
**THE CITY UNIVERSITY
OF NEW YORK**

Fiscal 2014 AUDIT PLAN

THE CITY UNIVERSITY of NEW YORK

2014 Audit Plan

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Overview

I

Purpose

This audit plan summarizes KPMG LLP's (KPMG) overall approach to the audit of the financial statements of The City University of New York (the University or CUNY), as of and for the year ending June 30, 2014. The plan also discusses our approach to completing the audit of Federal assistance programs required by Office of Management and Budget (OMB) Circular A-133. This plan represents the documentation of the engagement setup phase (planning phase) of our audits. The plan focuses on overall audit strategy by discussing our audit approach, identifying current issues, and providing an overview of KPMG's service team responsible for the engagement.

Audit Objective

The primary objective of our audit will be to formulate an opinion as to the fair presentation of the financial statements of the University in conformity with U.S generally accepted accounting principles. These financial statements are the responsibility of management. Our responsibility is to express an opinion on the financial statements based on our audit. We will conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion.

The establishment and maintenance of effective internal controls over financial reporting is the responsibility of University management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will be effective in the future as changes take place in the organization.

The transactions which should be reflected in the financial statements are matters within the direct knowledge and control of management. The independent auditors' knowledge of such transactions is limited to that acquired through the audit. Accordingly, the fairness of representations made in the financial statements is an implicit and integral part of management's responsibility. The independent auditor may make suggestions as to the form and content of the financial statements. Regardless, the responsibility of the independent auditor for the financial statements is limited to the expression of the auditors' opinion on them. The financial statements remain the responsibility of management.

To accomplish our objective, we will use a risk-based audit approach, which includes engagement planning and coordination, reviews of significant financial reporting accounting systems, reviews and tests of internal controls for the purpose of expressing our opinion on the financial statements, reviews of available interim and year-end financial data, and tests of transactions, which include both substantive analytical and test of detail procedures.

We will also perform the additional audit procedures necessary to satisfy the requirements of OMB Circular A-133, and issue the required reports. OMB Circular A-133 establishes audit requirements beyond the scope of generally accepted auditing standards and generally accepted government auditing standards by requiring the auditor to obtain an understanding of the internal controls over administering Federal financial assistance and performing tests of the University's policies and procedures designed to provide reasonable assurance that Federal awards are being managed in compliance with applicable laws and regulations.

A discussion of our approach to the audit of the financial statements is presented in Section II and a discussion of the OMB Circular A-133 audit requirements is presented in Section III.

For the FY 2014 audit, KPMG will be using the services of a subcontractor, Watson Rice, to assist us with both the financial statement and OMB Circular A-133 audit procedures. A Watson Rice senior associate and associate will be working under the supervision of a KPMG senior associate and will conduct audit procedures at both the campuses and the Office of University Controller.

