MEMORANDUM

TO: Members of the Audit Committee

FROM: Cathleen Baumann

SUBJECT: Auditor Proposals for HDC’s Annual Financial Audit

DATE: September 2, 2015

HDC’s Finance department recently solicited proposals for the performance of the Corporation’s annual financial audit by an independent auditor. The engagement will cover four fiscal years, starting with fiscal year 2015, and cover the period from November 1, 2014 through October 31, 2018. We solicited bids from the “Big Four” accounting firms: Ernst & Young; Deloitte & Touche (“Deloitte”); KPMG; and Price Waterhouse Coopers (“PWC”).

The rationale for continuing with the Big Four accounting firms is based on the following:

- All of the City agencies and the larger State agencies use any one of the Big Four firms (see attached listing). Battery Park City Authority was the only similar New York State agency that didn’t use a Big Four firm.
- Each of the other New York housing and development agencies (NYCHA, HCR, SONYMA, and EDC) uses a Big Four firm.
- Staff researched the practices of comparable housing finance agencies (“HFAs”) across the country and the larger HFAs use a Big Four firm, as well as most of the mid-sized HFAs (see attached listing).
- Considering HDC’s size in terms of total assets, net assets, bond issuance, as well as our AA rating and our standing in the industry, senior management feels comfortable retaining a Big Four auditing firm. The Corporation throughout its history and growth has always used one of the “Big” auditing firms, and considering that HDC is the largest issuer of multi-family housing bonds in the country and its transactions have grown in complexity over the years, senior management sees no need to change that philosophy at this time.

Only one firm, Ernst & Young, responded with a bid for services. No bids were received from the other firms.
As a follow up to why no other firm responded, staff sent emails and letters to the three other firms requesting an explanation for not submitting a response. KPMG explained that they received the auditing RFP and would have responded with a bid, however since they are currently engaged in a separate evaluation process with HDC (KPMG bid to provide consulting services for the planned Oracle upgrade project) and stated that a conflict would exist if they were selected for that project. Thus, KPMG chose not to bid on the auditing service RFP.

Deloitte responded that their long time engagement partner had retired within the past 6 months and all RFPs were being transitioned to a new partner. The new partner also said that with the transition and the fact that he was out of the country on vacation at the time the RFP was due, the RFP fell through the cracks and could not be answered in a timely manner. He expressed his regrets and requested that the Corporation keep Deloitte in mind when any future RFP for auditing or other consulting services is required.

Price Waterhouse Coopers did not respond to the RFP, email requests or a letter requesting an explanation. As a last resort a request was also sent through their on-line repository for RFPs, and to date they have still not responded.

Ernst & Young’s responding bid is an excellent one. They have lowered their base fee, which includes the Federal Single Audit fee, for the first year of the contract to an amount equal to two years ago. The base fee for the second year of the contract is similarly lower than the previous year. In fiscal year 2014 HDC’s auditing fees were $255,000 which included an additional $30,000 for the Single Audit due to the CDBG-DR Superstorm Sandy funds. Last year was the initial year that the Sandy funds needed to be included in the Single Audit and, as a result, Ernst & Young had additional testing and documentation that needed to be done, hence the larger additional Single Audit fee. If not for that, the base fee for last year would have been $225,000. In FY 2013 the base auditing fee was $218,000. Therefore, Ernst & Young’s base fee of $218,000 for the first year of the proposal is lower even though HDC’s portfolio has increased over those two years. The subsequent years of the proposal include $226,000 for FY 2016, $234,000 for FY 2017 and $242,000 for FY 2018, to address the Corporation’s expectation of increasing bond programs at the rate of 25 to 35 per year as stated in the RFP.

In addition to the base auditing fee, Ernst & Young also included in their response, as required, a fee of $9,000 per consent letter for services performed in conjunction with the issuance of bonds. This fee was kept steady from their prior contract. However the Corporation has in recent years stopped requesting this service as the underwriters no longer require a consent letter prior to bond issuance. HDC left this in the RFP in the event that the future consent letters will once again be required.

In addition to a lower initial annual fee than in the last two years of the previous contract, Ernst & Young has also provided excellent audit services to HDC for the past sixteen years, and our experience working with them has been very positive by all accounts. Through the years Ernst & Young has gained a deep and solid understanding of HDC, and is familiar with what is involved in the audit process for the Corporation. This leads
to efficiencies not only with the auditing staff of Ernst & Young which keeps the fees low, but also with HDC staff as well. These combined efficiencies have led to early completions of previous audits and enabled HDC to be in compliance with the Public Authorities Accountability Act (“PAAA”). Ernst & Young has demonstrated a high level of expertise in their field by assisting the Corporation in the implementation of many complex GASB Statements over recent years, as well as advising us in developing the proper accounting treatment of some of HDC’s complex financial transactions. Each Ernst & Young member on the account, from the Manager to the Partner, is readily available to answer any questions that HDC staff have throughout the fiscal year. Finally, Ernst & Young is affiliated with the auditing firm of Mitchell & Titus, the largest minority controlled accounting firm in the United States, and will be using staff from Mitchell & Titus on the engagement.

Based on all of the factors above, along with a lower fee than in years past, staff recommends awarding the next four year contract for auditing services to Ernst & Young.

**Recommendation and Action by Members**

Staff recommends that the Members approve Ernst & Young as the independent auditor for the Corporation for the next four years.
<table>
<thead>
<tr>
<th>Agency</th>
<th>Independent Auditor</th>
</tr>
</thead>
<tbody>
<tr>
<td>The City of New York</td>
<td>Deloitte</td>
</tr>
<tr>
<td>NYS Homes &amp; Community Renewal</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>SONYMA</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>NYCHA</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>NYC Economic Development Corp</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>NYC Health &amp; Hospitals Corp</td>
<td>KPMG</td>
</tr>
<tr>
<td>NYC Employees Retirement Sysystem</td>
<td>Deloitte</td>
</tr>
<tr>
<td>NYC Transitional Finance Auth</td>
<td>Deloitte</td>
</tr>
<tr>
<td>NYC Municipal Water Finance Authority</td>
<td>Deloitte</td>
</tr>
<tr>
<td>School Construction Auth</td>
<td>Price Waterhouse</td>
</tr>
<tr>
<td>NYC Dept of Education</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>NYC Industrial Dev Authority</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>Metropolitan Transit Auth</td>
<td>Deloitte</td>
</tr>
<tr>
<td>Dormitory Auth State of NY</td>
<td>KPMG</td>
</tr>
<tr>
<td>Empire State Development Corp</td>
<td>Toski &amp; Co (Williamsville, NY)</td>
</tr>
<tr>
<td>City University of NY</td>
<td>KPMG</td>
</tr>
<tr>
<td>State Univeristy of NY</td>
<td>KPMG</td>
</tr>
<tr>
<td>NYS Energy Research &amp; Dev Auth</td>
<td>KPMG</td>
</tr>
<tr>
<td>Nassau Interim Finance Auth</td>
<td>Deloitte</td>
</tr>
<tr>
<td>Port Authority</td>
<td>KPMG</td>
</tr>
<tr>
<td>Power Authority</td>
<td>KPMG</td>
</tr>
<tr>
<td>Battery Park City Auth</td>
<td>Marks Paneth (switched in 2009 from KPMG)</td>
</tr>
<tr>
<td>NJ Economic Development Auth</td>
<td>Ernst &amp; Young</td>
</tr>
</tbody>
</table>
## Listing of External Auditors for Major Housing Finance Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Independent Auditor</th>
<th>Total Assets</th>
<th>Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virginia Housing</td>
<td>KPMG</td>
<td>$8.0 B</td>
<td>$2.6 B</td>
</tr>
<tr>
<td>Mass Housing</td>
<td>PWC</td>
<td>$6.5 B</td>
<td>$1.1 B</td>
</tr>
<tr>
<td>California Housing</td>
<td>Clifton Larson Allen (Bellevue, WA)</td>
<td>$5.5 B</td>
<td>$1.47 B</td>
</tr>
<tr>
<td>Florida Housing</td>
<td>Ernst &amp; Young</td>
<td>$5.01 B</td>
<td>$2.1 B</td>
</tr>
<tr>
<td>Connecticut Housing</td>
<td>Ernst &amp; Young</td>
<td>$4.84 B</td>
<td>$964 M</td>
</tr>
<tr>
<td>Pennsylvania Housing</td>
<td>KPMG</td>
<td>$4.6 B</td>
<td>$750 M</td>
</tr>
</tbody>
</table>
Ms. Cathleen Baumann
Senior Vice President and Treasurer
New York City Housing Development Corporation
110 William Street, 10th Floor
New York, New York 10038

July 9, 2015

Dear Ms. Baumann:

Thank you for the opportunity to submit our proposal to continue to serve as independent auditors for the New York City Housing Development Corporation (the "Corporation" and "HDC") and its subsidiaries, the Housing Assistance Corporation ("HAC"), and the New York City Residential Mortgage Insurance Corporation ("REMIC").

Our Prior Experience with the Corporation

Ernst & Young is no stranger to the Corporation. As your independent auditors and business advisors, since 1999, we have been committed to providing the Corporation with service that is both timely and of the highest quality. Over the years, we have assisted the Corporation in the implementation of many complex GASB Statements, including GASB Statements 34, 40, 45, 53, 65 and 68 as well as developing the proper accounting treatment for many of the Corporation’s initiatives.

As you read through our proposal, you will undoubtedly notice our commitment to serving both the public sector and financing agencies such as yours. Our qualifications in the public sector housing arena are unrivaled by any of our competitors. Accordingly, we believe Ernst & Young is the right accounting and auditing firm for the Corporation. Following are a few additional reasons why we believe our past audit relationship provides the Corporation with unsurpassed value.

Unsurpassed Housing Experience.

Our public housing qualifications surpasses any of our competition and demonstrates our firm’s commitment to this unique component of government. We have a deep understanding of all aspects of public housing and our team can be a great resource to HDC in helping you address many of your financial, accounting and auditing issues. Having these resources and proven leading practices available to you enhances your ability to better serve your constituents. In addition to serving as your independent auditors for the last 16 years, we also audit several state housing and mortgage finance agencies, such as the New York State Housing Finance Agency and the State of New York Mortgage Agency and the Connecticut Housing Finance Agency, which receive significant Federal awards and issue numerous multi-family housing bonds throughout the year. Also, our firm audits the New York City Housing Authority and the Chicago Housing Authority, two of the largest public housing authorities in the United States.

We Understand Your Organization

Because we’ve worked together for many years, we know your organization and you know ours. We have a thorough understanding of your operating environment, your accounting processes and, most importantly, your business. Together, we have dealt with many financial accounting and business improvement issues that have helped you to develop a more effective and efficient organization. With Ernst & Young, there is no learning curve, no down time and only minimal internal resource commitment required of HDC to manage the auditor transition process.
People

Regardless of a firm’s experience, it is the individuals responsible for the engagement who determine the responsiveness of the service you receive. The team we have selected to serve you audit consists of dedicated highly-trained professionals that understand the issues facing the Corporation and have many years of experience bringing value-added service to you and clients in your industry. Randy Nelson will serve as your engagement partner and will be responsible for all aspects of the engagement, ensuring that you receive excellent service and that HDC’s expectations are met. He will be the decision maker with respect to all policy matters.

Louis Roberts, our Public Sector Leader, will serve as your engagement quality review partner on the engagement. Lou brings over 20 years of Public Sector accounting and auditing experience to the engagement and is available to consult with the audit team during the course of the engagement.

Kimberly Hancy, as audit senior manager, and Samantha Cullow, as audit manager, will be directly responsible for the development, coordination and execution of the audit plan, and the overall management of all phases of our engagement. Both Kim and Samantha have an excellent understanding of the Corporation and the manner in which its various funds are accounted for. This understanding is a direct result of the experience they have gained from working with HDC over the last several years.

Randy, Kim and Samantha have served the Corporation for a number of years. They have accumulated an excellent record in providing timely quality service to HDC as well as other Ernst & Young governmental clients. It will be the responsibility of these executives to ensure that you continue to receive excellent, timely service. They will call upon other individuals in the firm when necessary to provide you with the specialized professional talent to meet your business objectives.

Diversity

At Ernst & Young we know the importance of providing a team with diverse backgrounds in order to effectively serve our clients objectives. With that in mind, we have made a decision to utilize as part of our client service team, professionals from our affiliated minority firm Mitchell & Titus (M&T) in performing the services that we provide for the Corporation. M&T has provided outstanding audit and assurance services to a number of federal, state and local governmental agencies as a significant part of its practice. As a result, M&T has acquired a wide range of skills and a premium reputation in this area. In addition, M&T currently serves more than 100 not-for-profit clients, including single-program and multi-program agencies, foundations, cultural organizations and trade associations.

The firm is proud of the unique multicultural composition of its professional staff. More than 20 different nationalities are represented, and approximately 50 percent of the firm’s professional staff are women. M&T is dedicated to hiring the most highly qualified professionals, without regard to gender, race or national origin.

Technology

Our significant investment in technology translates directly to value for our clients. Tools like E&Y’s Auditor’s Workstation, GAMx, EY Canvas and our Lotus Notes databases give our professionals the ability to deliver accurate, timely and cost-effective service that differentiates us from our competitors.

Commitment to the Public Sector

Our local professionals are closely linked across the country to share best practices and to provide every public sector client the best technical service and thought leadership available. As you will see in our proposal, Ernst & Young has a prestigious list of clients comparable to your organization right here in the Metro New York Area. Briefly, in addition to the housing agencies noted above they include: NJ Transit, New York City Economic Development Corporation, New York City Industrial Development Agency and the New York State Affordable Housing Corporation. Each of these entities is as uniquely complex as the New York City Housing Development Corporation and several utilize pass-through financing transactions which require the agency to address the very same accounting and reporting issues as the HDC.
On Going Communication
As HDC has experienced, our professionals understand the importance of ongoing communication with HDC management and its Board of Directors. Our client service executives are always accessible. As always, they will be available whenever you need them and be proactive in resolving the issues confronting HDC. They will continue to keep all lines of communication open, whether to resolve key matters relating to the audit or to provide permitted advisory services on an ad hoc basis.

