MINUTES OF THE 44TH MEETING OF THE NEW YORK STATE HOUSING FINANCE AGENCY AUDIT COMMITTEE MEETING HELD ON JANUARY 28, 2013 AT 9:04 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").

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

Mr. Valella noted that Mr. Bialo is the Committee Chair for the Audit Committees for MBBA and TSFC and will Chair those meetings; Commissioner Darryl Towns is the Acting Committee Chair for HFA and AHC and will Chair those meetings; Mr. Bergamo is the SONYMA Committee Chair 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 the one or more of our committees will be presented by Mr. Bialo. Mr. Valella noted that Ms. Elaine McCann and Mr. 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. Ms. Marge Rogatz a SONYMA Director from the office of Expedia at 325 Duffy Avenue, Hicksville, NY. A public notice was given of the time and locations of the venues. Ms. Aida Brewer, designee for Commissioner Mr. Mattox; Mr. William Mulrow, Chairman of the Agencies; Ms. Naomi Bayer, a SONYMA/MBBA/TSFC Director/Member, and Ms. Susan Watson, designee for Secretary of the State Caesar Perales, Member/Director of MBBA/TSFC attended this committee meeting as guests.

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The first item on the agenda was the adoption of the minutes of the 43rd New York State Housing Finance Agency ("HFA") Audit Committee meeting held on January 28, 2013. Absent comments or corrections from the Members, the minutes were deemed approved.

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The next item on the agenda was a resolution recommending approval of the Agencies' Financial Statements for Fiscal Year 2011-2012. Ms. Sheila Robinson, Senior Vice President and Chief Financial Officer opened the presentation of the Agencies' financial statements for the fiscal year ending October 31, 2012. Ms. Robinson informed the committee members that the financial statements for HFA, SONYMA, MBBA, and TSFC are required to be filed 90 days after the end of the fiscal year to the Public Authorities Reporting Information System, to certain state agencies, and are required to be posted on the Agencies' website. Ms. Robinson noted that AHC has a March 31st fiscal year end and their financial statements will be presented at the June, 2013 board meeting. Ms. Robinson highlighted the Agencies' accomplishments for fiscal year 2012 and noted that staff would provide more detailed information regarding these highlighted accomplishments. She stated that:

- For the sixth year in a row, HFA and SONYMA collectively were the top housing bond issuer in the country.

- HFA issued $1.1 billion in bonds to fund 23 projects in 9 Counties with nearly 6,000 units of housing, over 4,300 of which are affordable. This included four Mitchell Lamas with 2,620 units. This total investment is estimated to create approximately 5,200 jobs.

- HFA stretched the state's volume cap further by refunding over $100 million of HDC bonds into 4 HFA projects.

- SONYMA issued $656 million in bonds to fund 797 mortgages and to generate savings of $44.5 million.

- SONYMA mitigated counterparty risk in its SWAP and liquidity portfolios.

- SONYMA MIF participated in refinancing the $621 million loan for Co-op City which is home to over 60,000 residents.

- SONYMA MIF insured 71 project loans totaling over $400 million.

- SONYMA was noted by Moody's Investors Service as having 2 of the top 4 performing single family bond resolutions.

- AHC funded 1,207 housing units in FY 2012 located in 45 of New York's 62 Counties.

- MBBA issued $295.2 million of refunding bonds which generated savings of $58.7 million.

- Administrative expenses for the combined agencies were 7.6% under budget and decreased 3.5% when compared to the prior fiscal year.

- MWBE FY 2012 achievements:
  - Procurement 23.12%
  - Construction 14.93%

Ms. Robinson noted that most of the Agencies had an increase in the net position, with the exception of HFA. She stated that HFA's decrease was primarily due to more subsidy loans being done in 2012 and to an increase of the cost recovery charge. She stated the MBBA deficit was as a result of the amortization of the premium bonds that were issued in 2008. Ms. Robinson turned over the presentation to Ms. Marian Zucker, Executive Vice President, Finance and Development to present a market overview.

Ms. Zucker stated that the 2012 financial landscape was dominated by historically low interest rates driven by two primary factors: the Federal Reserve's "easing" policy and the instability in the European Union which drove down interest rates. She summarized various financial factors: a gradual improvement in the economy in the US, first with a drop and then a flattening in the unemployment claims; improvement in the housing sector; the drop in the inventory for foreclosed homes; the existence of areas in the United States where home prices recovered; falling vacancy rates; and an increase in the formation of households (which is very important for SONYMA and first time homebuyer programs).

