

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

September 27th, 2023

A meeting of the Members of the Audit Committee of the New York City Housing Development Corporation (the “Corporation”) was held at the Corporation’s Office at 120 Broadway on Wednesday, September 27, 2023.

The meeting was called to order at 4:07 pm by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the June 1, 2023 meeting. The minutes were approved.

Mr. Gould then turned to Ms. Cathy Baumann, Executive Vice President and Chief Financial Officer, to provide an overview of the agenda. Ms. Baumann then briefly provided an overview of the agenda.

Mr. Gould then called on Ms. Ellen Duffy, Executive Vice President of Capital Markets and Investments, to present the Corporation’s Debt Report. Ms. Duffy noted that the Corporation’s Debt Report is as of August 31, 2023. The last debt report presented to the Audit Committee was as of April 30, 2023. Ms. Duffy noted that during this time, the Corporation issued three series of Open Resolution bonds in the amount of \$642.7 million and remarketed one series of \$53.6 million Open Resolution bonds. In addition, the Corporation issued two series of bonds in the Housing Impact resolution in the amount of \$320.3 million. There were bond redemptions in three series of Open Resolution bonds in the amount of \$201.99 million and one stand-alone series of bonds in the amount of \$8.3 million.

Ms. Duffy advised that the new footnote on the Interest Rate Hedges page indicates that the SOFR based rates that have been used as of July 1, 2023, to calculate swap payments. LIBOR rates are no longer published as of June 30, 2023.

The Corporation’s debt outstanding as of August 31, 2023, is approximately \$15.6 billion. The Corporation’s statutory debt capacity stands at \$18 billion. We currently have sitting on the governor’s desk for signature a request for an increase of our debt capacity to \$19 billion.

Mr. Gould again called on Ms. Duffy to present the Corporation’s Investment Report. Ms. Duffy noted that the Corporation’s Investment Report is as of September 5, 2023. Funds under management totaled approximately \$5.7 billion. This report reflects routine investment activity.

Mr. Gould then called on Ms. Mary Hom, Chief Risk Officer, for the Corporation’s Counterparty Credit Risk Exposure Report. Ms. Hom noted that the report is dated August 31, 2023. The previous report to the Audit Committee was dated April 30, 2023.

Ms. Hom reported that in August, Moody's announced negative rating actions on a number of US banks citing macro concerns affecting the entire US banking sector. With respect to the Corporation's counterparties, Moody's downgraded Webster Bank to A2 from A1 citing the Bank's lower capital and liquidity levels, increased reliance on market sensitive funding, and high concentration of commercial real estate exposure. Other affected banks on the counterparty list were Bank of New York and US Bank which were both placed on negative Watchlist.

Also in August, while the Corporation does not monitor Fitch Ratings, Ms. Hom noted that Fitch downgraded the US government to AA+ from AAA. In its action, Fitch noted the rising level of general government debt, expected fiscal deterioration in the next three years, and erosion of governance, particularly on fiscal and debt matters, relative to its similarly-rated peers. This action brings Fitch's rating in line with S&P's AA+ rating on the US. Moody's continues to rate the US at Aaa. There were no new approved counterparties.

Ms. Hom noted that the Corporation's counterparty exposure remains diversified with the largest exposures continuing to be with FNMA, FHLMC, and Wells Fargo. The Wells Fargo exposure is primarily in the form of construction letters-of-credit covering 26 projects. Investments rated double-A or higher were 51% of total investments, versus 56% at the last report. Investments rated triple-B or not rated were 36% of total investments, versus 31% at the last report, and these investments are fully collateralized by high quality U.S. Treasury or Agency securities and/or FHLB letters-of-credit. HDC exposure to liquidity providers was unchanged at approximately \$542 million.