Timing
As indicated in the request for proposal, the HDC has specific deadlines relative to the receipt of its financial statements and reports thereon. These deadlines are consistent with its bond covenants and the requirements of the State of New York. Ernst & Young understands the importance of meeting your deadlines. We've had an impeccable record of producing a quality product for HDC within the designated time frame, and we will continue to sustain that record when servicing HDC. Accordingly, we specifically confirm that our interim fieldwork will be completed no later than mid-November each fiscal year and year end (final) fieldwork will be completed no later than the third Friday in January following the end of the fiscal year. Our report will be issued no later than 1 week following the completion of the technical review process.

Resources
Ernst & Young has over 2,000 professionals in the State of New York working from the conveniently located 5 Times Square office in New York City.

Audit Fees
Based upon our understanding of the Corporation’s objectives and scope of the engagement as outlined in your request for proposal dated June 25, 2015, our audit fees will be $218,000, $226,000, $234,000 and $242,000, respectively for each year of the engagement, or $920,000 for the four-year period ending October 31, 2018. The fees quoted in the previous sentence are all inclusive and include fees related to the performance of the Corporation’s Single Audit. The Single Audit fees amount to $30,000, $31,000, $32,500 and $33,500 for each of the respective years.

These fixed fees reflect a substantial discount from our standard rate schedule and is indicative of both our advanced audit methodology and our desire to continue to serve the New York City Housing Development Corporation.

The proposal that follows describes in greater detail Ernst & Young’s qualifications and presents a comprehensive approach to servicing the HDC.

Our team is extremely excited about the opportunity to serve the Corporation. The New York City Housing Development Corporation is a top quality organization with high caliber people. We also believe this is true of Ernst & Young. We look forward to presenting our credentials in person to both your management team and the evaluation committee and to answering your questions, if required. In the meantime, should you have any questions regarding any aspect of our proposal, please do not hesitate to call at +1 732 516 4340.

Very truly yours,

Randy P. Nelson

A member firm of Ernst & Young Global Limited
Contents

Part I - Audit scope and approach ................................................ 1
Part II - Organizational support, experience and team ......................... 22
Part III - Quality assurance policies, standards and procedures .............. 41
Part IV - Our use of technology .................................................... 47
Part V - Compensation ............................................................... 51
Attachments
  Doing business data form
  Peer review
Part I - Audit scope and approach

Scope of work
The scope of our services will encompass performing an audit of the financial statements for the Corporation and its component units for the years ending October 31, 2015, 2016, 2017, and 2018 in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The services will also include an audit of the Corporation's federal financial assistance programs as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Also we will issue our report on the Corporation's Schedule of Investments as required by the Public Authorities Accountability Act (PAAA) as well as a report on the Corporation's compliance with the PAAA.

In addition to the issuance of our audit reports, we will issue a management letter, if necessary, which will include our recommendations affecting the financial statements, internal control, accounting procedures and systems and any other significant matters. We will also report on the Corporation's compliance with investment policies and minimum mortgage servicing standards and also attend the City of New York Audit Committee meeting with the Corporation's management.

Our final report will be issued by the end of the last week in January.

At Ernst & Young LLP, we understand the importance of meeting a client's deadline. As your current auditors and independent accountant for a number of public sector agencies we have an excellent record of producing a quality product on time. This has been demonstrated by our past 16 years of service to the Corporation and can also be confirmed through discussions with any of our references.

Throughout the year, we will make ourselves available to the Corporation's accounting staff to answer any questions relative to accounting and finance and the manner in which such guidance should be implemented.

Introduction
As the Corporation proceeds upon a new era of evolution and growth, your auditor should grow and evolve with you. Our fresh audit perspective will be leveraged consistently across the entirety of your organization, thus helping you to better leverage your investments, such as those in financial and budgetary controls. Our preliminary focus will include extensive use of IT and centralized audit testing strategies. We will leverage our intimate knowledge of the Corporation's Financial Reporting and Accounting System, gained through sixteen years of service as the Corporation's auditors, to develop clear communication protocols and a strong transition plan.

Transition
Because we've worked together for many years, we know your organization and you know ours and therefore transition to a new audit firm will not be necessary. We have a thorough understanding of your operating environment, your accounting processes and, most importantly, your business. Together, we have dealt with many financial accounting and business improvement issues that have helped you to develop a more effective and efficient organization. With Ernst & Young, there is no learning curve, no down time and limited internal resource commitment required of HDC to manage an auditor transition.

Our global audit methodology
Ernst & Young has invested hundreds of millions of dollars over the last several years in the global innovation of our control-based, balance sheet-focused audit methodology and supporting technology and knowledge enablers.

Ernst & Young’s Global Audit Methodology (EYGAM) is executed through a comprehensive service approach. It begins with understanding service requirements and establishing working protocols with the Audit
Committee and Management. It concludes with our Assessment of Service Quality (ASQ) to determine our performance in meeting service expectations - most importantly, audit quality - with both the Audit Committee and Management.

Our comprehensive service approach

[Diagram showing service quality aspects]

Not adversarial

Maintaining our objectivity

Not cozy

Our Service Approach is the cornerstone of our service delivery model and consists of the following key facets:

- **Understand service expectations** - During this step, we establish and confirm our understanding of the Corporation's Audit Committee and Management audit needs.

- **Drivers** - We gain an understanding of the current and emerging developments that may affect the Corporation's business risk and control environment, and financial reporting requirements.

- **Assurance plan** - With a thorough assessment of the risks facing the Corporation, we then establish a portfolio of audit procedures that are customized based on your significant accounts, disclosures and classes of transactions, as well as our assessment of risk, including the risk of fraud. Our procedures include tests of controls and tests of details of significant account balances and transactions.

- **Assessment of service quality (ASQ)** - The ASQ process begins with our inquiry into the Corporation's perception of service quality. This inquiry is conducted through on-site interviews of the Audit Committee and Management by experienced Ernst & Young executives who are independent of the audit service team. A follow-up Action Plan is developed based on the results of these interviews.

- **Key service delivery principles** - We are confident that EYGM and service delivery model provides for the delivery of world-class audit services consistently. However, process, methodology, and service models must be coupled with exceptional execution in order to achieve a world-class result. The audit methodology of any firm is only as good as the execution and delivery driven by the team serving you. The quality of service execution is so critical that our partners are committed to the following key service delivery principles:
  - Timely, hands-on executive involvement
  - An understanding of your business
  - Top-down, risk-based focus
  - Integrated risk assessment and planning process
  - Flexibility in the use of the work of others
EYGAM guides our audit team’s execution of an integrated audit, a coordinated process that enables us to report on both the financial statements and internal control over financial reporting. Briefly, EYGAM guides the following audit activities:

- Identification of significant accounts, disclosures and classes of transactions, based on materiality and specific risk factors, including the risk of fraud.
- Identification of significant business and accounting processes, including the financial statement close process
- Identification of “what can go wrong?” considerations (similar to a risk identification) in the business processes and accounting activities
- Identification, documentation, testing and evaluation of the key controls that prevent or detect errors, which could potentially be material to the financial statements.
- Determination of the nature, extent and timing of additional audit procedures (i.e., testing of account balances) to be performed based upon testing and evaluation of key controls
- Execution and documentation of tests of details of significant account balances and transactions
- Execution and documentation of audit procedures related to financial statement reporting, including footnote disclosures
- Conclude on the audit and report results to the Audit Committee and Management
- Execute Assessment of Service Quality (ASQ) to determine our performance in meeting service expectations - most importantly, audit quality - with both the Audit Committee and Management

Audit approach and process

Ernst & Young takes a collaborative audit approach and will expect the Corporation’s participation in our planning processes. We will optimize coordination and integration with your resources, retaining this focus as we develop the audit plan. We will work to maximize audit efficiencies and minimize duplicative efforts and disruption to the Corporation.

Our audit approach starts with gaining an understanding of the current and emerging developments that may affect the Corporation’s risk and control environment and financial reporting requirements. This includes the effect of stakeholder influence; relevant government sector trends; the Corporation’s strategies and related operational risks; and accounting, reporting and regulatory developments.

The key features of the Ernst & Young audit approach include:

- Applying our fresh perspective to the Corporation’s audit by obtaining a thorough, up-to-date understanding of your organization and its internal control environment. This helps us to identify potential risk areas associated with particular operations and processes, as well as to communicate and develop client service objectives that confirm that the Corporation receives the benefits you expect.

- An account-balance focus that allows us to quickly identify significant accounts and high-risk areas. This is achieved by encouraging consideration of business and environmental aspects in deciding “what can go wrong” and by focusing attention on the estimation/judgment processes separately from the routine and non-routine data processes.

- A risk assessment process that is central to the audit approach and provides the basis for planning the necessary effort to hold audit risk in each area to an acceptably low level. This enables us to plan our effort to be responsive to the likelihood of errors of audit importance and to select audit procedures that directly relate to your particular situation.
Audit process

Our audit process is designed to focus the Corporation's needs and is composed of the following elements:

- Planning
- Internal control work
- Risk assessment
- Substantive testing
- Quality control

Our innovative audit is an evolving and dynamic initiative that focuses on delivering value throughout the entire audit process. It is also designed to look beyond the numbers—to deliver the value you are seeking. The following illustration graphically depicts the Ernst & Young audit process and then briefly describes each key element.

---

Develop assurance plan

We understand and validate:

- Audit committee and management expectations regarding communications and service delivery
- Work products and audit scope

Team

We establish an engagement team with the right industry and technical skills to execute the audit and deliver on our commitments to you.

Understand the business

Audit risk is influenced by business risk. Our audit begins with understanding current and emerging developments that could affect the Corporation's business environment and risk, including industry trends, stakeholder needs, evolving professional standards and market developments. We monitor key issues and changes within the Corporation and its business environment to continually update the Corporation's business risk profile. We update our audit strategy to focus on areas that signal vulnerability and risk.
Establish audit strategy

We establish a portfolio of audit procedures that are customized based on the Corporation's significant accounts and processes, as well as our assessment of risk, including the risk of fraud. Our procedures include tests of controls and tests of details of significant account balances and transactions.

Perform audit procedures and conclude

Our primary work products are our opinion on the Corporation's financial statements; our 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; our report on compliance with requirements applicable to each major program and on internal control over compliance with OMB Circular A-133; and our report on the schedule of investments.

Client satisfaction

We monitor our success in meeting the Corporation's needs and expectations through our client satisfaction improvement process.

Our detailed audit approach

Ernst & Young's audit approach has been tailored for government and is divided into the following phases:

1. General planning and identification of areas of audit significance
2. Understanding and evaluating the significant sources of information
3. Developing and executing the audit process
4. Drawing overall audit conclusions and reporting

While these phases are discussed in a specific order, some phases can overlap and may be pursued simultaneously by different members of the audit team.

The following sections highlight the activities performed during the various phases of the audit process.

I. General planning and identification of areas of audit significance

The first phase includes a high level of involvement by our senior audit executives as part of a "planning event" at your offices and involves participation of appropriate the Corporation management personnel. Many decisions about the nature, timing and extent of our audit procedures are made during this phase. Randy Nelson and Kimberly Nancy will be actively involved in the planning event. This approach builds quality into our work from the beginning, avoiding rework and facilitating the identification of issues for prompt resolution. During the second and third phases, a greater percentage of the time will be spent at the senior and staff accountant levels in the field.

During the final phase, time spent at the senior manager and partner level as a percentage of total staff time will again be greater. Care is taken to review the reports prior to issuance for conformity with professional, federal and internal standards and criteria. Many of our internal quality control procedures are concentrated in the final phase of the engagement.

The primary objective of the planning phase is to obtain sufficient information to enable us to plan the audit. We gather this information by obtaining an understanding of the organization and reviewing how the financial data reflects operating results. We make an overall assessment of the current control environment and of the significant systems and control applications, as well as significant accounts and groups of accounts, in order to achieve a successful and timely completion of the audit.
Phase I includes obtaining information about your organization and its operations, internal control environment and prescribed procedures and methods for processing accounting data. In this phase, we will devote attention to meeting with the Corporation personnel and reviewing available documentation to understand and support the Corporation’s current accounting policies and procedures. Some of our procedures during this phase will include:

- Reviewing and concurring with the Corporation’s accounting policies and procedures
- Reviewing and providing comments on the Corporation’s draft pro-forma financial statements regarding any suggested changes to the basic financial statements and notes to the financial statements to avoid surprises or delays during the wrap-up phase of the audit
- Reviewing and providing comments on the Management’s Discussion and Analysis (MD&A) information
- Identify outside service providers used to develop financial information and obtain all appropriate SOC 1 reports

During this phase, we will also identify data processing applications having audit significance and determine the extent to which manual or automated processes are used. This initial phase will lead to the development of our Audit Strategies Memorandum (ASM).

The ASM is developed in order to coordinate and control the overall aspects of the audit to confirm that detailed testing will be performed effectively and efficiently. The ASM is considered to be a unique blueprint of your audit. It is a flexible, dynamic tool, designed to communicate certain basic information relating to the audit, such as the scope of the effort, the recording, auditing and reporting matters requiring attention as well as resolution and the involvement of your personnel.

Significant steps, tasks and subjects that will be a part of the ASM include:

- Historical, statistical and financial information
- Scope of the audit engagement, consistent with the prevailing controls and the tests and reviews mandated by auditing standards generally accepted in the United States and standards applicable to financial statement audits contained in Government Auditing Standards
- Management procedures and controls to be tested during the audit
- Schedules of tasks to be completed, including specific timing and staffing assignments, progress reports, meetings, etc., to provide for appropriate communication during the audit and for timely completion of the engagement
- Overview of the accounting systems, accounting policies, applicable legal provisions and reporting considerations
- Specific observations regarding certain key accounts and transactions

II. Understanding and evaluating significant sources of information

During this second phase of your audit, we identify the information sources (routine and non-routine data and estimation / judgment processes) that affect the significant accounts identified in the initial phase. We assess the financial statement assertions and the related audit objectives and procedures as they relate to significant accounts or groups of accounts in terms of:

- Existence (or occurrence)
- Completeness
- Ownership, or rights and obligations
- Valuation (or allocation)
- Presentation and disclosure

Applications such as receipts, expenditures, disbursements, payroll and others will then be examined to assess their relationship to the financial statements and to assist in planning the more detailed audit procedures.