Ms. Zucker stated that 2012 was a very strong year in the municipal market which gave the Agency the opportunity to take Tax Exempt AMT Bonds and refund them as taxable bonds, allowing the Agency to keep the resulting savings and use them as subsidy.

Ms. Zucker stated that housing issuances remain significantly depressed, especially single family bonds. She stated that single family issuers generally benefit from the difference of the rates the Agencies were able generate through tax exempt issues and conventional rates. She also stated that for the last several years, from 2008 onward, as the Federal Reserve implemented its easing measures conventional rates have been driven down to the point that tax exempt rates and taxable rates are virtually side by side. She said that without that rate advantage, a lot of Agencies like SONYMA were lowering their bond issuance because there was not much demand for their products. Ms. Zucker stated that we did see a slight increase in multi-family issuances last year.

Ms. Zucker then summarized the factors that drove HFA's activities in 2012: She stated that the factors were: record low interest rate environment; considerable amount of bank downgrades; an increase in demand in multi-family sector; and the broadening of the universe of buyers who are interested in buying HFA bonds. She stated that the Agencies in 2012 focused on the pursuit of refunding opportunities especially in SONYMA in which there was approximately a savings of $44 million in three refunding bond issues. Ms. Zucker noted that MBBA executed two refunding bond issues and stated that even though these savings were not accrued for the Agencies they did make quite a difference to the State. She stated that the $53.5 million in MBBA refunding savings were split between New York City and the State and that additionally $5.2 million in savings was accrued to the City of Buffalo with a total of $58.7 million in savings.

She informed the Board that the Agency is currently preparing another SONYMA refunding issue that will be going to the market by the second week in February and closing at the end of February. She stated the Agencies worked on both changing and replacing modes for downgraded banks' letter of credits. Ms. Zucker further stated that for Bank of America, which had been downgraded, the Agencies looked into wrapping their LOCs with a Federal Home Loan Bank wrap which took them from an "A" category, which is not quite money market eligible backed, into money market eligibility. She said that the Agencies dealt with the downgrade of some German banks by keeping those bonds in a daily mode as opposed to weekly mode, generating trading advantages. She stated that in an effort to make the State's volume cap go further, the Agency recycled not only HFA's bonds but, for the first time in the Country, the Agencies partnered with HDC to recycle their bonds into four HFA projects. She said the Agencies will continue to work with CRA investors as well as taxable investors to build the Agencies' investor base. Ms. Zucker stated that in a five year comparison, in 2012, the Agency issued $2.17 billion in bonds consisting largely of SONYMA refunding and HFA new business. She stated that the current amount of bonds that the agencies have outstanding is $16.8 billion, and said that more than half of the outstanding bonds are HFA's, $2.4 billion TSFC's, $3 billion SONYMA, and $629 million MBBA's.

George Leocata, Senior Vice President for Single Family summarized the current SONYMA program position. He stated that the impact that the recession had on SONYMA's overall production has been a powerful one. He stated that traditionally, SONYMA maintained a 50 basis point advantage in the marketplace through the years and with a significant advantage through 2008. Mr. Leocata added that starting in 2009 through 2012 SONYMA had basically been "chasing the market" and as a result, 2012 was SONYMA's lowest year ever with reservations of $277 million compared to $708 million in 2008. He referred to SONYMA's 10 year average compared to 2012 reservations which reflect that SONYMA's reservations were significantly lower in 2012. He stated that there was some progress in the last months of 2012.

SONYMA Director Naomi Bayer stated that the entire single family mortgage market volumes has been down and in effect SONYMA, despite its decreased activity, has been maintaining its percentage of the market. Ms. Zucker clarified that 80% of the market today is for refinancings and that is a whole section of the market that SONYMA does not participate in. SONYMA Director Bayer noted that the drop in SONYMA business is not just a function of the rate and the spreads.

Mr. Leocata informed the Committee that there was some improvement because of an increase in productivity in New York City particularly with subsidized projects like co-ops and condos. He said that as a result there was an increase in our minority production and that over 40% of the loans went to minorities, a percentage that has been steadily increasing. He stated that most of SONYMA's production is to borrowers at 80% of AMI or less and that has been steadily increasing over the years mainly because most of the volume is in our Achieve the Dream program. Mr. Leocata stated that this program targets household with borrowers who are 70% of AMI or less and SONYMA has been able to increase the purchase price limits and as a result there has been an increase in its production. He further noted that SONYMA has been doing business with subsided projects which have also increased production. He stated that the Agencies' delinquencies are significantly lower than the state and national averages.

