disclosures will be evaluated. We will also test the Corporation's compliance with the Investment Guidelines.</p>
Accounts receivable and allowances	<p>▶ We will confirm a selection of the Corporation's mortgage receivable balances. The Corporation's methodology for recording allowances and writing off old balances will be tested and evaluated for reasonableness.</p>
Capital Assets, including intangible	<p>▶ We will vouch additions to capital assets and test for proper accounting treatment. Capitalized costs will be tested and evaluated for reasonableness, including examination of the procurement process.</p>
Accounts payable and other accrued liabilities	<p>▶ We will perform testing of the Corporation's accruals and payments made subsequent to year-end to evaluate the completeness of the liabilities at year-end.</p>

Areas of emphasis

Topic	Summary of planned procedures
Obligations for postemployment benefits other than pensions	<ul style="list-style-type: none"> ▶ We will evaluate the assumptions utilized in making the calculation and compare such assumptions to industry trends. We will also perform testing over the census data provided to the actuary.
Debt	<ul style="list-style-type: none"> ▶ We will confirm all outstanding debt and review the accounting and reporting for debt transactions, including debt compliance and interest rate swaps.
Due to New York City	<ul style="list-style-type: none"> ▶ We will review and test a selection of the Corporation's transactions with The City of New York.
Payable to mortgagor	<ul style="list-style-type: none"> ▶ We will perform testing of the Corporation's accruals and payments made subsequent to year-end to evaluate the completeness of the liabilities at year-end.
Unearned revenues	<ul style="list-style-type: none"> ▶ We will obtain a listing of all unearned revenue accounts and review and test a selection of transactions.
Net position	<ul style="list-style-type: none"> ▶ We test all changes to net position and evaluate the classification of net position balances.
Litigation and loss contingencies	<ul style="list-style-type: none"> ▶ We will review all litigation and loss contingencies, utilizing firm specialists as necessary.
Revenue Recognition	<ul style="list-style-type: none"> ▶ We will assess the Corporation's internal controls over mortgage revenue and perform detail transaction testing and analytical procedures.
Operating expenses	<ul style="list-style-type: none"> ▶ We assess the Corporation's internal controls over payroll and cash disbursements and test a sample of transactions, including detail transaction testing and analytical procedures.
Risk of management override of controls	<ul style="list-style-type: none"> ▶ Professional standards require that we consider the risk of management override of controls to be a fraud risk on all audits. We will design our audit procedures, including our journal entry testing, to be responsive to this risk.
Single Audit	<ul style="list-style-type: none"> ▶ We will perform testing over federal programs determined to be major programs based on final expenditures.

