

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; New York City Office, One Penn Plaza, 52nd Floor, New York, New York; and Buffalo Office, 539 Franklin Street, Buffalo, New York on Tuesday, November 6, 2018 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 – New York City

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

Audit Committee Members Present – Buffalo

Jonathan H. Gardner, Esq., Audit Committee Chair

Audit Committee Members Present – Absent

John B. Johnson, Jr., Audit Committee Member

Other Board Members Present—New York City

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

Other Board Members Present – Albany

Tracy Fay Raleigh, Designated Representative of the Commissioner of Health (ex officio)

Dormitory Authority Staff Participating by Phone

Gerrard P. Bushell, President

Also Present - Dormitory Authority Staff – New York City

Michael E. Cusack, Esq., General Counsel
Caroline V. Griffin, Chief of Staff

Also Present - Dormitory Authority Staff - Albany

Michael T. Corrigan, Vice President
Kimberly J. Nadeau, Chief Financial Officer
Sara P. Richards, Associate General Counsel
Kathy Ebert, Director, Internal Audit

Michael L. Johnson, Assistant General Counsel
Kimberly A. Ellis, Assistant Director, Investments
Hsueh-hui Lai, Director, Financial Management
Li Xu, Manager, Accounting
Karen M. Seiter, Assistant Director, Accounting
David F. Perritano, Public Information Officer

Others Present – Albany

Marie Zimmerman, Lead Engagement Partner KPMG LLP
Jeff Koch, Lead Engagement Senior Manager

Others Present – New York City

Bennie Hadnott, Partner BCA Watson Rice LLP
Leila Aquí, Manager

PUBLIC SESSION

Audit Committee Chair Gardner called the Audit Committee Meeting to order. He stated that the meeting was being held by video conference among DASNY's three offices. The Minutes of the October 9, 2018 Audit Committee Video Conference Meeting were reviewed and approved.

Annual KPMG Audit—Review of the 2019 Audit Plan

Audit Committee Chair Gardner introduced the KPMG/BCA Watson Rice Audit Team. He asked Ms. Zimmerman from KPMG, Engagement Partner for the audit, to review the Audit Plan Presentation with the Committee Members. Ms. Zimmerman thanked the Members for their continued support, and stated that this is the fifth and final year of the current contractual engagement.

Ms. Zimmerman directed the Members' attention to page 6 of the Audit Plan Presentation for Fiscal Year Ending March 31, 2019 and introduced the KPMG/BCA Watson Rice Engagement Team. She informed the Committee Members that the team has been consistent over the past five years. Ms. Zimmerman stated that Kaitlynn Thomas and David Kovalefsky will be eligible for promotion during the course of the audit. She noted that the audit team also utilizes subject matter professionals as set forth in the Audit Presentation.

Mr. Hadnott, Partner, BCA Watson Rice LLP, thanked the Audit Committee Members for their confidence in the KPMG/BCA Watson Rice team and stated that the partnership has been a success. He stated that the two firms work together as one team and collaborate in all four phases of the audit including planning, controls evaluation, substantive testing, and completion. Mr. Hadnott stated that five BCA Watson Rice team members, at all levels of experience, will contribute approximately 650 hours, or 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 directed the attention of the Committee Members to the Presentation of the Audit Plan for the Fiscal Year ending March 31, 2019 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, but not absolute, assurance about whether the combined financial statements are free from material misstatement as a result of either error or fraud.

Ms. Zimmerman stated that the auditors will perform tests of the accounting records and other procedures considered necessary under the circumstances to provide a reasonable basis for the auditor's opinions. She further stated that the auditors will also evaluate the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by management, and the overall combined financial statement presentation. Ms. Zimmerman reviewed the responsibilities of Management with respect to the audit, as well as the responsibilities of the Audit Committee and the Audit Team. She stated that Management and the Audit Committee are responsible for establishing and maintaining internal controls to prevent, deter, and detect fraud. Ms. Zimmerman emphasized that the audit of the financial statements by external auditors does not relieve DASNY Management or the Audit Committee of their responsibilities. She informed the Committee Members that the audit will be undertaken with an attitude of professional skepticism.

Ms. Zimmerman outlined the key deliverables of the Audit Team as summarized on page 10 of the presentation. Ms. Zimmerman informed the Committee Members that the KPMG will audit DASNY's basic financial statements, including the required Supplementary Information that accompanies the 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; 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 (yellowbook report); 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 30 individual financial statements for bond resolutions will also be provided. The Board Chair inquired whether the Letter to the Audit Committee would include disclosure of transactions that are both significant and unusual, and Ms. Zimmerman responded in the affirmative.

