I. ACTION ITEMS

A. APPROVAL OF THE MINUTES OF MARCH 29, 2017

B. POLICY CALENDAR

1. Presentation and approval of Fiscal Year 2017 External Audit Plan
   [Presentation by KPMG]

2. Presentation and approval of the Fiscal Year 2018 Internal Audit Plan
   [Discussion in Executive Session]
The meeting was called to order by Chairperson William C. Thompson, Jr. at 4:05 p.m.

The following people were present:

Committee Members:
Hon. William C. Thompson, Jr.
Hon. Lorraine A. Cortés-Vázquez (joined @ 4:20 p.m.)
Hon. Judah Gribetz
Prof. Kay Conway, faculty member
Ms. Shaina Yasin, student member

Observer:
Hon. Chika Onyejiukwa (joined @ 4:57 p.m.)

Trustee Staff:
Senior Advisor to the Chancellor and Secretary of the Board Gayle M. Horwitz
Interim General Counsel and Vice Chancellor Jane Sovern
Deputy to the Secretary Hourig Messerlian
Ms. Towanda Lewis

University Staff:
Chancellor James B. Milliken (joined @ 5:16 p.m.)
Senior Vice Chancellor and Chief Financial Officer Matthew Sapienza
Senior Advisor Marc V. Shaw
Vice Chancellor Brian Cohen
Deputy Chief Financial Officer Christina Chiappa
University Executive Director of Internal Audit and Management Services Gordon Taylor (joined @ 5:16 p.m.)
Director of Financial Reporting and Analysis Kenneth Tirino

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE SUBCOMMITTEE ON AUDIT MEETING OF NOVEMBER 7, 2016. Moved by Chairperson Thompson and seconded by University Faculty Senate (UFS) Chair and Trustee Kay Conway, the minutes were approved as submitted.

B. POLICY CALENDAR


See attached KPMG Partner Jane Letts’ presentation on The City University of New York Uniform Guidance Audit Results.

In response to a question from Chairperson Thompson on what was KPMG’s sample for the Uniform Guidance Audit:

Ms. Letts stated that KPMG’s sample included a total of 145 students from across the University, about five to ten students per campus.

In response to a follow-up question from UFS Chair and Trustee Conway on what are the odds that some of the 145 students in the sample would receive financial assistance:

Ms. Letts stated that KPMG makes sure that they are getting a good range of students that receive financial aid assistance per campus, not per type of program within financial aid. To the Federal government, student financial aid cluster is one program. Typically, in a school that does not have many campuses, the American Institute of Certified Public
Accountants (AICPA) does have sample guidance, and based on their risk assessments, they could do a sample of twenty-five. She noted that it is twenty-five samples for a low risk assessment, forty samples for a moderate assessment, and sixty-five samples for a high assessment. KPMG went beyond this because of the number of campuses CUNY has, and to make sure that it is getting adequate coverage. If any exceptions are identified from those samples, KPMG will either write it as a finding, or expand the sample. Ms. Letts stated that no exceptions were noted throughout KPMG’s performance procedure.

KPMG Senior Manager Maggie Casella added that the majority of KPMG’s samples have Pell grants and direct loans. These are the two largest programs. There are fewer Perkins loans and federal work-study, and those programs are not very large for the University. The Tuition Assistance Program (TAP) is a New York State program, so it is not under the scope of the Federal Uniform Guidance, but KPMG does see and considers the total aid the students were awarded to make sure it was not over their cost of attendance or need.

In response to a third question from UFS Chair and Trustee Conway on whether the process is sufficient to find a problem if it exists as per the previous point about low, moderate, and high assessments, and a one-campus system where at the low end one would be doing twenty-five, and here at the University at the low end with twenty-four campuses and 145 samples KPMG is doing five:

Ms. Letts stated that it is the same control process but to the Federal government CUNY is one school.

In response to questions from UFS Chair and Trustee Conway on a) has KPMG experienced any fraudulent problems on a non-CUNY campus, b) what has been the base issue, and c) how can CUNY check that it cannot be done here:

Ms. Letts stated that having an appropriate control structure in place is key, making sure that there is adequate segregation of duties, and review and approval by another individual. She added that with respect to financial aid, in her experience she has not seen any fraudulent reporting. It is a little hard to falsify paperwork as it is first submitted to the Federal government, then the reports come to the University, and then the paperwork is submitted back. Furthermore, with all of the enrollment reporting to the National Student Loan Data System (NSLDS), fraudulent activity can be monitored.

In response to another question from UFS Chair and Trustee Conway on whether there is any benefit in KPMG’s experience to doing this process on a centralized basis for an organization as large as CUNY:

Ms. Letts stated that for control purposes a centralized process is easier when conducting an audit; however, the problem would be for students at the campuses who have questions. All the same, the University has common controls surrounding financial aid which the campuses are following.

In response to a question from Chairperson Thompson on whether this process is done yearly:

Ms. Letts stated that the Federal government requires that this process be done once a year.
Chairperson Thompson stated that he would strongly suggest that in the next year KPMG do a higher statistical sample across the system rather than just the 145, looking at a little more than five to ten students per campus.

Ms. Letts stated that KPMG does not do a statistical sample. The AICPA does not require it, as it is judgmental.

In response to a question from Trustee Lorraine A. Cortés-Vázquez on what are Return of Title IV funds:

Ms. Letts stated that KPMG tests compliance and internal control procedures on Return of Title IV funds regarding the calculation and timeliness of the refunds. For example, if a student withdrew funds early and did not utilize all of the aid, during a certain time period, the University needs to do a calculation to determine if there is an amount that needs to be returned to the Federal government.

Following discussion, the item was approved as moved by Chairperson Thompson and seconded by UFS Chair and Trustee Conway.

II. INFORMATION ITEMS:

Chairperson Thompson moved to go into Executive Session at 4:25 p.m. The motion was seconded by UFS Chair and Trustee Conway.

CONVENCING OF EXECUTIVE SESSION:

Chairperson Thompson called for an Executive Session pursuant to Section 105, Article 7, of the Public Officers Law, for the purpose of discussing confidential financial audit matters of the University. The Committee met in Executive Session from 4:27 p.m. to 5:38 p.m.

The Committee reconvened in Public Session. Chairperson Thompson moved to adjourn the meeting. The motion was seconded by Trustee Cortés-Vázquez and the meeting was adjourned at 5:39 p.m.
The City University of New York
Uniform Guidance Audit Results

June 30, 2016

This presentation to the Audit Subcommittee is intended solely for the information and use of the Audit Subcommittee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

With you today:
Jason Spiegel, KPMG Partner
Margaret Casella, KPMG Senior Manager
February 6, 2017
Agenda

Uniform Guidance Audit

- Audit overview
- Discussion of results
Uniform Guidance Audit - Objective

The objective of the single audit is as follows:

— Determine whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to CUNY’s financial statements.

— Obtain an understanding of the internal control over compliance for each major program, assess control risk and perform tests of those controls.

— Determine whether CUNY complied with laws, regulations, and the provisions of contracts or grant agreements pertaining to federal awards that may have a direct and material affect on the major program – material noncompliance.
Uniform Guidance Audit - Selection of Major Programs

Selection of Major Programs

— Threshold of $750,000 is used to determine Type A and Type B programs when total expenditures are less than $25 million ($3,000,000 was threshold used for Federal programs). Those programs above the threshold are considered Type A programs, those below are considered Type B programs.