Michael Friedman, Senior Vice President for the Mortgage Insurance Fund highlighted the monthly mortgage recording surcharge tax collections. Mr. Friedman stated that what was most noteworthy regarding the collections is that MIF data is based on a statute year basis ending March 31st rather than the Agencies' fiscal year ending October 31st. He said that the analysis presented to the Audit Committee was as high as in FY 2009 at $115 million with a decline to $68 million and in 2012 was at $77 million. Mr. Friedman stated that annualizing this statute year's collection it will be approximately $100 million and although this is still a lower than normal year for MIF, it does reflect that the mortgage recording surcharge tax collections were going in the right direction and that there will be some excess balance at the end of this year in the special account. Mr. Friedman stated that MIF's project commitments from 2007 to 2012 showed that although other credit enhancers went out of the market, the Agency's production increased appreciably. He noted that with regard to HFA as the banks, in 2008 and 2009, went out of the letter of credit market, or charged exorbitant fees for letters of credit, MIF started insuring HFA all-affordable deals from the beginning, and MIF is insuring the construction loan and the subsequent permanent loan. He noted that the construction loans are much larger than the permanent loans because the tax credit equity on these loans had not funded yet and MIF is insuring a mortgage that collateralized the A and B bonds. He noted that, in the past, MIF only insured the permanent loan which only collateralized the A bonds. He stated that in 2009, when letter of credit banks began to come back, MIF started doing fewer of these types of loans. Mr. Friedman stated that MIF has begun to do smaller HFA deals and allowed Freddie Mac and Fannie Mae do the larger deals as they are coming back into the market. He stated that this is similar with CPC since MIF had virtually insured all CPC's production and now their larger projects are going back to Fannie Mae and Freddie Mac. He noted that in 2012 MIF was basically backed to its "pre-crisis" constant level of production. Mr. Friedman stated that MIF project commitments, by units, from 2007 to 2012 reflect a similar story as the commitments in dollars. He noted that in 2010 and 2012 the number of units was anomalous because one deal was a HDC/NYCHA loan for approximately 14,000 units and the other one was a Wells Fargo/Co-op City deal for approximately 15,000 units and that MIF's general production in a year is about 7,000 units.

Ms. Genevieve D'Agostino, Treasurer, presented an update to the Committee regarding the liquidity facilities applicable to SONYMA's variable rate debt. She stated that because of the downgrade of Bank of America, the Agencies decided that as of February 19, 2013 the $160 million portion that Bank of America held should be diversified and Wells Fargo will replace them as liquidity on approximately $85 million of their bonds. Ms. D'Agostino stated SWAPS associated with Citibank and UBS were also modified to bring in new counter parties.

Gary Weinstock, Vice President and Comptroller, highlighted certain information contained in the financial statements for SONYMA. He stated that at the end of the period there were $3.03 billion in bonds outstanding; that new bonds issued (including refunding bonds) was $646 million; mortgage loans receivables were $2.96 billion which was a decrease of 8% from the prior period; the MIF transferred $100 million to New York State; and Mortgage Recording Surcharge Tax Receipts were $92.5 million which is a 13% increase from the previous period. Mr. Weinstock stated that since the time the packages were mailed, a new entry was made regarding two $30 million SWAPs that were originally associated with Series 154 and 157 that were transferred and allocated to other series upon a refunding. He stated that these SWAPs were in a loss position at the time of their termination of approximately $6.7 million. He said that as a result, an entry was made to the balance sheet to reflect the loss, but he noted that no entry was made to the income statement and that as a result the termination does not affect the fund balance. He stated that the termination will increase the interest expense over the life of the bonds, and it needed to be recorded for accounting purposes for approximately $200,000 a year. He further stated that since the SWAPs have not actually been terminated no payment needs to be made. He clarified that this was an accounting transaction that had no cash impact. SONYMA Director Naomi Bayer inquired if the Agency will make-up this amount and Mr. Weinstock said it would wash out.

Mr. Weinstock highlighted information contained in the financial statements for HFA, which is presented on a fiscal year basis. He stated that the bonds outstanding at the end of the period were $10.8 billion; new bonds issued were $1.2 billion which financed 25 new projects that included 4,467 units of which 2,785 were affordable. He said that the mortgage loan receivables totaled $9.8 billion, an increase of 6% from the prior period; that the reserves for subordinate loans increased by $24.0 million from the prior period; and the fees and charges totaled $30 million, an increase of 7% from the prior period. Mr. Weinstock informed the Committee that in the next fiscal year the Agencies will be implementing a new GASB 65 which will have the biggest effect on HFA. He stated that the Agencies are required to implement this GASB and the Agencies are doing so at the same time as the State. He said that the impact this will have on HFA will be that certain mortgage originations fees, which the Agency receives and records as deferred income over the life of the related mortgages, and in accordance with the current standards, will now be taken into income immediately when the mortgage goes into effect. He said this is usually upon receipt and any cost of issuance expenses is recognized immediately. He stated that the new GASB will result in the Agencies restating the 2012 financial statements in fiscal 2013 because this new GASB must be implemented retroactively so that the years can be compared.

