

The Dormitory Authority of the State of New York Audit Committee Video Conference Meeting was held at DASNY's Albany Office located at 515 Broadway, Albany, New York and New York City Office, One Penn Plaza, 52nd Floor, New York, New York on Tuesday, April 10, 2018 at 4:30 p.m.

The Meeting was called to order by the Audit Committee Chair. Roll call was taken. Those Audit Committee Members present and absent were as follows:

Audit Committee Members Present – Albany

Jonathan H. Gardner, Esq., Audit Committee Chair
John B. Johnson, Jr., Audit Committee Member

Audit Committee Members Present – New York City

Paul S. Ellis, Esq., Audit Committee Member

Audit Committee Members Absent

Beryl L. Snyder, Esq., Audit Committee Member

Other Board Members Present—Albany

Alfonso L. Carney, Jr., Board Chair
Gerard Ronski, Esq., Member

Also Present - Dormitory Authority Staff –Albany

Gerrard P. Bushell, President
Michael T. Corrigan, Vice President
Michael E. Cusack, Esq., General Counsel
Kimberly J. Nadeau, Chief Financial Officer
Caroline V. Griffin, Chief of Staff
Debra Pulenskey Drescher, Esq., Managing General Counsel
Kathy D. Ebert, Director, Internal Audit
Karen E. Ehlinger, Manager, Internal Control Analysis
David F. Perritano, Public Information Officer

PUBLIC SESSION

Audit Committee Chair Gardner called the Audit Committee Meeting to order. The Minutes of the October 17, 2017 Audit Committee Meeting were reviewed and approved.

Approval of Audit Committee Charter

Audit Committee Chair Gardner reported that staff is not recommending any changes to the Audit Committee Charter. The Committee Members agreed that no changes are needed at this time and unanimously reapproved the Charter in its current form.

Internal Controls Report

Internal Control Guidelines – Proposed Amendment

Ms. Ehlinger directed the Committee Members' attention to a proposed amendment to the Internal Control Guidelines before the Board for its consideration. She provided background information with respect to the proposed amendments to the Guidelines, stating that last year she had reported that there had been changes to the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") *Internal Control – Integrated Framework*, which in the industry is the "Bible of internal controls." She stated that the staff was recommending updates to the Guidelines to incorporate some of the new language.

Ms. Ehlinger stated that while the framework is changing after 20 to 25 years, it does not change the definition or scope of internal controls, but rather, provides guidance for areas where risks have changed. She noted that risks change on a regular basis and therefore, the updated Guidelines add more structure to implement and evaluate internal controls. She further noted that the framework is conceptual and able to change. She stated that internal control is a process to support the achievement of an organization's objectives and that it is applied equally to compliance and operations, not just financial reporting. She noted that DASNY does not focus only on financial reporting. She stated that there are many internal controls in the Construction Division, as well. Ms. Ehlinger stated that, in effect, internal control is everyone's responsibility at DASNY, not just the Board's or Management's or her responsibility.

Ms. Ehlinger directed the Members' attention to the proposed changes to the Guidelines. She stated that COSO had identified five elements of internal controls and she further stated that these elements were described and incorporated in the proposed Guidelines to demonstrate the overall objectives. Ms. Ehlinger noted that the changes were only to update and conform the Guidelines to be more in line with the new COSO language and that there were no changes being made with respect to the statutory requirements.

In response to an inquiry from Mr. Johnson, Ms. Ehlinger stated that DASNY does have a Facebook page. Mr. Johnson expressed concern as to what internal controls might be in place with respect to the Facebook page to prevent people from monitoring or harvesting information. He further noted that perhaps DASNY should reconsider the benefits and liabilities associated with having a Facebook page.