Appendices

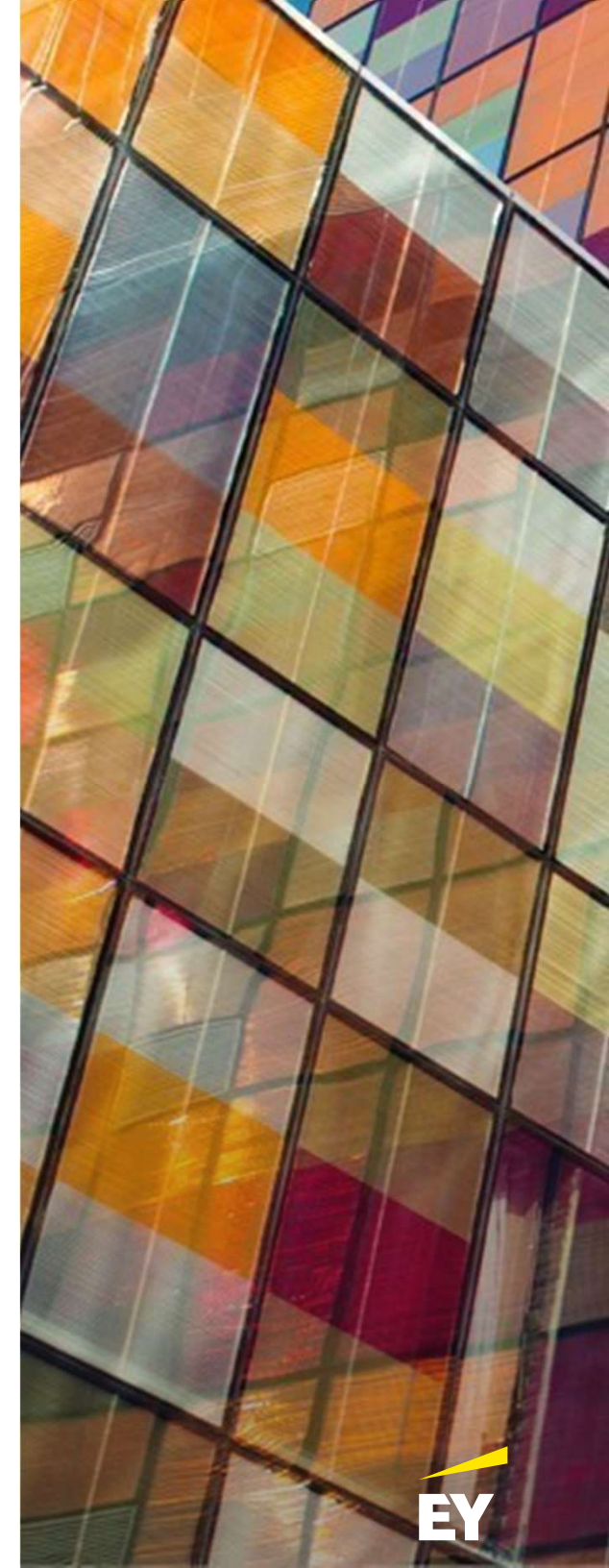
A Required communications

B Peer review report

Required communications

Area	Comments
<ul style="list-style-type: none"> ▶ Terms of the audit engagement, including the objective of the audit, the auditor's responsibilities under generally accepted auditing standards and management's responsibilities 	Refer to the engagement letter.
<ul style="list-style-type: none"> ▶ Overall planned scope and timing of the audit, and significant risks identified and any changes thereto 	Refer to the executive summary and areas of emphasis for additional information.
<ul style="list-style-type: none"> ▶ Significant issues discussed with management in connection with the auditor's initial appointment or recurring retention 	There are no matters to communicate.
<ul style="list-style-type: none"> ▶ Independence matters 	There are no matters to be reported.
<ul style="list-style-type: none"> ▶ Inquiries regarding: <ul style="list-style-type: none"> – Risks of material misstatement – Fraud and noncompliance with laws and regulations (illegal acts) – Related-party relationships and transactions 	Inquiries regarding these matters are performed throughout the audit.

As required, provided above is a summary of required communications between the audit team and those charged with governance, as required by AICPA Clarified US Auditing Standard (AU-C) 260, *The Auditor's Communication With Those Charged With Governance*, and other applicable auditing standards.



Peer review report



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REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

November 18, 2019

To the Partners of Ernst & Young LLP and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2019. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans, an audit performed under FDICIA, audits of broker-dealers, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

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Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Ernst & Young LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2019, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Ernst & Young LLP has received a peer review rating of *pass*.

Grant Thornton LLP



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About EY's Assurance Services

Our assurance services help our clients meet their reporting requirements by providing an objective and independent examination of the financial statements that are provided to investors and other stakeholders. Throughout the audit process, our teams provide a timely and constructive challenge to management on accounting and reporting matters and a robust and clear perspective to audit committees charged with oversight.

The quality of our audits starts with our 60,000 assurance professionals, who have the breadth of experience and ongoing professional development that come from auditing many of the world's leading companies.

For every client, we assemble the right multidisciplinary team with the sector knowledge and subject matter knowledge to address your specific issues. All teams use our Global Audit Methodology and latest audit tools to deliver consistent audits worldwide.