

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON
AUDIT

MINUTES OF THE MEETING
JUNE 1, 2015

The meeting was called to order at 5:29 p.m.

There were present:

Committee Members:

Hon. Peter S. Pantaleo, Chair
Hon. Philip A. Berry
Hon. Terrence F. Martell, faculty member
President Felix Matos Rodriguez, COP Liaison

Trustee Observers:

Hon. Valerie L. Beal
Hon. Joseph J. Lhota
Hon. Barry F. Schwartz

Other Observers:

Prof. Kay Conway
Ms. Mariam Jakhashvili

Trustee Staff:

Senior Vice Chancellor and Secretary of the
Board Jay Hershenson
General Counsel and Senior Vice Chancellor
Frederick P. Schaffer
Ms. Towanda Lewis
Mr. Anthony Vargas

University Staff:

Chancellor James B. Milliken
Executive Vice Chancellor and Chief Operating
Officer Allan H. Dobrin
Vice Chancellor Matthew Sapienza
Senior Advisor Marc Shaw
University Controller Leonard Zinnanti
University Deputy Controller Miriam Katowitz

Cal. No.	DISPOSITION
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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 FEBRUARY 2, 2015.** The minutes were approved as submitted.

II. INFORMATION ITEMS:

1. Engagement Letter
2. FY 2015 Audit Plan
3. KPMG Audit Plan Presentation

PRESENTATION BY SHELLY MASI, PARTNER AND JASON SPIEGEL, SENIOR MANAGER, KPMG

In response to a question from University Faculty Senate (UFS) Chair and Trustee Terrence Martell, Ms. Shelly Masi stated that the methodology that KPMG uses for financial statements is to identify significant risks at CUNY.

In response to a question from Ms. Kay Conway, Ms. Masi stated that there is no requirement for KPMG to separately report on the community colleges. KPMG reports on the senior colleges because the State of New York records them as a component, and requires that KPMG have an audit at that level of materiality that they can rely on, but New York City does not get consolidated in that same manner.

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In response to a question from Trustee Barry Schwartz, Ms. Masi stated that the purpose of engaging Watson Rice as subcontractor was a state requirement in the last contract, which began last year. There is a 20 percent state requirement that KPMG use a minority or woman-based firm.

In response to another question from Trustee Schwartz, Ms. Masi stated that Watson Rice will have the responsibility of performing the audit work with KPMG.

In response to a question from UFS Chair and Trustee Martell, Ms. Masi stated that the level of materiality declines as the various procedures of the audit are worked through, especially if KPMG starts with the control work and has control issues. KPMG has different levels of test work to perform in relation to a failed control.

In response to a question from Trustee Valerie Beal, Ms. Masi stated that any misstatements that KPMG finds that relate to community colleges would be reported to management as in the past. There are no separate carve-out reports for that. This information flows through the University's financial statements.

In response to a question from Trustee Joseph Lhota, Ms. Masi stated that the senior colleges have a separate carve-out report for the state. Everything is still audited, and it is consolidated in CUNY's report.

In response to a question from UFS Chair and Trustee Martell, Ms. Masi stated that based on rotational requirements, six out of the eight colleges selected were up for rotation.

University Deputy Controller Miriam Katowitz added that the other two colleges selected were due to changes in management, not the results of previous visits.

In response to a question from Committee Chair Peter Pantaleo, Mr. Jason Spiegel stated that KPMG has no obligation to find fraud, its procedures are designed to protect material misstatements at the level of materiality that is designed at the financial statement level and the financial statement assertion level. If KPMG was engaged to perform some type of forensics audit where this occurs, the scope of the audit would be to perform procedures to detect fraud or any lack of controls that would be anti-fraud related.

Ms. Masi added that if there is a material misstatement at the end of an audit as a result of fraud or error, KPMG's audit procedures are designed to capture them.

In response to a question from UFS Chair and Trustee Martell, Mr. Spiegel stated that KPMG has not audited state tax reserves, and CUNY is not required to.

