The meeting was called to order at 8:34 a.m.

There were present:

**Committee Members:**
Hon. Peter S. Pantaleo, Chair
Hon. Rita DiMartino
Hon. Philip Alfonso Berry
Prof. Terrence Martell, faculty member
Hon. Muhammad W. Arshad, student member

**University Staff:**
Executive Vice Chancellor and Chief Operating Officer Allan H. Dobrin
Senior Vice Chancellor Marc V. Shaw
Associate Vice Chancellor Matthew Sapienza
University Controller Leonard Zinnanti
Deputy Controller Miriam Katowitz
University Associate Controller Thomas Z. Zhou

**Trustee Staff:**
Senior Vice Chancellor and Secretary of the Board Jay Hershenson
General Counsel and Senior Vice Chancellor Frederick P. Schaffer
Deputy to the Secretary Hourig Messerlian
Ms. Towanda Lewis

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The agenda items were considered in the following order:

**I. ACTION ITEMS:**

A. **APPROVAL OF THE MINUTES OF THE MEETING OF APRIL 1, 2013.** The minutes were approved as submitted.

**II. INFORMATION ITEMS:**

- Presentation of the FY 2013 Financial Statements and Audit Report

***PRESENTATION BY SHELLY MASI, PARTNER, AND JOHN EUSANIO, SENIOR MANAGER, KPMG***

In response to a question from Committee Chair Peter Pantaleo regarding the pending item of the KPMG review of the financial statement tie out, Ms. Shelly Masi stated that "tie-out" means everything in the financial statements including footnotes have been agreed to supporting documentation and the work papers. This shows that KPMG has audited the numbers that are actually in the University’s financial statements.

In response to a question from Dr. Terrence Martell comparing investment income in the Statement of Revenues, Expenses and Changes in Net Position to the Statement of Cash Flows, Ms. Masi stated that the investment income in the total column includes all of the foundations. The Statement of Cash Flow includes only the University Activity which does not include the Foundations. The $43 million of Net Appreciation in fair value of investments in the discretely presented column is primarily for the foundations. As a result of the change between blended and discrete presentations for the auxiliary corporations, student associations, and childcare centers, KPMG restated opening equity, so the equity for those entities that were previously in the University column as blended, were moved to the discretely presented column. The change is in
the presentation of where that equity is shown. The restatement and change in presentation was
done in accordance with GASB 61. This change is noted in the paragraph entitled Emphasis of
Matter in the auditor’s opinion.

In response to a question from Committee Chair Pantaleo, Deputy Controller Miriam Katowitz
stated that the dispute with the Federal Department of Education that arose in prior years on
programs that were not in compliance has been resolved without any penalties.

In response to a question from Vice Chairperson Philip Berry regarding GASB 68 Accounting and
Financial Reporting for Pensions that becomes effective for June 30, 2015, Ms. Masi stated that a
year from now KPMG will have a better sense as to what the incremental liability of the University
pension plans would be as New York City will need to issue their reports as of June 30, 2014.
Early adoption is not possible the way the pronouncement is worded. Mr. John Eusonio indicated
that the University would not be able to pick up the liability until the actuarial computations are
completed by the pension plans and GASB 68 adopted.

In response to a question from Dr. Martell, Ms. Masi stated that it is a present value calculation,
so there would be some assumptions made on what the future payments would be and then
CUNY would discount it back to present value. The University would be required to record that
liability if there are certain factors that are triggered, including that the organization has filed for
bankruptcy or has missed a payment or is in some financial distress. There is a disclosure
requirement, and those two guarantees are currently disclosed in the financial statements.

In response to a question from Vice Chairperson Berry regarding enrollment levels in other higher
education institutions, Ms. Masi stated that most of KPMG’s clients are very concerned about
their enrollment levels and saw a significant decline across the nation—60% of university senior
management were concerned about that last year, but that has increased to 71% this year. At
CUNY, enrollment has remained consistent or even maybe gone down slightly. The higher
education industry is going through a change right now and they are looking at a lot of different
ways to be able to keep up the enrollment numbers. There is a lot of competition from private
schools—people are moving to public universities because of the tuition rates.