Financial Statement Audit

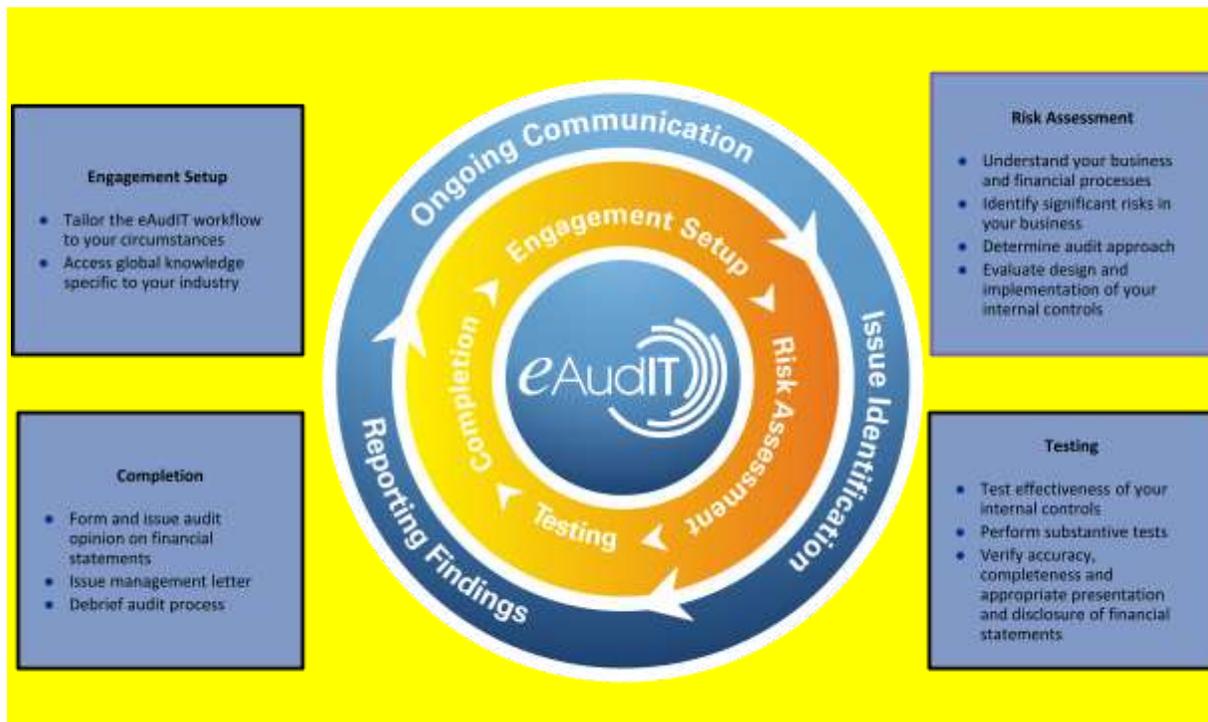
II

To accomplish our audit objectives, we will employ a risk-based approach to auditing the various facets of the University's operations. Our past experience allows us to design an effective audit by focusing on the issues that have operational significance to the University and extending that knowledge down to financial reporting issues.

The four phases of the KPMG audit workflow are:

- Engagement Setup
- Risk Assessment
- Testing
- Completion

The following chart shows selected key activities performed in a KPMG audit:



Developing an audit strategy and planning are the first activities in the KPMG audit process. The purpose of the audit strategy is to set the direction of the audit and link our understanding

of the University's business to the focus of our audit work. In developing our audit strategy we consider key business and financial reporting issues affecting the University and assess their impact on the audit. Specific objectives of the planning phase include the following:

- Updating our understanding of the University's business objectives and strategies,
- Perform risk assessment procedures and identify risks,
- Analyzing preliminary data,
- Performing interviews with top members of management, and
- Identify key processes and determine audit strategy and planned audit approach.

Updating our Understanding of the University's Business Objectives and Strategies

Based on our understanding of the University, we have classified CUNY's business processes into core and resource management processes. We define the core processes as those activities directly related to the mission and services of the University, while resource management processes are the activities, which support the core processes.

Core Process

- Student Continuum

Resource Management Processes

- Facilities Management
- Debt Management
- Investment Management
- Human Resources Management
- Financial Management
- Financial Reporting

As part of our planning process, we will update our current understanding of the University's core and resource management processes and use this understanding to identify controls established by management to mitigate the risk of misstatement associated with each process reviewed.

Perform Risk Assessment Procedures and Identify Risks

A key element of our audit planning is to evaluate the risks facing the University and determine their impact on our audit of the financial statements. The risks affecting the University arise from various factors including financial, economic, and political environments—for example, New York State and New York City budget issues, enrollment fluctuations, inflation, and the conditions affecting financial markets. We will work with management to ensure that our understanding of the risks affecting the University's financial statements is appropriate.

Analysis of Preliminary Data

During the risk assessment phase, we will also analyze preliminary financial, statistical, and budget data to identify trends, fluctuations, and relationships that require further investigation. Additionally, we will evaluate University transactions by considering their relative dollar amount, related volume, susceptibility to errors, and the degree to which judgment by University management is required.

Generally, transactions can be classified as one of the following:

- *Routine Transactions*

Routine transactions result from CUNY's ordinary business activities. These transactions are typically high volume, and conducive to systematic processing. These factors often permit internal control activities to be built into the information systems, allowing transactions to be processed with little or no management intervention or manual processing. Similarly, little or no judgment is likely to be required to determine the amounts to be recorded. Examples of routine transactions include purchasing goods and services, registering students and paying faculty and staff.

Our audit approach to routine transactions mirrors management's response. We consider the effectiveness of the internal controls in preventing, detecting and correcting misstatements for the purpose of expressing our opinion on the financial statements. If we obtain audit evidence that internal controls are effective to prevent or detect and correct misstatements, we require less audit assurance from our substantive audit procedures. We refer to this audit approach as a systems-based approach and plan such an approach for audit objectives relating to routine transactions.

- *Non-Routine Transactions*

Non-routine transactions are not part of the ordinary course of business activities. As such, they are considered to be infrequent in occurrence or unusual in nature. The processing of non-routine transactions usually involves significant management intervention. Examples of non-routine transactions include refunding and defeasance of DASNY debt and early retirement initiatives.

Even if internal controls are established, the recording, processing, and reporting of non-routine transactions often requires management's intervention. Therefore, we will obtain audit evidence for audit objectives relating to significant non-routine transactions by performing substantive audit procedures.

- *Accounting Estimates*

Establishing an accounting estimate could involve a high degree of judgment by management to establish an approximation of a financial statement element, item, or account. Examples of accounting estimates include determining the allowance for uncollectible student accounts receivable, valuations of nonmarketable investments, and actuarial assumptions used for pension and postretirement accounting. We will obtain

audit evidence relating to significant accounting estimates by performing substantive audit procedures.

