

New York City School Construction Authority

December 12, 2011

Report to Management



December 12, 2011

Members of the Audit Advisory Committee
of the New York City School Construction Authority:

In planning and performing our audit of the financial statements of The New York City School Construction Authority (the "Authority") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, of the AICPA Professional Standards includes the following definitions of a deficiency, a significant deficiency and a material weakness:

Deficiency—a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Significant Deficiency—a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness—a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

As agreed in our engagement letter, we are providing you with a report of all deficiencies, operational, business and other observations.

If you would like any further information or would like to discuss any of the matters raised, please contact Valerie Wieman, (646) 471-5027.

Very truly yours,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

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I. Significant Deficiency

1. Proper accounting for self-insurance receivable/liability

Observation:

During the course of the current year audit, we proposed and Management recorded an adjustment related to the Authority's accounting for self-insurance.

The Authority's extension of its 2008-2010 Liberty Mutual insurance policy through 2013 included a retrospective amendment to the prior policy periods. The Authority should have allocated \$25 million of the premium to the prior years to account for the retrospective changes.

The adjustment is indicative of a need to improve the Authority's review and analysis of its accounting for self-insurance.

Implication:

Failure to appropriately review and analyze the accounting for self insurance policies may result in a misstatement of the Authority's financial statements. Because of the relatively small amount of the potential misstatements compared to total fund balance and net assets, such risk is not deemed a material weakness, however we believe the risk is such that it merited communication to the Audit Advisory Committee and therefore qualifies as a significant deficiency.

Recommendation:

We recommend ensuring the Authority has a formal process to evaluate the financial implications of all provisions of its self-insurance policies.

Management's Response:

Management agrees with this recommendation. A process will be put in place to review all of the financial implications of the terms of the contract if the current insurance carrier is selected to continue to provide insurance services. This process will ensure that all financial provisions are clearly defined and that any prior period adjustments included in the premium costs are accounted for properly in the current period.

II. Control Deficiencies

1. Financial close process

Observation:

We note that the Authority does not maintain a formal financial reporting closing process whereby all necessary and recurring adjustments and reviews are completed according to a predetermined schedule of book close procedures. As a result, we noted that Management experienced difficulty in finalizing the Authority's financial statements prior to the deadline established by the City of New York.

Implication:

Failure to maintain a formal schedule of book closing can result in delays in posting all necessary journal entries, thereby reduce the amount of time available for management review. This can result in a failure to identify errors. This can also impact the efficiency of the financial statement audit. In the current year, we identified several errors in schedules and balances that had not been reviewed prior to presentation to the auditors. In most cases, the control environment as designed, including the preparation and review of reconciliations, would have identified the adjustments had there been sufficient time available to allow for secondary Management review.

Recommendation:

We recommend that Management create a formal financial closing process and calendar that allows sufficient time for Management review.

Management's Response:

Management agrees with this recommendation. The financial close process for year end will be revised to include key dates for the final submission of reconciliation schedules and accrual reports to the Comptroller for review prior to presentation to the auditors. These schedules and reports will be due no later than the end of the 1st week in September.

III. Information Technology Comments

1. Enhance security controls within Primavera Expedition

Observation

We noted four instances where terminated employees' access to Primavera Expedition CM13 was not revoked upon termination. These users retained access to a template which allowed users to certify requisitions and edit cost sheets, change orders, and daily reports.

Additionally, access for Primavera Expedition users is currently not reviewed periodically to ensure that access is appropriate.

We note that a similar comment was made in 2009, prior to the implementation of CM13.

Implication

Failure to remove access for terminated users in a timely manner can potentially compromise the integrity of sensitive data resulting in inaccurate financial reporting.

The lack of timely and effective recertification increases the risk that inappropriate access to systems and data as a result of terminations or changes in job function are undetected.

Recommendation

We recommend more effective communication between the IT and HR departments to ensure that application accounts for terminated individuals are disabled in a timely manner.

We also recommend that NYCSCA implement a formal periodic review and recertification of access to Primavera Expedition for all users. The recertification process should include a review of the following elements:

- All active user IDs from the application and their associated access rights
- Analysis of access rights to ensure duties are properly segregated
- All user IDs are uniquely assigned to one individual. If generic IDs are used, individual accountability should be maintained.
- All users IDs belong to a current employee.

For this review, management should ensure that there are set timelines for the review, require positive confirmation from each business owner, and retain formal documentation for each review, including the initial user access listing, evidence of the business owners' response, and corrective action taken as a result of the review.

Management Response

Management agrees with this recommendation. The IT department recognizes this is an issue for Expedition and is performing the following tasks based on the audit recommendations.