— Programs with loans are removed from the calculation of the threshold under certain circumstances

— A risk assessment is performed on all Type A programs

— Considerations necessary for low risk
  • Audited as a major program in at least 1 of 2 preceding years
  • Unmodified opinion on compliance in last audit
  • No audit findings noted in last audit that were considered material weaknesses
  • No known or likely questioned costs that exceeded 5% of the total federal expenditures for that program in last audit
  • No written request by the federal awarding agency to audit the program as major
  • Not designated as “higher risk” in the Compliance Supplement
  • Major changes in program regulation, personnel or systems
  • No recent Federal monitoring or results of prior year audit findings that result in higher risk based on auditor’s judgment

— All Type A’s that are not low risk are deemed high risk
  • If high risk – required to be selected as a major program
  • If low risk – selection as a major program is based on percentage of coverage rules

— A risk assessment is performed on all Type B programs in excess of 25% of the Type A Threshold – we would select high risk Type B programs to replace low risk Type A programs.
Uniform Guidance Audit - Major Programs Audited 2016

- All CUNY schools were visited during the Uniform Guidance audit
- One major program was audited:
  - Student Financial Assistance Cluster
Uniform Guidance Audit - Student Financial Assistance Cluster

Tests were performed over compliance and internal control procedures relating to the following areas:

— Allowable activities – Awards and payments to students
— Cash management – Requests and draw down of funds by University
— Eligibility – The eligibility of students
— Reporting – Review reports submitted by University for accuracy and timeliness
— Special tests and provisions:
  ▪ Separate Funds – Review procedures performed for maintenance of separate account
  ▪ Verification – Review procedures performed and documents obtained
  ▪ Disbursements to and on behalf of students – Calculation, reporting and timeliness of the disbursements
  ▪ Return of Title IV funds – Calculation and timeliness of the refunds
  ▪ Enrollment Reporting – Reporting and timeliness of the status changes
  ▪ Loan repayments – Review procedures performed and documents obtained for proper authorization
  ▪ Borrower data transmission and reconciliation – Review procedures performed and reconciliations prepared
  ▪ Institutional Eligibility – Determine that the colleges are eligible to receive Federal SFA for its students
Uniform Guidance Audit - 2016 Results

— We have completed our audit of the University’s Federal award programs.

— We conducted 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, issued by the Comptroller General of the United States.

— We conducted our audit of compliance over the major program in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

There were no audit findings or questioned costs identified.

Pending Matters:
— Completion and certification of the Data Collection Form
— Final down-to-date procedures (e.g. reading of Board of Trustees minutes of meetings held subsequent to December 2016, management representation letter, etc.).
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Audit Plan - Agenda

KPMG Engagement Team

Objective of an Audit

Responsibilities

2017 KPMG Audit Overview and Plan

— KPMG’s Audit Approach and Methodology
— Audit Timeline
— Audit Reports and Other Deliverables
— Materiality
— College Visits
— Auditing and Accounting Matters
— Independence
— Federal Uniform Guidance Audit
— Consideration of Fraud in the Audit

Audit, Accounting, and Regulatory Developments Effective for Fiscal Year 2017 and Beyond

KPMG’s Audit Committee Institute (ACI)

Appendix A – Planned Audit Procedures

Appendix B – Higher Education Industry Outlook


Contacts
## KPMG Engagement Team

### The City University of New York Audit Committee

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Jane Letts-Parvesse</td>
<td>Lead Engagement Partner</td>
</tr>
<tr>
<td>Felicia Tucker</td>
<td>Tax Principal</td>
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<tr>
<td>David Gagnon</td>
<td>Engagement Quality Control Review Partner</td>
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<tr>
<td>Devin Duncan</td>
<td>Tax Senior Manager</td>
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<tr>
<td>Margaret Casella</td>
<td>Lead Engagement Senior Manager</td>
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<tr>
<td>Bennie Hadnott</td>
<td>Watson Rice Partner</td>
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<td>Lead Engagement Senior Manager</td>
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<tr>
<td>Jason Alexis</td>
<td>Watson Rice Senior Associate</td>
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<tr>
<td>Luis Pacheco</td>
<td>Information Technology Manager</td>
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<tr>
<td>Robert Mishler</td>
<td>Pension Actuary Senior Manager</td>
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<tr>
<td>Anthony Lieu</td>
<td>Derivatives FRM Director</td>
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<tr>
<td>Bennie Hadnott</td>
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### Staff

#### Other Subject Matter Professionals

<table>
<thead>
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<tr>
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Objectives of an Audit

— The objective of an audit of financial statements 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 (GAAP).

— We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether from error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance.

— Our audits include:

  – Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement to provide a reasonable basis for our opinions.

  – Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall financial statement presentation.
Responsibilities

Management is responsible for:

— Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)

— The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

— Ensuring that the University operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the University’s financial statements, and for informing the auditor of any known material violations of such laws and regulations

— Providing access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

— Adjusting the financial statements to correct material misstatements and affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

— Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management’s:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the University’s financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud.
Responsibilities, continued

The Audit Committee is responsible for:

— Oversight of the financial reporting process and oversight of Internal Control over Financial Reporting (ICFR)

— Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud

Management and the Audit Committee are responsible for:

— Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.
Responsibilities, continued

**KPMG is responsible for:**

— Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.

— Conducting the audit in accordance with professional standards and complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the ethical standards of relevant CPA societies, and relevant state boards of accountancy.

— Forming and expressing 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 GAAP.

— An audit of the financial statements 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 entity’s internal control over financial reporting.

— Communicating to the Audit Committee all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

— Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management’s attention. The objective of our audit of the financial statements is not to report on the University’s internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.

— Communicating to the Audit Committee circumstances that affect the form and content of the auditors’ report, if any.
### 1. Experienced team

We have an experienced team.

Our team includes integration of the following specialists: Derivatives, IT, Tax.

### 2. Tailored to the University’s business strategies and activities

In developing our audit plan for June 30, 2017, we will base our approach on our understanding of the University’s objectives and strategies and the challenges facing the University in 2017.

### 3. Top-down, risk-based approach

We work closely with management to understand the University challenges and changes in the University during the year with respect to the impact on our audit approach.

Our audit plan outlines our assessment of audit risk and highlights specific areas of focus for 2017.

### 4. Effective and efficient audit

Our audit approach involves interaction with all levels of management throughout the year to identify issues.

Our audit approach is based on communication and coordination with management.

### 5. Consistent audit methodology worldwide

Consistent audit methodology and technology used by KPMG member firms worldwide.