Since the risk of significant misstatement is usually greater for processing non-routine transactions and accounting estimates, more of our audit effort will be spent reviewing these types of transactions.

Performing interviews with top members of management

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, requires us to conduct interviews with top members of the University's management in order to discuss the University's fraud risk factors. From these discussions we will determine if audit risks, not previously considered significant, should be given audit focus.

When we assess fraud risks, we consider the following factors:

- Incentives and pressures
- Opportunity
- Attitudes/rationalizations
- Known instances of misconduct or unethical behavior

Identifying Key Processes

Based on our previous knowledge of CUNY, we have identified key processes, which include significant audit areas. The following lists the key processes we consider to be significant:

- Student Continuum, which includes the significant audit areas of
 - Appropriations revenue and the related receivables and payables; and
 - Tuition and fees revenue and the related accounts and loans receivable
 - Financial aid revenue and related receivable
- Facilities Management, which includes the significant audit areas of
 - Capital assets and related depreciation expense; and
 - General cash disbursements
- Debt Management, which includes the significant audit area of
 - Debt and related interest expense, including amounts held by DASNY and bond trustees
- Investment Management, which includes the significant audit area of
 - Investments and related investment income
- Human Resources Management, which includes the significant audit areas of
 - Payroll and fringe benefits expense and all payroll and fringe benefit accruals
 - OPEB liability
- Financial Management, which includes the significant audit area of
 - Cash
- Financial Reporting, which includes the following audit areas
 - preparation of the financial statements and footnote disclosures

- review of all post-closing entries
- the consolidation of RF-CUNY balances
- reporting of Foundation balances.

In the pages that follow, we have set forth the planned audit approach for the significant audit areas identified. We will update our understanding of the significant financial reporting accounting systems and the internal controls in each of these processes in order to effectively design our audit procedures. If we conclude that internal controls can be relied upon, we will test internal controls. Internal controls over all key processes such as tuition billing and cash collections, payroll and procurement are monitored by the University Controller's Office and are therefore the same controls. Because they are performed by different individuals, we will perform a knowledge assessment of each individual who performs the controls tested at each college. Otherwise, we will use a substantive audit approach. The audit procedures we expect to perform for significant audit areas are described under "Gathering and Interpreting Audit Evidence", below.

The procedures performed to update our understanding of processes and controls will not constitute an audit of internal control and, therefore, we will not express an opinion on thereon.

Our approach contemplates that a portion of our audit effort will be spent at individual campuses. We will be visiting 8 colleges for the 2014 audit. At each of the colleges we will obtain an understanding and document the following processes:

- Student continuum – this process includes registration, billing and collections of tuition and fees revenue, and application of financial aid to a student's account.
- Financial management – this process includes cash collection procedures and the process for preparing bank reconciliations.
- Facilities management – this process includes procurement of capital assets and non-capital assets, tagging and disposal procedures, as well as general cash disbursement procedures.
- Human Resources management – this process includes the approval of new hires and terminations and the recording of salaries and related benefits.
- Additionally, we will review information technology general controls, which includes a description of the various college programs, access controls over these programs and interfaces between these programs, as well as with OUC programs.

We will also identify and perform test of controls over the student continuum, facilities management and human resources management processes.

The 8 colleges identified to be visited during the 2014 audit are as follows:

- Hunter College
- John Jay College of Criminal Justice
- New York City College of Technology
- Graduate School / School of Journalism
- College of Staten Island
- LaGuardia Community College
- Stella and Charles Guttman Community College
- School of Professional Studies

Gathering and Interpreting Audit Evidence

Our approach is characterized by tailoring our audit to meet the specific needs of the University. At the conclusion of our audit, we will endeavor to offer practical recommendations for matters involving internal control and/or operational improvements in our management letter. The audit procedures that we plan to perform in the areas we have identified as having greater audit significance include the following:

Appropriations Revenue and Related Receivables and Payables

State and City appropriations are the University's largest sources of revenue and therefore, represent a significant class of transaction and results in a significant audit area. Our primary audit objectives in these areas are to ascertain that appropriations revenue is properly recognized and that corresponding appropriations receivable are properly valued. Accounts payable is directly related to the amounts recognized as appropriations revenue and improper cutoffs could significantly affect the presentation of the financial statements. Accordingly, we expect to perform the following procedures:

- Review the process put in place by the University for recording appropriations from both New York State and New York City;
- Review the reconciliation of appropriations revenue balances to State and City budgets prepared by management;
- To the extent that appropriations are restricted for particular purposes, determine that funds were expended within the prescribed restrictions;
- Reconcile appropriations receivable to accounts payable and accrued expenses and investigate any significant variances;
- Perform procedures at year-end to ensure proper cut-off and ascertain that amounts paid after year-end were properly accrued;
- Review the appropriations revenue recognition principles for propriety and consistency; and

- Review the related financial statement disclosures for appropriateness, adequacy and conformity with reporting standards.