The System Administrators for Expedition and CM13 receives notification from the SCA Service desk of all terminations. A service desk ticket is assigned to them so they can delete the ID in Expedition if there is one, and disable the ID in CM13 within 24 hours of the notification.

Beginning April, 2012, the IT department will send a list of all active users with access to changing financial data to the Construction Management Expedition Administrators for review on an annual basis and require sign off that the access level granted is appropriate.

Annually, the IT department will review and insure that all IDs in Expedition / CM13 systems are active system users (as defined by having active accounts in the Active Directory) and unique to an individual.

IV. Site Visit Comments

1. Non-compliance with SCA policy regarding approval of subcontractors

Observation:

During our site visits, we noted several subcontractors identified on the Subcontractor Log that had yet to be formally approved by the Authority. Three subcontractors had begun work while the paperwork requesting approval was in process. The Authority's policy requires that all subcontractors be approved prior to beginning work.

Implication:

Failure to comply with the approval policy could result in accepting work from an unacceptable subcontractor with quality or financial issues.

Management's Response:

Management agrees with this recommendation. It is the Authority's policy that all subcontractors be approved prior to performing work.

There were a total of nine (9) subcontractors with an unapproved status at the time of the site visits. The paperwork for three (3) of the subcontractors performing work at the sites was submitted to the Pre-Qualification Unit. The applications were missing information which delayed their approval. Three (3) of the firms listed as subcontractors were suppliers and not required to be approved since they don't work at the site. The remaining three (3) subcontractors were not used on the projects and the work was performed by an approved subcontractor.

V. Status of Prior Year Observations

1. Review year end repairs and maintenance accruals

Observation:

While testing the repair and maintenance accounts, we noted that hardware expense had a credit balance. This resulted from the reversal of an accrual from the prior year that had been overstated. The overstatement was not material to the financial statements.

Implication:

The overbooking of accruals overstates the expense and liability and impacts the statement of activity upon reversal in the subsequent year.

Management's Response:

Management agrees with this recommendation. During the Fiscal Year 2010 year-end close process, an Operating Budget Report of Open Balances was run in September 2010 and compared against the June 2010 Report to determine the accuracy of the accrual and eliminate the potential for an inaccurate accrual. The improvement to this process strengthened the Operating Budget accrual process and resulted in an accurate accrual. This process will be used annually to validate the Operating Budget accrual during year-end.

Status: Complete. We did not have concerns in this area in 2011.

2. Enhance the user provisioning process

Observation:

While there are procedures in place for provisioning user access to the Oracle Financials application, we noted three instances where formal request and approval for additional access granted to existing users in the Oracle Financials application was not retained.

Implication:

Granting additional access to a user ID without documentation of a managerial approval increases the risk of inappropriate access to the application and may lead to unauthorized transactions processed in the system.

Recommendation:

Management should enhance their procedures for granting additional access to the Oracle Financials application to include a process for verifying and maintaining formal requests and authorizations for all modified user access to the Oracle Financials application.

Management Response:

Management agrees with the recommendation and has modified the existing IT Service Desk Manual and instructed all system administrators to ensure additional access will not be granted unless it is approved by the application manager and is documented in our Heat ticketing system. This process will be enforced for all Oracle Financials users and system administrators.

Status: Completed. We did not have concerns in this area in 2011.

3. Non-compliance with New York Prevailing Wage Law

Observation:

The New York State Prevailing Wage Law requires the General Contractor to post the prevailing wage schedule at the construction sites for the benefit of the contractors and subcontractors. The New York State prevailing wage poster was not posted at any of the four construction site visited.

Implication:

Failure to comply with the New York State Prevailing Wage Law could result in penalties and fines.

Management's Response:

Management agrees with this recommendation. Construction Management in conjunction with Labor Law will send a letter to all General Contractors advising them of the requirement to post the prevailing wage schedule at the construction sites for the benefit of contractors and subcontractors.

Status:

Still applicable. We noted that the required poster was not present at any of the four sites visited in 2011.

4. Repeated Safety Violations

Observation:

There were repeated safety violations noted on the sample site safety reports for one of the sites visited. The reports noted that there was a lack of perimeter protection and improper fall protection by steel erectors who did not properly tie off. Although the violations appeared to have been promptly addressed by the General Contractor on the day they were noted, the same type of safety violations re-occurred on subsequent days.

Implication:

Failure to comply with safety procedures increases the risk of injuries and insurance costs.

Management's Response:

Management agrees with this recommendation. Construction Management in conjunction with the Safety Unit will address the issue of recurring safety violations with contractors and bring the General Contractor in for a meeting at the SCA if these situations continue to occur. Safety Unit will advise Construction Management of continuing safety issues for a particular contractor as they occur.

Status:

We did not identify concerns in this area at any of the sites visited in 2011.