### 6. Compliance with applicable professional standards

KPMG has systems and processes in place to monitor compliance with professional standards.
## Audit Timeline

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Activities</th>
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<tbody>
<tr>
<td><strong>June 5, 2017</strong></td>
<td>— Presentation of the audit plan to the Audit Committee</td>
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<tr>
<td><strong>Interim Fieldwork:</strong></td>
<td>— Perform campus visits and begin testing for the Federal Uniform Guidance Audit</td>
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<tr>
<td><strong>May 30 – August 11, 2017</strong></td>
<td>— Update understanding of accounting and reporting activities</td>
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<td></td>
<td>— Evaluate design and implementation of selected controls, including IT general controls</td>
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<td></td>
<td>— Test operating effectiveness of selected controls</td>
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<tr>
<td><strong>Final Fieldwork:</strong></td>
<td>— Plan and perform substantive procedures</td>
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<tr>
<td><strong>September 11 – October 31, 2017</strong></td>
<td>— Perform remaining audit procedures</td>
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<td></td>
<td>— Form audit conclusions</td>
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<td></td>
<td>— Discuss key issues with management</td>
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<td><strong>October/November 2017</strong></td>
<td>— Attend Audit Committee meeting and perform required communications</td>
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<td></td>
<td>— Debrief on audit process</td>
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<td>— Issue report on financial statements for both the University and the Senior Colleges</td>
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<tr>
<td><strong>December 2017 /January 2018</strong></td>
<td>— Finalize procedures for the Federal Uniform Guidance Audit</td>
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<td>— Issue management letter</td>
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<td>— Issue Federal Uniform Guidance report</td>
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## Audit Reports and Other Deliverables

| Audit Reports and Letters | — Auditors’ report on the financial statements of the University as of and for the year ending June 30, 2017,
|                          | — Auditors’ report on the financial statements of the Senior Colleges as of and for the year ending June 30, 2017,
|                          | — Auditors’ report on the University’s Federal awards in accordance with Government Auditing Standards issued by the Comptroller General of the United States and Federal OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Federal Uniform Guidance”) for the year ending June 30, 2017
|                          | — Management letter summarizing our recommendations on improvements to internal accounting controls and operational efficiencies |
Materiality

— Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.

— Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

— Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

— Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
College Visits

We plan to visit the Office of Budget and Finance (OBF) as well as eight colleges. Each college is visited at least once every three years based on rotation requirements, changes in management, or results of previous visits.

The eight colleges identified to be visited during the 2017 audit are as follows:

— Hunter College
— John Jay College of Criminal Justice
— New York City College of Technology
— College of Staten Island
— Graduate Center
— LaGuardia Community College
— CUNY School of Public Health and Public Policy
— School of Professional Studies
College Visits, continued

During the college visits, we review the following areas of operations:

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 statement audit), as well as compliance with federal financial aid rules and regulations (Federal Uniform Guidance audit).

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 for both unrestricted and restricted expenses.

Human resources management – this process includes the approval of new hires and terminations and the recording of salaries and related benefits.

Information technology – this process includes a description of the various college programs, access controls over these programs and interfaces between these programs, as well as with OBF programs.

To test the areas that impact the financial reporting process for each of the above areas samples are selected at each individual college as part of the financial statement audit. These areas include samples from cash receipts, tuition refunds, cash management, fixed assets purchases, other purchases, and payroll status changes.
## Auditing and Accounting Matters

<table>
<thead>
<tr>
<th>Significant audit areas</th>
<th>Significant estimates</th>
<th>Significant unusual transactions/other items</th>
<th>Information technology matters</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Student tuition, fees and auxiliary revenue and related receivables</td>
<td>• Classification of net position</td>
<td>• Implementation of new GASB standards (see slide 20)</td>
<td>• General information technology environment</td>
</tr>
<tr>
<td>• Appropriations from NYS and NYC</td>
<td>• Current vs. noncurrent classifications for assets and liabilities</td>
<td>• Non-bursar cashiering</td>
<td>• New system implementations</td>
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<tr>
<td>• Debt</td>
<td>• Presentation of scholarship allowance vs. expense</td>
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<td>• Existing systems upgrade</td>
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<tr>
<td>• Capital assets</td>
<td>• Valuation of student accounts and student loans</td>
<td></td>
<td>• Systems integration</td>
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<tr>
<td>• Investments and related investment income</td>
<td>• Valuation of OPEB and pension liabilities</td>
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<tr>
<td>• Payroll and fringe benefits and all payroll and fringe benefit accruals</td>
<td>• Valuation of investments</td>
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<tr>
<td>• Cash</td>
<td>• Valuation of swaps</td>
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<td>• Financial reporting</td>
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Auditing and Accounting Matters, continued

Other Audit Procedures

— Analytically review the statement of net position and statement of revenues, expenses and changes in net position account balances
— Review closing and post-closing entries
— Review financial statement disclosures for appropriateness and completeness
— KPMG-Tax will conduct interviews with the University’s personnel and review audit workpapers to identify any tax issues, as well as the University’s conclusions on uncertain tax positions.
— Perform test work on the University’s information technology general controls
— Perform test work on the University’s entity level controls
— Review minutes of Board and selected committees
— Send legal letters to in-house counsel to determine litigation exposure and assess financial statement impact
— Review developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
— Review significant communications with regulators, if any
Non-audit services or other relationships that may reasonably be brought to bear on independence include:

— None

In our professional judgment, we are independent with respect to the University and its affiliates, as that term is defined by the professional standards.

KPMG maintains a comprehensive system of quality controls designed to maintain our independence

— Pre-approval of all worldwide engagements by the audit engagement team through Sentinel, a KPMG independence verification system
— Monitoring employment relationships
— Tracking partner rotation requirements using PRS, the firm’s automated partner rotation tracking system
— Automated investment tracking system used by all KPMG member firms (KICS)
— Training and awareness programs
— Compliance testing programs
— Annual reporting to the Audit Committee
Federal Uniform Guidance Audit

Office of Management and Budget – Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Federal Uniform Guidance)

The objective of the single audit is as follows:

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Federal Uniform Guidance Audit, continued

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― Programs with loans are removed from the calculation of the threshold under certain circumstances

― A risk assessment is performed on all Type A programs

― Considerations necessary for low risk
  • Audited as a major program in at least 1 of 2 preceding years
  • Unmodified opinion on compliance in last audit
  • No audit findings noted in last audit that were considered material weaknesses
  • No known or likely questioned costs that exceeded 5% of the total federal expenditures for that program in last audit
  • No written request by the federal awarding agency to audit the program as major
  • Not designated as “higher risk” in the Compliance Supplement
  • Major changes in program regulation, personnel or systems
  • No recent Federal monitoring or results of prior year audit findings that result in higher risk based on auditor’s judgment

― All Type A’s that are not low risk are deemed high risk
  • If high risk – required to be selected as a major program
  • If low risk – selection as a major program is based on percentage of coverage rules

― A risk assessment is performed on all Type B programs in excess of 25% of the Type A Threshold – we would select high risk Type B programs to replace low risk Type A programs.
Federal Uniform Guidance Audit, continued

— It is anticipated that the University will have one Type A program that will be considered to be a major program
  - Federal Student Financial Assistance Cluster (inclusive of Pell, Direct Loans, FWS, FSEOG, TEACH, Perkins, Nursing Student Loans)

— All CUNY schools (campuses) will be visited during the Uniform Guidance audit

Tests will performed over compliance and internal control procedures relating to Federal Student Financial Assistance Cluster to the following areas:

— Allowable activities – Awards and payments to students (Combination testing Central Office and Campus)
  — Total population of SFA disbursements during FY2017 is provided by the Central Office. Sample of 5-10 students are selected from the population from each campus and validated at the campus level to underlying documentation.

— Cash management – Requests and draw down of funds by University
  — The population of all drawdowns during FY2017 is provided by the Central Office. A sample of 25 drawdowns are selected that include reimbursements for all campuses. The drawdown process is performed by the Central Office and tested there. Our procedures include a reconciliation of amounts drawn down to the campus disbursements.

