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# *New York City School Construction Authority*

January 10, 2014

## Report to Management

**pwc**



January 10, 2014

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, 2013, 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 David Mandelbaum, (646) 471-6040.

Very truly yours,

*PricewaterhouseCoopers LLP*

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## I. Control Deficiencies

### 1. Proper participant data included in the census data files

#### Observation:

As a result of work performed over the census data related to the Post Retirement Welfare Benefits Plan there was a discrepancy noted in the number of retirees receiving benefits included within the actuarial report utilized to calculate the pension liability and the data maintained by the Authority's HR. The actuarial report includes 207 retirees receiving benefits while the Authority's HR has 176 retirees. In addition, it was also identified that there were 659 active participants included in the Authority's HR listing as opposed to 636 on the Actuarial report.

The engagement team assessed the potential impact to the liability by re-performing the actuarial calculation utilizing the actuarial census data and then by using the Authority's HR data and noted that the difference was approximately \$1m and deemed immaterial.

#### Implication:

Incorrect census data used in the actuarial valuation has an impact to the pension liability. As mentioned above, the impact in FY 2013 was approximately \$1M. However if the situation continues and/or increases it may result in a more material misstatement of the Authority's financial statements.

#### Recommendation:

We recommend the Authority works directly with the Office of the Actuary during FY 2014 to identify and correct the discrepancies to ensure the participant data utilized in the actuarial valuation agrees to the data maintained by the Authority's Human Resource department.

#### Management's Response - 2013:

Management agrees with this recommendation. The Authority has reached out to the Office of the Actuary requesting a meeting with the Authority and the Office of Labor Relations to resolve these discrepancies in FY'14. This meeting is scheduled to take place in early January 2014.

### 2. Timely review of the Financial Statements

#### Observation:

After issuance of our audit report dated September 13, 2013, Authority Management submitted (on September 16<sup>th</sup>) the financial statements to the NYC Comptroller's Office for purposes of review and consolidation within the NYC financial statements. Upon review and during consolidation, it was identified that the non-capital expenses in the amount of \$38M related to Hurricane Sandy expenditures was appearing on both the Authority's and DoE's books, both components of NYC. As a result the NYC Comptroller's Office advised the Authority to reverse the initial accounting of the activity (reduce the expense and associated revenue reimbursement recorded) and to record it as a Receivable from the DOE for reimbursement of funds paid on their behalf. As a result, the Authority's financial statements were reissued on October 2, 2013.

#### Implication:

The process of finalizing and issuing the Authority's financial statements prior to review by the NYC Comptroller's office has led to and can lead to in the future identification of

adjustments and/or errors in the financial statements via the consolidation process performed at the NYC Comptroller's office. These adjustments would need to be evaluated for materiality, including the nature of correcting the financial statements which can lead to restatements of the Authority's financial statements.

**Recommendation:**

We recommend the Authority submits the financial statements to the NYC Comptroller's office for review prior to final issuance of the financial statements. This will ensure a timely review to help avoid a similar matter from reoccurring in future years.

**Management's Response - 2013:**

Management agrees with this recommendation. A letter was issued on October 2, 2013 to the NYC Comptroller's Office. In the letter the Authority stated that in conjunction with PricewaterhouseCoopers LLC, the Authority has decided that going forward a final "draft" copy of the financial statements will be distributed to the Comptroller's Office on the required due date in compliance with Directive 22. Once the financial statements have been reviewed and accepted by the Comptroller's Office, a final pdf version including the signed audited opinion letter will be distributed by the Authority.

**Information Technology Observations**

**1. Enhance security controls within Contract Management 13 (CM-13) and Oracle Applications 11i**

**Observation:**

The access for CM-13 users is not reviewed periodically to ensure that access remains appropriate.

For Oracle Applications 11i management requested review of users' access, however the review was incomplete as one business group, Architecture & Engineering, did not respond to the request for the review of users belonging to their business group.

**Implication:**

The lack of a timely and effective recertification increases the risk of inappropriate access to systems and data. Through time a user's access to the system may no longer be valid due to change in roles or separation from service. Moreover, the periodic review of users can ensure that there is no segregation of duties conflicts. This CM-13 observation recurred from last year.

**Recommendation:**

NYSCA should consider implementing a formal periodic review and recertification of CM-13 users' access. The recertification process should include a review of the following elements:

- 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 reviews, require positive confirmation from each business owner, and retain formal documentation for

each review, including the initial user ID listing, evidence of the business owners' response, and corrective action taken as a result of the review.

Management Response - 2012:

Management agrees that periodic review of CM13 access is necessary and prudent, including: whether a person's duties require access to CM13 or Oracle, the rights assigned that person are appropriate for their position, and that access to any system required 'generic' IDs be narrowly restricted and traced back to a responsible party.

By end of FY2013, management will scope reports and procedures listing security template (level of system access) for all active users by function. Additionally, management will consider methods for reporting and accepting feedback for project-level access and presented to affected parties for their concurrence. The reports and procedures will be developed together to balance the competing requirements for access review and control with the limited resources assigned to the primary mission of the SCA.

Management Response - 2013:

On 04/13/2013 IT management completed scoping the effort to create reports and procedures listing security templates for all active users by function and enable those with rights to review and re-authorize active users. Additionally, we reviewed how to report and accept feedback for project-level access and presented to CM and AE management. From this effort, IT management has drafted a security and access policy for CM13 which includes guidelines and a reporting tool to query level of access by user, by project, by district, by borough and by contractor and or A&E consultant. This policy is in the final stages of review by SCA Senior Management. Once the policy is approved, IT in conjunction with Senior Management, will implement the procedure to identify all users and user access within CM13 and attest on an annual basis that all user security is appropriate for all users.

This will be completed by end of calendar year 2013.

## **2. Enhance monitoring controls of privilege users within CM-13**

Observation:

There is no logging and monitoring of system administrator activities in Expedition.

Implication:

Without the proper logging and reviewing of system administrator activities, there is a risk that access of changes to the systems and/or data are not authorized.

Recommendation:

Management should configure CM-13 to capture and log selected system administrator activities based on criticality and risk assessments. These logs should be periodically reviewed to detect any unusual or irregular activities. If the CM-13 application is unable to support the monitoring of activities, management should consider upgrading the application or finding a new contract management solution to meet business needs.

Management Response:

The logging capability in the CM13 system tracks all users and every action performed in the system. Unfortunately, this logging function has a major impact on system performance and is not recommended by Oracle for an installation of our size. This feature can only be enabled

for all users or no users. SCA IT has submitted an enhancement request to Oracle, requesting this feature be enabled for selected users (i.e. system administrators). Oracle has not responded whether this is feasible or when it may be done.

In the meantime, SCA IT is creating new templates to reduce the number of administrators in the system by at least half. Currently there are 15 system administrator ids and we expect to reduce it to 7 user id's.