Dr. Martell stated that under the general area of continuous improvement, each year KPMG
reports and statements get better, cleaner, and easier to read and to understand—a great
positive. He stated that he would like to suggest for example that in the Management’s
Discussion and Analysis (MD&A) the University include the economic factors that may affect the
future. That would bring the MD&A closer to including the risk factors that would be seen in a
typical MD&A presentation. This might include demographic information and other detailed risk
factors. He also noted two mild concerns; again under the idea of continuous improvement, 1)
that the University’s cash management policy does not address custodial credit risk for deposits
and it should. CUNY ought to be looking at the credit exposure of the banks where the monies
are kept—it is a risk factor that ought to be dealt with in the policy and as part of good risk
management; 2) an assessment of the credit characteristics of where the University’s funds are
held. CUNY could look at the credit default swap rates for the institutions where the funds are
held as this is an easy process and would provide a reasonable view. Dr. Martell was not
anticipating any issues and indicated that the process would be useful to CUNY as a way to
demonstrate the process. Management agreed to review the policy and take corrective action as
necessary.

Committee Chair Pantaleo stated that Dr. Martell made excellent points. He also noted that this is
USS Chair and student Trustee Muhammad Arshad’s first Subcommittee on Audit meeting.

In response to a question from Vice Chairperson Berry regarding compensation of faculty and
staff, Ms. Masi stated that the colleges are trying to look at the overall compensation packages
that are provided to the University faculty. It is a struggle to balance what is needed to pay faculty and, what the cost structures have been doing over the past few years. Over the years, the colleges have been trying to rein in costs; however, they can no longer do that and that is why they are focusing on the revenue side now—it is very competitive and the colleges are looking at different ways to enhance their overall package for faculty.

Both Committee Chair Pantaleo and Dr. Martell stated that this is a risk factor for the University going forward.

Committee Chair Pantaleo stated that the reality of it is in every survey for a system of this size—the University faculty, as well as administrative staff is materially below the norm for salary.

Senior Vice Chancellor and Chief Operating Officer Allan Dobrin stated that he would like to thank Senior Vice Chancellor Marc Shaw, Associate Vice Chancellor Matthew Sapienza, University Controller Leonard Zinnanti, Deputy Controller Miriam Katowitz, and University Associate Controller Thomas Zhou for the great work they do.

Vice Chairperson Berry noted that this is an excellent presentation of the portrayal of the facts and the issues. The subcommittee on Audit approved the FY 2013 Financial Statements as presented and recommended their presentation to the Fiscal Affairs Committee.

KPMG representatives left the meeting.

- RFP Recommendation of Auditing Firm for FY2014-FY2019

***PRESENTATION BY ASSOCIATE VICE CHANCELLOR MATTHEW SAPIENZA***

In response to a question from Committee Chair Pantaleo related to the recommendation from the RFP process for an auditor for the University Financial Statements for FY 2014-2019, Deputy Controller Miriam Katowitz stated that the RFP process was evaluated by a committee and that there were eight bidders. The proposals were evaluated by an internal committee including representatives from the colleges and central office. All of the written proposals were reviewed and scored according to a score sheet that looked both at experience, dollars and cents, and expertise. Three firms were selected to come in and make presentations, and then the Committee deliberated using a scoring process again and came to the conclusion that KPMG was clearly the best choice. This recommendation was based on their skill and experience in the combination of GASB and higher education audits. Part of this is a reflection of the fact that in New York State there are only two GASB higher education institutions: SUNY and CUNY. KPMG is the auditor for SUNY and CUNY. It is a little different in New Jersey because many of the public universities have separate audits, which is where KPMG is able to get a fair amount of experience because they do a number of them. It was important to the committee to have a firm who could help the University think about the adoption of new GASBs, and changes in systems and making sure that CUNY was in a position to have a consistent and accurate presentation of the financial statements following best practices for GASB and higher education institutions.

In response to another question from Committee Chair Pantaleo regarding partner rotation at KPMG, Deputy Controller Katowitz stated that KPMG’s policy is for ten years and there have been conversations with Ms. Masi as to when she would need to rotate out taking into account the need to make sure that there is continuity from the KPMG team. Continuity is particularly important since CUNY is going through a great deal of change with CUNYfirst and also as the Audit subcommittee has seen, from the changes from the adoption of the various GASB pronouncements. She noted that as the primary contact with the accounting firm, the Office of University Controller is happy with this recommendation.
In response to a question from Dr. Martell, Committee Chair Pantaleo stated that the Subcommittee on Audit is the frontline consumer of this service.

Dr. Martell stated that he is perfectly comfortable with the recommendation; but noted that an audit committee would normally have a more significant role in the vetting of the firms and the final selection.

Committee Chair Pantaleo stated that Dr. Martell’s comment is fair, but from his perspective he would like to stress that having the University be required to follow New York State procurement laws, allows for also having independent Trustees involved. He added that in this case he could not vote for the recommendation and would need to abstain since his law firm represents virtually all of the big accounting firms for accounting malpractice.

The Subcommittee on Audit meeting was adjourned at 9:19 a.m.