In June, HDC entered into two interest rate swaps – one with Bank of New York for \$80 million, and one with PNC Bank for \$50 million. Ms. Denise Scott, Board Member, posed a question to Ms. Hom regarding to the banks that were downgraded and whether the auditors require any special scrutiny of those banks. Ms. Hom noted that Webster bank was the only one downgraded and that it is a deposit bank for money market accounts. As such it is currently fully-collateralized by FHLB letters of credit. Mr. Gould asked what the effect of a government shutdown would be. Mr. Eric Enderlin, President, noted that the city plans around the immediate impact to funding for items like rental assistance. Ms. Elizabeth Strojan, Senior Vice President for Administration and External Affairs added that the HPD and NYCHA currently have reserves for rental assistance similar to those they held during the last shutdown which lasted 35 days.

Mr. Gould then again called on Ms. Hom to present the Internal Audit Report. Ms. Hom noted that the last report to the Audit Committee on June 1, 2023, three internal audit advisory projects were completed: Succession Plan, Electronic Funds Transfers, and Accounts Payable.

Ms. Hom noted that succession planning is an important tool for ensuring that organizations maintain regular operational levels and continue to meet high performance standards. By having a formal, effective succession plan across all departments, the Corporation can proceed with minimal disruption in the event of a key employee's departure. While the Corporation has had informal succession plans in place, management

recognizes the need to formalize succession plans to ensure that capable individuals are identified and prepared to assume key responsibilities should a vacancy arise.

Here, Ms. Hom stated, Internal Audit's objective was to assist the Corporation with formalizing an effective succession plan across all departments. Internal Audit began this project by examining departmental organizational charts, job descriptions, and employee tenure data provided by the Corporation's Human Resources department. Internal Audit then developed a template to help guide department heads with formalizing their succession plans. After careful thought and review, department heads completed these templates and formalized their respective succession plans. Internal Audit reviewed these plans and determined that key roles have been identified, and strategies are in place to ensure that capable individuals are prepared, or will be prepared (either through additional training or hiring plans), to assume key responsibilities should a vacancy arise. Internal Audit gathered the completed templates from all the Corporation's departments and assembled into a formal succession plan for the Corporation. Internal Audit intends to perform an annual review of succession planning going forward in conjunction with the annual review of business continuity plans.

Ms. Hom noted that the second completed project is the Electronic Funds Transfers (or EFT) review. EFT has increasingly become a target for fraudsters and scammers seeking to illegally divert funds. A request from the Corporation's Cash Management department to examine best practices in EFT prompted the Internal Audit department to research and review. Here, Internal Audit's objective was to research and report back to the Corporation's Cash Management team best practices around EFT.

Internal Audit reviewed the last audit report for EFT that was conducted in 2019. At that time, Internal Audit determined that the Corporation had effective controls around EFT activity. Internal Audit further researched industry best practices around EFT and communicated this information to the Cash Management team. As Cash Management has always been proactive around EFT security, they noted that they will retain the best practices document and that many of the industry best practices have been long-standing practices at the Corporation.

Ms. Hom further continued stating that the third completed project was an assurance audit on the Accounts Payable function. Ms. Hom noted that this audit was not originally on the Audit Plan for the third quarter. Internal Audit had some downtime between audits, so we picked up this project. Here, Ms. Hom stated, Internal Audit's objectives were: to determine whether there are adequate Accounts Payable policies and procedures; to ensure that the selected check and wire disbursements were made in compliance with Accounts Payable policies and procedures, and to determine whether processed payments were properly recorded in the General Ledger. Upon completion of the audit, Internal Audit noted no matters involving internal controls that the team considered material weaknesses.

Ms. Scott posed a question to Ms. Hom asking if there have been instances of electronic funds transfer scams and Ms. Hom answered that there had not. Ms. Duffy noted that Cash Management has seen fraudulent requests come through the management companies but was able to catch them. The Corporation has strengthened its wire transfer policies.

Mr. Gould then again called on Ms. Hom to present the fourth quarter audit plan. Ms. Hom noted that she was pleased to present for the Members approval an Internal Audit plan for the fourth quarter of 2023. The proposed projects for the fourth quarter include three assurance audits, continuous monitoring of the investment portfolio, and performance of the annual corporate-wide risk assessment. If there are no questions, the Members of the Audit Committee are requested to approve the Fourth Quarter 2023 Audit Plan. The Plan was approved.