Ms. Zucker informed the committee regarding HFA production and stated that HFA financed approximately 6,000 units last year, one of the highest unit productions in the last six years with a significant portion of the units being affordable. She stated that part of this production was the financing of a 1,600 unit Mitchell Lama project in the Bronx. Ms. Zucker stated that there has been an increase in demand from 80/20 developers and she sees that demand continuing in 2013. She informed the committee that HFA has a very healthy pipeline of affordable deals lined up for the next year and there is potentially approximately $1 billion new 80/20s lining up for financing. She stated that the State only has approximately $1.8 billion in volume cap so the Agencies will not be able address everything that is being requested. SONYMA Director Naomi Bayer inquired whether next year was meant to be this year, 2013 and Ms. Zucker confirmed that she does mean this year.

Mr. Weinstock highlighted information contained in the financial statements for MBBA and said that the bonds outstanding for MBBA were $656 million; that refunding bonds issued were $295 million with a present value savings of $58.7 million. He said that there was an accounting loss primarily as a result of the recording of the bond premium in the amount of $54.6 million. He said that fees and charges totaled $350,000 which reflected a decrease of 8% from the prior year. Mr. Weinstock stated that MBBA received some fees from the MBBA financing and this was a onetime $350,000 fee associated with the TSFC bonds that were issued in the prior fiscal year. He clarified that TSFC is a subsidiary of MBBA.

Mr. Weinstock highlighted information contained in the financial statements for TSFC and said that the bonds outstanding were $2.6 billion. He said that the biggest asset on the balance sheet were the deferred charges which reflected the amortized balance of the advance made to New York State when the bonds were first issued and the amortization was $262 million. He said that Tobacco Settlement revenue was $395 million which was an increase of 2% from the prior year. MBBA/TSFC Committee Chairman Kenneth Bialo asked if there was any indication why there was an increase in revenue. Ms. Zucker responded that there is no definitive explanation at this time as to why there has been a slight increase. MBBA/TSFC Committee Member, Mr. SanFilippo asked why the debt service paid to bondholders is increasing. Mr. Weinstock stated that this includes the turbo payments and the use of the MSA payments in the investments and it includes all the debt service the Agency pays. He also stated that it will take a huge drop next year as a result of the refunding. MBBA/TSFC Committee Member Mr. SanFilippo asked what is the Agency investing in and Ms. D'Agostino responded in treasury.

Ms. Sheila Robinson discussed the questions and concerns that were raised regarding internal controls at the Agencies when compared to those at DHCR during the last Audit Committee meeting. Ms. Robinson stated when these issues arose in 2012; the Agencies immediately conducted a review of their internal controls which identified no major issues. Ms. Robinson stated that nevertheless, certain enhancements were implemented, such as maximizing the use of lock boxes; fed wires for receipts of various types of payments such as insurance payments, reduced reduction in the number of checks received at the Agencies from approximately 40 a month to approximately five, and immediately depositing these checks with appropriate documentation distributed to the necessary departments. She said that the checks received were mainly AHC checks and reflect unexpected grant repayments and that these checks were endorsed by the Department of Taxation and Finance as soon as they are received. She said that the checks that were deposited into the lock boxes were processed through the mortgage billing system which interfaced with the general ledger. Mr. Robinson said that expected receivables are entered into the mortgage billing system and a delinquency report is produced monthly indicating payments not received and that the delinquency report is distributed throughout the Agencies for follow-up.

Ms. Robinson stated that although staff believes that the controls in place are sufficient, the Agencies are considering bringing in Mitchell & Titus to review the check processing process. Ms. Robinson concluded her presentation and introduced the independent auditors from Ernst & Young.

The auditors from Ernst & Young were in attendance and presented their audit results. The attendees were Louis Roberts, Senior Manager, Assurance Services David Milkosky, Coordinating Partner, Randy Nelson, Executive Director, Assurance and Advisory Business Services and Amy Wong, Manager, Assurance Services. Mr. Milkosky began by stating that he would present a review of Ernst & Young services and go over the Executive Summary, that Mr. Roberts would go over the audit findings in detail and provide the results of the internal audit survey of the related agencies, that Mr. Nelson will present the independent standards and Ms. Wong will discuss briefly the management letter comments as a result of the audit.