Tuition, Fees, and Accounts and Loans Receivable

Tuition and fees are the University's second-largest source of revenue and therefore represents a significant class of transaction. Additionally, government sponsored financial assistance plays a large role in assisting students in paying their tuition. The primary audit objectives in this area are directed at ensuring the proper recognition of revenue and valuation of student accounts and loans receivable balances. As such, we expect to perform the following procedures:

- Revalidate our understanding of the student continuum process and controls at each of the campuses, focusing on the reconciliation between individual college reports and the University's general ledger (CUNYfirst);
- Select a sample of enrolled students, perform a walkthrough of the registration, billing, and revenue recognition process, and perform tests of the design and implementation and operating effectiveness of the controls put in place by the University at the individual campuses;
- Perform substantive analytical tests of tuition and fees revenue by college. Any unusual fluctuations will be investigated with campus personnel and the disposition documented and tested;
- Perform detailed test work on a sample of student accounts receivable. Additionally, we will review the procedures in place to collect student receivables;
- Determine proper cut-off of revenue and treatment of revenue recognition related to summer programs by testing deferred revenue and ensuring that revenue is recorded in the proper period;
- Review the process for determining the allowance for doubtful student accounts and assess the adequacy of the reserve;
- Review SSAE 16 report (or report on internal controls) from the University's third party processor for loans receivable;
- Review the related financial statement disclosures for appropriateness, adequacy and conformity with reporting standards; and
- Perform substantive analytical procedures over the discounts and allowances to be netted against tuition and fees revenue in accordance with GASB 35.

Federal financial aid processes will be subjected to testwork as part of our OMB Circular A-133, described in Section III.

Debt

The complexities of this area principally result from the various financing arrangements utilized by the University to fund construction projects and acquire fixed assets.

The following summarizes some of the typical financing arrangements utilized by the University to fund capital additions:

- Capital projects financed through capital lease arrangements with the Dormitory Authority of the State of New York (DASNY);
- Projects funded with capital budget appropriations from New York State and New York City; and
- Capital projects funded with non-tax levy monies.

Additionally, the ongoing maintenance of the University's equipment inventory database has presented additional challenges. As a result, a significant level of audit effort will focus on reviewing the financing arrangements referred to above, as well as the University's property management and INSITE database system. Accordingly, we will work closely with the University to review current year projects financed by DASNY and assess property management practices to determine whether there are issues requiring additional audit focus.

Because information for the majority of financing arrangements is primarily maintained by DASNY, we will conduct various procedures at the offices of the Dormitory Authority. We will utilize our Albany office personnel to conduct many of the procedures in this area of the audit. The significant classes of transactions in this area are – debt payments/refinancing. As such, the primary audit objectives are to ascertain that indebtedness is properly recorded; provisions of debt agreements are disclosed and complied with. Accordingly, we expect to perform the following procedures:

- Confirm outstanding debt and deposits held by trustees;
- Agree deposits held by trustee balances to statements at year-end;
- Review classification of deposits held by trustees between current and non-current;
- Test the valuation of deposits held by trustees by obtaining the fair value from a third party pricing services;

- Perform a roll-forward of bonds outstanding by issue type, with emphasis on bonds redeemed, refinanced, or deferred, and test the components of the rollforward;
- Review the reconciliation of indebtedness per DASNY to CUNY's records and assess reasonableness;
- Review provisions of debt agreements and determine that requirements have been met, including the nature and extent of pledges of assets and revenues;
- Review new bond agreements for proper accounting;
- Perform an analysis of interest expense and related accruals;
- Review the accounting and financial reporting of the University's derivatives and ensure they are in accordance with GASB 53, "*Accounting and Financial Reporting for Derivative Instruments*";
- The valuation of the derivatives will be reviewed by a KPMG valuation specialist; and
- Review the related financial statement disclosures for appropriateness, adequacy and conformity with reporting standards.

Capital Assets

The complexities of this area principally result from the various financing arrangements utilized by the University to fund construction projects and acquire fixed assets.

We will work closely with the University to review current year projects financed by DASNY and assess property management practices to determine whether there are issues requiring additional audit focus.

The significant class of transaction in this area is acquisition of capital assets. As such, the primary audit objective is to ascertain that capital expenditures are properly recorded. Accordingly, we expect to perform the following procedures:

- Review the facilities management process and test the design and implementation and operating effectiveness of the controls put in place by the University;
- Review significant additions and disposals, including gain or loss recorded, if any;
- Review the reconciliation of fixed asset balances per DASNY to CUNY's records and reasonableness;
- Review the reasonableness of depreciation expense;

- Review the accounting and financial reporting of the University’s pollution remediation related expenses and ensure they are in accordance with GASB 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”; and
- Review the accounting and financial reporting of the University’s intangibles and ensure they are in accordance with GASB 51, “*Accounting and Financial Reporting for Intangible Assets*.”