Confidential - All Rights Reserved - Ernst & Young 2015
We also will identify the necessary controls by specifying how the objectives of accounting controls apply, identifying those points within the flow of transactions where data errors could occur and determining whether control procedures have been established to meet the objectives of accounting control (i.e., to prevent or detect the potential errors). We will prepare descriptions of the flow of accounting information (forms, policies, procedures and practices) for further evaluation. In documenting the current state of their systems, many clients find our approach useful as a vital initial step in order to perform process value analysis, implement activity-based costing and initiate process innovation and redesign.

Our analysis of the aspects of internal control consists of interviewing the appropriate personnel, obtaining responses to pertinent questions, confirming responsibilities and observing specific controls. Our approach is designed to determine:

- The flow of transactions and highlights of the accounting-related aspects of business process
- The accuracy of the routine financial data (the detailed information about transactions produced by your accounting system and recorded in your books and records)
- The reasonableness of accounting judgments as reflected in the statements (the numerous estimates, evaluations, choices and decisions made in preparing the financial statements)
- The reasonableness of the amounts resulting from non-routine data processes
- The adequacy of control procedures in your electronic data processing (EDP) environment

We consider both the manual and the EDP accounting systems in our assessment of the effectiveness of controls. The tests performed on systems in an EDP environment frequently differ from those performed in a non-EDP environment. Therefore, we will be particularly concerned about certain operations of your EDP department and will use an Ernst & Young Information Technology Risk Assurance professional to assist with this aspect of the evaluation.

The objective of this review is to gain an understanding of the systems and the flow of transactions to be able to identify:

- The significant accounting applications in the system and other applications of audit significance
- The errors and unusual conditions that could occur in each significant application
- The essential elements of accounting controls used to prevent or detect such situations

We will also make a risk assessment of each account to identify specific conditions that we are likely to encounter. Within this framework, we will examine commitments and covenants regarding securities issues, governmental grants and contracts and other agreements to determine the various compliance requirements that must be met. The results of this evaluation of internal control and risk assessment help us in formulating our detailed audit plan and in determining the extent and type of specific tests required to obtain sufficient evidence to express an opinion.

III. Developing and executing the audit process

Based on the knowledge and information obtained during the first two phases of the audit approach, an audit approach plan covering each significant account is developed in Phase III. We prepare audit programs for tests of controls and for substantive tests. We make a final evaluation of the controls' effectiveness based on our tests and we perform substantive tests of account balances.

**Perform tests of controls**

The purpose of performing tests of controls is to confirm our initial assessment of the effectiveness of internal control and to determine the likelihood or actual presence of errors in the accounting data. This also determines to what extent we can “rely” on the controls. The nature and extent of the control testing will be influenced by our initial assessment of the current control procedures being used.

There are two types of controls: “detect controls” and “prevent controls.” Detect controls are those designed to identify or detect errors that occur during the accounting process; prevent controls are designed to prevent errors from occurring during processing. Because detect controls can be applied to groups of transactions, they are performed less frequently than prevent controls. A high degree of
assurance that they are operating effectively can be obtained efficiently. However, because governmental entities are subjected to more stringent legal requirements than commercial organizations, our approach in certain areas will incorporate tests of both detect and prevent controls.

In emphasizing our commitment to efficient audits, however, we do not test both types of controls in other areas if we do not expect to rely on such controls to reduce other audit procedures, such as substantive testing of account balances. Where tests of controls can efficiently validate account balances, we will adopt this approach.

After executing our planned tests of controls, we will evaluate the results and decide whether the initial assessment of the controls' effectiveness was appropriate. If the preliminary assessment is confirmed and we are able to rely on those controls, we will use that reliance in determining the extent of our substantive testing. The risk assessment, which is continued throughout the audit, requires evaluating the likelihood of errors occurring that are important enough to materially affect the financial statements being audited.

As noted earlier, the conclusions reached in our risk assessment will be based on the many evaluations of internal control, systems, accounts and transaction flows that occur throughout the audit. Upon completion of the risk assessment and evaluation of the control tests' results, we will develop a detailed audit program for each significant account. Our programs are specifically tailored to consider the characteristics of the accounts, accounting practices and control procedures of each client. We do not use generic, all-purpose audit programs. The audit programs are specifically designed to take into consideration the Corporation's unique business and control environment.

**Perform substantive tests of account balances**

The purpose of performing substantive tests is to obtain direct evidence as to the completeness, accuracy and validity of data. The result of these tests, when combined with other procedures, is to verify that balances in the financial statements are fairly presented and that the financial reporting is consistent with prior years and conforms to accounting principles generally accepted in the United States.

Substantive procedures may involve examining the details of data underlying specific transactions and balances and/or performing analytical review procedures. While some of these tests may be conducted concurrent with our tests of Internal control, the purpose of substantive tests is to complement our reliance on internal control and to validate our earlier observations. The substantive procedures emphasize obtaining evidence as to the validity and propriety of the accounting for transactions and balances and are directed at testing the timing, purpose, amount, compliance, allowability, completeness and appropriateness of recorded transactions.

Our substantive tests will incorporate, for example, procedures to verify by confirmation and other appropriate procedures that investments do, in fact, exist; that they are owned; that the account representing investments is stated in its entirety (i.e., complete); that investments are carried at the appropriate values; and that they are properly classified, described and disclosed in the financial statements in conformity with the applicable GASB pronouncements.

All significant accounts (e.g., investments, receivables, accruals and bonds payable) will be subjected to similar substantive procedures.

At year-end, we will perform a limited review of internal control and policies to determine whether there have been any significant changes in the controls since the completion of the interim audit work. Significant changes in either internal control or accounting policies will then be evaluated to determine the potential impact on the earlier audit test procedures. We will complete selected detailed audit test procedures and will resolve any remaining accounting and reporting issues that could affect the financial statement disclosures.

**Computer audit techniques**

A key ingredient of our audit approach is using state-of-the-art technology throughout all phases of the audit. Two of these tools, EY / Control Analysis and EY / ASAP, have been customized for our audits of public-sector clients. These tools assist the audit service team in planning and designing the audit to fit the Corporation's particular environment. Use of this technology enables the audit team to effectively and efficiently develop and execute the audit plans and programs unique to your audit.
Additionally we utilize audit automation tools such as ACL for data analysis support in our audit approach. Such support allows us to perform exception-based reporting, where we are able to generate reports showing activity / transactions that do not follow set policy. This allows us to choose our test samples intelligently. Data analytic capabilities also allow us to test mathematical calculations in full (as opposed to on a test basis), as well as allowing us to utilize more systematic forms of statistical sampling (i.e., monetary unit sampling). Our capabilities with data capture tools such as Monarch give us greater flexibility in terms of data acquisition in environments where there may be no programmer to generate data files.

See Part IV of this proposal for more details on our use of technology.

IV. Drawing overall audit conclusions and reporting

In this final phase of the audit, we perform certain general audit procedures, conduct an overall review of the financial statements and draw overall audit conclusions based on our results. The general audit procedures performed here include obtaining management and legal representations as well as reviews of subsequent events.

We will perform an overall analytical review of the basic financial statements (BFS) near or at the conclusion of our audit work. The purpose of this review is to satisfy ourselves that the numbers make sense in light of our understanding of the Corporation, that we have obtained explanations of significant fluctuations, and that the financial statements meet generally accepted presentation and disclosure standards.

In addition, we will reevaluate our materiality judgments and the adequacy of our audit procedures. In the planning phase, we determined planning materiality based on preliminary information that affected the extent of tests performed in execution. Based upon the final assessment of combined risk and the audited materiality base, we will consider whether the extent of substantive auditing procedures was sufficient to form conclusions concerning the information contained in the financial statements, the effectiveness of internal controls, and compliance with laws and regulations.

Throughout the audit, we will make inquiries about various facets of the Corporation’s operations, commitments, contingencies, pending or actual lawsuits and judgments and obligations. Responses to our inquiries may be provided both orally and in writing. During this final phase, in order to confirm the continuing appropriateness of earlier representations and to determine a mutual understanding of the subject matters relating to these representations, we request written legal representation from legal counsel and management representation from management and the constitutional officers and their representatives.

Also, during this phase we will perform a review of events occurring subsequent to the date of the financial statements that could have a direct and material effect on the financial statements. Our objective is to determine if there have been any significant direct or contingent liabilities or commitments have occurred; significant changes in the status of items accounted for in the financial statements on the basis of estimates or on the basis of tentative, preliminary or inconclusive data; unusual adjustments to the accounts since the balance sheet date; and significant changes in the financial condition or operations since the balance sheet date.

When appropriate, we will meet with the Corporation’s team to discuss developments in the audit and/or resolve accounting issues. Such meetings will be held regularly from the beginning of fieldwork until the final report is issued in accordance with an agreed-upon. Potential financial statement adjustments identified during the audit will be formally documented and we will discuss the effects of these adjustments. We are confident that with the appropriate dialogue between management and the EY team, all reporting issues will have been identified and resolved well in advance of all final reports.

We will discuss any conditions requiring your attention prior to the issuance of the final reports. The purpose of the briefings in the final phase is to review reported conditions and develop an appropriate course of corrective action to permit your positions to be simultaneously communicated to the appropriate parties. The corrective action you implement or plan to implement will appear in the reports.
Sample sizes and the extent of statistical sampling

Ernst & Young will use sampling strategies in performing tests of controls, tests of account balances and to determine our samples sizes for major programs.

Tests of controls

When we are developing our testing strategy for performing tests of controls, we consider the fact that we perform sufficient procedures to conclude that the control is operating effectively. The table below summarizes our basic extent of testing guidance for full tests of controls for a specific control in situations where we are testing more than one control related to a relevant assertion, and we do not expect to find exceptions in the operation of the control.

<table>
<thead>
<tr>
<th>Nature of control and frequency of performance</th>
<th>Full tests of controls -- Minimum number of items to test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual control, performed many times per day</td>
<td>25</td>
</tr>
<tr>
<td>Manual control, performed daily</td>
<td>25</td>
</tr>
<tr>
<td>Manual control, performed weekly</td>
<td>5</td>
</tr>
<tr>
<td>Manual control, performed monthly</td>
<td>2</td>
</tr>
<tr>
<td>Manual control, performed quarterly</td>
<td>2</td>
</tr>
<tr>
<td>Manual control, performed annually</td>
<td>1</td>
</tr>
</tbody>
</table>

Tests of account balances

In testing account balances, we may utilize a statistical sampling approach for testing such areas as mortgage loans receivable. When planning a particular sample for a substantive test of details, we would consider materiality levels, our combined risk assessment and the nature of the items comprising the account balance.

Statistical sampling

The use of sampling is an integral part of our audit approach, and we have developed practical tools to implement statistical techniques. Our primary objective in developing these tools is to help the audit team design the most efficient and effective combination of procedures.

To assist in accomplishing this objective, we have developed E&Y/MicroSTART, an innovative, statistically based model that incorporates the various risk assessments with the results of our tests of controls and other audit procedures. E&Y/MicroSTART provides a direct tie-in to the procedures necessary to test effectively the balances and classes of transactions. In addition, it demonstrates the trade-offs made in various combinations of procedures and alternatives. By using E&Y/MicroSTART to design the combination of tests that provide the desired flexibility in the nature, timing, and extent of testing yet achieve sufficient, competent evidential matter to support our reports, we can measure the cost in terms of audit efficiency. Because this model is based on the statistical theories used in auditing, it allows us to use the most effective and efficient combination of procedures in a given audit situation, thus controlling our audit effort.

Type and extent of analytical review procedures

Various types of analytical and data analysis procedures often are useful in obtaining the audit assurance we desire. We can use analytical and data analysis procedures as stand-alone substantive procedures or in combination with other procedures. In some situations, we may determine that performing only substantive analytical procedures may be sufficient to reduce the risk of material misstatement to an acceptably low level. Specifically, we may determine that performing only substantive analytical procedures is responsive to
the assessed risk of material misstatement for a particular assertion (completeness/valuation) where our combined risk assessment is supported by a control risk assessment of minimum or by testing the underlying data.

Analytical and data analysis procedures are most useful in providing audit evidence when we are able to develop a high level of confidence in our expectations given our desired precision. We use judgment to determine whether our analytics will provide the desired audit assurance by using a two-step process, which includes establishing our desired precision, and determining our confidence in our expectation.

Analytical procedures generally provide sufficient audit evidence for income statement accounts when our combined risk assessments are minimal. In these situations, the engagement team ordinarily need not perform detailed tests (e.g., examining invoices) of specific income and expense accounts (e.g., rent, depreciation, repairs and maintenance, and interest income and expense) unless such detailed testing addresses a particular audit risk.

When our combined risk assessments for income statement accounts is low, we perform more extensive analytical procedures and/or key item tests to support the income statement accounts. However, as a general rule, tests of transactions using representative sampling is unnecessary, since the evidence produced by these other procedures is often sufficient to hold audit risk to an acceptable level.

If our combined risk assessment is moderate or high, we generally do not gain much confidence from analytical procedures.

The audit evidence we gain from analytics is a function of our desired precision and the level of confidence we have in our expectation of the amount (or trend, ratio, data pattern, etc.).

Our decision to use analytics depends on the specific situation, and we exercise judgment in deciding whether analytics are appropriate in the circumstances (i.e., whether analytics are an effective and efficient means of gaining the audit evidence we need).