Mr. Gould then turned to Ms. Mary John, Senior Vice President and Controller, to present the Corporation's Auditor Proposal for HDC's Finance department. Ms. John summarized that the department recently solicited requests for proposals for the performance of the Corporation's annual financial audit by an independent auditor. The engagement will cover four fiscal years, starting with fiscal year 2023, and cover the period from November 1, 2022, through October 31, 2026. We solicited bids from the "Big Four" accounting firms: Ernst & Young, Deloitte, KPMG, and PwC. Additionally, we solicited bids from three mid-size firms: CBIZ Marks Paneth, Grant Thornton, and BDO.

Only two firms, responded with a bid for services, Ernst & Young ("EY") and CBIZ Marks Paneth ("Marks Paneth"). After interviewing the two firms, and deliberation amongst staff we are recommending that the contract be awarded to Ernst & Young. This decision was based on three major issues: fees, technology and MWBE.

Ms. John continued by reporting that although on the face of it Marks Paneth's annual fee proposal was lower than EY, including the single audit fees, the allotted hours to perform the audit was one third of the amount of hours proposed by EY. Staff believe that given the complexity of the Corporation's bond financings, and the size of the Corporation's balance sheet, the hours that Marks Paneth allocated to the audit are not sufficient. It has been our experience that the number of hours quoted is insufficient and there is a risk that the quality of the audit work could be compromised. When the hours proposed by the two firms are compared on a pro rata basis the annual fees proposed by EY are actually lower than Marks Paneth.

Based on the interviews with both firms and our experience with EY's client portal, it is the opinion of the staff that EY's technology is more advanced than Marks Paneth. EY's digital platform has enabled the Corporation to upload data to a secured portal, which allows for greater transparency and communication with the audit team. We have also noticed an increase in data analytics over the past couple of years.

Lastly, the RFP required MBE/WBE participation in the audit. Marks Paneth referenced their Diversity Equity and Inclusion program, but currently they don't subcontract out to minority firms. EY has long partnered with the largest minority controlled MWBE firm in the United States, and fully engages the firm throughout all aspects of the audit.

An additional factor taken into consideration was experience with housing finance agencies. EY's client list currently includes NYS Housing Finance Agency and prior experience with Connecticut Housing, Florida Housing and New Jersey Housing. They also have been the auditors for the New York City Economic Development Corporation

for over twenty years. EY's presentation for retaining them as our auditors was the most compelling of the two firms.

EY has also assisted the Corporation in the implementation of many complex GASB Statements, as well as advising staff in developing the proper accounting treatment of some of HDC's complex financial transactions. EY's partner is available to answer questions that HDC staff have throughout the fiscal year.

Based on their strong HFA background, the new team approach, the MWBE firm fully engaged throughout all aspects of the audit, their advances in the use of technology, and the proposed fees, staff recommends awarding the next four-year contract for auditing services to Ernst & Young. The Members approved Ernst & Young as the independent auditor for the Corporation for the next four years.

At 4:27 pm., with no further business, the meeting was adjourned.

Respectfully submitted,

Austin Chin

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ATTENDANCE LIST (VIRTUAL MEETING)

NAME

AFFILIATION

Harry Gould	Audit Committee Member
Denise Scott	Audit Committee Member
Cathy Baumann	NYC Housing Development Corp.
Jeremy Boyer	NYC Housing Development Corp.
Paul Cackler	NYC Housing Development Corp.
Austin Chin	NYC Housing Development Corp.
Ellen Duffy	NYC Housing Development Corp.
Eric Enderlin	NYC Housing Development Corp.
Terry Gigliello	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Mary John	NYC Housing Development Corp.
Sophia Klein	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Morgana Laurent	NYC Housing Development Corp.
Tinru Lin	NYC Housing Development Corp.
Susannah Lipsyte	NYC Housing Development Corp.
Ruth Moreira	NYC Housing Development Corp.
Trisha Ostergaard	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Elizabeth Strojan	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.