Audit Committee Chair Gardner inquired as to whether the Board's annual review of internal controls is sufficient. Ms. Ehlinger responded that she believed that the annual review was sufficient, as there were various management reports given to the Board at every meeting that included information with respect to individual departmental internal controls. She specifically

referenced that Stephen D. Curro, Managing Director of Construction and Portia Lee, Managing Director of Public Finance and Portfolio Monitoring, both provide monthly reports to the Board that have significant internal controls built into their process and reports.

Mr. Ronski noted there should be specific discussion around the risks, focusing on what risks are explicit in the organization and what the Board and Management are willing to embrace. He stated that the Board should be aware what is being assigned to each department.

Board Chair Carney stated that perhaps the Board should, on a regular basis, raise with Ms. Ebert, Ms. Ehlinger, Ms. Nadeau and others, whether there are certain internal control concerns and matters that should be brought to the Board's attention. He further stated that what Ms. Ehlinger had said with respect to staff having various controls built into processes and reports leads to the question of the level of review of those reports. He asked if perhaps it would be beneficial to have specific presentations made to Board. He queried whether the Board would do well to ask additional questions on a regular basis outside of the content of the reports. He asked Ms. Ehlinger think about this, indicating that that he was not looking for a response today.

Audit Committee Chair Gardner asked if the COSO chart that was distributed to the Committee Member had been created by Ms. Ehlinger. Ms. Ehlinger responded that she had, in fact, borrowed it from the COSO website.

Internal Control Program

Ms. Ehlinger discussed the Internal Control Program. She began by addressing the Control Self Assessments ("CSAs"). She reported that staff is in the process of updating CSAs and is about half way through the updates. She further reported that some CSAs have been put on hold due to the OneDASNY initiative. She informed the Committee Members that those CSAs will be reviewed and updated once the OneDASNY initiative is completed. Ms. Ehlinger reported that some of the smaller CSAs may be combined, as there are a few that targeted a particular area and it may now be more efficient to combine them. She noted that these are mostly in the Construction Division.

Ms. Ehlinger stated that she continues to coordinate with Internal Audit, especially with respect to control issues. She stated that Internal Controls and Internal Audit work together to address issues that arise and that she works with the various stakeholders to address internal control issues that have been identified in Internal Audit Reports.

Ms. Ehlinger reported on the Internal Control training that is specifically required by the Governor's Office of Employee Relations ("GOER"). She stated that this training fulfills the requirements of the Public Authorities Law. Board Chair Carney inquired if it might be beneficial for the Members to participate in the training on a bi-annual basis. Ms. Ehlinger responded that it is an online training that could be provided to Board. Board Chair Carney noted that he was willing to rely solely on staff, but wondered if there might there be an advantage to having the Board exposed to the GOER training, as well, with which Ms. Ehlinger agreed.

Ms. Ehlinger indicated that, on a quarterly basis, DASNY has an Internal Control Steering Committee Meeting. She stated that the Committee is comprised of the President, Vice-President, Managing Directors, Internal Audit Director and her. She explained that at these meetings, various internal control issues, including the CSAs, are discussed. Mr. Corrigan noted that the Internal Control Steering Committee also assesses new risks, like social media, for example.

Internal Control Assessment Process

Ms. Ehlinger stated that as a requirement of the Public Authorities Law, DASNY needs to provide an Internal Control Certification to the Authorities Budget Office (“ABO”) 90 days after the end of the fiscal year, which is part of the Annual Report to the ABO. She indicated that the Annual Internal Control Certification is signed by the President, and that DASNY continues to use the form provided by the Division of Budget (“DOB”). She reported that at end of last week, DOB released the FY 17-18 form, which appears to have been streamlined. Ms. Ehlinger indicated that she still needs to review the new form more thoroughly, but a quick review did not indicate any significant changes. She stated that she anticipates using the form to document DASNY’s Internal Control Program. Ms. Ehlinger further indicated that if there are significant changes, she would make the Committee aware.