Mr. Milkosky stated that Ernst & Young provided their opinions regarding the financial statements for HFA, SONYMA, MBBA and TSFC. He informed the Committee that AHC's year-end is March 31st so that audit work will be done in April. He stated they also provided their opinions on the Schedule of Expenditures of Federal Awards and the Single Audit Amendments Act for HFA and SONYMA for the year ended October 31, 2012. He stated that Ernst & Young issues their opinions on Internal Controls and they issue a management letter which includes recommendations for improvements in controls and procedures. He stated Ernst & Young issues a report on the investment compliance with the State of New York Public Authorities Accountability Act, that they issued a procedures letter for the HUD Real Estate Assessment Center submission, and a report on supplementary information for HUD. Mr. Milkosky summarized that Ernst & Young completed the audit process this year with the cooperation of management and that no unreported statements were noted. He said that all of the adjustments that were discussed were recorded prior to the close of the audit. Mr. Milkosky stated that there were no significant accounting or auditing matters to report to the Committee.

Mr. Louis Roberts began his presentation discussing the areas of emphasis regarding the audit they performed. He stated that Ernst & Young presented their audit plan to the Committee in September 2012 and they completed their audit without any deviations from that plan. He stated that the foundation of the audit was the evaluation of the internal controls; that the significant processes include mortgage revenue, accounts receivables, cash receipts (which includes the origination fees), payroll, purchases, accounts payable (includes the interest payments on the bonds), cash disbursements, grant revenue, and other cash receipts. He stated that Ernst & Young evaluated the internal controls for those significant processes and performed a detailed test of the controls so that they may rely on the processes in place and the reports that are generated in order for Ernst & Young to carry out their year-end procedures. He stated that there were no issues identified, no significant deficiencies, and no material weaknesses.

Mr. Roberts stated that Ernst & Young evaluated all of the controls by documenting their understanding of those internal controls as well as performing walk-throughs. He said that Ernst & Young does not test them in detail but performs more year-end substantive procedures over those account balances that are affected by those processes. He stated that, as it relates to revenue recognition, Ernst & Young tests the internal controls and looks at the interest that is recorded, the recording of investment income as well as fees and other charges. He stated that regarding operating expenses and interest expenses, Ernst & Young tests the internal controls and looks at any unusual items and performs analytical review procedures in order to be comfortable with the balances that have been recorded. He stated that for cash and investments, Ernst & Young confirms the cash and investments with the Agencies' Trustees; that they perform an independent valuation for fair value that are recorded and verify that the footnote disclosures are in accordance with GASB pronouncements. He stated that regarding the accounts receivables and the reserve claims, Ernst & Young confirms a sample of mortgage receivables balances for both Multi-Family and Single Family loans; they review the methodology that determines that the allowances are appropriate. He stated that amortization of bond issuances costs as well as premiums and discounts were tested and Ms. Wong, Ernst & Young Engagement Manager would discuss in greater details their findings but all were recorded properly in the financial statements. Mr. Milkosky stated that 2,700 hours were spent on the audit and approximately 700 hours were spent on internal controls.

MBBA/TSFC Committee Chairman Mr. Bialo asked the Ernst & Young auditors for clarification regarding the level of the audit with respect to internal controls. Mr. Bialo said that the materials received by the Committee seemed to state that the level of the audit with respect to internal controls was less than full and cited the text that prompted his question as follows:

> *"the standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion."*

MBBA/TSFC Committee Chairman Mr. Bialo stated that Mr. Roberts' presentation appeared, to him, to be inconsistent with the cited text. Mr. Milkosky stated that the opinion on the financial statements is just an opinion on the financial statements and that there is no opinion on the agencies' internal controls. Mr. Milkosky stated that their opinions are driven by professional standards and they track government reporting requirements. He stated that their responsibilities, as auditors, when testing internal accounting controls is to test "prevent and detect controls" sufficiently to be comfortable that the information coming from the Agencies' systems is sufficient to generate financial statement which can be relied upon by the public. He stated that Ernst & Young does not give an opinion on those internal accounting controls because professional standards prevent it.

MBBA/TSFC Committee Chairman Mr. Bialo stated that he understood that Ernst & Young is not required to provide an opinion on internal controls but noted that, as a member of the audit committee, he is concerned that a lack of an opinion on the internal controls leaves a hole in the audit. Mr. Randy Nelson stated that they do not render an opinion on the internal controls but they must test enough information to determine the level of procedures that Ernst & Young must do in order to render an opinion on the financial statements. MBBA/TSFC Committee Chairman Mr. Bialo asked whether this was an indirect way of Ernst & Young saying that the controls can be relied upon. Mr. Milkosky stated the numbers can be relied upon because Ernst & Young could not issue an opinion without them.

