MINUTES OF THE 39TH MEETING OF THE NEW YORK STATE AFFORDABLE HOUSING CORPORATION AUDIT COMMITTEE MEETING HELD ON APRIL 9, 2013 AT 9:03 A.M. AT ITS OFFICES AT 641 LEXINGTON AVENUE NEW YORK, NEW YORK 10022

MEMBERS AND DESIGNEES

PRESENT:

Darryl C. Towns	Acting Committee Chairman
Thomas H. Mattox	Member (Via Video Conference)
Elaine McCann	Division of the Budget, representing Robert Megna, Member (Via Video Conference)

The meetings were opened by Kenneth M. Bialo, Audit Committee Chairman of the Municipal Bond Bank Agency (MBBA) and Tobacco Settlement Financing Corporation (TFSC).

Alejandro J. Valella, Vice President and Deputy Counsel of the Agencies, acted as Secretary and asked for motions and seconds to call the meetings to order of the Audit Committees of the New York State Housing Finance Agency ("HFA"), the State of New York Mortgage Agency (SONYMA), the New York State Affordable Housing Corporation ("AHC"), the State of New York Municipal Bond Bank Agency ("MBBA") and the Tobacco Settlement Financing Corporation ("TSFC").

Elaine McCann made a motion to call the HFA and AHC meetings to order; Acting Committee Chairman Towns seconded the motion. Mr. Don Lebowitz made a motion to call the SONYMA meeting to order; Mr. Anthony Bergamo seconded the motion; Mr. Andrew SanFilippo made a motion to call the MBBA and TSFC meeting to order; Committee Chairman Kenneth Bialo seconded the motion.

Mr. Valella noted that Mr. Bialo is the Committee Chairman for the Audit Committees for MBBA and TSFC and will Chair those meetings; Commissioner Darryl Towns is the Acting Committee Chairman for HFA and AHC and will Chair those meetings; Anthony Bergamo is the SONYMA Committee Chairman and will Chair those meetings. Mr. Valella noted that as items are presented to each Committee throughout the meetings, these motions and seconds will be used, unless specific items call for a different vote, or unless any committee member wishes to record his or her vote differently.

The meetings of the Audit Committees were opened in joint session for the consideration of various matters of shared importance. Mr. Valella stated that items shared by one or more of the Committees will be presented by Kenneth Bialo; these minutes reflect only those items being

considered by the Members of the New York State Affordable Housing Corporation Audit Committee. A record of items considered by the other Agencies' Audit Committees is contained in the minutes of each Committee respectively.

Mr. Valella noted that Ms. Elaine McCann and Commissioner Thomas Mattox were participating in the meetings by video conference from the New York State Division of Budget conference center at the Capitol Building, Room 131 in Albany, New York. Andrew SanFilippo participated in the meeting by video conference from the Agency's Buffalo Regional Office at Electric Tower, 535 Washington Street, Suite 105, Buffalo, New York. A public notice was given of the time and locations of both venues.

Aida Brewer, designee for Commissioner Thomas Mattox, Marge Rogatz, SONYMA Governance Committee member and Governance Committee Chairman Steven Weiss attended the Audit Committee meetings as guests by videoconference.

******

The first item on the agenda was the adoption of the minutes of the 38th New York State Affordable Housing Corporation ("AHC") Audit Committee meeting held on January 28, 2013. Committee Chairman Bialo noted that these minutes were well done and further noted that these particular meetings were very long and complicated and as such he thanked all those that were involved in producing the minutes. Absent comments or corrections from the Members, the minutes were deemed approved.

******

The next item on the agenda was a resolution recommending the review and approval of the Internal Audit's Work Plan for Fiscal Year 2014. Mr. Stephen Chopey, Vice President - Internal Audit stated that the Audit Plan for Fiscal Year 2014 consists of four components: the audit plan calendar, the budgeted hours, the audits objectives, and a summary of lists of the hours spent on testing, analytical review, review of internal controls and the administrative duties. Mr. Chopey reviewed last year's plan which was approved by the Committee on March 15, 2012. He stated that last year, the Internal Audit department preformed 11 audits during the year and they assisted the New York State Department of Financial Services ("DFS") with their audit of SONYMA. He stated that the audit of single family was not completed and they will carryover a limited number of hours to this fiscal year's audit plan. He stated that this is not as a result of lack of effort but rather the department had lost two individuals to retirement during the year and it was difficult for the department to make up the hours lost. He stated that another item that is being carried over is for MBBA but this was anticipated in the last year's plan. Mr. Chopey stated that the testing had been completed for the MBBA item but the department is reviewing work papers and drafting the report. MBBA/TSFC Committee Chairman Bialo asked on the status of staffing for the internal audit department. Mr. Chopey stated that they are presently interviewing individuals and expect that within a month to have candidates identified and begin the hiring process. MBBA/TSFC Committee Chairman Bialo wanted to confirm whether the department would be performing back to full force. Mr. Chopey responded they would be back to full strength. Mr. Chopey thanked staff for their