Our steps to completing analytical procedures are therefore:

▶ Determine the objectives of the analytic
▶ Develop an expectation
▶ Select an analytical technique
▶ Execute the procedure and evaluate the results

Approach to understand internal controls

Classes of transactions can be categorized as routine, non-routine, or estimation. The considerations and requirements for routine transactions are equally applicable for non-routine and estimation transactions and for the sources and preparation of information.

Understand of the flow of transactions

We gain an understanding of the flow of transactions within significant processes and the sources and preparation of information in sufficient detail for the purpose of:

▶ Identifying the types of errors that affect relevant financial statement assertions related to significant accounts and disclosures
▶ When appropriate, identifying controls that are effective and sufficiently sensitive to prevent or detect and correct material misstatements in the related relevant financial statement assertion

Our understanding of the flow of transactions and the sources and preparation of information and how they result in significant accounts and disclosures, respectively, assists us in designing an audit plan that is effective.
We generally consider the presentation and disclosure assertion at this time for those disclosures that are derived from significant accounts. We consider presentation and disclosure (and possibly other assertions) for other disclosures in connection with the financial statement close process (FSCP).

We cover the flows of transactions from initiation through reporting in the entity’s general ledger. Reporting in the general ledger is the starting point for the FSCP.

In subsequent years audits, our work will consist mainly of updating our understanding for any changes during the year, reconsidering the types of errors that could occur, and performing walkthroughs to confirm our understanding of the flow of transactions and related controls (where appropriate).

**Identify “What Can Go Wrongs” (WCGWs)**

Our understanding of the flow of transactions includes inquiries to identify WCGWs. These are the points at which controls are needed.

It is important that we consider the entire flow of transactions from initiation through reporting, including both the manual and automated aspects of the flow, to identify where data errors could occur. We are particularly alert to identify points where errors could occur related to data initiation and on interfaces between processes or organizational units.

We do not attempt to identify every WCGW for flows of transactions. We focus on those WCGWs that could have a material effect on the related relevant financial statement assertions. In doing so, we consider both the magnitude of the potential misstatement that could result and the likelihood that the risk or error might be present. In other words, we only identify those WCGWs that represent risks of a material misstatement.

When we identify a WCGW, we consider if it is a significant risk, in which case we understand and evaluate controls over this WCGW.

**Identify significant classes of transactions**

As we identify a significant class of transactions or sources and preparation of information, we make a preliminary decision as to whether we will identify and evaluate controls.

We distinguish between the following strategies:

- Identify and evaluate controls (Controls Strategy)
- Do not identify and evaluate controls (Substantive Strategy)

Regardless of our strategy for significant classes of transactions containing significant risks, we identify and evaluate controls. In addition, for risks for which substantive procedures alone do not provide sufficient appropriate audit evidence we use the Controls Strategy.

We presume that generally the most effective and efficient approach to auditing our client's financial statements will be to test and rely on controls.

**Identify and understand controls, where appropriate**

In connection with identifying WCGWs, we identify and understand the controls that are designed to prevent or detect and correct potential errors that could occur.

In identifying and understanding controls, our goals are to:

- Identify effective controls that provide reasonable assurance that errors relating to each of the relevant financial statement assertions are prevented, or that any errors that could occur during processing are detected and corrected on a timely basis.
- Identify effective controls that provide reasonable assurance that significant risks linked to relevant financial statement assertions for the related significant accounts are prevented, or that any errors that could occur related to significant risks are detected.
> Identify effective controls that provide reasonable assurance that risks for which substantive procedures alone do not provide sufficient appropriate audit evidence for the related significant accounts will be prevented, or that any errors that could occur related to these risks are detected.

> We do not identify every control that is designed to prevent or detect and correct potential errors that could occur. Rather, we identify those controls that are sufficiently sensitive by themselves or in combination with other controls to mitigate the risks of a material misstatement.

> Identify the controls that can be tested most effectively.

> Determine whether any controls that are needed are missing.

> Determine the dependence of the controls on IT.

Controls can include any procedure that is used and relied on by the entity to prevent errors from occurring during transaction processing (prevent controls) or to detect and correct errors that may have occurred in processed transactions on a timely basis (detect controls).

When we believe the controls related to the flow of a significant class of transactions are ineffective, we communicate this to management along with our suggestions for strengthening the related controls.

**Approach to determining laws and regulations**

An important procedure on all audits is reading the minutes of all meetings of the Corporation and important committees (e.g., audit, executive, governance), as well as agreements and similar documents pertaining to the client's business. The information obtained helps us understand and evaluate the effects of significant contracts, business decisions, and similar documents on the financial statements. We use such information throughout our audit, beginning with general planning. In reading minutes and other significant documents, we consider whether any information contained in them is significant to the financial statements or to our audit procedures. We cross-reference any significant accounting, auditing, or reporting matters to the appropriate workpapers.

As part of forming an opinion on internal control over financial reporting, we review reports issued during the year by internal audit (or similar functions when present) that address controls related to internal control over financial reporting and evaluate control deficiencies identified in those reports.

GAS requires a written report on compliance based on audit procedures that we perform in a financial statement audit. OMB Circular A-133 states that the auditor is to express an opinion on compliance with laws and regulations applicable to federal programs. Generally, an opinion is required on each major federal program's compliance.

In a Single Audit, we consider the extent of the audit evidence necessary to support our opinion on compliance with the compliance requirements applicable to each major federal program.

Sufficient audit evidence is obtained to express an opinion on the client's compliance with the requirements related to each major federal program. This evidence is derived from full tests of controls, as discussed above, for the applications significant to the major federal programs and from performing substantive procedures. While full tests of controls are performed on applications that may be pertinent to one or more major federal programs, the substantive procedures we perform relate specifically to each major program. Ordinarily, these substantive procedures include a combination of analytical and data analysis procedures and/or the tests of details.

**Single audit considerations**

We confirm that we will conduct a Single Audit of the Corporation’s federal award programs. Our audit of the financial statements will also include the procedures necessary to meet the requirements of the Single Audit Act Amendments of 1996 and the requirements of OMB Circular A-133.
Schedule of expenditures of federal awards

During the planning phase, we will request a preliminary schedule of expenditures of federal awards identifying the expenditures for each program, the Catalog of Federal Domestic Assistance (CFDA) number, grantor agency and other required information. We will also request pertinent records concerning the federal programs, the accounting and reporting of finances and activities of these programs and the support systems that management (including program personnel) uses to monitor internal control and compliance and to control the activities of federal programs. This will be followed by meetings with personnel responsible for administering the federal programs and with key employees who maintain the data files containing such information as agreements, modifications, federal financial reports, cash reports and program budgets to obtain an understanding of the controls over federal award programs.

Understanding controls and compliance requirements

We will also consider the internal control and compliance requirements for your federal award programs. We will review your grant and other agreements and related information and correspondence. The OMB Circular A-133 Compliance Supplement will guide our audit on compliance requirements, internal control and determining compliance requirements for programs not included in the Compliance Supplement.

We will apply OMB Circular A-133’s risk-based approach to determine the major programs to be tested. Our extensive experience performing compliance audits for state and local governments, special purpose governments, colleges and universities and not-for-profit clients provides us with opportunities to build on and utilize the efforts of teams across the country to identify instances in which this process has already occurred, leading to an effective and efficient audit. The information obtained during this phase will be part of our ASM.

During Phase II, we will "walk through" the federal programs' controls and review examples of system documents, supporting records, program files, compliance controls and reports filed with federal agencies. These efforts provide the information and data necessary to include the Single Audit in our overall audit approach plan and to prepare detailed audit programs that uniquely address your needs, systems, controls and other financially related concerns.

For the detailed audit programs to properly address the required tests of internal control, account transactions and the extent of compliance, the audit program must include information related to the federal government's award condition, original budgets and all revisions, operating systems and controls, reports prepared for federal sponsors and profiles of the federal award programs. The objective is to perform the audit procedures necessary to enable us to issue reports on (1) our consideration of the internal control for managing federal award programs and (2) the extent of compliance with applicable federal laws, regulations, contracts and grants governing the major federal programs.

Determining major programs

In order to determine the Corporation’s major programs, we will apply the OMB A-133 risk-based approach using the Ernst & Young “Federal Program Risk Assessment Forms.” These electronic forms include a flowchart of the risk-based process, detailed instructions for applying the process, a carryforward document which provides criteria for performing the risk assessment for each Type A or Type B federal program along with the conclusion and a worksheet to provide compliance with the percentage of coverage rule.

These Ernst & Young forms have been updated for new authoritative guidance over the years (SAS 112, ARRA). Our familiarity with this process, these electronic forms and the Corporation’s federal programs will facilitate the determination of major programs, resulting in an effective planning effort.

Determine materiality for each major program

Planning materiality is used in developing the overall scope of our audit procedures for each major program. At the conclusion of the audits, we evaluate whether the instances of noncompliance noted in our compliance audit procedures are material in relation to each major program.
Our planning materiality for the audit of federal awards is calculated at the major program level since we are required to express an opinion on compliance for each major program. This calculation is performed by applying a percentage to the program's total federal expenditures.

Identify compliance requirements

In order to determine the compliance requirements that we need to test for each of the Corporation's major programs, we review the OMB Circular A-133 Compliance Supplement that is effective for the year under audit including any Addendums to the Supplement. For our major programs specifically contained in the Supplement, we initially refer to the Matrix in Part 2 to determine the compliance requirements that apply to each major program. We then use Part 3 and Part 4 of the Compliance Supplement as a guide to design our audit procedures for testing compliance with each requirement. If the program does not have expenditures subject to a particular compliance requirement or the expenditures could not materially affect the major program, we would not perform detail tests for that compliance requirement as it relates to the category of expenditures and then document the reason as to why testing were not performed.

For example, if our major program had equipment expenditures but such expenditures were not part of our 95% detail test coverage discussed above, we would not test any compliance requirements relative to equipment (e.g., equipment and real property management compliance requirement). Additionally, if our program had no sub-recipient expenditures, we would perform no detail testing of the sub-recipient monitoring compliance requirement. Our determination that a compliance requirement is not applicable for a major program is documented in the planning workpapers.

For programs not specifically included in the Compliance Supplement, we use Part 7 of the Supplement as a guide for identifying the applicable compliance requirements as well as reviewing federal program regulations and grant awards.

We also review Appendix V to the Compliance Supplement to confirm that any changes in compliance requirements from the previous Compliance Supplement are properly considered in developing the current year audit procedures for each major program.

Document and evaluate internal controls

We will document the Corporation's internal controls over the compliance requirements identified in the process above and for the significant sources of information that affect the major programs. As part of gathering the necessary data to document the Corporation's processes, we will interview appropriate program specific personnel, read available documentation and observe operating procedures. We will also document our evaluation on the effectiveness of these controls.

We consider both the manual and the EDP accounting systems in our documentation and assessment of the effectiveness of controls. The tests performed of systems in an EDP environment frequently differ from those performed in a non-EDP environment. Therefore, we will be particularly concerned about certain operations of your EDP installations and will continue to use our experienced team of computer auditors to assist with this aspect of the evaluation as further discussed below.

As part of our documentation and evaluation of internal controls over compliance requirements for major programs, we use Part 6 of the Compliance Supplement as a guide to identify the types of controls that the Corporation should have in place for each of the applicable compliance requirements. The identification of the controls for each applicable compliance requirement is documented on the Ernst & Young electronic form "A-133 Internal Control and Combined Risk Assessment" along with a reference to where the respective control is tested in the audit program.

Risk assessment

We will make a combined risk assessment of each major program to identify specific conditions we are likely to encounter. Within this framework, we will examine governmental grants and contracts and other agreements to determine the various compliance requirements that must be met. We will perform a combined risk assessment for each major program compliance requirement being tested which will be
documented on the Ernst & Young electronic combined risk assessment form discussed in the immediately preceding section.

The results of our evaluation of internal controls and combined risk assessment help us formulate our detailed audit plan and determine the extent and type of specific tests required to obtain sufficient evidence to express opinions on compliance at the major program level.

**Fraud considerations**

Interviews will be conducted of Corporation personnel regarding their views about the risks of material misstatement or noncompliance due to fraud. Any risk of material misstatement or noncompliance due to fraud identified during planning or execution will be evaluated, including controls to mitigate the risk and communicated to management as necessary.

**Audit strategies memorandum**

Based on the inputs received from our planning meetings and after determination of the Corporation’s major programs under the risk-based approach, we will prepare an overall Audit Strategies Memo (ASM) for the Single Audit.

A major purpose for developing the overall ASM is to coordinate and control the overall aspects of the audit to confirm that detailed testing will be performed effectively and efficiently. The ASM is considered a unique blueprint of our audit. It is a flexible, dynamic tool designed to communicate certain basic information relating to the audit, such as the scope of the effort, auditing and reporting matters requiring attention as well as resolution and the involvement of personnel, along with other considerations.

Significant steps, tasks and subjects that will be in the overall ASM include:

- Historical background/overview
- Summary of important auditing matters including new compliance requirements and auditing standards
- Compliance with Government Auditing Standards (GAS) CPE Requirements
- Overall audit approach and any changes thereto
- Scope of the audit engagement, consistent with the prevailing controls and the tests and reviews mandated by generally accepted auditing standards, GAS and OMB Circular A-133
- Internal Control Considerations
- Timetable including dates for release of work products
- Overview of the major accounting systems, accounting policies, applicable legal provisions and reporting considerations
- Determination and identification of major programs under the risk-based approach

**Development of audit program**

A separate audit program is prepared for each major program to identify audit steps for our tests of controls over compliance and our substantive tests of compliance requirements.

**Cross-reference of compliance supplement to the audit program**

In order to confirm that all significant compliance requirements are addressed for each major program, we cross-reference all audit objectives and suggested audit procedures in Part 3 and Part 4 (as applicable) of the Compliance Supplement, which is part of each major program’s planning file, to the audit program or document why the audit objective or procedure is not applicable for the major program.

**Perform tests of controls**

Our audit approach focuses on testing of internal controls for major programs in order to place reliance on these controls. The Single Audit Act requires that we evaluate and test controls over compliance
requirements for each major program. We omit these tests of controls only when we have evaluated the
controls as ineffective, in which case we issue a finding for a significant deficiency or material weakness.

