

Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
www.markspaneth.com

New York City
Washington, DC
New Jersey
Long Island
Westchester
Cayman Islands

M A R K S P A N E T H
ACCOUNTANTS & ADVISORS

November 13, 2015

The President and the Board of Trustees of the
New York City School Construction Authority

In planning and performing our audit of the financial statements of New York City School Construction Authority (the "Authority" or "SCA"), a component unit of The City of New York, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A material weakness is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we made recommendations and suggestions, which, if implemented, could further strengthen the internal controls and business practices (see attached Exhibits).

This report is intended solely for the information and use of the Authority's Board of Trustees, management, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



MARKS PANETH LLP



An independent member of
Morison International

**NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
MANAGEMENT LETTER RECOMMENDATIONS
RESULTING FROM THE JUNE 30, 2015 AUDIT**

Included in Exhibit I are observations and recommendations that we noted during our audit of the Authority's June 30, 2015 financial statements.

EXHIBIT I – CURRENT YEAR AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. LACK OF AUDIT COMMITTEE OVERSIGHT

Observation: The New York State Public Authorities Accountability Act and other requirements provide that the Authority establish an audit committee which is independent of management and capable of monitoring the fiscal and operational performance of the organization. As the Authority is governed by a three member Board of Trustees, it is not practical for this Board to perform all of the functions required of an audit committee. We understand the Authority is aware of this requirement and is in the process of identifying potential members to constitute an audit committee.

Recommendation: We recommend that the Authority identify three to five individuals to form an audit committee and perform the required functions. While typically an audit committee is formed from a subset of Board members, this is not practical for the Authority given the small number of members of the Board of Trustees. Accordingly, audit committee members will likely need to be identified separate from the Board of Trustees and management of the Authority. We also recommend that once established, the audit committee periodically report on its activities to the Board of Trustees.

Management's Response: Management agrees with this recommendation. Since 2003 the Authority has maintained a comprehensive internal audit program, and, until the beginning of 2014, an Audit Advisory Committee (Committee). The Authority is currently in the process of replacing the members of the Committee who have resigned.

2. TIMELY FINALIZATION OF ACCOUNT BALANCE ANALYSES AT YEAR-END

Observation: Subsequent to our scheduled audit fieldwork, a significant number of journal entries were recorded, many of which were the result of various account analyses being performed and finalized. While some of the entries were expected due to the nature of the Authority's year-end accrual processes, as well as finalization of various actuarial reports, many of the entries were related to delays in the preparation of account analyses. This resulted in a large number of journal entries being recorded from the time a trial balance was provided to us until the financial statements were finalized.

Recommendation: We recommend the Authority establish a schedule for preparing year-end account analyses in order to minimize the volume of journal entries performed at year-end.

Management's Response: Management agrees with this recommendation. The Authority is in the process of designing a quarterly close process to be implemented in January 2016. The process will incorporate significant accounts to be reviewed on a quarterly basis and a structured timetable for quarterly tasks to be completed. A year-end structured timetable will also be created to formalize the schedule for the year-end close. The implementation of the quarterly process will ensure the timely identification and resolution of discrepancies, will reduce the amount of work to be performed during the year-end, and will improve the timeliness of the year-end close.

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3. LONG OUTSTANDING RETAINAGE PAYABLE

Observation: During our audit of the retainage payable account, which reflects payments withheld from contractors until certain contract completion criteria have been met, we noted certain outstanding retainage payable that had been withheld dating back as far as 1990. Total retainage payable older than 10 years amounted to approximately \$6.6 million as of June 30, 2015.

Recommendation: We recommend the Authority review the retainage payable account at least annually to determine the resolution of older retainage payable balances and to ensure that it is complying with any applicable escheat requirements.

Management's Response: Management agrees with this recommendation. As part of the financial system upgrade currently underway, the Authority will review and investigate each aged balance within the retainage payable account. Based on the results of the investigation, the Authority will determine the necessary actions to take for the specific identified payable. The project is due to be completed by fiscal year end 2016. Subsequently, the Authority will design a process to monitor the retainage payable account annually.