— Eligibility – Eligibility of students (Combination testing Central Office and Campus)
  — Total population of SFA disbursements during FY2017 is provided by the Central Office. Sample of 5-10 students are selected from the population from each campus and validated at the campus level to underlying documentation.

— Reporting – Review reports submitted by University for accuracy and timeliness
  — Pell Grant Reporting – Total population of Pell grant disbursements to students during FY2017 is provided by the Central Office. Sample of 25 students (University-wide) selected with Pell grant awards during FY2017 with approximately 4 grant disbursements per student. Testwork is performed at the Central Office based on information obtained from the Department of Education Common Origination and Disbursement website and CUNYFirst.
  — FISAP Reporting – The annual FISAP report prepared by the Central Office is agreed to supporting documentation.
Federal Uniform Guidance Audit, continued

— Special tests and provisions:

- Separate Funds – Review procedures performed for maintenance of separate account. This procedure is performed at an overall level at the Central Office.

- Verification – Review procedures performed and documents obtained (Combination testing Central Office and Campus)
  - Total population of SFA disbursements during FY2017 is provided by the Central Office and listings of students selected for verification provided by each campus and validated at the campus level to underlying documentation. Sample of students are selected from the population across all campuses that were selected for verification during FY2017 (a sample of between 1 and 10 per campus).

- Disbursements to and on behalf of students – Calculation, reporting and timeliness of the disbursements (Combination testing Central Office and Campus)
  - Total population of SFA disbursements during FY2017 is provided by the Central Office and validated at the campus level to underlying documentation. Sample of 5-10 students selected from the population from each campus (each student selected has approximately 2 disbursements).

- Return of Title IV funds – Calculation and timeliness of the refunds (Combination testing Central Office and Campus)
  - Total population of students with return of Title IV funds during FY2017 is provided by the Central Office and validated at the campus level to underlying documentation. Sample of 5 students selected from the population from each campus that had a return of Title IV funds.

- Enrollment Reporting – Reporting and timeliness of the status changes (Combination testing Central Office and Campus)
  - Total population of students with Pell and Direct Loan awards with status changes during FY2017 is provided by the Central Office and validated at the campus level to underlying documentation. Sample of 6 students selected from the population from each campus that either graduated, withdrew or dropped below half-time.
Special tests and provisions (continued):

- Loan repayments – Review procedures performed and documents obtained for proper authorization (Combination testing Central Office and Campus)
  - Total population of Perkins loan repayments, deferments and cancellations during FY2017 is provided by the Central Office and validated at the campus level to underlying documentation. Sample of 6 students selected from the population from each campus with Perkins loans who entered repayment status, deferment status, or cancelled their loan.

- Borrower data transmission and reconciliation – Review procedures performed and reconciliations prepared (Combination testing Central Office and Campus)
  - Total population of Direct Loan disbursements during FY2017 is provided by the Central Office and validated at the campus level to underlying documentation. Sample of 25 students selected from the population with Direct Loan awards during FY2017 (at least 1 sample per campus). For each student selected, approximately 4 loan disbursements are tested.

- Institutional Eligibility – Determine that the colleges are eligible to receive Federal SFA for its students. This compliance requirement is tested at each campus by reviewing the schools Program Participation Agreement, Eligibility and Certification Approval Report, Accreditation Letter, Satisfactory Academic Progress Policy.

Overall Summary of Sample Size per campus:

- Allowability, Eligibility and Disbursements – 5-10 samples
- Return of Title IV – 5 samples
- Enrollment reporting – 6 samples
- Perkins loan repayments – 6 samples
- Pell grant reporting, Verification and Borrower data transmission and reconciliation samples are included within the 5-10 samples noted above for Allowability, Eligibility and Disbursements
Consideration of Fraud in the Audit

AU Section 316, Consideration of Fraud in a Financial Statement Audit – We are responsible for planning and performing the audit to obtain reasonable (not absolute) assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

Fraud Approach – How KPMG Addresses Fraud Risks in the Audit

— Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
— Discuss among the audit team the susceptibility to fraud
— Inquire of management, audit committee, and others
— Evaluate broad programs/controls that prevent, deter, and detect fraud

Response to identified fraud risks

— Evaluate design and implementation of mitigating controls
— Test effectiveness of controls
— Perform specific substantive audit procedures (incorporate elements of unpredictability)
— Evaluate audit evidence
— Address revenue recognition and risk of management override of controls
— Communicate to management and audit committee
Audit, Accounting, and Regulatory Developments Effective for Fiscal Year 2017 and Beyond

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

- The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements at the OPEB Plan level for fiscal years beginning after June 15, 2016 (plan level FY 2017). Since this is applicable at the plan level there is no impact to the University until GASB Statement No. 75 which will require implementation at the employer level.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

- The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017.

- Management will need to determine the impact to the FY 2018 financial statements and related disclosures.
Audit, Accounting, and Regulatory Developments Effective for Fiscal Year 2017 and Beyond, continued

GASB Statement No. 80, Blending Requirements for Certain Component Units

- This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
- The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016 (FY 2017).
- Management to assess impact to FY 2017 financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements

- This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.
- The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively (FY 2018).
- Management to assess impact to FY 2018 financial statements.
Audit, Accounting, and Regulatory Developments Effective for Fiscal Year 2017 and Beyond, continued

GASB Statement No. 82, Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No 73

The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, GASB Statement No. 71 and GASB Statement No. 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement will effect the University for FY 2017. Management to assess the impact to the University’s financial statements.
Audit, Accounting, and Regulatory Developments Effective for Fiscal Year 2017 and Beyond, continued

GASB Statement No. 83, Certain Asset Retirement Obligations

- The objective of this Standard is to address determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. This Statement requires a government entity to recognize an asset retirement obligation when the liability is incurred and reasonably estimable. The government entity would measure the obligation based on its best estimate of the current value of outlays expected to be incurred.

- The requirements of this Standard are effective for reporting periods beginning after June 15, 2018 (FY 2019).

- Management to assess impact to FY 2019 financial statements.

GASB Statement No. 84, Fiduciary Activities

- The objective of this Standard is to establish criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

- The requirements of this Standard are effective for reporting periods beginning after December 15, 2018 (FY 2020).

- Management to assess impact to FY 2020 financial statements.
Audit, Accounting, and Regulatory Developments Effective for Fiscal Year 2017 and Beyond, continued

GASB Statement No. 85, Omnibus 2017

This Standard addresses practice issues that have been identified during implementation and application of certain GASB Statements. It addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using current financial resources measurement focus
- Recognizing on-behalf payments for pension or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through multiple-employer defined benefit OPEB plans

The requirements of this Standard are effective for reporting periods beginning after June 15, 2017 (FY 2018). Management to assess impact to FY 2018 financial statements.
KPMG’s Audit Committee Institute (ACI)

Upcoming events

— Annual Audit Committee Issues Conference
  - This premiere conference brings together audit committee members and board directors—along with governance professionals, business leaders, and other luminaries—for a candid dialogue on the challenges and priorities shaping audit committee and board agendas in the year ahead.
  - Next conference which is about, Governance Challenges and Priorities Driving the 2018 Agenda, is scheduled for January 8 – 9, in San Diego, CA

— Semi-Annual Roundtables
  - Launched in 1999, the Audit Committee Roundtable Series is hosted by KPMG’s Audit Committee Institute (ACI) in over 20 cities every spring (May/June) and fall (November/December). Highly interactive and panel driven, the roundtable sessions bring together audit committee members, board directors, senior executives and leaders in governance to discuss challenges, emerging trends and leading practices affecting the oversight of financial reporting and related risks.