There are two kinds of controls: “prevent controls” and “detect controls.” Prevent controls are those
controls such as approval of an invoice that prevent errors such as an incorrect amount being paid or being
posted to the accounting system from occurring during transaction processing. Detect controls are those
controls that are designed to detect and correct on a timely basis errors in processed transactions. Because
detect controls can be applied to groups of transactions, they are performed less frequently than prevent
controls. Accordingly, tests of these detect controls are usually more efficient than tests of prevent
controls. However, because governmental entities are subject to more stringent legal requirements than
many commercial organizations, our approach will incorporate tests of both detect controls and prevent
controls.

Our audit approach tries to optimize testing of both prevent controls and detect controls. Through our
understanding of your systems and processes in the planning phase, we will identify both prevent controls
and detect controls and will preliminarily evaluate the controls as either effective or ineffective. We will then
determine the most efficient and effective approach to testing controls.

After executing our planned tests of controls, we will evaluate the results of those tests and decide whether
the initial assessment of the effectiveness of the controls was appropriate. If the preliminary assessment is
confirmed and we are able to rely on those controls, we will use that reliance in determining the extent of
our compliance testing. It should be noted that if we have determined controls over a major program
compliance requirement as ineffective and issued a finding as discussed above, we are still required to
perform substantive tests of the related compliance requirement.

Risk assessment requires evaluating the likelihood of errors occurring that are important enough to result in
noncompliance at the major program level. Risk assessment is a continuing process throughout the audit.
The following factors, if present, could reduce the risk of material errors occurring in the accounts:

- Data for program expenditures is routinely processed by computer and is edited within the
  processing systems for errors
- Data is subject to significant management control. For example, asset accounting is subject to a
  sound procurement process, timely and accurate recording, periodic inventory, etc.

The extent of tests of controls is a matter of professional judgment and is based on a variety of factors such as
the type of control (prevent versus detect), our prior experience and the competence of the people
performing the control transactions. For testing of detect controls, the sample size is typically less than
when testing prevent controls since the detect controls are performed less frequently. The size of the
sample for our tests of controls is ultimately based on our judgment and results of our walkthroughs.

Substantive tests of compliance requirements applicable to each major program

For each major program identified through the risk-based approach, we will obtain the federal expenditures
information for the year under audit from the Corporation’s accounting system, as applicable and
summarize the expenditures into various categories such as payroll, equipment, construction, benefit
payments, subrecipients, etc. We then identify the categories that constitute 95% of the program’s total
federal expenditures in order to design audit procedures to detail test the compliance requirements and
related internal controls applicable to each of these categories. Our plan for achieving this 95% detail test
coverage is documented in the ASM for each major program. This 95% strategy was developed by
Ernst & Young to provide for a cost-beneficial approach by focusing our detail testing on expenditures that
are material to a major program and minimizing audit effort on expenditures which are not material. Any
category of expenditures that is not part of our 95% detail test coverage but is greater than 5% of total
program expenditures will be subject to detail analytical review and inquiry procedures.

We are required under the Single Audit Act to express an opinion on whether the Corporation complied, in
all material respects, with the compliance requirements applicable to each major program. Our materiality
threshold is considered at the major program level.
Although the Single Audit guidance does not specifically require us to use separate samples for each major program in performing our tests of compliance, the guidance does indicate that it is preferable to select separate samples from each major program to provide clear evidence of the tests performed and the results and conclusions thereon. Accordingly, our approach for performing compliance tests is to use separate samples for each major program unless we believe that such compliance tests can be more effectively and efficiently achieved at an overall level and can provide clear evidence of our approach and conclusions.

For example, as part of our continuing effort to identify audit efficiencies at one of our state clients, we determined in a prior year that most of the state's major programs use one common system for drawing down federal funds and are therefore subject to the same control environment. Accordingly, we determined that it was more efficient to perform our detail test of drawdowns for all programs using the system on an overall statewide basis which in turn, minimized the extent of cash management procedures performed at the program level. Our proposed ideas for efficiencies included identifying additional compliance requirements that could possibly be tested on an overall basis thereby limiting procedures at the program level.

In determining the nature and extent of our tests of compliance, we consider a variety of factors, including the results of our tests of controls and the type of compliance requirement being tested. Our substantive procedures used include representative sampling, analytical review procedures (primarily in the form of persuasive analytical review) and tests of key items. In certain situations, these procedures will be combined in testing a particular compliance requirement.

Based on the results of our compliance tests, we evaluate and document any instances of noncompliance (monetary nature involving questioned costs or nonmonetary with no questioned costs) for each major program, by type of compliance requirement. When using representative sampling, we are also required to project the amount of any known questioned costs for our sample over our entire population of expenditures for the major program.

As the result of our analysis above, we develop findings for any instances of noncompliance that are required to be reported under the guidance in OMB A-133, including any significant deficiencies and material weaknesses identified in connection therewith.

Sample size determination
In determining appropriate tests of compliance, it is important to understand the compliance element to be tested. In addition, we use professional judgment to determine the extent of the tests of compliance by considering several factors, including the results of tests of controls. Furthermore, the nature of some compliance requirements is such that they lend themselves to representative sampling. Others, because of the small population involved or the type of evidence of compliance available do not lend themselves to representative sampling (e.g., earmarking, level of effort).

If we determine that representative sampling is appropriate for certain compliance requirements, we would consider utilizing the Audit Risk Tables (ARTs) to select an efficient and effective sample for testing compliance at the major program level. Use of ARTs would be appropriate for testing such as activities allowed or unallowed and allowable costs/cost principles for expenditures which relate to a monetary balance. The ARTs take into consideration our assessment of risk, the extent of our evidence from other substantive procedures, and testing of key items, if any.

Develop findings
As significant deficiencies and reportable instances of noncompliance are identified, we prepare findings in a format which complies with Government Auditing Standards and OMB A-133. We then analyze the nature and extent of our findings and prepare our auditor's reports based thereon as discussed further below.

We will be responsible for the preparation, typing, review and issuance of any federal awards findings generated from the audits of the major programs/areas. We will also provide the Corporation with our findings for review and approval prior to the issuance of the final version of the findings that will be included in the Single Audit Report.
We will decide with the Corporation which forms and appropriate format of presentation to be used in issuing findings. This process involves the issuance of a preliminary finding after discussing the finding with the affected agency personnel, obtaining their response within ten working days, inserting their response into the finding, developing our auditor’s conclusion and issuing the finding in final format within ten days of the agency response being received by the auditors. This has proven to be an efficient process at our state clients. This process includes a large amount of information being transmitted back and forth between the affected parties in addition to many electronic and phone communications to address questions and suggested revisions.

In addition, we will be involved in defining the criteria of what constitutes a finding for federal award finding purposes and, more importantly, the classification of significant deficiencies and material weaknesses. The definition of a significant deficiency and material weakness is, in part, subject to auditor’s judgment.

Hold closing conferences
We will conduct closing conferences with key agency personnel to discuss the results of our audit including issuance of findings and management letter comments.

Audit reporting and general procedures phase
In the final phase of the audit approach, we prepare the auditor’s reports and other required communications and perform our general audit procedures. Certain reporting and general procedures are performed at the program level/department level (e.g., follow-up of prior year findings and review of other auditor’s reports), while other reporting and general audit procedures are completed at an overall level (e.g., review of legal letters and management letters of representations). As a result, coordination and communication among individuals at the program/department level and overall level is critical to confirming that all significant reporting matters have been adequately addressed.

We will work closely with the Corporation to streamline these general audit procedures and eliminate duplication of effort at the program/department level and overall level. We will be proactive in identifying and assuming responsibility for any changes necessary to the general audit procedures.

We will update our documentation each year on each major program’s basis of reporting expenditures on the Schedule of Expenditures of Federal Awards (SEFA) and each major program’s procedures for confirming that all federal expenditures are properly reported on the SEFA, including the separate identification of expenditures of ARRA awards. We will communicate to you any changes identified through this process, in order to confirm proper modification of the footnotes to the SEFA.

A review of the SEFA will be made to confirm that it is complete and accurate. Additionally, we will test the Corporation’s reconciliation of the federal expenditures reported on the SEFA to the Corporation’s financial statements.

Follow-up to prior year findings
All prior year federal award findings are followed up and documented using a standard form we developed. A spreadsheet will also be maintained to track the status of all prior year findings which documents who is responsible for the follow-up and the results of the follow-up (i.e., resolved or reissued).

We will confirm that at the beginning of the audit of each major program/overall area, there is the follow up to these findings, including performance of related controls/compliance testing, so that these findings can be resolved or reissued (if necessary) at the beginning of the engagement versus the end.

Data collection form
As you know, completion of the Data Collection Form is a responsibility of the auditee and the auditor. The Corporation is responsible for completing and signing Part I, General Information, except for Item 7, Auditor Information, which we will complete and sign each year. We will also complete Parts II, Financial Statements and III, Federal Programs. We will work with you extensively in completing and submitting the Corporation’s initial Data Collection Form to confirm that it meets applicable federal requirements.
Government Auditing Standards and Single Audit checklist

We complete the Ernst & Young “Government Auditing Standards and Single Audit (OMB Circular A-133) Checklist for Documentation and Reporting” so that our audit meets all requirements contained in Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133. This key quality control tool will be reviewed by the Ernst & Young executives as well as John Good, the Ernst & Young engagement quality reviewer who designed this tool.

Summary review memorandum

An overall summary review memorandum (SRM) is prepared for each major program and addresses significant internal control and compliance issues and to document our conclusions on the audit including any qualifications to our compliance opinion for each major program.

Complete the review and approval summary

A review and approval summary (RAS) is completed for each major program to supplement the documentation of the performance of our review procedures and to document our overall conclusions.

All relevant information gathered as a result of the major program level procedures is communicated to and considered by the appropriate Ernst & Young individuals responsible for the overall reporting and general procedures described below.

In addition to the major program level RAS, an overall RAS is completed for the Single Audit. The overall RAS is signed by the Ernst & Young executives, as well as the Ernst & Young’s engagement quality reviewer. Further, our internal quality control standards also require that a supplement to the overall RAS be completed by the Ernst & Young engagement partner and engagement quality reviewer since our audit will be performed in accordance with GAS and A-133. This supplement contains additional representations and conclusions by the engagement partner and serves as an additional quality control tool.

Other general procedures

Review of subsequent events

During this phase, we will perform a review of events occurring subsequent to the Corporation's fiscal year-end up to the date of our auditor's report that could have a direct and material effect on the Corporation's SEFA, including our review of management’s process and results of identifying disclosable subsequent events. Our objective is to determine whether there have been any significant changes in the status of items accounted for in the SEFA on the basis of estimates or on the basis of tentative, preliminary, or inconclusive data, whether there have been any unusual adjustments to the accounts since the date of the SEFA.

Review of legal letters and management representation letters

We will work closely with the designated individual(s) in coordinating our review of outstanding litigation to matters affecting the major programs.

In accordance with Statement on Auditing Standards AU Section 333, we will request letters of written representations from the appropriate Corporation officials. We will also request a letter from the Corporation on any federal agency audits in process or pending completion that would impact our auditor's reports.

Analysis of findings and SEFA adjustments (impact on Corporation CAFR)

A detailed analysis of all federal award and financial statement findings will be performed in order to determine the impact on our auditor's reports. This analysis will include evaluating the effect of questioned costs on our opinion on compliance for each major program. We will also consider the cumulative effect of the instances of noncompliance noted in our federal award findings.

All proposed adjustments to the SEFA identified during our audits of the major programs will be documented on the SEFA adjustment form that is part of our Single Audit manual. All adjustments will be communicated
to the appropriate agency and Corporation personnel. Additionally, copies of all proposed SEFA adjustments will be forwarded to Corporation Auditor to confirm they are aware of all adjustments.

All proposed audit adjustments to the SEFA are reviewed and approved by the Ernst & Young and Corporation executive personnel. The relevant agency will also review and approve the adjustment before it is recorded. Unrecorded audit adjustments are aggregated on our “Summary of Audit Differences (SAD) Schedule” for evaluation as to aggregate materiality by major program. Adjustments less than a certain nominal threshold are not aggregated on the SAD and, therefore, waived.

Unrecorded SEFA adjustments not recorded on the SEFA will be communicated to those charged with governance as an attachment to the applicable management representations letter.

**Overall conclusions and Single Audit reports**

During the final phase, we will evaluate our results and will make conclusions regarding the extent of compliance with requirements applicable to the major federal programs, including consideration of your Summary Schedule of Prior Audit Findings. As required by OMB Circular A-133, we will prepare a Schedule of Findings and Questioned Costs with the Summary of Auditor's Results and if necessary, our Financial Statement Findings and Federal Award Findings and Questioned Costs. However, it is our policy to promptly communicate the results of our audit tests to appropriate management officials. As in our audit of the financial statements, we will request that management document matters related to maintaining adequate internal control and that management and legal counsel also document matters related to administering the federal award programs in compliance with applicable requirements. The reporting requirements in accordance with auditing standards generally accepted in the United States, standards applicable to financial audits contained in *Government Auditing Standards*, the Single Audit Act Amendments of 1996 and OMB Circular A-133 include reports on the financial statements, as well as compliance and internal control.

The final step in the Single Audit process is the completion and submission of the Data Collection Form to the Federal Audit Clearinghouse. Completion of the Data Collection Form is a joint responsibility of the Corporation and Ernst & Young; you are responsible for completing and signing Part I, General Information, except for Item 7, Auditor Information, which we will complete. We are responsible for completing and signing Item 7 and Parts II, Financial Statements and III, Federal Programs. We will work with you in completing and submitting the Data Collection Form to confirm that it and the submitted Single Audit reporting package meet applicable federal requirements.