In addition, we expect to perform the following audit procedures in the area of property management:

- Review and update documentation relating to the property management processes at each college;
- Select a sample of purchases including equipment purchases made at each college, as well as at the Office of the University Controller, and perform tests of design and implementation and operating effectiveness of the controls put in place by the University.
- Determine compliance with the University's equipment capitalization policy;
- Review reconciliations for equipment acquisitions funded by DASNY and tax-levy funds to amounts recorded in the CUNYfirst Asset Management database;
- Select a sample of new equipment acquisitions and determine that such assets are tagged and entered into the CUNYfirst Asset Management database on a timely basis; and
- Using the CUNYfirst Asset Management database, determine the amount of inventory listed as not found and review reconciliations and related follow-up procedures, if any.

Investments and Related Investment Income

The University currently utilizes several investment managers and one investment custodian. The majority of investments are accounted for by Office of the University Controller (OUC). All investments accounted for by OUC are housed in the University’s investment pool. The University, the colleges, or college related organizations, such as student associations, auxiliary enterprises, etc., may participate in the investment pool. The purchases and sale of investments and the related investment income represents the significant class of transaction and as such investments are a significant audit area. Our primary audit objectives in this area will be to ascertain that investment balances are reported at fair value as of June 30, 2014 and that investments are properly classified. We will also ensure that accounting principles are appropriate and consistently applied and that all appropriate disclosures have been made in the financial statements. Accordingly, we expect to perform the following procedures:

- Review the investment management process established by the University;
- Confirm all investment pool account balances with investment managers and custodian;
- Obtain reconciliations for the investment pool accounts and review significant reconciling items, if any;
- Review pending investment transactions (trades which occurred prior to year-end but were settled subsequent to year-end) to ensure proper cut-off;
- Review assets held in the investment portfolio and inquire whether any have suffered permanent impairment in value;
- Select a sample of investments held at year-end and verify that the fair value reported is consistent between the custodian and manager by obtaining the year-end fair value from a third-party source;
- For any investments that do not have a readily determinable market value, obtain audited financial statements and the underlying investments;
- Determine the value of hard-to-value investments and determine if a valuation specialist is necessary;
- Analyze investment income and ascertain that the income earned is reasonable given the portfolio mix;
- Review the reconciliations between NRS and CUNYfirst;
- Test the purchases and sales of investments;
 - Make a selection of purchases and sales and perform market value testwork;
 - Recalculate the realized gain or loss on investments;
- Obtain relevant investment pool details and re-compute unit values and the assignment of units to new additions and withdrawals;
- Review the methodology for determining current and long-term investment balance classifications; and
- Review the related financial statement disclosures for appropriateness, adequacy and conformity with reporting standards.

Payroll and Fringe Benefits and All Payroll and Fringe Benefit Accruals:

Payroll and fringe benefits are the largest expenditures for the University and therefore represents a significant class of transaction. Payroll costs for senior colleges are primarily paid by New York State, while New York City primarily pays these costs for the community colleges. Employee information is submitted to the State for senior college employees through an automated system while CUNY enters all information directly onto the City Payroll Management System for community college employees. New York City pays all fringe benefit costs for both the senior and community colleges (except for TIAA and social security costs). The primary audit objective in this area will be to ascertain that payroll and fringe benefits costs are fairly stated. We will also assess whether all related disclosures have been made in the financial statements. Accordingly, we expect to perform the following procedures:

- Review the human resources management process, perform walkthroughs, and perform tests of the implementation and design and operating effectiveness of controls established by the University;
- Perform a substantive analytical test of payroll and fringe benefit expenditures by college. Any unusual fluctuations will be investigated and the disposition documented and tested;
- Review payroll and fringe benefit expenditures to the functional classifications (i.e., instruction, research, student services, etc.);
- Reconcile payroll and fringe benefit expenditures with the State and the City;
- Review significant liabilities (i.e., compensated absences, accrued pension and fringe benefit expenses) and assess the reasonableness of the computation;
- Review the current and long-term portion of compensated absences in accordance with GASB 35;
- Review the related financial statement disclosures for appropriateness, adequacy and conformity with reporting standards;
- Review a sample of employees qualifying under GASB No. 45, *Financial Reporting by Employees for Post-employment Benefits Other than Pensions*, and obtain appropriate support to verify census information provided to actuary is accurate;
- Confirm actuarial information and the census information for a sample of participants with Actuarial Consultants; and
- Review of Actuarial Valuation Report by KPMG Specialist to ensure the information is appropriate and accurate and assumptions used are reasonable.

Cash

The University maintains two separate on-line systems (the Banking System and CUNYfirst) which the Colleges utilize to report more than 500 bank account balances to the Office of the University Controller (OUC). The Banking System is used to capture all the bank accounts maintained by the Colleges, and CUNYfirst compiles all of the required information for the financial statement preparation at OUC. At fiscal year-end, a reconciliation of the two systems is performed and all significant differences are investigated. OUC and each college are responsible for the cash management process and have the authority to open and close bank accounts. All of the University's significant classes of transactions effects cash, and as such, represent a significant audit area. The primary audit objectives in this area will be to ascertain that cash balances are fairly stated as of June 30, 2014. We will also determine that cash receipts and disbursements were properly cut off at year-end to ensure that accounting principles are appropriate and consistently applied and that all appropriate disclosures have been made in the basic financial statements.