4. ANALYSIS OF CONSTRUCTION IN PROGRESS

Observation: During our audit of construction in progress, we noted construction in progress and completed contracts are tracked as cumulative, multi-year balances on the general ledger, which are then netted to arrive at the construction in progress amount recorded as an asset at June 30th. Accordingly, the Authority was unable to readily provide a report of construction costs that comprise the open construction in progress balance at June 30th and identify those costs with individual projects. While we obtained an analysis showing that the majority (approximately 98%) of the beginning construction in progress balance as of June 30, 2014 related to projects that were completed and transferred to the Department of Education during fiscal year 2015, without a detailed analysis of the remaining construction in progress balance, there is a risk that there are amounts reflected in construction in progress that should also have been transferred to the Department of Education as part of a completed project.

Recommendation: We recommend the Authority annually prepare a detailed report of construction in progress as of June 30th on a project by project basis and review that report to ensure that there are no construction in progress costs that relate to project costs that should have been transferred to the Department of Education.

Management's Response: Management agrees with this recommendation. The Authority has a process which we undertake annually to track and generate a report, detailing by building ID, all projects completed for the current fiscal year to be transferred to the Department of Education. A cumulative report of all open projects is currently not available. The Authority is creating a program to generate this report for audit purposes for fiscal year 2016. A process will be implemented, annually, to review the report to validate that construction in progress relates to projects that are actively being constructed.

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5. MANAGEMENT REVIEW OF ESIS, INC. SOC-1 REPORT AND IMPLEMENTING USER CONTROLS

Observation: During our audit of the Owner Controlled Insurance Program (“OCIP”), we noted that the Authority contracted Willis of New York (“Willis”), a risk management and insurance intermediary company, to monitor the OCIP as the program manager. The claims are handled and processed by ESIS, Inc. (“ESIS”), a wholly owned subsidiary of INA Holdings Corporation (“ACE”), with oversight by Willis. While the Authority performs various oversight activities with respect to the OCIP, significant reliance is placed on Willis to perform oversight over the service organization. There is a lack of documentation to support the review of the user controls recommended in the service organization report (SOC-1) and whether such controls or similar controls exist at the Authority or Willis to complement the existing controls at ESIS.

Recommendation: We recommend that management review the SOC-1 report with Willis, document the user controls that are identified as being necessary to be in place, and document how they are operating as they relate to the program. If controls are not in place, management (or Willis) should implement the appropriate controls. If certain user controls are being performed by Willis, the Authority should document how it determines that Willis is actually performing those controls. In addition, if the SOC-1 report identifies noncompliance of the service organization’s controls, considerations should be made as to the effects of the findings on the reliance on the controls of ESIS.

Management’s Response: Management agrees with this recommendation. Willis, the Authority’s Insurance Program Manager, performs functions on behalf of the Authority which includes the administration and processing of claim information to ESIS. Within Willis are internal controls in place overseeing the claim processing and handling process to ESIS. The Authority will work with Willis to: (1) identify whether any gaps in controls exist between those implemented at Willis and/or the Authority in comparison with the recommended complementary user controls noted within the SOC-1 report; (2) document control activities in place to address the corresponding SOC-1 report user entity controls; (3) to the extent there are gaps in controls, the Authority will work with Willis to design a process to address the gap. The Authority expects this to be completed by fiscal year end 2016.

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We also considered the internal controls within the information technology infrastructure and collected and evaluated evidence of the Authority's information systems, practices, and operations. Included in Exhibit II are observations and recommendations relating to the Authority's information technology.

EXHIBIT II – INFORMATION TECHNOLOGY OBSERVATIONS AND RECOMMENDATIONS

OVERVIEW

In September 2015, Marks Paneth, through its wholly-owned subsidiary, Tailored Technologies, met with the Authority's Chief Technology Officer and the Director of Operations & Infrastructure; we also spoke with the Senior Director of Human Resources. Our procedures were performed in conjunction with the Authority's financial statement audit for the year ended June 30, 2015. We considered the internal controls within the information technology ("IT") infrastructure and collected and evaluated evidence of SCA's information systems, practices, and operations in order to 1) assist the Marks Paneth audit team to gain reliance on the computer controls for an effective and efficient audit process through the validation that information systems are safeguarding assets and maintaining data integrity and 2) provide recommendations whether the use of automation is being optimally utilized and operating effectively and efficiently to contribute to SCA's goals and objectives.