SONYMA Director Mr. Lebowitz inquired about the statement that "the numbers can be relied upon but not the process by which the Agencies obtain those numbers". Mr. Milkosky stated that the testing that Ernst & Young does on the Agencies' systems is designed to allow Ernst & Young to understand how those systems work and to test that the "prevent and detect controls" are effectively catching errors. He stated that the testing that Ernst & Young does at year-end allows Ernst & Young to tell the public that they believe the information in the financial statement is reasonably presented and is an accurate representation of the financial operations of these entities. Mr. Milkosky stated that in order to do that, Ernst & Young must be comfortable that the internal controls are working, but reiterated that Ernst & Young does not provide a specific opinion on the internal controls, and this is standard on any governmental agencies.

Mr. Mattox asked if these Agencies should adopt, as a best practice, the separate opinion on the internal controls, and he noted that there are 501(c)3 organizations that adopt it as a best practice even though they are not required to do so. MBBA/TSFC Committee Chairman Mr. Bialo asked why Ernst & Young cannot provide an opinion on the internal controls, although he understands that they are not required, under accounting practices, to deliver one.

SONYMA Director Ms. Bayer asked whether the fact that, as she understood it, the audit requires Ernst & Young to do an analysis of the internal controls in order to give their overall opinion does not, in effect, provide assurances to the Audit Committee as to internal controls, since Ernst & Young is effectively stating that they could not render an opinion on the financial statements without reviewing the internal controls. Mr. Milkosky stated that Ms. Bayer's understanding was correct and that it is only professional standards limits the form of the opinion.

MBBA/TSFC designee, Ms. Watson representing Secretary of State, Cesar A. Perales, Member/Director asked that since Ernst & Young spent approximately 700 hours reviewing the Agencies' internal controls, how many more hours would be necessary to actually perform an audit of the internal controls to render an opinion. Mr. Milkosky stated that Ernst & Young could not render an opinion even if it were specifically asked of them by the Agencies because they are bound by professional standards as to the types of opinions Ernst & Young could issue.

SONYMA Committee Member Mr. Lebowitz referred to Mr. Milkosky's earlier statement that Ernst & Young could issue such a report for certain type entities, i.e. SEC reporting companies. Mr. Nelson stated that the professional standards for those types of audit are different than those of a government entity audit. SONYMA Committee Member Mr. Lebowitz asked what else would Ernst & Young have to do in order to provide the Agencies with an opinion regarding internal controls. Mr. Roberts responded that Ernst & Young would have to do more detailed tests on items that are not tested fully, but they do test fully areas such as accounts payable, payroll and mortgage are areas.

MBBA/TSFC Committee Chairman Mr. Bialo asked for a list of the areas that are not tested fully. Mr. Roberts responded that they are listed in Ernst & Young's report on page five. Mr. Roberts stated that the first listing of Mortgage Revenues/Accounts Receivables/Cash Receipts; Payroll; Purchases/Account Payable/Cash Disbursements; Grant Revenue/Account Receivables/Cash receipts are tested fully and the second listing receives only a sample test.

MBBA/TSFC Committee Chairman Mr. Bialo asked if there are any items that are not tested. Mr. Roberts stated that insignificant account balances are not tested. Mr. Mattox stated that everyone understands that there is no requirement to offer an opinion regarding internal controls, but there should be further discussion on how to have something more formal with respect to testing internal controls. Mr. Milkosky stated that although Sarbanes Oxley does not require it of government entities, other entities have taken it upon themselves to take one process a year and re-document that process and retest that process and he feels it is a very healthy thing to do since the tasks would not be required to be completed in a specific time frame. Mr. Bialo stated that Mr. Chopey currently does perform tests at present for the Agencies.

Mr. Roberts continued with his audit presentation and summarized the other significant account balances which Ernst & Young performs substantive procedures on, such as long term debt and compliance; interest rate swaps; litigation and loss contingencies; accrued liabilities; obligations for post-employment benefits other than pensions; compliance with applicable laws, regulations and contractual provisions; and review of IT general controls. Mr. Roberts stated that in regard to the IT general controls, Ernst & Young has a team of staff that reviews the IT access controls and management controls over the applications which Ernst & Young relies on to generate the financial statements. Mr. Roberts stated that there were no deficiencies or material weakness.