Accordingly, we expect to perform the following procedures:

- Review the cash management process at both the individual campuses and OUC;
- For all account balances of \$1,500,000 or more, confirm balances and other information (i.e., list of authorized signers, lines of credit, liens, etc.) with depositories;
- For the same account balances noted above, review year-end bank reconciliations and investigate any significant reconciling items;
- Review the reconciliation of the two online reporting systems (the Banking System and CUNYfirst) and investigate significant reconciling items, if any;
- Review and test interbank transfers to determine that transfers have been properly recorded;
- Review methodology for determining restricted cash balances and assess whether such balances are properly recorded on the statement of net assets; and
- Review the related financial statement disclosures for appropriateness, adequacy and conformity with reporting standards.

As we proceed with our test work in any of the above areas, we may determine that additional procedures are necessary, including confirming additional accounts.

Financial Reporting

We expect to perform the following procedures on the University's financial statements:

- Review the presentation of the University's foundations, RF CUNY, EDC and CUCF and agree all financial information to audited financial statements;
- Obtain a complete list of all post-closing entries and review supporting documentation for the journal entry;
- Perform analyses on all statement of net position balances and statement of revenues, expenses, and changes in net position balances;
- Review the MD&A to ensure that the information contained therein does not contradict information in the financial statements and that at least the minimum requirements prescribed by GASB are met;
- Review the current and non-current classifications of assets and liabilities;
- Review the University's classification of operating and nonoperating revenues and expenses;
- Review the restricted net position expended during the year to ensure that funds were expended for the restricted purpose it was intended;
- Review the presentation of the financial statements to determine whether it is in conformity with GASB requirements; and
- Review the University's footnote disclosures, including those related to the derivatives, to determine whether they are in conformity with GASB requirements.

Other Audit Procedures

Other audit procedures we perform include the following:

- Perform testwork on the University's entity level controls;
- Review minutes of the Board and selected committee meetings;
- Barbara Hunt, Tax Senior Manager, will conduct interviews with the University's management and review work papers to identify any tax issues, or unrelated business income exposure;
- Send legal letters to in-house counsel to determine litigation exposure and assess financial statement impact, if any;

- Update our understanding of the central information system used by the University to manage its core processes in order to identify information technology general controls. This assessment will include involvement of professionals from our Information Technology and Advisory Services practice;
- Review developments in financial reporting, laws, accounting standards, corporate governance and other related matters; and
- Review significant communications with regulators, if any.

Reporting

An integral part of our approach is to maintain a year-round dialogue with University officials concerning not only accounting and financial reporting practices but also other issues that result from the unique higher education and governmental environment in which the University operates. Accordingly, we will have periodic progress meetings with the University's management and other appropriate University personnel throughout the engagement to discuss recent developments, areas of concern, timing and progress, and any other items of significance. We will also schedule meetings dealing with procedural and administrative matters, such as audit timing and review, and coordinate the schedule for receiving client prepared audit related schedules.

Throughout the audit process, we will endeavor to raise management's awareness of major risk areas and discuss the impact of controls, and provide advice and ideas to help improve efficiencies.

We expect the reporting phase of the audit to include the following:

- Conducting exit conferences with each campus and the central office;
- Reviewing drafts of financial statements with appropriate University officials;
- Having a second partner perform a review of the financial statements and disclosures prior to issuance of our report;
- Preparing and issuing management letters containing observations, comments, and suggestions on matters affecting internal controls and operating and accounting procedures; and
- Meeting with the Audit Subcommittee of the Board of Trustees or other CUNY officials to review the overall results of our audit.

Financial Statements — We expect that the University will draft its financial statements in accordance with GASB standards, which will include a management's discussion and analysis

section, a statement of net position, a statement of revenue, expenditures and changes in net position, a statement of cash flows utilizing the direct method, required information for all component units, and all required disclosures.

Financial Statements for Senior Colleges – We will also issue financial statements for the University’s senior colleges. All of the above procedures will be performed at the senior college level as well as the University level.

Management Letters — As in prior years, we expect to communicate control and operational matters to the Audit Subcommittee of the Board of Trustees. All comments will be discussed with the appropriate members of CUNY management before they are included in the draft management letter.

New Accounting and Auditing Standards Applicable for FY 2014

GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees”

The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

- The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013, which is CUNY’s FY2014 financial statements.

The timetable for our audit of the financial statements is included in Exhibit A, attached.