— Audit Committee Quarterly Webcast Series
  - A quarterly Webcast providing updates and insights into issues affecting Audit Committee/Board oversight—from key accounting and regulatory changes to developments in risk oversight.
  - Most recent Webcast was held on March 23, 2017 (available on play back), The New Mindset in Cybersecurity
  - The next Webcast will take place on June 22, 2017

Resources

— ACI Web site: www.auditcommitteeinstitute.com
— ACI mailbox: auditcommittee@kpmg.com
— ACI hotline: 1-877-KPMG-ACI
Appendix A - Planned Audit Procedures
Appendix A – Planned Audit Procedures

Refer to fiscal 2017 audit plan attachment
Appendix B - Higher Education Industry Outlook
Moody’s Outlook Stable for Higher Education in 2017 (updated March 2017)

Moody’s Investors Service in November 2016 cited several factors – including steady enrollment and strong demand – that support a stable outlook in 2017. Since the election, Moody’s has provided further insights as of March 28, 2017 (“Budget Blueprint Credit Negative for Higher Education and Other Not-for-Profits”). Following are highlights of that report:

— Moody’s states that the Trump administration’s first draft budget for FY 2018, if unchanged by Congress, would be credit negative for the US higher education and not-for-profit sector owing to steep cuts in federal funding and the elimination or reduction of some programs. However, the credit rating agency believes there is a high probability the proposal would be modified.

— A proposed $5.8 billion, or over 18%, cut in funding for the National Institutes of Health (NIH) would have the most significant negative credit impact on the sectors:
  - Standalone research institutions focusing on biomedical projects would be most challenged under this budget, including Scripps Research Institute (A1 stable), Fred Hutchinson Cancer Research Center (A3 stable), and the Wistar Institute (Baa1 stable). The NIH funds 15%-60% of biomedical research budgets at Moody’s rated research institutes.
  - Large research universities also receive significant NIH funding, but these institutions tend to have more diversified research portfolios, larger budgets, and significant reserves that would help them adjust to the new funding environment over several years.

— The Department of Education (DoE) could experience a $9 billion, or 13%, decline in funding below the 2017 continuing resolution level of $68 billion. Colleges and universities are highly dependent on federal financial aid programs distributed or managed by the DoE, which distributes $45 billion in federal grants and administers student loans.

— The budget keeps Pell Grant funding flat at $22 billion, which would be largely credit neutral for the higher education sector, while at the same time reducing certain smaller financial aid programs.

— The budget also discusses eliminating other independent agencies, including the Corporation for Public Broadcasting (CPB, $445 million), the National Endowment for the Arts (NEA, $148 million), and the National Endowment for the Humanities (NEH, $146 million).
Heightened Expectations Around Data Security

The Gramm–Leach–Bliley Act (GLBA) regulates the collection, disclosure, and protection of consumers' nonpublic information. Higher education institutions receiving federal funds are subject to the provisions of the GLBA and must adopt an information security program, draft detailed policies for handling financial data covered by the law, and take steps to protect data:

– The Safeguards Rule, which under the GLBA applies to program participation agreements for student financial aid between the Department of Education (ED) and the institution, requires the institution to develop, implement, and maintain a comprehensive information security program that includes reasonable measures to secure customer information and to **regularly test or otherwise monitor** the effectiveness of the safeguards' key controls, systems, and procedures.

– Dear Colleague Letter GEN 16-12 reminded institutions of their obligations to comply with the GLBA and to protect data used in all aspects of the administration of the Title IV federal student financial aid. Since the GLBA is intended to ensure the security and confidentiality of customer information, ED considers any breach in the security of student records and information evidence of a potential lack of administrative capability.

– ED has drafted suggested audit procedures to include in the 2017 Compliance Supplement for the auditor to determine whether the institution has developed, implemented and maintained a comprehensive information security program.
  – On March 29, 2017, the Council on Governmental Relations (COGR) and others issued a letter objecting to the currently drafted audit cybersecurity audit requirements, citing concerns about readiness, resources, and costs.
  – While it is unclear what the scope of the audit procedures may ultimately entail, institutions should consider whether their information security plan has been subjected to recent review and testing.

– Institutions should also be cognizant that the security requirements imposed by GLBA likely encompass numerous IT systems in which student information resides, related security protocols connected to general IT and other application controls, and other business processes through which student data is processed. Accordingly, the breadth of potential policy and audit exposure could be significant.
Financial Health
Six in 10 presidents strongly agree or agree they are confident their institution will be financially stable over the next five years. Slightly less, 52 percent, are confident about their institution’s financial health over the next 10 years, more than felt that way in 2016.

Race Relations
The vast majority of presidents describe the state of race relations at their college as either “excellent” (20 percent) or “good” (63 percent). More than three-fifths of presidents describe race relations at American colleges in general as “fair.”

Federal Higher Education Policy
Most presidents favor recently adopted federal policies to include gender identity among areas protected by anti-bias laws (76 percent), to institute gainful employment rules for for-profit colleges and some nonprofit college vocational programs (67 percent), and to require a preponderance of evidence standard in evaluating sexual assault allegations (63 percent). Presidents largely oppose maintaining the College Scorecard and permitting teaching assistants at private colleges to unionize.

Concerns About Student Body Size and Composition
College presidents’ greatest concerns about enrollment are having enough institutional aid to enroll as many low-income students as their college would like to have, enrolling students who are likely to be retained and graduate on time, and enrolling their college’s target number of undergraduates. The latter is especially true among leaders of private baccalaureate colleges.

Image of Higher Education
Just 12 percent of presidents strongly agree or agree that most Americans understand the purpose of higher education; half strongly disagree or disagree. College presidents widely believe the public thinks that college is less affordable than it is because of attention to student debt levels, that colleges are wealthier than is the case because of attention to large endowments, and that colleges have misplaced priorities because of the campus amenities many colleges now offer students.

Effects of Trump Election on Higher Education
Following the election of Donald Trump as U.S. president, one in five college presidents say racial incidents have increased on their campus. Two-thirds of college presidents strongly agree or agree that campus protests after Trump’s election have played into an image that higher education is intolerant of conservative views. A majority of presidents believe the election exposed a disconnect between academe and much of American society. Nearly 7 in 10 perceive that anti-intellectual sentiment is growing in the U.S.

Speaking Out on Political Matters
About one in three college presidents say they spoke out more on political issues during the 2016 presidential campaign than they usually do. Sixteen percent say they wish they had spoken out more than they did.
Appendix C - KPMG Publication, “On the 2017 Higher Education Audit Committee Agenda”
On the 2017 higher education audit committee agenda

Drawing on insights from our 2017 Global Audit Committee Pulse Survey as well as interactions over the last year with audit committees and senior management of colleges and universities, we’ve highlighted four items that audit committees should keep in mind as they consider and carry out their 2017 agendas. The sidebar below delineates a broader list of areas likely to receive attention in 2017.