Mr. Valella clarified that the PAAA review was not just a review of investments but a review of compliance with the laws and regulations and contractual provisions. Mr. Roberts stated that the final aspect of Ernst & Young's audit dealt with the overall awareness of the risks due to fraud. Mr. Roberts said that he has ongoing conversations with staff regarding fraud and said that if Ernst & Young had identified any fraud they would contact the Committee Chairs to address these issues. SONYMA Audit Committee Chairman Mr. Bergamo inquired whether Ernst & Young had identified any fraud and Mr. Roberts responded that they had not.

Mr. Roberts referred to a summary of required communications and said that Ernst & Young will issue an unqualified opinion on the Agencies. He said that Ernst & Young's views regarding the Agencies' accounting policies, or practices are that the Agencies' have not changed significantly; that there were no uncorrected misstatements that were identified; that there were no uncorrected material misstatements and there were no deficiencies and material weaknesses in internal control. He said that Ernst & Young reviewed official statements and financial statements related to the bond issuances and that Ernst & Young are not aware of any fraud and illegal matters. He further said that Ernst & Young is not aware of any matters that would impair their independence and that Ernst & Young will be obtaining a management representation letter; that there were no changes to the terms of Ernst & Young's audit, and there were no significant findings, or issues arising during the audit involving related parties and that Ernst and Young received the full cooperation from the Agencies' staff during the audit. He said that there were no disagreements with management and Ernst & Young was not aware of any consultations that the Agencies have had with other accountants. He said that Ernst & Young scope was not limited in any respects specifically related to confirmations. Mr. Roberts said that Ernst & Young did not use any third party service providers other than to honor their commitment to utilize a MBE firm (Mitchell & Titus) to assist in a portion of the audit and there were no findings or issues arising from the financial reporting process.

Mr. Randy Nelson discussed, in detail, the importance of Ernst & Young's independence from the Agencies regarding the audit. Mr. Nelson stated that Ernst & Young does not provide any non-audit services to the Agencies and there were no contingent fees related to Ernst & Young's work performed for the Agencies.

Mr. Roberts stated that the Audit Committee requested that Ernst & Young assess the resources that the Agencies' Internal Audit department has and compare them with other similar housing finance agencies as well as other governmental entities. He stated that Ernst & Young surveyed a number of other governmental entities in New York, Florida, Pennsylvania, Connecticut, and New Jersey; the NYC Housing Development Corporation as well as entities that have significant capital projects and economic development entities. He noted that HFA was the largest of these organizations. He stated that with respect to the size of the internal audit department, the agencies are consistent with the range in Connecticut but lower than Florida and New Jersey and much lower than the entities with significant capital projects. Mr. Roberts stated that related to the IT audit capacity, while the New York internal audit department does not have a certified information systems auditor, they do have assessed controls over the IT system.

Mr. Roberts stated that New York and Connecticut are the only housing agencies that have IT capabilities and as far as a formal entity-wide risk assessment and said that New York, Florida, and Connecticut are the only States that perform a risk assessment. He stated, as it relates to an external quality review over the department, that NYC HDC and the NYS Agencies are the only ones that have external qualities review and that the review is performed by the NYS Department of Financial Services. Mr. Roberts stated that as Steve Chopey, the Agencies' Internal Auditor, issues his reports throughout the year, Ernst & Young receives copies of all those reports. Mr. Roberts stated that Ernst & Young also relies on Mr. Chopey's work on the loan servicers and that this is a significant area wherein the agencies' internal audit department spends a great deal of time. Mr. Roberts stated that Ernst & Young reviews Mr. Chopey's risk assessment plan as well as his identification of what could go wrong.

MBBA/TSFC Committee Member Mr. SanFilippo asked Mr. Chopey if, in his opinion, he believes that the Agencies' internal audit staff is understaffed based on the size of the Agencies' asset base compared to other entities. Mr. Chopey clarified that there are three members currently on his staff and they will be hiring an additional individual. Mr. SanFilippo again inquired if that is enough and Mr. Chopey responded that he believes it is enough. SONYMA Committee Member Mr. Lebowitz asked if there was a correlation between asset base and sample testing. Mr. Milkosky stated that there is a correlation. Mr. Roberts stated that the best way to assess the need for additional staff is for Mr. Chopey to go over its audit plan for the year and estimate how many hours each audit will take and then factor in the number of auditors on staff.

Amy Wong from Ernst & Young went over the management letter with the audit committee. Ms. Wong stated that Ernst & Young did not find any material weakness or deficiencies in the 2012 letter. Ms. Wong stated that Ernst & Young indentified three financial statement recommendations which management agreed to and as to which management will implement changes. Ms. Wong stated that Ernst & Young tested the controls over IT and they were deemed effective. However, she said that Ernst & Young made several IT recommendations that the Agencies should consider. Ms. Wong stated that the recommendations have either been resolved or are currently being addressed. She stated that all the recommendation made in the 2011 management letter have been fixed by management. Ernst & Young then concluded their presentation.