We will also perform audit procedures with respect to CUNY's major Federal programs in accordance with the provisions of OMB Circular A-133. OMB Circular A-133 includes specific audit requirements, in the areas of internal control and compliance with laws, regulations, contracts, and grants, applicable to major Federal programs that extend beyond those required by *Government Auditing Standards*.

In planning and performing our audit in accordance with the provisions of OMB Circular A-133, we will perform tests of the University's internal controls over compliance with requirements that could have a direct and material effect on a major Federal program.

Our past experience with CUNY indicates that the University receives the majority of its Federal financial assistance from the U.S. Department of Education. These funds are received centrally by the Office of the University Controller (OUC) and include Federal Pell Grants, Federal Direct Loans, Federal Supplemental Educational Opportunity Grants, Federal Work Study, and Federal Perkins Loans. Additionally, Federal funds are received by individual colleges to conduct research, training and other activities. University policy requires that all Federal grants, other than student financial assistance funds, be forwarded to the Research Foundation of CUNY (RF-CUNY) for administration. On rare occasions, a college will receive Federal funds and elect to administer the grant on its own. The CUNY A-133 audit will include all student financial assistance funds received by the University and any grants administered by individual colleges that are reported to OUC. We will confirm with each college to determine whether there are grants administered at the college level. A separate audit, not contemplated by this audit plan, is performed for those grants administered by RF-CUNY.

The focus of OMB Circular A-133 is on CUNY's compliance with laws and regulations in their management of Federal programs. The primary objectives of the Circular's audit requirements are to determine that:

- CUNY has established effective internal controls to provide reasonable assurance that CUNY is maintaining compliance with applicable laws and regulations related to its major Federal programs; and
- CUNY has complied with laws, regulations and provisions of contracts and grant agreements that may have a direct and material effect on any of its major Federal award programs.

Our A-133 audit will be performed in accordance with generally accepted auditing standards and generally accepted government auditing standards. Our A-133 audit utilizes a risk-based approach and typically requires greater partner and manager involvement to identify major programs and assign related audit risk. Our audit approach is designed so that we leverage our past experience and build from testwork performed during the financial statement audit and includes the following four phases:

Phase I: Planning

The purpose of the planning phase is to obtain an understanding of all Federal financial assistance received, quantify the amounts funded directly by a Federal agency or passed-through by a primary recipient, identify any sub-recipient relationships, and review any significant findings of noncompliance noted in previous A-133 reports or other Federal audit reports. During this phase, we will also classify Federal programs as either type A or type B, complete risk assessments, identify major programs for purposes of audit testing and coordinate all necessary communications between KPMG and CUNY's management.

Phase II: Obtaining an Understanding of Internal Controls

We will obtain an understanding of internal controls applicable to Federal awards expenditures, which will allow us to efficiently plan the audit and ensure that CUNY complies with laws and regulations applicable to its Federal financial assistance programs. This phase will include: identification of internal controls in place to prevent or detect material noncompliance with laws and regulations governing Federal financial assistance programs; tailoring our audit program that incorporates the relevant compliance requirements; and testing compliance with those requirements.

Phase III: Testing Internal Controls and Compliance

We will plan tests of internal controls to support a low assessed level of control risk and then perform the planned tests. We will also perform tests of compliance over the requirements which OMB defined as having a direct and material effect on a Federal program.

Compliance with laws, regulations, contracts, and grants applicable to Federal programs is the responsibility of management. We will perform tests of CUNY's compliance with certain provisions of laws, regulations, contracts, and grant agreements we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each respective Federal agency and do not cover all areas of regulations governing each program. Accordingly, program reviews by Federal agencies may identify additional instances of noncompliance.

Phase IV: Reporting

Upon completion of our testwork, we will review findings and questioned costs with management at a formal exit conference and obtain management's response to the related findings. The reports to be issued include: (1) Independent Auditors' Report on Basic Financial Statements, (2) Independent Auditors' 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, and (3) Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. We will have these reports available to meet the timetable presented in Exhibit A, attached.

Additional CUNY Requirements under OMB Circular A-133

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with provisions of laws, regulations, contracts, and grants applicable to Federal programs as discussed above, OMB Circular A-133 also requires CUNY management to prepare the following:

- schedule of expenditures of Federal awards;
- summary schedule of prior audit findings;
- corrective action plan;
- data collection form, Part I; and
- views of responsible officials

Preparation of these items is the responsibility of CUNY management.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the Federal granting agency is willing to pay the incremental audit cost arising from such selection. CUNY agrees to notify KPMG of any such request by a granting agency and to work with KPMG to modify the terms of this plan, as necessary, to accommodate such requests.

The timetable for our A-133 audit is included in Exhibit A.

The University will continue to be served by many of the professionals who participated on prior engagements.

Shelly Masi – Lead Engagement Audit Partner

Shelly will be the ultimate decision-maker on all audit issues as well as the contact point for the Audit Subcommittee. She will maintain an open line of communication with key University personnel throughout the year and be responsible for monitoring and reviewing the audit engagement, as well as communicating all audit findings to senior University management and the Audit Subcommittee.