**Single Audit Quality Control Review**

The experience and quality of our team is evident from the results of the Quality Control Review (QCR) that was conducted by the US Department of Transportation as part of the recent National Single Audit Sampling Project. The purpose of the QCR was to assess the quality of the Single Audit that was performed by Ernst & Young relative to the NJ Transit audit. We were pleased to be informed that no audit deficiencies were noted related to the quality and thoroughness of the Single Audit performed by Ernst & Young. As the Corporation receives millions of dollars in Federal funding, it requires a firm that has a proven track record when it comes to performing quality audits of large governmental agencies. We will work with you as a team to address any issues or questions that are raised by the respective Federal agency.
Part II - Organizational support, experience and team

Financial/organizational stability
With its worldwide headquarters in New York City, Ernst & Young is one of the world’s largest and fastest-growing integrated professional services firms and a limited liability partnership (“LLP”). With more than 45,000 employees in 87 offices, Ernst & Young has one of the largest assurance and advisory practices in the United States. Ernst & Young has sufficient financial stability, working capital and other resources to perform the contract without any special financial assistance. As a partnership, Ernst & Young has no publicly prepared financial statements. However, the size and strong historical track record of our firm provides compelling evidence of our financial resources to serve the Corporation. However, we would be happy to confidentially discuss our financial resources with you if that is your wish.

The following financial information evidences our financial stability and resources:

- Total 2013 U.S. revenues were approximately $10.9 billion
- Total 2013 global revenues of the organization were approximately US$25.8 billion
- Fitch Ratings (the debt rating agency) recently affirmed Ernst & Young’s AA debt rating
- Audits 20% of the Fortune 1,000 largest US corporations

As a testament to our organizational stability, we have operated as variously titled entities for over 100 years - most recently as Ernst & Whinney, the result of a 1979 merger. Ernst & Young resulted from another merger in 1989 between Ernst & Whinney and Arthur Young. Arthur Young, our earliest founding entity, was established in 1894. We have been licensed and active in public accounting throughout this time.

Ernst & Young, a global leader in professional services, is committed to restoring the public’s trust in professional services firms and in the quality of financial reporting. Our more than 190,000 people in 700 locations in 150 countries pursue the highest levels of integrity, quality and professionalism in providing a range of sophisticated services centered on our core competencies of auditing, accounting, tax and transaction advisory services. Our client base is broad and diverse and includes government and not-for-profit entities, major international companies, Fortune 250 companies and strategic growth companies.

The foundation of our success is our unique “People first” culture
Because we understand we cannot be a great firm without great people, we strive to help all of our people achieve their professional and personal goals. This means providing an environment that fosters growth and helps our people develop new skills and knowledge.

As a result, we are frequently cited as “one of the best places to work” by publications such as Fortune Magazine.

Our public sector practice comprises professionals skilled in the auditing, accounting and budgeting methods, systems and controls that today’s government clients need. Several of our professionals are former policymakers or senior executives or served as department heads within the government sector. This group of professionals keeps close tabs on the industry they serve through a variety of professional networks to make certain they deliver current, relevant advice to our clients. They also work closely with standard-setting and professional organizations, including the following:

- Governmental Accounting Standards Board (GASB)
- Government Finance Officers’ Association (GFOA)
- National Association of State Auditors, Comptrollers and Treasurers (NASACT)
- Council of State Governments
- Association of Government Accountants (AGA)
Intergovernmental Audit Forum
Joint Financial Management Improvement Program

Ernst & Young serves some of the most complex and prestigious public sector organizations in the world. We have conducted audits for one-half of the states having audits of their activities performed by independent auditors. At the federal level, we have performed one or more services for nearly every major agency.

While a significant amount of our work involves financial statement audits and single audits, we also provide a broad range of audit-related services to our public sector clients. In addition, many of our public sector clients have received the coveted GFOA Certificate of Achievement for Excellence in Financial Reporting while an Ernst & Young client and several of our firm’s partners and staff, including leaders of Ernst & Young’s national public sector practice, have served on the GFOA Special Review Committee that evaluates the financial statements of candidate governments.

Quality clients
Our firm has made a concerted effort to make certain that our audit services are of the highest quality. This effort has resulted in a reduction in the overall number of government clients we serve, with a focus instead on the overall quality of the clients we serve. That is, instead of a policy of growth at any cost, we have elected to focus on quality growth for our practice. We have done this not only to confirm quality from our perspective, but also to better meet the needs of the high-caliber government clients that retain our services. This kind of focus is more important than ever in the current environment given the high expectations of various stakeholders (e.g., citizens, elected officials, grantor agencies, creditors, ratings agencies and employees). We also recognize the increasing complexity of large governments in terms of information technology (IT) (i.e., expanded use of ERPs), investment portfolio composition, use of derivatives and hedging and innovative service solutions brought about because of continued budgetary pressure. We know that risk comes with growth and innovation and that your stakeholders expect the Corporation to effectively manage that risk. We strongly believe that retaining a firm that is appropriately staffed and trained to respond to these risks in providing audit services is a wise investment.

Industry leadership
Our role is to help our clients be proactive in anticipating, interpreting and implementing changing governmental financial reporting standards. As such, we offer our public sector clients many beneficial services beyond the scope of the typical audit. For example:

- We have been proactive in helping our public sector clients address corporate governance issues brought about by the Sarbanes-Oxley Act, by providing our clients with:
  - Example audit committee charters, tailored for the public sector which we have available for the Corporation’s use as audit committee development accelerates
  - Presentations on the leading practices in corporate governance to elected officials and audit committees
  - Audit committee toolkits developed by our National Center for Business Knowledge
  - Example “whistle-blower” policies and procedures
- At the conclusion of each audit, we provide audit committees (or their equivalent) with a summary report that includes briefs on various accounting and auditing developments (GASB, AICPA and others).

What our leadership position means for the Corporation
- Team members who are dedicated to the public sector industry
- Access to recognized national government professionals who are available to help our clients remain proactive
- Collective knowledge gained through serving a wide range of similar organizations, both locally and nationally
- An audit approach and methodology designed specifically for government clients
- The ability to better understand and manage your risk
We present training sessions, webcasts and conference calls to our clients in the US. These sessions address current GASB topics and new statement implementation issues. Public sector sessions we have recently hosted include:

- GASB 53 - Planning for the Accounting for Derivatives
- The Impact of ARRA on the Single Audit
- The New Compliance Supplement and its impact on the Single Audit

We produce a Public Sector Newsletter, edited by our national public sector technical practice leader, John Good, on breaking developments related to GASB pronouncements and developments in Government Auditing Standards (GAS), OMB Circular A-133 and federal compliance regulations.

**Importance of government to Ernst & Young**

Our Public Sector Services practice is comprised of professionals skilled in the auditing, accounting and budgeting methods, systems and controls that today's state and local governments use. Our professionals have years of experience with the systems, programs and issues of the public sector.

Our Public Sector professionals keep close tabs on the industry they serve through a variety of professional networks through which they actively participate, confirming that their advice to you will be both timely and relevant. They work closely with professional organizations such as the Governmental Accounting Standards Board; Government Finance Officers Association; National Association of State Auditors, Comptrollers and Treasurers; Council of State Governments; Association of Government Accountants; Intergovernmental Audit Forum and Financial Management Improvement Program; and the American Institute of Certified Public Accountants. They have provided “thought leadership” through leading edge articles and are continually invited to speak at meetings of the various professional public sector organizations.

Ernst & Young has been attuned to the needs of government since the founding of the Firm. Efficient government audits require a high degree of innovation, technical proficiency, financial acumen and experience. The team we will use to serve you possesses these attributes and our organizational structure supports their ability to provide vital information and advice quickly and decisively.

Our Public Sector Services practice and the commitment and involvement of our leaders is your assurance that the knowledge available to you is always state-of-the-art. But, equally important, our professionals can do more than respond to your needs - they can anticipate them. We take the needs of our government clientele seriously and personally.

**Our government clients—Big and small**

E&Y has one of the largest Public Sector Practices in the profession; annually, we serve hundreds of public sector audit and financial advisory clients. Included on this list are some of the largest and most prominent federal, state and local governments, their departments, special districts, and authorities. Some of these are groups as large as the U.S. Postal Service, with its 700,000 employees, 40,000 branches, and annual revenues exceeding $58 billion. At the federal level, we have performed one or more services for nearly every major agency or department, e.g., U.S. Department of Education, the Health Care Financing Administration, Centers for Disease Control and Prevention, Patent and Trademark Office, and the U.S. Postal Service. We have served some of the most varied, complex, and prestigious public sector organizations in the world. E&Y has conducted audits for half of the states whose activities are
audited by independent auditors (including Ohio, Pennsylvania, Maryland, Maine, New Hampshire, Vermont, Delaware, Hawaii, and West Virginia).

Our northeast area practice and government focus

As part of our worldwide network of resources, each local Ernst & Young office provides numerous integrated service capabilities to our clients. Integral to our local office structure is our commitment to industry specialization, which is essential to providing superior service and creating value for our clients. While technical and functional competencies are fundamental to our client focus, the most critical success factor for Ernst & Young has been and will continue to be industry knowledge and experience.

The Corporation will be served primarily by professionals from our Metro New York Area Public Sector Practice which happens to be where our firm thought leadership in this discipline resides. The client service executives who we have assembled to serve the Corporation are all members of this group and have extensive and current experience serving the public sector and they have strong qualifications and technical capabilities in financial statement and compliance auditing. We are proud of our many years of serving the public sector.

Our Metro New York Area Public Sector Practice

Viewed from the outside, the similarities between one public accounting firm and another may seem more striking than the differences. All of the major professional services firms provide essentially the same kinds of audit services, each enjoys a large and diverse clientele, and most of them can point to an impressive record of growth. On closer examination however, there are certain characteristics that distinguish E&Y from other public accounting firms. The most important of these characteristics is that E&Y has dedicated a number of its top public sector professionals to providing services to the Metro New York Area Public Sector.

Our Public Sector Practice is composed of more than 75 professionals skilled in the auditing, accounting, and budgeting methods, systems, and controls that are currently utilized by state and local governments. Our professionals have years of experience with the systems, programs, and issues of the public sector

Our Public Sector Practice and the commitment and involvement of our leaders are your assurance that the knowledge available to you is always state-of-the-art. But, equally important, our professionals can do more than respond to your needs—they can anticipate them.

E&Y's Metro New York Area Public Sector Practice, which is located in New Jersey, utilizes a creative business-minded approach to client service, rather than implementing standardized approaches or pre-packaged solutions. As a result, we have built one of the largest governmental practices in the country and have established a list of prestigious public sector clients.
Following is a representative list of clients that we currently or have recently served in the Metro New York Area:

- New Jersey Economic Development Authority
- New Jersey Health Care Facilities Financing Authority
- New Jersey Educational Facilities Authority
- New Jersey Housing and Mortgage Finance Agency
- New Jersey Transit Corporation
- New Jersey Turnpike Authority
- New Jersey Schools Development Authority
- New Jersey Water Supply Authority
- New Jersey Division of Investment
- New York City Economic Development Corporation
- New York City Housing Development Corporation
- New York City Department of Education
- New York City Industrial Development Agency
- New York City Office of Management and Budget
- New York Power Authority
- Suffolk County
- Suffolk County Water Authority
- City of Hoboken
- Township of Woodbridge
- Essex County College
- Middlesex County College
- Hudson County Improvement Authority
- Middlesex County Improvement Authority
- City of Trenton Public Schools
- City of Newark Public Schools

Our firm's tax services

Ernst & Young is a world class service provider. We have the tax resources, the knowledge, and the insight gained from serving the majority of the top tax exempt organizations in the country, and the commitment to bring you the best of our firm.

Our National Exempt Organization Tax Practice is well positioned to provide the Corporation with sound and well-developed tax planning advice. Our tax exempt organization specialists will stay abreast of your operations and current developments. We will address the tax ramifications of business decisions, operations, and transactions in a timely manner to maximize benefits to the Corporation, and to protect the tax-exempt status of its various entities.

The key to our tax services strategy is industry and functional specialization. Our team of tax professionals that will serve the Corporation is dedicated to the tax exempt organization industry 100%, serving only tax exempt clients. Our tax exempt compliance services group consists of professionals who also specialize in this industry. Additionally, we have functional specialists serving our tax exempt clients in areas such as state and local taxes, compensation and employee benefits, mergers and acquisitions, and personal financial counseling.

We are committed to working with the Corporation to make certain that optimum tax minimization strategies are made available to your management team. Gary Horowitz, the Metro New York Area Leader, within our National Tax Practice, will serve as your Tax Services Coordinating Partner, Gary specializes full-time in tax exempt organizations. Gary would be your primary contact for tax services, providing the appropriate assistance depending on the specific situation.

Tax compliance services

By creating a distinct National Compliance Practice in our National Exempt Organizations Tax Practice, Ernst & Young is better able to provide specialized tax compliance services with technologically connected professionals located throughout the country, all committed to the same high quality standards. Because tax compliance issues are constantly changing, our people receive continuous education to expand their knowledge and skills. Ernst & Young has one of the most extensive tax curriculums anywhere. Industry specialization is also fundamental to our approach, so our professionals understand your business and the tax-related challenges you face, making Ernst & Young capable of delivering unparalleled resources. We have more than 50 tax compliance professionals that
specialize in 990's and compliance issues surrounding tax-exempt entities. These individuals are also proficient in regular income tax issues and the inter-relation between tax exempt and taxable entities.

Our practice has also made another commitment that we are very proud of. We want our practice to be "a place where people love to work." Our people are our greatest strength, and we know that our ability to retain and develop the best people will make us best suited to serve our clients. Our focus on developing and nurturing our culture is bearing fruit, with retention at record levels. This means greater continuity on an engagement, and greater efficiencies for you. The natural result of this culture is that our clients love to work with us.