In response to another question from UFS Chair and Trustee Martell, Ms. Masi stated that any changes in accounting policies or practices will be discussed at the Subcommittee on Audit's next meeting in November.

In response to another question from UFS Chair and Trustee Martell, Ms. Masi stated that based on the financial statements, the University has not picked up any liability for the defined pension plans. CUNY will be recording some very large liabilities in FY2015 for these defined benefits plans.

Mr. Spiegel added that the defined benefit plan liability is netted at the plan level, and then CUNY gets either the net pension liability or the asset depending on the funding or status of the plans.

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In response to a question from UFS Chair and Trustee Martell, Ms. Masi stated that defined benefit plan contributions are based on an actuarial calculation, but the liability goes out as far as the mortality tables instruct the University to take out. The overall plan is in a liability position so CUNY will be picking up their share of the liability for its employees who are in those plans. The plan had to adopt these new standards last year, and the employers pick up the GASB Statement No. 68 standard this year.

In response to a question from Trustee Beal, Vice Chancellor Matthew Sapienza stated that the state and city are funding the liabilities.

Trustee Lhota added that the funding is guaranteed under the State Constitution.

In response to a question from UFS Chair and Trustee Martell, University Controller Leonard Zinnanti stated that the pension plans that are under discussion are the Employees' Retirement System (ERS) and Teachers' Retirement System (TRS), not TIAA-CREF.

Senior Advisor Marc Shaw stated that this is a University responsibility that the state and city pick up.

University Deputy Controller Katowitz stated that the University is a member of the city plans—TRS and ERS—so a city report comes from their auditor that shows the net liability and what CUNY's responsibility entails. The University is not contributing any money to it other than what comes back on the actuarial calculation for the senior colleges, and that money comes from the state.

In response to a question from UFS Chair and Trustee Martell, University Deputy Controller Katowitz reiterated that this in no way impacts anyone whose retirement is being paid by TIAA-CREF or any of the other pensions.

University Deputy Controller Katowitz stated that the bulk of the University's federal awards are in the Research Foundation, and are audited there. The only two, as Ms. Masi pointed out during her report, is financial aid—which is a very large number—and FEMA, because CUNY still has FEMA monies that are coming through from Superstorm Sandy. This is the third year where the University did not have a special audit, but this time around selections will be made and CUNY will review them to see whether these were prior years' awards that CUNY is now seeing the completion of, or whether they are incremental changes that would make the change in applying the uniform guidance.

Committee Chair Pantaleo thanked the KPMG team on behalf on the Subcommittee.

I. ACTION ITEMS, continued:

B. POLICY CALENDAR

1. The City University of New York – Approval of Audit Scope. Committee Chair Peter Pantaleo asked for the Committee's approval of the audit scope as presented by KPMG, and to authorize the Vice Chancellor for Budget and Finance to sign the Engagement Letter for the audit of the CUNY financial statements for the year ended June 30, 2015.

In response to a question from Trustee Schwartz, Ms. Masi stated that with regards to the engagement letter the changes have been very consistent with last year. She added that the fee includes the services of Watson Rice is the same, and is consistent with the contract.

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University Deputy Controller Katowitz stated that for the audit, there will be a separate engagement letter for the tax work, and CUNY will actually have two engagement letters for that, one for Watson Rice, and one for KPMG. They assist the University with the 990-T that is required to be filed because CUNY is a government agency, and does not have to file the normal form 990.

In response to a question from Trustee Beal, Ms. Masi stated that this audit does not include the audit of the individual colleges' foundations. They are rolled up into the consolidated financial statements, but the University is relying on its own auditors' so that CUNY is not re-auditing the foundations.

Vice Chancellor Sapienza stated that the individual colleges have to get their own independent auditors to audit their financial statements.

Following discussion, this item was approved.

The meeting was adjourned at 5:59 p.m.