Ed Lee – Engagement Quality Control Review Partner

Jane will provide a critical element in our quality control process by reviewing the University's financial statements and OMB Circular A-133 reports prior to issuance, to ascertain that presentations and disclosures are appropriate and complete and that the independent auditors' reports are appropriate.

Arcelie Bernardo – Watson Rice Partner

Arcelie will be the lead Watson Rice contact and will work with Shelly to ensure the engagement is appropriately staffed.

Jason Spiegel – Engagement Audit Senior Manager

Jason will serve as engagement audit senior manager. The responsibilities will include developing the audit approach and coordinating day-to-day planning and direction of the audit.

Margaret Casella– Engagement Audit Manager

Margaret will serve as engagement audit manager. Her responsibilities will be to assist Jason with work paper documentation review and supervising the staff personnel.

Ryan Powers and Analysa Tan – Senior Associates

Ryan and Analysa will serve as engagement senior associates. They will be responsible for daily activities of professional staff members assigned to the audit, including workpaper preparation and review, performance of audit procedures, and developing preliminary recommendations for improving internal controls, accounting procedures, and operational efficiencies.

Greg Goller – Tax Managing Director

Greg Goller, Tax Managing Director in the New York area's Exempt Organizations Tax practice, will be responsible for all tax services delivered to CUNY.

Barbara Hunt – Tax Senior Manager

Barbara will serve as Tax Senior Manager. She will assist Greg with all tax services delivered to CUNY.

Anthony La Rocca – Information Technology and Advisory Services Director

Anthony will be responsible for supporting the core engagement team in the identification of information technology risks facing CUNY.

Karthik Balassubramanian – Information Technology and Advisory Services Manager

Karthik will assist Anthony in identifying information risks facing CUNY. He will lead a team of IT professionals in assessing the University's information technology general controls.

Rob Mishler – Reviewing Actuary Senior Manager

Rob will be responsible for reviewing the University's actuarial information used in the preparation of the financial statements relative to its reporting in accordance with GASB 45.

Steve Benson – FDR Specialist Manager

Steve will be responsible for reviewing the valuation of the University's derivatives.

Key University Personnel

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KPMG coordinates with University management throughout the year. As a result, we expect the audit to cause minimal disruption to the normal work routines of University personnel.

The following are some of the key members of University management who provide vital assistance in facilitating a timely and efficient audit.

Leonard Zinnanti – University Executive Controller
Miriam Katowitz – University Deputy Controller
Thomas Zhou – University Treasurer
Gordon Taylor – Director, Internal Audit
Ken Tirino – University Director of Financial Reporting and Analysis
Sara Pappas Montero – Director of Revenue Management
Janet Krone – Chief Investment Officer
Kevin King – Deputy Director of Data Integrity
Fatima Anwer – Associate Director Financial Reporting
Josephine Vidal – Associate Budget Director
Gina Aviles – University Director of Accounts Payable
Roy Parks – Director of Procurement
Lucy McIntyre – Associate Director of SFA/Fiscal Management
Elaine Pimentel – Deputy Director of Office of Student SFA
Tania Degen – Director of SFA
Robert Berlinger – Chief Information Security Officer

During the audit we also expect to meet with the following individuals:

Matthew Sapienza – Vice Chancellor for Budget and Finance
Brian Cohen - Chief Information Officer
Alice Murphey – Director of Financial Aid
James Murphy – University Dean for Enrollment
James Anastasio – University Director of Administrative Computing
Kim Steele – University Director of Service Delivery

Audit Timetable

April - August

- Hold preliminary meetings with engagement team and University management for purposes of initial audit planning.
- Prepare audit plan.
- Meet with Audit Subcommittee to review audit plan.
- Prepare confirmation requests.
- Conduct business process reviews at all University campuses and begin internal control testwork.
- Perform A-133 audit work at all University campuses.
- Conduct exit conferences with the colleges for business process reviews.
- Update our understanding of the University's internal controls over its core and resource management processes and complete internal control testwork.

September - October

- Perform substantive audit procedures for the significant audit areas identified.
- Perform audit procedures with respect to other financial statement accounts.
- Review the University's draft financial statements.
- Prepare draft management letter comments for campus visits.
- Finalize and issue our report on the University's basic financial statements.
- Meet with the Audit Subcommittee to review and discuss financial statements.

November - December

- Finalize and issue our report on the University's senior college financial statements.
- Conduct exit conference with Office of the University Controller to review draft management letter comments.
- Prepare draft schedule of findings and questioned costs arising from the OMB Circular A-133 audit.
- Conduct exit conference with Office of the University Controller to discuss A-133 findings.

January - February 2015

- Issue management letters
- Issue OMB Circular A-133 audit report.
- Meet with the Audit Subcommittee to review and discuss A-133 audit report findings and management letters.