cooperation as a result of the limited resources the Agency had during the audits that noted that they did a great job. Mr. Chopey stated that this year's plan is as aggressive as last year's plan. He stated that the Internal Audit Department planned to do 11 audits during this fiscal year which include three HFA audits, one SONYMA audit, three servicers audits, one AHC audit and three integrated audits and they will assist the DFS with their annual audit of SONYMA. Mr. Chopey stated that the plan was developed after a review of the risk assessment, a vulnerability study, a review of internal controls and discussion with management. MBBA/TSFC Committee Chairman Bialo requested that Mr. Chopey thank the audit staff on behalf of the Audit Committee for their hard work in completing last year's audit plan in light of the fact that their department was not fully staffed due to retirements.

Ms. Elaine McCann moved to adopt the resolution; Commissioner Darryl Towns seconded the motion and the following resolution was adopted unanimously:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW ORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES REVIEWING AND APPROVING INTERNAL AUDIT'S WORK PLAN FOR FISCAL YEAR 2014

******

The next item on the agenda was a resolution recommending the review and approval of the of Internal Audit's follow-up of the 2011 Audit Reports. Mr. Steve Chopey stated that this is a different type of audit that the Internal Audit department performs. He stated that they go over all the reports issued in 2011 and review all the recommendations and exceptions and see if they have been implemented or corrected as agreed to by management. He stated that the results showed that 18 out of the 21 recommendations and exceptions had been implement or corrected. He stated that the three that remained outstanding were listed in the report and they have been updated to bring them current as well as obtain management's response to those items. Mr. Chopey stated that they would follow through with the remaining items to insure that they are implemented. MBBA/TSFC Chairman Bialo asked if the Internal Audit department was comfortable with where management is on these items and their intentions to meet the department's concern on implementing them. SONYMA Committee Director Mr. Lebowitz asked if there were any capacity issues in implementing the remaining items. Mr. Lebowitz further inquired if the staffing on the management side was adequate to respond to the internal audit recommendations. Commissioner Towns responded that the Agencies are comfortable that reserves will be coming in now and that there were new processes in place and that the Agency will get the replacements that are sorely needed into the agencies. Mr. Chopey responded that working with Management, the remaining issues will be completed and that there are no capacity issues at present. Mr. Valella stated that one of the issues is an AHC legal reconciliation and it is something that is being worked on and will be resolved without any difficulties. Mr. Chopey stated that the remaining items have a target date by the end of June 2013. Commissioner Thomas Mattox asked Mr. Chopey if he would be comfortable with proposing to establish a new policy going forward which states that essentially the Agencies

would not rollover a remediation more than one audit period. Commissioner Mattox stated if he understands the items outstanding were from the 2011 audit reviews which means that the Agencies are technically in the third cycle before the remediation has been completed. Commissioner Mattox stated that in the Department of Taxation and Finance they have established internally, that if items that have been rolled over and are in jeopardy of not being completed within the next cycle, they would reallocated resources to close out the matters and they would not have more than one period extension on any remediation recommendation. Mr. Chopey stated that the items outstanding were in part items that required the rewriting of manuals, and noted that even though those changes should not require three years to complete, he assumed that because of other workloads they were not given the attention they required. Commissioner Mattox stressed that if the Internal Audit department identified an issue, regardless of the type of issue, he believed that they should be addressed within the allotted timeframe. Mr. Valella inquired from Mr. Chopey if he would want to change the requirement to only one cycle rollover. Mr. Chopey stated that would be fine. Commissioner Mattox stated that it could be discussed whether it would be a formal policy, or whether if a management team has failed to complete the remediation within the next cycle they would have to appear before the Committee and explain why the task has not been completed. MBBA/TSFC Committee Chairman Bialo stated that he would be uncomfortable with a requirement that management would have to go before the Board in the event a remediation is not completed within the next cycle, but he would be comfortable with encouraging management by noting that it is an expectation by the Board that the remediation be completed by the next cycle. MBBA/TSFC Committee Chairman Bialo further stated that although it would not be a formal requirement, he believed, that Mr. Chopey and his staff would insure the fulfillment of the Committee's expectation that an item must be completed within the next cycle. Mr. Chopey confirmed that his staff would meet that expectation. Commissioner Mattox stated that he wanted clarification on how much time would be necessary to close out open items that exist as of today. Commissioner Mattox stated that he agreed that it may be somewhat harsh to appear before the Board to explain why these items are open, but on the other hand, for Mr. Chopey and his staff, they would have the additional reinforcement of the Board before management and staff that these items should be completed when the Internal Audit department requests it, or they would answer to the Board. Mr. Chopey stated that the target date for the open items is the end of June 2013 and he expects the open items to be closed by that date. MBBA/TSFC Committee Chairman Bialo wanted to clarify the amount of time allocated for the completion and/or correction on any items that are identified during an internal audit. Commissioner Mattox stated that at the Department of Taxation and Finance once an audit is completed and issues are identified, the items must be corrected within a year. Commissioner Mattox stated that the next audit plan should not include hours to be allocated to the review of old open items. MBBA/TSFC Committee Chairman Bialo stated that the Audit Committee would encourage management to get the fixes done within one cycle after the date of the report. Commissioner Mattox further clarified that if an item requires more than a cycle to be completed, and as long as management makes internal audit and the committee aware of the timeframe of completion, that would also be acceptable.

