BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON FISCAL AFFAIRS — MINUTES OF THE MEETING JUNE 7, 2010

The meeting was called to order at 5:03 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Peter S. Pantaleo, Vice Chair
Hon. Valerie L. Beal
Hon. Carol Robles-Roman
Prof. Terrence Martell, faculty member
Keith Lewis, student member
President Eduardo J. Marti, COP liaison

Ex-officio:
Hon. Benno Schmidt
Hon. Philip A. Berry

Trustee Observer:
Hon. Manfred Philipp
Hon. Cory Provost

Trustee Staff:
Senior Vice Chancellor and Secretary of the Board Jay Hershenson
Senior Vice Chancellor and General Counsel Frederick Schaffer
Deputy to the Secretary Hourig Messerlian
Mr. Steven Quinn

University Staff:
Chancellor Matthew Goldstein
Executive Vice Chancellor and Chief Operating Officer Allan Dobrin
Interim Senior Vice Chancellor Marc V. Shaw
Associate Vice Chancellor Matthew Sapienza
University Controller Barry Kaufman
Chief Investment Officer Janet Krone

Cal. No. **DISPOSITION**

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF APRIL 7, 2010. The minutes were approved as submitted.

B. POLICY CALENDAR

1. The City University of New York - Commitment Deposit.

Committee Chair Lhota stated that this is a resolution to authorize college presidents, effective with the Spring 2011 semester, to require from students who have been admitted to associate, baccalaureate, master's and professional programs a non-refundable commitment deposit of $100 for undergraduate programs, and $250 for graduate and professional programs, indicating their intention to enroll in such programs. A commitment deposit will enable the University's senior and community colleges to maintain more accurate enrollment data, which is critical to the decisions related to the academic planning faculty hiring course offerings and student services. While the deposit will be non-refundable for those students who enroll, the amount of the commitment deposit will be credited toward the student's tuition.

In response to a question, Associate Vice Chancellor Matthew Sapienza stated that if students are eligible for full TAP or full Pell grants, or if their adjusted family income is below a certain level, that the $100 fee should be waived, because administrators know that there are students who, under those circumstances, will not have the $100 to put towards a deposit. The Office of Fiscal Affairs is working with the Office of Enrollment Management to establish criteria that the colleges will be able to use to determine whether the deposit should be waived or not.

In response to several questions, Associate Vice Chancellor Sapienza stated that if a student pays the deposit and then enrolls in the University, the $100 will be applied against his or her tuition. If a student pays the $100 and then does not enroll in the University, the college will keep it and will apply it against its tuition revenue target. The motivation behind this is for enrollment management purposes. It is being presented to the Fiscal Committee for governance purposes, but the fiscal impact of the commitment deposit is minimal. The number of students who will pay the fee and will not come to CUNY will be minimal. The University is not using this as a user fee to raise funds; it is a deposit towards a student’s eventual tuition payment.

Executive Vice Chancellor Allan Dobrin noted the University has already borne some expenses processing admission for the students who pay the $100 deposit fee and do not come.

Trustee Manfred Philipp noted a discrepancy between line three and line four of the first sentence of the resolution. Based on the context, line three appeared correct and line four appeared incorrect.

A friendly amendment to strike "graduate" and replace it with "masters" in line four of the first sentence of the resolution was proposed and accepted.

Following discussion, the item was unanimously approved as amended for submission to the Board.

2. The City University of New York - Remediation Testing Services.

Committee Chair Lhota stated that this is a resolution to authorize the General Counsel to execute an amendment to agreement No. N001005 with ACT, on behalf of the University, to extend the term of the agreement for 30 months, to December 31st, 2012. The funding for such extension period should not exceed a total estimated cost of $1 million. ACT provides testing services to City University to support high volume assessment and student college readiness in the areas of reading, writing, and math, in excess of 100,000 tests per year. The amendment extends existing agreement term and adds funds to the continued provision of services of City University developed and issues an RFP and awards a new contract.

In response to a question, Associate Vice Chancellor Sapienza clarified that at the committee’s April meeting a resolution was approved to extend the contract for that fiscal year that we're in now until June 30th. This action is to extend that contract beginning on July 1st for the next 30 months.

In response to a question, University Controller Barry Kaufman stated that the RFP would not normally take that long, but there is a transition period. It is a matter of getting the approval from the State Controller and the Attorney General, and at the same time, making sure there is a transition from the old test to the new one, in the event that ACT is not the group that is chosen.

In response to a question, Associate Vice Chancellor Sapienza stated the University does have a cadre of writing assessments that were used previously, but given the number of students who require remediation it is questionable whether this service is something that the University could perform in-house at a lower cost than ACT can offer.

In response to a question, Associate Vice Chancellor Sapienza stated that part of the RFP process would be evaluating whether different vendors would be using different content or the same content, the same set of questions, and so forth.

Trustee Manfred Philipp stated that that aspect of the process enters the academic arena, whether the tests are valid and so forth, and that the University Faculty Senate would have a considerable interest in looking at those bids to make sure that they are equally valid, if not more so than the one that ACT provides.

Following discussion, the item was unanimously approved for submission to the Board.

3. The City University of New York - Consolidated Financial Statement Audit Services.

Committee Chair Lhota stated that this is a resolution to authorize the General Counsel to execute an amendment to agreement NMP06001, with KPMG, Inc., on behalf of the University, to extend the term of the contract for three years to 12-31-2012, for Audit, Tax and Advisory Services. The services shall not exceed a total estimated cost of $2,225,000 for those three years. These services support City University statutory requirements to produce consolidated University financial statements in each financial year. This extension ensures continuity of services as CUNY completes its transition to the CUNY First financial system.

Board Vice Chair Berry noted that, as a matter of good fiscal sense, organizations typically change auditing firms after a number of years so that they do not develop too comfortable a relationship with one firm.