2017 Higher Education Audit Committee Focus Areas

In addition to core responsibilities regarding financial reporting and internal controls – including review of external and internal auditor reports and recommendations – several risk areas will require the attention of higher education audit committees over the next year. Among those likely to receive emphasis are:

- Institutional compliance and control programs amid fast-changing, uncertain federal landscape
- Preparedness for new FASB and GASB financial reporting standards and potential expansion of OMB and Department of Education audit requirements
- Evaluating risk and mitigation trends – including proposed budget and policy changes from the new administration – under ERM programs
- Strength of IT programs: cybersecurity, data privacy and recovery, system replacements
- Campus safety and related compliance: Title IX, international students and faculty
- Global activities: impact of potential regulations, operational visibility, compliance, monitoring
- Managing conflicts of interest and related-party transactions
- Depth of resources in and succession planning for accounting, compliance and internal audit
- Measurement and verification of key non-financial metrics published by the institution
- Ensuring committee scheduling and resources are commensurate with scope and agenda
- Review of committee charter, responsibilities, effectiveness, orientation protocol

Monitor implementation plans and activities for major financial reporting and accounting changes on the horizon.

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which brings significant changes to how private, not-for-profit colleges and universities report net asset classes, expenses and liquidity in their financial statements.

The most significant change that you will notice is that the new standard reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions. The FASB’s decision to combine the two restricted net asset classes into one net asset class is, with respect to donor-restricted endowments, more in line with changes resulting from the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which is now law in almost all states. One of the ASU’s more applauded changes relates to the treatment of underwater endowments. To the extent the fair value of an individual donor-restricted endowment fund as of the balance sheet date falls below the original amount of the gift, such deficiency or underwater amount is currently reported in unrestricted net assets, creating misconceptions. However, under the ASU, the deficiency will be reported in net assets with donor restrictions. Therefore, the entire donor-restricted endowment will be presented in one net asset class, rather than spread among up to three classes currently.

The standard also requires NFPs to:

- present expenses by their functional and their natural classifications in one location in the financial statements or footnotes;
— present investment return net of external and direct internal expenses; and
— disclose quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date.

We believe the disclosures with respect to liquidity and availability of resources may be the most time-intensive for colleges and universities to understand and implement. One of the major objectives of the standard was to improve the quality of information users have to assess an institution’s liquidity and availability of resources. We recommend that when preparing these disclosures, institutions consider the following: In terms of liquidity, how is cash in excess of daily requirements managed, is there a liquidity reserve, and are there available lines of credit? In terms of availability, how should donor-restricted and board-designated resources factor into the analysis? A clear description of the assumptions used and the interaction of these and other relevant factors will enable financial statement users to better evaluate management’s assessment.

The FASB anticipates that these new disclosures will evolve over time and stated that the disclosures “provide a potential starting point for an analysis of an NFP’s liquidity,” acknowledging that “a comprehensive analysis of liquidity requires forward-looking information about revenues, expenses, and cash flows as well as management commentary and analysis that go beyond the scope of financial statements.”

In summary, we believe the ASU offers colleges and universities the opportunity to reassess their financial statements and note disclosures and consider changes that might be made to better tell their financial story. For example, institutions should be attuned to evolving industry guidance around the appropriate level and type of functional and natural expense detail to present and may want to re-evaluate their functional expense allocation methodologies well in advance of adoption. KPMG’s related “Issues In-Depth” publication is available at www.kpmg-institutes.com and provides insights and illustrations we hope will be helpful as institutions implement the new standard in their financial statements no later than for the fiscal year ending in 2019.

Two long-running FASB projects resulted in the issuance of new accounting standards set out in ASU 2014-09, Revenue From Contracts with Customers, and ASU 2016-02, Leases. With respect to revenue recognition, much of the attention from colleges and universities continues to be with respect to revenue from various types of funders, but particularly government-sourced grants and contracts. Two issues have risen to the top of the list being considered: (i) characterizing grants and contracts as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and (ii) distinguishing between conditional and unconditional contributions. Although still under review by the FASB, it is currently anticipated that most governmental grants and contracts will be considered outside the scope of the new revenue standard (effective for most private institutions in fiscal 2019). Under the new lease standard (effective in fiscal 2020 for most private colleges and universities), reported assets and liabilities will increase, perhaps significantly, as lease obligations and related “right to use” assets are moved onto balance sheets. Currently most of these obligations are off-balance sheet and disclosed in the footnotes. The changes are focused principally on lessees; however, the lessor accounting model – impacting far fewer colleges and universities – remains mostly unchanged, but was updated to better align with changes in both lessee accounting and revenue recognition.

Implementation of these three new standards is not just an accounting exercise; audit committees will want to receive periodic updates on the status of implementation and assessment of impact, including possible impact on debt covenants.

Audit committees at public institutions continue to contend with various governmental accounting changes. Changes with respect to pension obligations impacted the financial statements of many public universities when the net pension liability for defined benefit pension plans began to be reported on balance sheets in 2015. In 2016, a new fair value measurement and disclosure standard similar to FASB’s added more complexity to financial reporting, particularly around investments. In addition, public institutions are now preparing to report the liability for other post-employment benefits (OPEB) consistent with pension obligations, effective in fiscal 2018 for most schools and systems. The impact may be significant and will depend upon the nature of benefits provided and whether there are dedicated plan assets to offset liabilities. For public universities participating in one or more defined benefit OPEB plans, the financial statement impact of this new standard is also likely to reduce the unrestricted net position of the institution because many defined benefit OPEB plans historically have been funded on a pay-as-you-go basis. The audit committee should gain an understanding of the possible impact on debt covenants and financial ratios. Public institutions are also beginning to tackle GASB 81, Irrevocable Split-Interest Agreements, GASB 83, Certain Asset Retirement Obligations, and GASB 84, Fiduciary Activities, which are effective for most public institutions in fiscal 2018, 2019, and 2020, respectively. On the horizon, GASB is also expected to issue a new leasing standard later this year which, while different in some respects from the FASB model, would also eventually require most leases to be on the balance sheet.
In our latest global pulse survey, 44% of audit committees were not satisfied that their agenda is properly focused on CFO succession planning, and another 46% were only somewhat satisfied. In addition, few were satisfied with the level of focus on talent and skills in the finance organization.

The National Association of College and University Business Officers’ (NACUBO) 2016 National Profile of Higher Education Chief Business Officers reports that nearly 60% of chief business officers (CBOs) are 55 or older and almost a quarter of those individuals are 65 or older. In light of those numbers, it is not surprising that nearly 20% of survey respondents expect to retire from their current positions within four years.

The expected high level of retirements among CBOs prompted NACUBO to add a suite of questions regarding succession planning, defined in the survey as “a process for identifying and developing people to fill key leadership positions within the organization.” While more than 80% of respondents considered succession planning to be either “important” or “very important,” less than 3% were employed at institutions with formal, written strategies to replace the CBO and nearly 40% were at institutions with no plan – formal or informal – in place.

The NACUBO definition of “succession planning,” like many others, is associated with talent management and places emphasis on identifying and nurturing internal leaders. Yet, The Hanover Research Council’s Effective Practices for Succession Planning in Higher Education (2010) asserts that there is “a widespread conception in higher education that external hiring, rather than the development of internal candidates, is the best way to fill senior administrative positions.” In addition, Hanover suggests that the need to “balance succession planning with staff diversity concerns” can be an obstacle in the implementation of succession planning programs.