Ms. Ehlinger stated that the NYS Internal Control Association Conference this year includes a specific session on the Annual Internal Control Certification and that she plans to attend. Ms. Ehlinger also noted that to support the President’s Certification, Management employees sign their own certifications. She stated that she expected there to be about the same number as last year. She reported that she is currently updating the forms with minor changes – mostly due to new staff. She stated that she did not anticipate many changes to the language and that she was working with the Managing Directors and staff to make sure that the Certifications are tailored to each employee and their duties and responsibilities.

Audit Committee Chair Gardner thanked Ms. Ehlinger for her presentation.

The Committee unanimously decided to recommend to the full Board the Amended Internal Control Guidelines.

Internal Audit Strategic Plan and Internal Audit Report

Ms. Ebert began her Report by reviewing the Internal Audit Strategic Plan. She referred to page 3 of the document, noting that the same structure as last year was being used. She stated that the purpose of the Internal Audit Strategy is to enable the internal audit function to effectively allocate its resources to meet the expectations of its key stakeholders, and to achieve its objectives by providing an independent and objective assessment of DASNY’s governance, risk management and control processes. She directed the Committee Members’ attention to page 4 which sets forth the success factors needed to achieve Internal Audit’s vision of being supportive and having the right people on the team to make that happen. She stated that page 5 demonstrates the outsourcing of some technical needs. Ms. Ebert explained that pages 6 through 8 illustrate the framework for the audit plan as it relates to DASNY’s mission. She noted that there are three

business objectives listed. She stated that the process for measurements are key to developing the Audit Plan to advance DASNY's business objectives.

Ms. Ebert referred the Committee Members to page 7, noting that it sets forth the core functions of Internal Audit and its value-added to the organization. She stated that Internal Audit offers services as detailed in the two bullets - assurance and consulting. Ms. Ebert stated that Internal Audit offers a variety of services. She directed the Committee Members' attention to page 8, which outlines core services. Ms. Ebert stated that Internal Audit supports various functions. She noted that there are five categories of initiatives: annual planning, internal process, efficiency, communication and resources. Ms. Ebert stated that page 10 outlines some of larger tasks within the five categories.

Mr. Ellis thanked Ms. Ebert for the presentation, noting that the information was all very useful. He inquired about the information at the bottom of page 6. Ms. Ebert explained that there are three 3 business objectives: top line growth, efficiencies, and risk management. She stated that the threats to these objectives that exist are threats that are globally seen, not just with DASNY. Ms. Ebert explained that they use the process risk measurements to create the Audit Plan. She noted that some impact the business objectives and as audits are performed, those are kept in mind.

Mr. Ellis inquired if the threats equally impact the three objectives. Ms. Ebert stated that all objectives are not necessarily impacted equally. Mr. Ellis inquired about the process risk measurements. Ms. Ebert replied that these factors are used in creating the Audit Plan. Mr. Ellis asked what methodology is used in creating the plan and how these factors help to drive plan. Ms. Ebert explained that when the plan is developed, there is a list of different functions and risks, which are reviewed in each area of business. She further explained that an examination is undertaken as to how each function affects the potential risks and a determination is made as to whether Internal Audit will look at that area. Board Chair Carney questioned whether it would be better to call this 'Process Risk Impact.' He commented that Mr. Ellis' questions appear to be centered around measurements. He noted, however, that Internal Audit is not measuring impacts, but rather reviewing areas that may be impacted. Ms. Ebert agreed, noting that it could also be called, "Process Risk Factors."

Mr. Johnson moved that the Members go into Executive Session to discuss the credit and financial history of a particular corporation, as well as matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation. Mr. Ellis seconded the motion and the Members went into Executive Session.

EXECUTIVE SESSION

While in Executive Session, no action was taken other than to return to Public Session.

PUBLIC SESSION

The Audit Committee Meeting was adjourned at approximately 5:44 p.m.

Respectfully submitted,

Debra Pulenskey Drescher
Assistant Secretary to the
Board of the Dormitory Authority