Currently, SCA has 84 servers running Microsoft Windows Server 2003, 2008, 2008R2, 2012, Solaris 11, or Red Hat Linux 5.4. They are protected from intrusion by a combination of Checkpoint IP560 and Cisco ASA 5520 firewall device. Symantec's Endpoint Protection 12 is used to defend against virus attacks and Ironport's cloud service is used to filter spam. SCA uses Oracle's E-Business Suite Financials as their accounting software, Workday's online system for HR information management, and Ceridian's online system to process payroll. SCA uses Oracle's Primavera Contract Management (CM13) for construction management tracking.

The following observations and recommendations are focused on the need to improve oversight of IT administrative access to financial and operational applications, improve internal auditing of network and application access accounts, improve management of administrative passwords, and improve documentation of system and software development procedures. The lack of a comprehensive action plans supporting the Business Continuity and Disaster Recovery Plans for key financial and operational systems is noted and recommendations made accordingly.

1. IT RIGHTS TO FINANCIAL AND OPERATIONAL SYSTEMS

Observation: Members of the SCA IT staff have administrative access to financial and critical operational applications. Within the Information Technology department, the Financial & Core Systems and the Construction, Administration & Legal Systems groups are tasked with ongoing system development and support, including the upgrade of applications. The Operations & Infrastructure group is tasked with managing all user accounts within the Oracle E-Business Suite Financials and Oracle Primavera Contract Management systems and the upgrades and maintenance to the hardware systems running the applications.

While best practices dictate removing IT staff's full administrative access to financial and critical operational systems, we understand SCA's operational efficiencies require continual administrative access for IT staff. SCA did provide us documentation detailing the authorization process for creating access accounts and procedures to set up, modify, or terminate accounts. However, the concern remains that IT staff has full access to sensitive and confidential information without full IT department compensating controls in place.

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Recommendation: Management should consider creating additional formal policies and implementing procedures to provide greater oversight of IT staff access to financial and critical operational applications to include:

1. The Chief Technology Officer or designated senior staff member should review access logs quarterly for each system where IT has administrative access. The review should focus on access events for IT staff with administrative privileges to identify unusual or anomalous activity such as:
 - a. Access during non-business hours
 - b. Unusual patterns of access activity
 - c. Access to perform activities outside the normal scope of the user's duties
2. The Chief Technology Officer or designated senior staff member should review a representative sampling of user network and Oracle accounts to ensure the SCA procedures have been followed. The representative sample should include high risk accounts such as new accounts, transferred accounts, terminated accounts, and accounts with high levels of access.

Management's Response: Management agrees with this recommendation. Currently, a limited number of IT staff members have access to the production environment of our financial system. This access serves the needs of the application business owners by providing them with a high level of service when they need assistance. Given the volume of service request, it is not efficient to manually manage these processes. The IT team will investigate tools that can achieve the two recommendations listed above including a log monitoring tool and tools from Oracle intended to audit usage. Currently, the financial system is undergoing a major upgrade that is scheduled to be completed by April 2016. We expect to begin working on the two recommendations after the upgrade is completed.

2. ACCESS ACCOUNT AUDITING

Observation: We were provided documentation of SCA's formal policies and procedures which require an annual audit of the access accounts to the network and financial and critical operational applications. The concern is an annual review does not provide sufficient oversight of user access accounts and permissions associated with the accounts to mitigate the risk of unapproved access.

In addition, SCA has formal policies and procedures for the onboarding and separation of staff. While the procedures require a business process owner, such as the Comptroller or designate for Oracle's E-Business Suite Financials, to identify the permissions to be granted to a new account, the procedures do not require the business process owner to approve the permissions assigned to a new account after it has been created by IT.

Recommendation: Management should consider increasing the internal auditing of network and application access accounts to at least once every quarter. In addition, we recommend expanding the onboarding and separation process to include final approval by the business process owner for accounts created or terminated within an application.

