

The Dormitory Authority of the State of New York Audit Committee Video Conference Meeting was held between DASNY's Albany Office located at 515 Broadway, Albany, New York and New York City Office, One Penn Plaza, 52<sup>nd</sup> Floor, New York, New York on Tuesday, October 10, 2017 at 5:00 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  
Alfonso L. Carney, Jr., Audit Committee Member

Audit Committee Members Present- New York City

Paul S. Ellis, Esq., Audit Committee Member  
Beryl L. Snyder, Esq., Audit Committee Member

Audit Committee Members Absent

None

Other Members Present

John B. Johnson, Jr., Vice Chair, Board Member  
Gerard Romski, Esq., Board 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  
Debra Pulenskey Drescher, Esq., Managing General Counsel  
Kathy D. Ebert, Director, Internal Audit  
Daniel W. Petroff, Chief of Strategy and Business Development  
Karen M. Seiter, Assistant Director, Accounting  
Karen E. Ehlinger, Manager, Internal Control Analysis

Others Present - Albany

Marie Zimmerman, KPMG  
Jeff Koch, KPMG

Others Present – New York City

Bennie Hadnott, BCA Watson Rice LLP

**PUBLIC SESSION**

Audit Committee Chair Gardner called the Audit Committee Meeting to order. He noted that Mr. Johnson was expected at the Committee Meeting, but that due to circumstances beyond his control, he was running behind schedule and, therefore, the Board Chair appointed himself to the Audit Committee as a temporary Committee Member. The Minutes of the June 20, 2017 Audit Committee Meeting were reviewed and approved.

**Annual KPMG Audit—Review of the 2018 Audit Plan**

Audit Committee Chair Gardner introduced Ms. Zimmerman from KPMG, Engagement Partner for the audit. Ms. Zimmerman noted that she has 17 years of public accounting experience in the State and local sector. She then introduced the rest of the audit team from KPMG and BCA Watson Rice, and noted that the team is set forth on page 3 of the Audit Plan Presentation for Fiscal Year Ending March 31, 2018.

Mr. Hadnott, Partner, BCA Watson Rice thanked the Audit Committee Members for their confidence in the KPMG/BCA Watson Rice team. He stated that the nine-year partnership has been a success, and that both firms work together as one team and collaborate in all phases of the audit. Mr. Hadnott noted that five BCA Watson Rice team members, at all levels of experience, will contribute approximately 31% of the total engagement hours in connection with the audit. He thanked the Committee Members for their continued support of the strategic partnership. Ms. Zimmerman concurred that the partnership has been successful.

Ms. Zimmerman directed the attention of the Committee Members to the Presentation of the Audit Plan for the Fiscal Year ending March 31, 2018 and summarized the objectives of the audit and the deliverables to be provided by the auditors; discussed the auditors' responsibilities; and reviewed the basic scope of services to be provided. She stated that the objective of an audit is to enable the auditor to express an opinion about whether the financial statements that have been prepared by Management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. Ms. Zimmerman further stated that the audit is planned and performed to obtain reasonable assurance about whether the combined financial statements are free from material misstatement as a result of either error or fraud. She emphasized that since the auditors only test a statistical sample of all DASNY transactions and must rely on certain assumptions and estimates, the audit cannot provide absolute assurance.

Ms. Zimmerman stated that the auditors will perform tests of the accounting records and other procedures considered necessary to provide a reasonable basis for the auditor's opinion and evaluate the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by management, and the overall combined financial statement presentation. She reviewed the responsibilities of Management with respect to the audit, as well as

the responsibilities of the Audit Committee, and emphasized that the audit of the financial statements by external auditors does not relieve DASNY Management or the Audit Committee of their responsibilities.

Ms. Zimmerman informed the Committee Members that KPMG will audit DASNY's basic financial statements and render an opinion as to whether they are presented fairly, in all material respects, in conformity with Generally Accepted Auditing Standards and Government Auditing Standards. She stated that tests of DASNY's Internal Controls Over Financial Reporting will be performed to the extent necessary to form its opinion in this regard. She reminded the Committee Members that the audit will be undertaken with an attitude of professional skepticism, despite the positive working relationship with DASNY personnel.

Ms. Zimmerman informed the Committee Members that the auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, except for other supplementary information for which the auditors are engaged to provide assurance. She stated that in the event of material inconsistencies, they will be identified to Management and to the Audit Committee, if necessary.

Ms. Zimmerman outlined other key deliverables of KPMG including the Supplementary Information that accompanies the Financial Statements; the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards; the Report on Supplementary Information; the Report on Compliance with the Requirements of Section 201.3 of Title Two of the *Official Compilation of Codes, Rules, and Regulations of the State of New York*; the required Communications to the Audit Committee; and a Management Letter, if one is needed. She stated that separate auditors' reports on an estimated 32 individual financial statements for bond resolutions will also be provided.

Mr. Koch summarized the key areas of audit focus as set forth on page 11 of the Audit Plan. He informed the Committee Members that with respect to Cash and Investments, the design and operating effectiveness of key internal controls will be tested; 100% of cash and investment balances as of March 31, 2018 will be confirmed with the trustees and custodians; independent price testing will be performed on a sample of investments; implementation of GASB Statement 72 regarding Fair Value Measurements, including enhanced note disclosures will be reviewed; and procedures over investments will be evaluated for compliance with the requirements of NYRCRR Section 201.3.