With more than 2,300 specialized tax compliance professionals around the country, and the technology in place to quickly and efficiently put their skills to work for our clients, we have improved both quality and service, while holding the line on costs. Beyond their extensive technical knowledge base, our professionals come equipped with, and trained in the use of, our state-of-the-art technology, and a proven production process that has helped guide the efficient preparation of tax returns for a wide variety of clients. By utilizing practice-wide competency tracking and capacity management data and systems, we get the right work to the right people at the right time.
## References

### New York City Department of Education

<table>
<thead>
<tr>
<th>Address</th>
<th>65 Court Street, Room 1202, Brooklyn, New York 11201</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry / business</td>
<td>Public Education</td>
</tr>
<tr>
<td>Contact</td>
<td>Ms. Danya Labban, Auditor General, (718) 935-2599, <a href="mailto:dlaaban@nycboe.net">dlaaban@nycboe.net</a></td>
</tr>
<tr>
<td>Scope of work</td>
<td>Internal audit outsourcing. Approximately 18,000 hours of annual audit work.</td>
</tr>
<tr>
<td>Date audit completed</td>
<td>Various reports issued throughout the year.</td>
</tr>
<tr>
<td>Project staff assigned</td>
<td>David Milkosky, Louis Roberts and Kimberly Hancy</td>
</tr>
</tbody>
</table>

### County of Suffolk, New York

<table>
<thead>
<tr>
<th>Address</th>
<th>H. Lee Dennison Executive Office Building, 100 Veterans Memorial Highway, Hauppauge, New York 11786-0099</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry/Business</td>
<td>County government</td>
</tr>
<tr>
<td>Contact</td>
<td>Mr. Louis Necroto, Deputy County Comptroller, +1 631 853 5037, <a href="mailto:Louis.necroto@suffolkcountyny.gov">Louis.necroto@suffolkcountyny.gov</a></td>
</tr>
<tr>
<td>Scope of Work</td>
<td>Annual financial statement audit services, debt issuance procedures, OMB A-133 Single Audit and other special projects; audit period: 2000 to present; total hours: approximately 3,000 hours</td>
</tr>
<tr>
<td>Date audit completed</td>
<td>June 29, 2015 (December 31, 2014 year-end)</td>
</tr>
<tr>
<td>Project staff assigned</td>
<td>Randy Nelson, David Milkosky, Kimberly Hancy and Samantha Culoo</td>
</tr>
</tbody>
</table>
### New York State Housing Finance Agency

<table>
<thead>
<tr>
<th>Address</th>
<th>641 Lexington Ave., New York, NY 10022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry / business</td>
<td>Special purpose government—Housing Finance</td>
</tr>
<tr>
<td>Contact</td>
<td>Mr. Gary Weinstock, Controller, Tel: +1 212 872-0565, <a href="mailto:gweinstock@nyscr.org">gweinstock@nyscr.org</a>, Fax: +1 917 274 0594</td>
</tr>
<tr>
<td>Scope of work</td>
<td>Annual financial statement audit services, debt issuance procedures, debt compliance reports, OMB A-133 Single Audit, Section 15 Reporting, pension plan audits and other special projects; audit period: 2010 to present; total hours: approximately 2,000 hours</td>
</tr>
<tr>
<td>Date audit completed</td>
<td>January 29, 2015 (October 31, 2014 year-end)</td>
</tr>
<tr>
<td>Project staff assigned</td>
<td>David Milkosky and Louis Roberts</td>
</tr>
</tbody>
</table>

### New Jersey Economic Development Authority

<table>
<thead>
<tr>
<th>Address</th>
<th>West State Street, Trenton, NJ, 08625-0990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry / business</td>
<td>Special purpose government—economic development financing</td>
</tr>
<tr>
<td>Contact</td>
<td>Mr. Fred Cole, Senior VP of Operations, +1 609 858 6694, <a href="mailto:fcole@njeda.com">fcole@njeda.com</a></td>
</tr>
<tr>
<td>Scope of work</td>
<td>Annual financial statement audit services, debt issuance procedures, debt compliance reports; audit period: 1978 to Present; total hours: approximately 1,400 hours</td>
</tr>
<tr>
<td>Date audit completed</td>
<td>February 28, 2015 (December 31, 2014 year-end)</td>
</tr>
<tr>
<td>Project staff assigned</td>
<td>David Milkosky, Randy Nelson and Kimberly Hancy</td>
</tr>
</tbody>
</table>

### Engagement executives and quality

A distinguishing factor of our client service approach is the high level of involvement of our client service executive teams. Over the years, we have developed a thorough knowledge and understanding of your organization. We will continue to maintain a high level of involvement to ensure that you receive the accounting guidance that the Corporation needs.

Our engagement management strategy for the Corporation will be to provide people who know your industry, who understand the business you operate and who have the experience and maturity to provide the Corporation with sound accounting and business advice. The team we have assembled is organized to promote close coordination, communication and quality control throughout the audit. Randy Nelson will serve as the engagement partner. He will be responsible to confirm that the Corporation receives excellent service. Reporting to Randy Nelson will be Kim Hancy, an individual who possesses significant public sector experience. It will be her responsibility to coordinate our audit services and she will devote a significant amount of their time to this engagement. Randy Nelson and Kimberly Hancy both have significant experience providing services to the Metro New York Area public sector industry and have worked closely with the Corporation over the last several years. Their responsibilities in this capacity include, among other duties, the overall supervision and review of our staff, review, edit and timely issuance of our findings, resolution of technical auditing issues and coordination with the Corporation in processing the financial statements and single audit report. They will make themselves available as the focal contact point for the Corporation and will work with the Corporation in addressing audit concerns, discussing technical issues, exploring ideas to expedite the audit process, coordinating meetings, preparing for and attending/participating in meetings, disseminating audit policies and procedures to Ernst & Young personnel including annual updates to
the Single Audit Approach Manual, performing the review of all work papers and updating the Corporation on the status of the audit areas.

We will co-develop a schedule for progress meetings with the appropriate Corporation personnel. We will also communicate with the Corporation in advance of these meetings for purposes of coordinating the issues to report. Our report will focus on such matters as the progress of the audit, status of our work products, adoption of new auditing standards and audit issues or concerns in connection with our assigned audit areas. We commit to work with you in addressing technical issues in an effective and efficient manner, including the use of our national resources and technical consultants and will work closely with the Corporation to provide meaningful and timely input to avoid "surprises"

As required by our internal quality control standards, prior to the issuance of our auditor’s reports, we will have our engagement quality reviewer, Louis Roberts, perform various procedures to evaluate the significant judgments made and conclusions reached by the engagement team in forming the overall conclusion on the engagement.

Following completion of the engagement quality review, we will provide the final signed auditor’s reports for the audit to the Corporation based on the timetable established in the RFP.

Availability and communication

We have found that frequent, consistent communication means “no surprises” for the Corporation. Our preferred methods of communication - both formal and informal - include face-to-face meetings, teleconference calls, written correspondence and online collaborative tools. Once Ernst & Young has been selected as your auditor, Randy Nelson and Kim Hancy will meet with management to understand your preferences and agree upon communication protocols. They will be accessible to the Corporation at all times and will meet with you regularly to discuss the scope of our services, conduct interim status meetings and hold a year-end closing meeting.

Communication protocols

Ongoing communication with the Audit Committee: Since the passage of the New York State Public Authorities Accountability Act, the fiscal viability of an organization and investment decisions are being directly tied to its demonstrated strong corporate governance. The role and involvement of the Audit Committee has never been more critical than today. Trust, openness and candor are imperative for interacting effectively in this new environment. Ernst & Young is on the leading edge of facilitating the expanded relationship between Audit Committee, Management and the Auditor.

Collaborative issue resolution: As part of our commitment to open and forthright communication with our clients, Ernst & Young has developed a simple and local approach to national consultation. When technical questions are raised, the protocol of resolution begins with Randy. If a higher level of consultation is required, he will further escalate any issue to Louis Roberts, our engagement quality review partner. With over 30 years of public sector experience, Louis is well equipped to respond to most issues that may arise. He has direct access to our firm’s subject matter professionals and has the ultimate authority and the backing of our global leadership in resolving technical issues. To promote quality, the Professional Practice Directors are independent of the local offices; they report to, and are evaluated and compensated by, the National Office. This separation was designed to provide greater assurance that our consultation process is objective, and that the Corporation will receive the highest-quality guidance, delivered with integrity.

The continual pace of regulatory change in the accounting industry has created an avalanche of technical issues for most entities when it comes to the adoption of new policies and procedures. It’s important to have a firm that is built for speed and accuracy when it comes to technical consultation. Therefore, we have designed a technical consultation process that enables timely resolution of critical issues.
Through communication protocols established at the initiation of our audit service relationship, Ernst & Young facilitates the development of transparent, direct and timely communication protocols with the Audit Committee and Management. These protocols are of critical importance during consultation on technical matters, when both speed and accuracy are required. The diagram below illustrates a typical process established between our engagement team, Management and the Audit Committee for consultation on technical issues.

**Effective technical interaction**

![Diagram showing critical issue consultation process]

**Our approach**
- Proactive
- Collaborative
- Locally based national office personnel
- Technical and industry insights
- Accurate conclusions

**Critical issue consultation process**
- Subject matter professionals
  - Sensitive or specialized matters
  - Internal control leaders
  - National office accounting and auditing
- National office partners
  - Integrated accounting and internal controls resolution process
- National practice directors assigned to the state as engagement quality reviewers
- Timely resolution on all issues

**Approach to communicating and implementing new GASB requirements**

**Proactive advice on new accounting pronouncements**

Ernst & Young is extremely active in alerting clients to emerging issues and potential changes in accounting principles or auditing standards. Strategic information is provided in thought leadership publications, many of which are industry-specific. This information is pushed out to our clients through a variety of electronic sources, including Webcasts featuring leading subject matter professionals. We also have robust electronic tools that we make available to our clients for independent research and analysis on demand, if you prefer to receive information in that manner. Due to the ever-changing regulatory and business environment, our materials and programs are continuously evolving. As important information becomes available, Randy Nelson will confirm that the Corporation’s representatives are made aware of matters of importance to you.
Responsibilities of team members

To help you understand our client service team and roles of key individuals, the following section contains an explanation of the major functions of the individuals selected to serve you. In this way, we demonstrate what the individual will do and why the individual will make a positive contribution as part of our client service team. The individuals will be involved in the engagement to varying degrees as appropriate, providing specialized audit, training and other consultative services.

<table>
<thead>
<tr>
<th>Team Member</th>
<th>Role</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Randy Nelson Engagement Executive Director</td>
<td>Randy will manage the team’s resources, service execution and quality enablers deployed to serve the Corporation. He will be responsible for communications with your Audit Committee and Management and will serve as your single point of contact providing the leadership through which all critical information flows. Randy will also serve as the signing partner for the Corporation.</td>
<td>All</td>
</tr>
<tr>
<td>Louis Roberts Engagement Quality Reviewer</td>
<td>Louis will review accounting and auditing issues, provide guidance on new or reviewable matters and oversee the quality of the audit results.</td>
<td>All</td>
</tr>
<tr>
<td>Kimberly Hancy and Samantha Cullo Engagement Senior Manager and Manager</td>
<td>Kim and Sam will work closely with Randy to co-lead the day-to-day execution of Corporation audit-related activities.</td>
<td>All</td>
</tr>
<tr>
<td>John Barile IT Partner Technology &amp; Security Risk Services</td>
<td>John will be responsible for the oversight and delivery of IT services as appropriate.</td>
<td>All</td>
</tr>
<tr>
<td>Gary Horowitz Engagement Executive Director Tax Exempt Services Group</td>
<td>Gary will be responsible for the execution of all tax services provided to the Corporation</td>
<td>All</td>
</tr>
</tbody>
</table>

Capabilities of our computer auditors

Information technology (IT) provides a critical framework for essentially all modern business operations. Managing the risks associated with IT in a constantly changing environment provides a unique management challenge. Ernst & Young has a group of individuals who focus on evaluating both control and security over IT in this changing environment. Ernst & Young staffs its IT practice with professionals who are both auditors specializing in process analysis and internal controls and IT professionals, well versed in information technology processes and the computer technologies deployed by our clients (e.g., mainframe systems, distributed/network systems running a variety of operating systems, web-based systems). This integrated background provides our professionals with the ability to better understand business risks and the needs of our customers and therefore provides them the preferred skill-sets for performing various risk and control-related procedures.

Peer review

Please refer to Appendix for a copy of our most recent peer review.
Louis M. Roberts  
Engagement Quality Reviewer  

99 Wood Avenue South  
Harriman, NY 10926  
Ph: 845.356.4669  
Email: louis.roberts@ey.com  

Clients Served:  
- Housing Finance  
- Financial Services  
- Mortgage Finance  
- Education  
- Health Care  
- Utilities  
- Transportation  
- State and Local Government  
- Not-for-Profit  

Background:  
Lou is a partner with the Northeast Public Sector practice. He has more than 20 years of experience serving public sector entities. He will serve as the engagement review partner for the Corporation’s audits.

Relevant Experience:  
- Financial statement and Single Audits of housing finance agencies and public housing authorities - served on financial and Single Audits for the New York State Housing Finance Agency, Connecticut Housing Finance Authority, New Jersey Housing and Mortgage Finance Agency, New York City Housing Authority and New York City Housing Development Corporation. Also performed agreed-upon procedures for bond issuances.
- Financial statement and Single Audits, various state authorities - served as senior manager or engagement audit partner on financial and Single Audits for large state authorities clients including the New York Power Authority, New Jersey Transit Corporation, New Jersey Turnpike Authority and Connecticut Lottery Corporation.

Other Activities:  
- Volunteer reviewer of the GFOA special review committee, which reviews comprehensive annual financial reports for the GFOA Certificate of Achievement for Excellence in Financial Reporting.
- Member of Executive Committee of the NY/NJ Intergovernmental Audit Forum.
- Lou regularly facilitates seminars and courses offered by EY, including Accounting and Auditing Updates, Public Sector Update, and Yellow Book and A-133 Update. Also attends conferences and courses offered by the NCSHA, GFOA, NASACT, AGA, and the AICPA.
Randy Nelson: Executive Director
99 Wood Avenue South
Iselin, NJ 08830
Fax: 732-516-4240
randy.nelson@ey.com

Background
Randy is an executive director in EY’s Northeast Region Public Sector practice and has more than 33 years of experience providing accounting, auditing and governmental consulting services to a number of public sector entities. Randy has been actively involved with state and local authorities, counties, municipalities and school districts, with total assets ranging from $1 million to $4 billion. He will serve as a technical advisor for the engagement team.