Often, an institution does not have the luxury of someone internally who is prepared to assume, even on an interim basis, the CFO position. Although large institutions may be limited in this regard, bench strength can be even more challenging at mid-sized and small colleges and universities. The audit committee should have an understanding of the required next steps if the CFO is suddenly unable to serve. A similar understanding may be appropriate for the chief internal audit executive and chief information officer (CIO).

How does the audit committee assess the finance organization’s talent pipeline? Do employees have the training and resources they need to succeed? Do position descriptions exist for key roles? What are the internal and external auditors’ views?

Despite the intensifying focus on cybersecurity, the cyber-risk landscape remains fluid and opaque, even as expectations rise for more engaged oversight. As the cyber landscape evolves, board oversight – and the nature of the conversation – must continue to evolve. More often than not, we see college and university audit committees having responsibility with respect to the defensive elements of technology, namely cybersecurity and data privacy. Oversight here includes regular discussions with chief technology/information officers as audit committees strive to better understand trends, regulatory developments and the “what and where” of sensitive information requiring protection. It is becoming more common to see CIOs and/or chief information security officers attend every audit committee meeting.

Two particular types of hacking incidents have garnered recent attention – phishing scams and ransomware attacks. A February 11, 2017 headline College students are the latest targets of aggressive phishing scams from WTAE.com underscores the importance of educating students and employees. Both groups need to understand the nature and dangers of phishing scams and become more suspicious when checking (not simply opening) email. On January 18, 2017, the FBI issued a Public Service Announcement, Employment Scam Targeting College Students Remains Prevalent, warning of scammers recruiting students for fictitious positions. These scams often involve financial fraud and the obtaining of personal information from the student, leaving them vulnerable to identity theft. Again, education and skepticism are critical safeguards.

A January 24, 2017 Inside Higher Ed story, Your Data Or Your Money: Hackers are locking colleges’ data away and demanding payment to return it. But paying the ransom raises new issues, experts say, addresses one of the fast-growing hacking strategies. Audit committees should gain an understanding of the institution’s vulnerability – this includes an assessment of back-up files and the ability to avoid business interruption without the hosted information.

In a July 2016 letter, the U.S. Department of Education (ED) reminded colleges and universities of their legal obligations to protect student information used in the administration of federal student financial aid programs. This important compliance requirement with respect to federal awards – which are critical to nearly all higher education institutions – dates back to 2003, but is now receiving more focused ED attention. ED considers any breach in the security of student records and information evidence of a potential lack of administrative capability. The letter states that institutions should have “at a minimum, evaluated and documented their current security posture…and have taken immediate action to remediate any identified deficiencies.” The letter
also informs institutions that ED is moving to include procedures in its annual audit guidance for auditors to perform “in order to assess and confirm institutions’ compliance.” While it is unclear what the scope of the audit procedures may ultimately entail, institutions should consider whether their information security plan has been subjected to recent review and testing. Institutions should also be cognizant that the security requirements likely encompass numerous IT systems in which student information resides, related security protocols connected to general IT and other application controls, and other business processes through which student data is processed. Accordingly, the breadth of potential policy and audit exposure could be significant.

The audit committee should help ensure that (i) cyber risk is managed as a business or enterprise risk – not simply an IT risk – and (ii) awareness of and accountability for cybersecurity permeates the institution, with a security mind-set, proper training, and preparation for incident response.

Focus internal audit on key areas of risk and the adequacy of the institution’s risk management processes.

Internal audit is most effective when it is focused on the critical risks to the business, including key operational risks and related controls, not just compliance and financial reporting risks. Help define the scope of internal audit’s coverage and, if necessary, redefine internal audit’s role. Is the audit plan risk-based and flexible, and does it adjust to changing business and risk conditions? What has changed in the operating environment? What are the risks posed by a decentralized environment, including international operations? For academic medical centers, governance, risk and compliance pose unique challenges which internal audit may help address. Set clear expectations and make sure internal audit has the resources, skills, and expertise to succeed. Help maximize collaboration between internal and external auditors. As internal audit moves to a higher value-added model, it should become an increasingly valuable resource for the audit committee.

Other useful resources:

— KPMG Global Audit Committee Pulse Survey
  https://boardleadership.kpmg.us/content/dam/blc/pdfs/2017/2017-global-audit-committee-pulse-survey.pdf

— On the 2016 Higher Education Audit Committee Agenda

— On the 2015 Higher Education Audit Committee Agenda

— KPMG Audit Committee Guide
  https://boardleadership.kpmg.us/content/dam/blc/pdfs/2016/kpmg-audit-committee-guide-2016.pdf

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THE CITY UNIVERSITY
OF NEW YORK

Fiscal 2017 AUDIT PLAN
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Overview

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, 2017. The plan also discusses our approach to completing the audit of Federal assistance programs required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Programs (Federal Uniform Guidance). 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 Federal Uniform Guidance, and issue the required reports. The Federal Uniform Guidance 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 Federal Uniform Guidance audit requirements is presented in Section III.

For the FY 2017 audit, KPMG will again be using the services of a subcontractor, BCA Watson Rice, to assist us with both the financial statement and Federal Uniform Guidance audit procedures. A BCA Watson Rice senior associate will be working under the supervision of a KPMG senior associate and will conduct audit procedures at both the campuses and the University Office of Budget & Finance (OBF).
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 material 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**

AU Section 316, *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
  - Tuition and fees revenue and the related accounts and loans receivable; and
  - Financial aid revenue and related receivable
- **Appropriations revenue and the related receivables and payables**
- **Facilities Management**, which includes the significant audit areas of
  - Capital assets and related depreciation expense; and
  - General cash disbursements (related to facilities)
- **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 and net pension liabilities, and related expenses and deferred outflows/inflows of resources (pensions only)
- **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 OBF 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 2017 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 OBF 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 2017 audit are as follows:

- Hunter College
- John Jay College of Criminal Justice
- New York City College of Technology
- College of Staten Island
- Graduate Center
- LaGuardia
- CUNY School of Public Health and Public Policy
- 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 Related 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 Federal Uniform Guidance audit, described in Section III.

**Debt and Related Interest, including amounts held by DASNY & Bond Trustees**

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.

A significant level of audit effort will focus on reviewing the financing arrangements referred to above, as well as the University’s property management 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 and Related Depreciation Expense**

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 cash disbursements for significant additions;

. 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 OBF, 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, capital appropriations, and tax-levy funds to amounts recorded in the fixed asset module of PeopleSoft;

• Select a sample of new equipment acquisitions and determine that such assets are tagged and entered into the fixed asset database on a timely basis; and

• Using the fixed asset 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 OBF. All investments accounted for by OBF 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, 2017 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;

• 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 fair value, obtain audited financial statements and the underlying investments;

• 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 fair value testwork;
  - Recalculate the realized gain or loss on investments;

• Obtain relevant investment pool details and recomputed 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, including the disclosure requirements under GASB 40, “Deposit and Investment Risk Disclosures” and GASB 72, “Fair Value Measurements and Application.”