Mr. Koch summarized the key areas of audit focus as set forth on pages 11-12 of the Audit Plan. He informed the Committee Members that with respect to Cash and Investments, 100% of cash and investment balances as of March 31, 2019 will be confirmed with the trustees and custodians; independent price testing will be performed on a sample of investments; GASB Statement 72 regarding Fair Value Measurements, note disclosures will be reviewed; and

procedures over investments will be evaluated for compliance with the requirements of NYCRR 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 send third-party confirmations of March 31, 2019 balances to trustees/custodians 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; perform substantive procedures over defeased bonds and notes to ensure compliance with the requirements of GASB Statements No. 7 and 23; and review the accounting and disclosure related to the implementation of GASB Statement 86 with respect to certain debt extinguishment issues.

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 as of March 31, 2019 through the end of fieldwork; and perform tests of details and analytical procedures over expenses, including compensation and benefits accrual, construction accrual, retainage liability, arbitrage liability and other significant liabilities as of March 31, 2019.

Mr. Koch further stated that the auditors will perform substantive analytical procedures over Payroll and Human Resources expense. He indicated that this review would include OPEB obligations and review of the implementation of accounting for GASB Statement No. 75, as described on page 12 of the Audit Plan. Mr. Koch explained that the audit team would work with management to address all required disclosures under the new rules such that liabilities are recorded in compliance with said rules.

With respect to other Financial Statement Preparation and Disclosure items on page 12 of the Audit Plan, Mr. Koch stated that the auditors will also review accounting and disclosure related to GASB 68, including analysis of pension information provided by New York State and Local Employees' Retirement System. He also stated that 100 percent of interest rate swaps will be confirmed with the counterparties; third-party confirmations will be obtained from attorneys to assess litigation liabilities. Mr. Koch further stated that a tax specialist will be retained to review DASNY's tax-exempt status; and a specialist will be utilized to test IT general controls and IT application controls. He concluded with a review of the Audit Approach Methodology on page 13 of the Audit Plan.

Ms. Zimmerman stated that the Audit team will work with DASNY management throughout the process and will keep them apprised of any issues that arise. She noted that the team is utilizing the same actuarial firm as SUNY and other State entities, so that the firm is familiar with key assumptions that factor into the analysis of OPEB liability.

Mr. Koch discussed the audit timeline with the Committee Members as set forth on page 14 of the Presentation. He stated that the audit process will begin in January 2019 with risk assessment and planning, the confirmations will take place onsite during April 2019, and the process will end in June 2019 with the completion of the audit. He emphasized that the team will meet regularly with Management during the course of the audit, and will be available to respond to any questions that arise.

Ms. Aqui provided an overview of the work to be undertaken by the Information Risk Management (“IRM”) Team. She stated that the IRM Team is expected to review the JD Edwards system and the SunGard application. Ms. Aqui 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. She 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.

Ms. Zimmerman then provided an overview of new and emerging accounting pronouncements. 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 GASB Statement 86, related to certain debt extinguishment issues, would be implemented this year. She informed the Members that GASB Statement 85 will be implemented this year and relates to a number of matters including OPEB liability. Ms. Zimmerman informed the Committee Members that GASB Statement 87, relating to leases, will be effective for the fiscal year ending in 2021, and may be affected by the provisions discussed in the Exposure Draft relating to conduit debt obligations.

Ms. Zimmerman discussed the GASB Exposure Draft relating to Conduit Debt Obligations. She informed the Members that KPMG reviewed DASNY’s letter in response to the Exposure Draft, and believes the letter was well written. Ms. Zimmerman stated that GASB received 39 responses to the Exposure Draft, including letters from the AIPCA, the AGA, and the Comptrollers for the States of Florida and New York, and Washington DC. She reported that none of the letters took a contrary position to the issues raised by DASNY, and raised similar issues. Ms. Zimmerman indicated that she believes GASB is likely to address the issues raised, since the industry was consistent with respect to the request for additional clarification regarding the definition of issuer and the characterization of conduit debt. Ms. Zimmerman informed the Committee Members that the Exposure Draft contemplates that the classification of debt be evaluated on an annual basis. She reported that the AICPA requested that the classification of debt remain as initially classified. Ms. Zimmerman noted that this change would be easier for DASNY to track and administer.