Ms. Elaine McCann moved to adopt the resolution; Commissioner Darryl Towns seconded the motion and the following resolution was adopted unanimously with the revision reflecting a deadline for completing open items:

A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION REVIEWING AND APPROVING INTERNAL AUDIT'SFOLLOW-UP OF 2011 AUDIT REPORTS

******

The next item on the agenda was a resolution recommending the approval of the Seventh Audit Committee's Self-Evaluation. MBBA/TSFC Committee Chairman Bialo commented that the self-evaluation numbers for the Audit Committee seemed lower than the numbers compared to the Governance Committee. His interpretation of that difference is that Members are more concerned about having active roles with respect to the Audit Committee because the Audit Committee deals with more issues than the Governance Committees that have to be reviewed. He stated, for example, the Audit Committee must review the processes and the integrity of numbers in various reports that the agencies give to the Legislature, the Governor, and to the public. Mr. Valella agreed in terms of the responses in the self-evaluation that there is more involvement and focus by the Audit Committee because of the nature of the items that they review and approve.

SONYMA Committee Member Lebowitz wanted clarification regarding the review of accounting policies item on the self-evaluation which received the lowest score. Mr. Gary Weinstock, Vice President/Comptroller, stated that during the previous Audit Committee meeting, he informed the Committee in detail about the policies and practices of the agencies and the auditors also presented to the Committee their review, and as a result, he is unsure why the score that was returned on the self-evaluation was low. SONYMA Committee Chairman Anthony Bergamo stated that perhaps, as a result of the auditor's presentation, there was a clarification of the difference in standards, regarding internal controls, between the public sector and government which would make members unsure of the information presented. MBBA/TSFC Committee Chairman Bialo stated perhaps Mr. Weinstock could highlight significant accounting practices and policies performed to the Committee, and by doing this, it would allow the Members to be more comfortable with the information that is being presented to the committee is accurate. Mr. Weinstock confirmed that he would highlight their policies and practices more often and direct the auditors to do the same. Commissioner Mattox stated that it would be helpful if the Committee was provided with any insight on material changes in accounting policies, why changes were being made, and what the anticipated effect would be going forward. He further stated that participating in the continuing education meetings is helpful such as the Ernst & Young presentation and the previously held summer program and he felt the result was positive and this practice should be continued. Commissioner Mattox stated that the meetings are held in an effective manner at present, but having Senior Managers and principals speak to the Committee is helpful and that providing the Committee with as much advanced notice on any issues, along with materials to review with as much time in advance as possible would be appreciated. Mr. Weinstock stated that they would give the Committee the management letters and the Accounting Department's drafted response as soon as possible for the Committee's review. Mr. Weinstock stated that the AHC audit would be presented at the next

meeting scheduled for May 11, 2013, and they would keep the committee's comments in mind and the committee can let them know if they are going in the right direction regarding their requests.

Ms. Elaine McCann moved to adopt the resolution; Commissioner Darryl Towns seconded the motion and the following resolution was adopted unanimously:

A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION CONCERNING SELF-EVALUATION

******

The next item on the agenda was an information item regarding the Financial Statement Update for the First Quarter of Fiscal Year 2013 (Third Quarter of Fiscal Year 2012 for AHC). MBBA/TSFC Committee Chairman Bialo stated that information regarding this item was contained in the meeting materials provided which are incorporated herein by reference. There was no discussion.

****

There being no unfinished business, Elaine McCann moved to adjourn; Darryl Towns seconded the motion, and the meeting was adjourned at 9:35am

Alejandro J. Valella, Acting Secretary