In response to several questions, University Controller Barry Kaufman stated that the University has been working with KPMG for about seven or eight years. To bring in a new accounting firm for the audit the University would normally go out with an RFP. The University has in the past gone out with contracts for five years on audit services and issued a new RFP at the end of the five-year contracts. Given the fact that KPMG has been looking at some of the CUNYfirst information technology issues, the feeling was that there was a benefit in keeping them for at least another three years, which is when CUNYfirst is supposed to be fully implemented. KPMG's policy is that at the end of every four or five years the engagement partner is changed and is rotated off. The University has looked at the Sarbanes-Oxley recommendations on that point and they seem to focus more on the engagement partner than they do on the audit firm. The intent, however, is to go out with a new RFP after this three-year engagement is discontinued.

Following discussion, the item was unanimously approved for submission to the Board.

II. INFORMATION ITEMS:

C. Presentation by KPMG on the 2010 Audit Plan

***PRESENTATIONS ON THE UNIVERSITY AUDIT BY MS. SHELLY MASI, PARTNER, MS. ERIN SCHEMBARI, SENIOR MANAGER, AND MR. LOU MEZZINA, PARTNER AND NATIONAL INDUSTRY DIRECTOR FOR HIGHER EDUCATION AND NOT-FOR-PROFIT, OF KPMG ***

In response to a question, Ms. Masi confirmed that KPMG looks to see where there have been issues in the past with some of the campuses and goes back to look at those campuses in light of issues.

In response to a question, Ms. Masi stated that if KPMG obtains audit evidence that the internal controls are not effective for a particular area, that information is shared through the management letter.

In response to a question, Ms. Masi stated that periodic updates on potential issues can be provided to the Audit Subcommittee during the course of the audit, and suggested that this take place in executive sessions at the end of each meeting with only the Audit Subcommittee and the auditors present.

In response to a question, Ms. Masi confirmed that internal controls and risk related issues are covered in both the A133 report and the management letter.

In response to a question Ms. Masi, stated that the A133 audit has two components. One is an audit of compliance for which there is no level of materiality if something is not in compliance that is considered to be a finding. The other is an audit of internal control deficiencies and financial statement internal control deficiencies, and the materiality levels for those are the same as for the management letter.

In response to a question, Ms. Schembari stated that campus visit audits include outside services under procurement.

In response to several questions, University Controller Barry Kaufman stated that accounting and reporting of intangible assets—copyrights, patents, and internally generated computer software—is a new requirement under GASB Statement No. 51 and is not expected to be a big item for the University.

In response to a question, Ms. Masi confirmed that the Accounting and Financial Reporting for Derivative Instruments requirements under GASB Statement No. 53 are like those of A133.

A. Report by Associate Vice Chancellor Matthew Sapienza

Associate Vice Chancellor Sapienza stated that the State budget has not yet been completed so there is not much to say on the State side. Once July 1st comes around, if there is no budget in place, the University will be in the same place as the other State agencies have been since April 1st: emergency appropriations will have to pass for the University to continue to operate. That is something CUNY has been through before—the last time was in 2004—and the central administration will work closely with the colleges if that does occur.

Associate Vice Chancellor Sapienza stated that on the City side the Mayor has issued his executive budget and it included several positive developments for the University. All of CUNY's mandatory needs are funded in the Mayor's executive budget, and he also provided $7 million for community college enrollment needs due to the historic enrollment growth. The reduction of $13.9 million that the mayor had initially proposed was greatly decreased to $6.5 million. The Mayor also included $9 million in funding for costs for the new community college. About half of that will cover rental costs for the temporary space for the new community college, and the other half will be used to begin to staff up and for planning costs. There is still some work to do with the City Council in terms of lobbying them to add in some more funds for the community colleges. Of particular note is $21.4 million in prior year reductions which the Council added back on a one-time basis in fiscal year 2010 and which needs to be restored in fiscal year 2011.

In response to a question regarding funding per student in the community colleges, Associate Vice Chancellor Sapienza stated that the State Legislature has proposed restoring the Governor's reduction, keeping that funding static. On the City side funding is actually about a million dollars above maintenance of effort levels. However, that includes mandatory cost increases offset by proposed reductions. Given the increased enrollment at our community colleges the University administration is concerned about that, which is why it is lobbying the City Council to restore these reductions included within the Mayor's executive budget.

B. Report on Investments

Chief Investment Officer Janet Krone provided a brief update on the investment pool for the four months ended April 30. She noted that the U.S. equity market hit a 19-month high, and towards the end of April started selling off. The University recently hired two hedge firms which are just getting started and some results should be seen from them going into this period. Within this context the investment pool has held its own during this four-month period and most of the asset classes are showing benchmark-like returns, with the exception of emerging markets. The total U.S. equity portfolio is up 8.5 percent, versus the Russell 3000 up 8.2. International equity is down 1.3 percent, again, underperforming its benchmark by about 40 basis points. However, Aberdeen, our emerging market manager, is up 6 percent versus its benchmark of 3.7, so a 230 basis point value added there. On the real asset side, with Wellington, with the 10 percent exposure that the University has, that portfolio is up 1.4 percent, surpassing its customized benchmark by about 30 basis points. On the fixed income side, performance was just slightly below the benchmark. Since the Board approved the new investment policy in December 2008, the portfolio has been transitioning to the new asset classes and is now pretty close to the target allocations. The exception is non-marketable alternatives, in keeping with the Committee’s decision to defer investment in this asset class to a later date. Given market conditions and the correction going on in the market, the feeling is to basically keep things where they are, with the exception of fixed income, which will be addressed at the next Investment Subcommittee meeting.

The meeting was adjourned at 6:04 p.m.