With respect to timing, Ms. Zimmerman stated that the comment period on the Exposure Draft ended on November 2, 2018. She informed the Committee Members that GASB will likely deliberate through March 2019, and is expected to issue a final standard in May 2019. Ms. Zimmerman stated that the provisions would be effective for reporting periods beginning after December 15, 2020. She noted that although early adoption is encouraged, however, given the expected timing of issuing the final standard, it would be too late for DASNY to implement the changes for the current audit period.

In response to a question from the Committee Chair, Ms. Nadeau stated separate auditors' reports on 30 individual financial statements for bond resolutions are required because of the provisions of the authorizing resolutions for those bonds. She noted that these provisions are a feature in older resolutions and are no longer required. Ms. Nadeau further noted that the number of issuances needing to be audited decreases each year as the bonds mature. She pointed out that the auditors used to provide a report on over 200 individual bond issuances.

The Committee Chair asked for additional information regarding the scope of the IT systems audit. Mr. Koch responded that the auditors use procedures to test information systems from a financial reporting standpoint. He explained that these procedures assess whether there is a stable control environment so that the risk of potentially fraudulent representation in the IT system is minimized. Mr. Koch further explained that the level of risk must be assessed because management relies upon this information for a number of reports. He stated that the auditors do not go through a security breach test or cybersecurity audit. Mr. Koch further stated that the review of the IT system is undertaken to be sure the risk of such a breach is minimized, but emphasized that the focus of the audit is on the reliance of financial reporting.

Ms. Zimmerman stated that the audit with respect to the IT systems primarily tests management controls around the system to ensure the integrity of the data is secure. Ms. Nadeau stated that the substantive auditing is at such a high level that the amount of time spent auditing the IT system is reduced. She explained that the information presented in the financial statements is verified through other means.

Ms. Nadeau then summarized management's comment letter to GASB on the Conduit Debt Exposure Draft noting that management requested clarifications on several items to confirm management's interpretation of the proposed statement's requirements as well as a request to expand the scope of the definition of conduit debt. She noted that management requested the scope be expanded to include DASNY's public debt issuances. She stated that the request was driven by management's concern that given DASNY's historical inclusion of all of its conduit debt issuances on the face of its financial statements, the proposed statement's movement of only DASNY's debt issuances to private clients to footnote disclosure could result in users of the financial statements incorrectly believing that DASNY has some level of obligation for the public debt - despite all issuances being special obligations - and ultimately causing confusion in the market. Ms. Nadeau stated that, given that all of DASNY's debt issuances are special obligations, management believes that consistent treatment within the financial statements would be more information and valuable to the users. She offered to provide a copy of the letter to the Members. The Board Chair asked for a copy of the letter.

Ms. Zimmerman informed the Committee Members that even if some of the debt is reflected differently in the financial statements, there will still be a need for internal controls so that the data can be retained for disclosure purposes. She stated that, while the response letters to the Exposure Draft requested certain changes for consistency purposes, the level of effort required to collect and maintain the data will be unchanged. Ms. Nadeau pointed out that New York State requirements with respect to disclosure are at an even higher level of detail than GASB requires. She explained that DASNY must continue to report the details for all issuances to the State, including series, original par amounts, outstanding balances, borrower identification, and other information. Ms. Zimmerman noted that this reporting will continue.

Committee Chair thanked KPMG and Watson Rice for their presentation. He then asked Ms. Ebert to provide the Internal Audit report.

Ms. Ebert stated that the Office of State Comptroller (“OSC”) will be performing a follow-up review of the implementation of the recommendations in connection with the April 4, 2017 prevailing wage audit. She stated that the audit related to the monitoring of public work compliance of construction contracts. Ms. Ebert stated that OSC will be on-site on Thursday to commence the review, and that she will provide them with certain information at that time in connection with their request. She informed the Committee Members that the results of the audit were good, and there had only been two minor recommendations. Mr. Ellis asked whether it is common practice for OSC to evaluate the implementation of audit recommendations. Ms. Ebert responded in the affirmative and stated that they will be evaluating the steps that DASNY has taken to implement the audit recommendations.

Ms. Snyder moved that the Committee Members go into Executive Session to discuss the financial and credit history of particular corporations; proposed, pending or current litigation; and the employment history of persons or matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of particular persons.

Mr. Ellis 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

Ms. Snyder moved that the meeting adjourn, Mr. Ellis seconded the motion and the Audit Committee Meeting was adjourned at approximately 6:00 p.m.

Respectfully submitted,

Michael E. Cusack, Esq.
Assistant Secretary