Payroll and Fringe Benefits and All Payroll and Fringe Benefit Accruals (including OPEB)
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, including the University’s proportionate share of pension amounts and related disclosures associated with the New York City Employee Retirement System (NYCERS), the Teachers Retirement System of the City of New York (NYCTRS) and TIAA. 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;
- Review of Actuarial Valuation Report by KPMG Specialist to ensure the information is appropriate and accurate and assumptions used are reasonable; and
- Obtain the Schedules of Employer Allocations and Pension Amounts issued by NYCERS and NYCTRS auditors, which details the University’s net pension liabilities and other pension amounts at June 30, 2017 and perform procedures to ensure the University
recorded its proportionate share in the plans accurately and included the proper disclosures.

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 OBF. 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 OBF. At fiscal year-end, a reconciliation of the two systems is performed and all significant differences are investigated. OBF and each college are responsible for the cash management process and have the authority to open and close bank accounts with approval from the University Treasurer. 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, 2017. 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 OBF;
- For all College and University account balances of $1,500,000 or more and Discretely Presented Component Unit account balances of $350,000 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 component units 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 entries;

• 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 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 test work on the University’s entity level controls;

• Review minutes of the Board and selected committee meetings;

• KPMG Tax 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 Committee 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 Committee 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 2017

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements at the OPEB Plan level for fiscal years beginning after June 15, 2016. This Statement will not impact the University (as the employer) until the adoption of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions in fiscal year 2018.

GASB Statement No. 80, Blending Requirements for Certain Component Units

This Statement amends the blending requirements for the financial statement presentation of component units. The additional criteria requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This Statement is effective for fiscal year 2017 for the University. The impact of this Statement is to be assessed by management.

GASB Statement No. 82, Pension Issues

This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for fiscal year 2017 for the University. The impact of this Statement is to be assessed by management.
Uniform Guidance Audit

We will also perform audit procedures with respect to CUNY’s major Federal programs in accordance with the provisions of the Federal Uniform Guidance. The Federal Uniform Guidance 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 the Federal Uniform Guidance, 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 OBF 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 Federal Uniform Guidance audit will include all student financial assistance funds received by the University and any grants administered by individual colleges that are reported to OBF. 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 the Federal Uniform Guidance is on CUNY’s compliance with laws and regulations in their management of Federal programs. The primary objectives of the audit requirements under the Federal Uniform Guidance 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 Federal Uniform Guidance audit will be performed in accordance with generally accepted auditing standards and generally accepted government auditing standards. Our Federal Uniform Guidance 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 test work 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 single audit reports prior 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 that are determined to have 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 *Uniform Guidance 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 test work, 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 the Federal Uniform Guidance. We will have these reports available to meet the timetable presented in Exhibit A, attached.

Additional CUNY Requirements under the Federal Uniform Guidance

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

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

Preparation of these items is the responsibility of CUNY management.

Certain provisions of the Federal Uniform Guidance 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 Federal Uniform Guidance audit is included in Exhibit A.*
The University will continue to be served by many of the professionals who participated on prior engagements.

**Jane Letts – Lead Engagement Audit Partner**

Jane 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.

**David Gagnon – Engagement Quality Control Reviewing (EQCR) Partner**

David will be the EQCR partner and will be responsible for performing the second partner review for all reports issued by KPMG. He will ensure that all disclosures are complete and in accordance with GASB standards.

**Arcelie Bernardo – BCA Watson Rice Partner**

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

**Margaret Casella – Engagement Audit Senior Manager**

Margaret 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.

**Timothy Shek– Engagement Audit Manager**

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

**Jeff Koch – Engagement Audit Senior Manager - DASNY**

Jeff will serve as engagement audit senior manager over the DASNY segment of the audit and will work with Margaret and Timothy on the coordination and execution of the procedures over the capital assets and related debt transactions of DASNY related to the University’s financial statements.
Edward Wolf – Senior Associate

Edward will serve as engagement senior associate. He will be responsible for daily activities of professional staff members assigned to the audit, including work paper preparation and review, performance of audit procedures, and developing preliminary recommendations for improving internal controls, accounting procedures, and operational efficiencies.

Jason Alexis – BCA Watson Rice Senior Associate

Jason will serve as the BCA Watson Rice engagement senior associate and will work with Edward to ensure the audit is planned and executed.

Felicia Tucker – Tax Principal

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

Devin Duncan – Tax Senior Manager

Devin will serve as Tax Senior Manager. She will assist Felicia 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.

Luis Pacheco– Information Technology and Advisory Services Manager

Luis 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.

Anthony Lieu – FDR Specialist Manager

Anthony will be responsible for reviewing the valuation of the University’s derivatives.
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.

Christina Chiappa – Deputy Chief Financial Officer
Vacant – University Executive Controller
Thomas Zhou – University Treasurer
Gordon Taylor – Director of Internal Audit
Ken Tirino – University Director Accounting and Reporting
Sara Montero – Director of Revenue Management
Janet Krone – Chief Investment Officer
Maria Requijo – Manager of Capital Assets
Catherine Abata – 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 Office of Student Financial Assistance
Robert Berlinger – Chief Security Information Officer
Jane Sovern, Interim General Counsel and Vice Chancellor for Legal Affairs
Rachel Nash, University Chief Compliance Officer

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

Matthew Sapienza – Senior Vice Chancellor and Chief Financial Officer
Brian Cohen – Vice Chancellor Chief Information Officer

James Murphy – University Associate Dean for Enrollment Management
James Anastasio – University Director Administrative Computing
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 Committee to review audit plan.
- Prepare confirmation requests.
- Conduct business process reviews at 8 college campuses and begin internal control test work.
- Perform Federal Uniform Guidance 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 test work.

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.
- Finalize and issue our report on the University’s basic financial statements.
- Meet with the Audit Committee to review and discuss financial statements.

November - December
- Finalize and issue our report on the University’s senior college financial statements.
- Finalize our test work over the University’s major program for the Federal Uniform Guidance audit.
- Conduct exit conference with OBF to discuss Federal Uniform Guidance findings.
- Prepare draft schedule of findings and questioned costs arising from the Federal Uniform Guidance audit.

January – February 2018
- Issue management letters
- Issue Federal Uniform Guidance audit report.
- Meet with the Audit Committee to review and discuss Federal Uniform Guidance audit report findings and management letters.
THE CITY UNIVERSITY OF NEW YORK
FISCAL YEAR 2017 EXTERNAL AUDIT PLAN

RESOLVED: That the Board of Trustees of The City University of New York adopt the FY 2017 audit plan, as was presented by KPMG and approved by the Audit Committee for the University. The Senior Vice Chancellor and Chief Financial Officer is authorized to sign the engagement letter presented by KPMG.

EXPLANATION: The University is required to have its financial statements audited on an annual basis and is required to have its federal financial aid programs externally audited. The Audit Committee, as part of its responsibilities, is required to approve the annual audit plan, as presented by the University’s external auditors, and authorize the Senior Vice Chancellor and Chief Financial Officer to sign the engagement letter. The financial terms are in accordance with the multi-year contract with KPMG.
REZOLVED: that the Board of Trustees adopts the Fiscal Year 2018 internal audit plan for the University.

EXPLANATION: Pursuant to Article IV Section 4.02 of The City University of New York Board of Trustees Audit Committee Charter, the Audit Committee is responsible for approving the annual internal audit plan and all major changes to the plan. The University’s Chief Audit Executive presented a proposed Fiscal Year 2018 internal audit plan to the Audit Committee, and after due deliberation thereon, the Committee approved the plan. The Chief Audit Executive may make minor changes to the plan, as may be warranted by supervening University or Board priorities.