Mr. Koch stated that in the area of Leases and Loans Receivable, the auditors will test the design and operating effectiveness of internal controls; perform tests of details on components of a roll forward of receivables including debt repayments, construction fund disbursements, and construction fund income on investments; as well as review the collectability of lease and loan receivables. Regarding the audit of Bonds and Notes Outstanding and Interest on Bonds and Notes, Mr. Koch informed the Committee Members that the auditors will test the design and operating effectiveness of internal controls; send third-party confirmations of March 31, 2018 balances to trustees for 100% of bonds outstanding, as well as for individual bond issuances; agree debt balances from the trustees' confirmations to the individual restricted debt issuance financial

statements and debt service amortization schedules; perform substantive procedures over interest on bonds and financing income as well as corresponding balance sheet accounts; and perform substantive procedures over defeased bonds and notes to ensure compliance with the requirements of GASB Statements No. 7 and 23.

Mr. Koch stated that another area of audit focus is Accounts Payable and Accrued Expenses. He stated that the auditors will perform a search for unrecorded liabilities at year-end and perform tests of details and analytical procedures over expenses, including compensation liability, retainage liability, arbitrage liability and other significant liabilities. Mr. Koch further stated that the auditors will perform substantive analytical procedures over Payroll and Human Resources and Financial Statement Preparation and Disclosure.

With respect to Financial Statement Preparation and Disclosure, Mr. Koch explained that a sample of interest rate swaps will be confirmed with the counterparties; third-party confirmations will be obtained from attorneys to assess litigation liabilities; and an actuarial specialist will be utilized to review the OPEB liability assumptions. He informed the Committee Members that the audit team will also review accounting of GASB 68, including analysis of pension information provided by New York State and Local Employees' Retirement System. He stated that testing of active employee census data provided by DASNY to the Retirement System will also be undertaken. Mr. Koch stated that a tax specialist will be retained to test IT general controls and IT application controls.

Mr. Koch discussed the audit approach methodology and reviewed the audit timeline with the Committee Members. He stated that the audit process will begin in January 2018 with risk assessment/planning and end in June 2018 with the completion of the audit. He noted that the audit team would keep the Audit Committee apprised of any changes to the schedule or to the Audit Plan as presented.

Mr. Koch provided an overview of the work to be undertaken by the Information Risk Management ("IRM") Team. He stated that the IRM Team is expected to review the JD Edwards system and the SunGard application. Mr. Koch explained that the IRM team will focus on evaluating the information systems, control environments, and related information systems administered by DASNY and its third-party service providers. He stated that the IRM Team will utilize a three-tier approach to test general IT controls over DASNY's IT systems, including information security controls; change management controls; program development controls; and computer operations controls.

In response to an inquiry from Audit Committee Chair Gardner, Ms. Zimmerman stated that there are no materials changes from last year's Audit Plan. Ms. Zimmerman provided an overview of new and emerging accounting pronouncements to be implemented in future fiscal years. She stated that GASB Statement 75, effective for fiscal year ending March 31, 2019, relates to accounting and financial reporting for post-retirement benefits other than pension plans. Ms. Zimmerman further stated that the auditors would continue to discuss the impact of GASB Statement 75 with DASNY Management going forward.

Ms. Zimmerman stated that GASB 85, Omnibus 2017, effective March 31, 2019, which relates to goodwill when buying real estate, is not applicable to DASNY. She stated that GASB 86, Certain Debt Extinguishment Issues, may ultimately be a potential disclosure item for DASNY.

She indicated that KPMG would work with Ms. Nadeau and her team during implementation. At the request of Mr. Carney, Ms. Zimmerman discussed how KPMG works side by side with DASNY staff with respect to discussions revolving around the implementation of new GASB Statements.

Ms. Zimmerman thanked the Audit Committee Members for their attention and support, and stated that she looks forward to working with DASNY on the annual audit. Mr. Johnson arrived at the Committee Meeting.

### **Internal Controls Report**

Audit Committee Chair Gardner stated that consideration of the proposed amendments to the Internal Control Guidelines will be deferred to a future Audit Committee Meeting.

### **Internal Audit Report**

Ms. Snyder moved that the Committee Members go into Executive Session to discuss the financial and credit history of a particular corporation, Mr. Johnson seconded the motion and the Committee Members went into Executive Session.

### **EXECUTIVE SESSION**

During Executive Session, no action was taken other than a motion to return to Public Session.

### **PUBLIC SESSION**

Audit Committee Chair Gardner directed the Committee Members' attention to the proposed changes to the Internal Audit Department Charter for their consideration. He stated that the amendments were drafted in response to updates made to the Institute of Internal Auditor's International Professional Practices Framework and changes to the *Standards for the Professional Practice of Internal Auditing*, which went into effect January 1, 2017.

The Committee Members decided unanimously to recommend approval of the amendments to the full Board.

Mr. Ellis moved to adjourn the meeting, Ms. Snyder seconded the motion and the Audit Committee Meeting was adjourned at approximately 6:10 p.m.

Respectfully submitted,

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