Ms. Elaine McCann moved to adopt the resolution; Acting Committee Chairman Towns seconded the motion and the following resolution was adopted unanimously:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY, THE STATE OF NEW YORK MORTGAGE AGENCY, THE STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY, AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES APPROVING AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2012

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The next item on the agenda was a resolution recommending approval of the Information Technology – Disaster Recovery Audit Report. Mr. Steve Chopey discussed the Information Technology Disaster Recovery Audit Report as of September 2012. He stated that the disaster recovery plan is how the agency can recover if an unexpected event were to occur, and basically, it identifies agency-wide the critical operations and procedures and what is essential to recover the operations. He stated that the audit included reviewing the disaster recovery plan and the scope of the testing. Mr. Chopey stated that the findings show that the agencies could recover its operations in a reasonable timeframe. He further stated that the purpose of this report is for the Board to be aware of their findings. MBBA/TSFC Committee Chairman Mr. Bialo asked if internal controls are in place and being adhered to. Mr. Chopey confirmed that they are in place, being adhered to, and are best practice internal controls.

Mc. Elaine McCann moved to adopt the resolution; Acting Committee Chairman Towns seconded the motion and the following resolution was adopted unanimously:

A RESOLUTION 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 AUDIT COMMITTEES REVIEWING AND APPROVING INTERNAL AUDIT'S INFORMATION TECHNOLOGY - DISASTER RECOVERY AUDIT REPORT

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The next item on the agenda was a resolution approving the Internal Audit's Treasury Audit Report. Mr. Chopey stated that the internal audit department review the accounting and internal controls for the treasury functions. He stated that a review was conducted of the investment portfolio for HFA funds ($2.5 billion) and SONYMA ($2.3 billion). Mr. Chopey stated that the funds for HFA consisted primarily of construction funds which were $1 million, $600 million of debt reserves, and the remaining $900 million for various operating accounts. He stated that the funds for SONYMA consisted of $50 million for bond proceeds, $175 million for debt service, $1.6 billion from the MIF of which $375,000 had been segregated and were being managed by a financial advisor and approximately $47 million for the convention center. He stated that the audit analyzed the investment portfolio, tested transactions, reviewed the SWAP agreements, reviewed arbitrage and the collateralized investments, and reconciled the department records to the general ledger. Mr. Chopey stated that they were able to satisfactorily obtain the Agencies' objectives. MBBA/TSFC Committee Chairman Mr. Bialo asked if internal controls are in place and being adhered to. Mr. Chopey confirmed that they are in place, being adhered to, and are best practice internal controls.

Ms. Elaine McCann moved to adopt the resolution; Acting Committee Chairman Towns seconded the motion and the following resolution was adopted unanimously:

A RESOLUTION 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 AUDIT COMMITTEES REVIEWING AND APPROVING INTERNAL AUDIT'S TREASURY AUDIT REPORT

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The next item on the agenda is an information item regarding the seventh annual evaluation by Audit Committee. Mr. Valella stated that the members of the audit committee have received the self-evaluation forms and that these forms are to be completed and that the results will be reported at the next audit committee meeting.

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The next item on the agenda was a report of the Agency Whistle Blower activities. Mr. Valella stated that the committee had requested a monthly review of the Agency's whistle blower activities. Ms. Michele Weinstat stated that there was no activity since the last committee meeting.

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The next item on the agenda was a resolution recommending the approval of the Audited Supplementary Financial Information Report. Mr. Gary Weinstock informed the committee that the Audited Supplementary Financial Information ("Other Financial Information or "OFI") report for HFA is a requirement which the Agency must report in more detail the financial information in the statutory report that includes cash investments provided by bond resolutions and mortgages provided by bond resolutions. He stated that this report lists all the mortgages the Agency has and the balance as of the end of the year. He stated that Ernst & Young rendered an unqualified opinion on this Report.

Ms. McCann moved to adopt the resolution; Acting Committee Chairman Darryl Towns seconded the motion and the following resolution was adopted unanimously:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY AUDIT COMMITTEE REVIEWING AND APPROVING AUDITED SUPPLEMENTARY FINANCIAL INFORMATION REPORT

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There being no unfinished business, Ms. McCann moved to adjourn; Darryl Towns seconded the motion, and the meeting was adjourned at 11:06 a.m.

Alejandro Valella