Management's Response: Management agrees with the recommendation to expand the onboarding process to include final approval of new account created within an application. Management will design and implement a process to review application permission after it is granted to ensure permissions assigned are in line with the initial request of the business process owners. Regarding the separation process, management believes existing controls are sufficient. Upon separation, user accounts are disabled immediately and deleted shortly thereafter. This ensures that no separation event falls through the cracks leaving an unneeded ID active.

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Management believes the annual access review process is sufficient. There are numerous internal controls in place that minimizes the risk of unauthorized financial transactions.

3. IT ADMINISTRATIVE PASSWORD MANAGEMENT

Observation: We were informed that the Administrator passwords for the network and network device services are stored in an encrypted password storage application on the file server in the IT share and only the Director of Operations & Infrastructure has access to the application. Executive management outside of the IT and Finance departments does not have access to the application or any of the passwords in the event of a severe business continuity event.

In addition, we were informed the Administrator password to financial and critical operational applications are not stored in a central location and executive management does not have access to the passwords.

Recommendation: Management should consider implementing a documented procedure to maintain a full list of all Administrator passwords. The procedure should address:

1. What should be stored on the list, such as the Administrator passwords for network, critical network devices (e.g. firewalls, routers), encryption keys, and Internet record keepers (e.g. domain name registrar(s), MX record holder).
2. How to store the lists (e.g. paper, digital): If a list is printed out, it should be stored in a sealed envelope in a fire-rated safe. Digital copies should be encrypted using at minimum a 256-bit encryption key.
3. Where to store the list: At a minimum, one copy should be stored onsite and a second copy stored offsite so passwords are available in the event the main office is inaccessible.
4. Who in executive management should know how to access the network password list and the applications password list. Access to the lists should be consistent with roles and responsibilities.
5. "Break glass" procedures to ensure formal notification when executive management accesses the Administrator passwords.
6. Requirements to keep the lists up to date every time passwords are changed.

Management's Response: Management agrees with this recommendation. IT will define and implement a process for implementing recommendations 1 through 5 for storing key credentials.

4. SYSTEM AND SOFTWARE DEVELOPMENT LIFE CYCLE PLANNING (SDLC)

Observation: We were informed SCA uses a structured, methodical approach to developing information systems to maximize management oversight and control of the process. The process includes procedures for project initiation, requirements gathering, solution research and acceptance, process validation, deployment, user training, and stakeholder ownership in the process. In addition SCA has a Quality Assurance group within the Budget, Quality & IT Administration group which performs detailed testing of application upgrades and customizations. Finally, SCA created a Project Management Office in the past year to coordinate and manage IT projects. However, none of the processes and procedures are formally documented.

Recommendation: Management should consider documenting the policies and implementing procedures already in place to formalize the requirements for System Development Life Cycle planning, implementation, and deployment of all systems upgrades to the SCA technology environment.

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Management's Response: Management agrees with this recommendation. The System Development Life Cycle processes are under review with many of them currently in draft form. This review will be completed by the end of this fiscal year and final procedures published.

5. BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING

Observation: We were provided with a copy of the NYCSCA Emergency Management Plan and the renewal agreement with Corus Managed Services, LLC, provider of business continuity services for SCA. Further, we were informed SCA performs an annual disaster recovery test at the Corus site. We understand the deployment of the disaster recovery site is a work in progress, however, the documentation we were provided does not include detailed action plans documenting the disaster recovery procedures. In addition, while the functionality exists for staff to connect to the disaster recover site, we were informed instructions for staff detailing how to connect to the disaster recovery servers have not been created.

Recommendation: Management should consider creating formal disaster recovery action plans for the activation of the disaster recovery site at Corus. We recommend drafting the procedures to be used by people who are technically proficient but who may not have direct knowledge about SCA's operations, networks, and infrastructure. Include detailed instructions showing staff how to connect to the disaster recovery servers from workstations at SCA offices and from remote locations, such as from a home computer.

Management's Response: Management agrees with this recommendation. The IT Business Continuity Disaster Recovery Plan includes a procedure for activation of the recovery site in Orangeburg New York. This plan is part of the SCA's overall Disaster recovery and business recovery plan which contain activation procedures. This plan continues to be refined and detailed; we expect to communicate remote access instructions during this fiscal year.

**** END OF CURRENT YEAR AUDIT OBSERVATIONS AND RECOMMENDATIONS ****