Relevant experience

Financial statement and single audits, various state authorities in New Jersey - served as engagement executive director on financial and single audits for clients including New Jersey Economic Development Authority, New Jersey Educational Facilities Authority, New Jersey Transit Corporation, New Jersey Turnpike Authority, New Jersey Housing and Mortgage Finance Authority.

Financial statement and single audits, various city and state component units in New York - served as engagement executive director on financial and single audits for clients including New York State Housing Finance Agency, New York City Housing Development Corporation, New York City Housing Authority, New York City Economic Development Corporation, providing services including agreed upon procedures for bond issues; audit of the financial statements; and audits of major programs in accordance with A.133.


Other activities
Served as speaker on technical issues impacting governmental organizations for the New Jersey Society of Certified Public Accountants and the Government Financial Officers Association of New Jersey
Past Chairman of the Committee on Governmental Accounting and Auditing of the NJSCPA.
Background
Kim is a senior manager with the Northeast Region Public Sector practice. She has more than eleven years of experience serving public sector and healthcare entities in both assurance and advisory capacities. She will be responsible for the day-to-day planning and coordination of all services to the Agency.

Relevant experience
- New York City Housing Development Corporation - served as senior manager on financial and single audit engagements for five years, providing assurance services for financial statements in accordance with Generally Accepted Auditing Standards.
- New York State Homes and Community Renewal - served as engagement senior manager on the 2011-2013 financial audits of the Agencies, providing assistance to the Agencies through their many business transactions over the years including Mitchell Lama portfolio acquisition, GASB 65 implementation and SONYMA’s Agreed Upon Procedures for bond issuance.
- New York City Economic Development Corporation - served as lead senior manager on financial audit engagement for five years, assisting NYCEDC through various areas including: implementation of relevant GASB standards; transition of accounting department personnel; accounting and reporting relative to the Corporation’s legal restructuring and merger
- Suffolk County, New York - served as lead senior manager on financial and single audit engagements for eight years, with experience in programs including TANF, Community Development Block Grant, Neighborhood Stabilization and others.
- New York City Housing Authority - served as senior manager on financial and single audit engagements for five years, assisting NYCHA through various areas including accounting and reporting for Superstorm Sandy and familiarity with compliance requirements for major HUD programs.

Other activities
- Co-developed and presented training to the Audit Committee and Management of the New York State Housing Finance Authority relative to internal controls and overview of the audit process.
Background

Samantha is a manager with the Northeast Region Public Sector Practice. She has 6 years of experience providing auditing services for a variety of public sector entities throughout the Metro New York area, including state authorities, counties, municipalities and state housing corporations. She will serve as manager responsible for the day to day performance of the audit.

Relevant experience

- New Jersey Transit Corporation: Served as lead senior on annual audit of the NJT’s consolidated financial statements in accordance with GAAS and Government Auditing Standards, and the annual audit of NJT’s compliance with the U.S. Office of Management and Budget’s Circular A-133 relative to its Schedule of Expenditures of Federal Awards.

- New Jersey Economic Development Authority (NJEDA): Served as lead senior/manager on annual audit of the NJEDA’s consolidated financial statements and the annual audit of NJEDA’s compliance with the U.S. Office of Management and Budget’s Circular A-133 relative to its Schedule of Expenditures of Federal Awards. Samantha has also assisted with the implementation of relevant GASB standards and the identification and consolidation of new blended component units.

- Suffolk County, New York: Served as lead senior on financial and single audits engagements for five years, assisting the County through various areas including Implementation of GASB 65, reporting for Superstorm Sandy and providing single audit training to the County’s grant management employees.

- New York City Housing Development Corporation: Served as lead senior/manager on financial and single audits engagements for six years, assisting the Corporation through various areas including implementation of GASB 65, implementation of GASB 68 and assistance with tax-exempt bond offerings.

Other Activities

- May 2015: Co-developed and presented training to grant management employees of the County of Suffolk relative to Single Audit procedures including upcoming Uniform Grant Guidance
Daniel Murrin is the Americas Director for EY’s Government and Public Sector Services. He is a certified public accountant and certified government financial manager with over 33 years of experience in the public sector audit services arena. In addition, Daniel is a frequent speaker on issues impacting the public sector and has served on committees, in board, officer, or other leadership roles for the Greater Washington Society of Certified Public Accountants, the AICPA and Association of Government Accountants (“AGA”). Daniel serves as a resource within EY on public sector auditing issues and liaison to the Government Accountability Office, Office of Management and Budget (“OMB”), and Federal inspectors General community. Daniel will make resources of the firm available to you in developing innovative solutions and will serve as a technical advisor on federal issues.

John Good is an executive director with Ernst and Young’s national professional practice and is the firm’s National Public Sector Technical Industry Leader. John is a certified public accountant with over 20 years of experience in the public sector which includes an extensive background in A-133 engagements. In addition, John currently serves on four AICPA task forces on training, sampling and materiality, internal controls and compliance, and SAS 74 revisions, in response to the PACE report on single audit quality. John regularly represents the firm at meetings of the AICPA Government Audit Quality Center Executive Committee and participates in drafting AICPA comment letters on the OMB Circular A-133 Compliance supplement. John, by virtue of his service on these GASB and AICPA task forces, will be an extremely valuable and accessible resource relative to the significant changes in Single Audit guidance that are expected to be released in the very near future that will impact the Agency’s Single Audit.

Paul Wrobleski is a member of the Performance & Reward practice in Ernst & Young LLP’s National Tax Department. As a health and welfare ("H&W") actuary, Paul regularly advises companies on issues related to the design, pricing, and financing of H&W benefit plans. Paul has twenty-six years of experience working with H&W benefit plans, of which the first six years were at a major group insurance carrier as an underwriter. As a consultant, he has assisted many types of clients with analyzing and managing their H&W benefit programs both from a human resources and finance perspective. This perspective has proven to be especially helpful in light of the health care reform Act and the implications of aligning workforce composition, compensation, and benefits strategies with the company’s overall business strategy and objectives. Paul will utilize his expertise to review the other post-employment benefit liability valuation at the Agency.
John Barile is a Partner in EY’s Northeast Area risk advisory services practice, with more than 20 years of information technology audit and advisory experience in the retail, apparel, distribution, consumer products and industrial products industries, as well as in the governmental sector. John has also managed other technical and operational projects, such as data security reviews, data conversion reviews, reengineering studies, data integrity reviews, infrastructure resiliency assessments, business continuity plan development, due diligence assessments and security penetration studies, as well as assessments of global technology operations in support of management’s assessment of internal controls under the Sarbanes-Oxley Act of 2002. As IT Engagement Partner, John will direct all audit services related to information technology.

Gary J. Horowitz is an Executive Director and member of the National Exempt Organization Tax Services Group in EY’s National Tax Department. Gary has over twenty-seven years of experience in EY’s Tax Consulting practice. Gary advises clients regarding unrelated business income tax planning and compliance, Internal Revenue Services coordinated exams, restructuring, payroll tax issues, state and local tax issues, unclaimed property, joint venture structuring, compensation issues, and nonresident alien reporting. Gary will be a resource should the Agency have any matters related to taxes.

Robert is an Executive Director in Ernst & Young’s Quantitative Advisory Services practice. Based in New York, Robert has over 22 years of experience providing assurance and advisory services to a variety of the firm’s clients, including banks and derivative dealers, hedge funds, investment managers, and energy and commodity companies. His primary area of focus has been the analysis, validation and implementation of derivative product valuation and risk measurement systems, including the methodologies and analytics used to perform and review hedge effectiveness programs, and the policies and controls infrastructure supporting these business activities. Rob is also responsible for coordinating the delivery of derivatives valuation support services to the firm’s audit teams via the firm’s Derivatives Valuation Center (DVC). Through the DVC, EY provides its assurance clients with services to improve the reliability of financial statements and the effectiveness of the derivative audit process. In addition, the DVC provides our clients insights on leading practices in the areas of valuation, risk measurement methodologies and risk control practices.
Ernst & Young’s affiliation with the AICPA and other standard setters

Financial reporting by governmental units continues to undergo rapid change. Public sector entities must comply with accounting pronouncements of the Governmental Accounting Standards Board (GASB) and, under certain conditions, the Financial Accounting Standards Board (FASB). The U.S. Comptroller General of the General Accounting Office has issued and continues to update, Government Auditing Standards; the Federal inspectors General have published and continue to publish statements on auditing positions and audit guides. Additionally, there are requirements set by Congress (such as the Single Audit Act Amendments of 1996), state and local legislatures and federal entities (such as the Office of Management and Budget). One fact does not change: The Corporation is responsible for complying with rules and regulations imposed by all of these entities.

Ernst & Young has a long history of conducting audits that meet these ever-changing requirements. As discussed in the section describing our team’s qualifications and the next section below, many of our partners and audit executives have served on or chaired the AICPA Government Accounting and Auditing Committee, AICPA task forces and subcommittees, GAO task forces and advisory groups, AGA Research and Education Advisory Board, Government Finance Officers Association (GFOA) Committees and have had responsibilities for establishing accounting and reporting standards and audit criteria for governmental entities. We are also represented at monthly meetings of GASB by John Good, who will serve in an active role as engagement quality reviewer. We pride ourselves on being well-positioned to provide early warnings and insights to you on how the activities of these organizations will affect the Corporation.

Thought leadership

Our clients appreciate the efforts we make to maintain our status as “thought leaders” to both the profession and industry. Our dedication to the public sector is even more apparent as firm partners have been involved with drafting laws, working with Congressional committees and leaders at all levels of government and assisting in writing the standards followed by the audit profession.

Here are some experiences that illustrate our leadership role and form the basis of the quality of service you will receive over the period of our audit contract:

- **Single Audit Act of 1984** - Few, if any, firms can cite a comparable level of involvement in providing guidance on how this important piece of legislation affected recipients of federal financial assistance. For six years, an Ernst & Young partner chaired and was a principal contributing author to the AICPA task force responsible for writing the profession’s guidelines for performing Single Audits of government units.

- **Single Audit Act Amendments of 1996** - John Good served on the AICPA task force that developed the new illustrative audit reports and the Schedule of Findings and Questioned Costs to correspond with the revised reporting requirements contained in OMB Circular A-133.

- **The GFOA certificate program** - The GFOA Certificate of Achievement for Excellence in Financial Reporting Program has greatly influenced the setting of standards of excellence in governmental accounting and financial reporting. We believe in and strongly support this program. John Good and Lou Roberts serve on the committee reviewing the financial statements of candidate governments and helps many of our public sector clients qualify for the GFOA Certificate.

- **AICPA involvement** - Few firms have been as active as Ernst & Young in the AICPA’s prestigious Government Accounting and Auditing Committee. A retired Ernst & Young partner is the past chair of this committee and John Good is Ernst & Young’s current representative. Dan Merrin, also a member of the Corporation engagement team, is a member of the AICPA Government Technical Standards Subcommittee and the Federal Accounting and Auditing Subcommittee.
Accounting and auditing assistance - Few firms have made similar contributions to advancing the knowledge of public sector accounting and auditing. In addition to authoring numerous articles, our partners have authored or co-authored such relevant books as:

- Public Sector Auditing
- Governmental Auditing
- Federal Grants in Aid: Accounting and Auditing Practices

Association of Government Accountants (AGA) Training Leadership - Ernst & Young developed an innovative approach to promoting required CPE in conjunction with the AGA, in addition to courses we developed in conjunction with the AICPA, that are self-study courses electronically available to allow self-study times convenient to professionals. Dan Murrin, who serves on the AGA Research and Education Advisory Board, was the catalyst in this CPE project.
Part III - Quality assurance policies, standards and procedures

Overview

Our reputation for providing quality professional services in an independent, objective, and ethical manner is critical to our success as independent auditors. Our strong commitment to quality services has led the firm to adopt a comprehensive set of quality control policies and other safeguards that are applicable to every audit engagement. Like any other system of internal control, no single control or safeguard provides us with the assurance that our professionals comply in all instances with applicable professional standards and the firm’s standards of quality. Working in tandem, however, these controls and safeguards provide a comprehensive system that serves to prevent or detect in a timely manner matters that without corrective action could result in substandard performance. As a result, we believe that the firm’s system of quality control for our accounting and auditing practice meets the requirements of quality control standards adopted by the Public Corporation Accounting Oversight Board (PCAOB) for a public Corporation accounting and auditing practice. The following is a summary description of Ernst & Young’s quality control policies and other safeguards for our accounting and auditing practice.

Instilling professional values

- **Tone at the Top** - Ernst & Young’s senior management regularly communicates and reinforces the firm’s expectations and the importance of performing quality work and complying with the firm’s policies. The Ernst & Young culture strongly supports collaboration and consultation and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, SEC and independence matters. We also emphasize the importance of determining that the client has correctly followed our advice when necessary.

- **Organizational Structure Built Around Quality** - Reflective of our commitment to quality, the firm has a Vice Chair of Quality and Risk Management who is responsible for oversight of firm-wide quality initiatives in each of our service lines. The Vice Chair of Quality and Risk Management reports directly to the Chairman of the firm and is a member of the Executive Board. The National Professional Practice Department is responsible for establishing standards and consulting on accounting, reporting, SEC and independence matters, as well as practice monitoring and risk management activities. The department is comprised of highly-qualified, seasoned partners and senior managers. Many members of the department are located at the firm’s national offices in New York, Washington D.C., and Cleveland. In addition, a Professional Practice Director is assigned to and located in each of the firm’s thirteen Areas. These Professional Practice Directors, together with other partners and senior managers who are assigned to work with them in each Area, are more knowledgeable about our people and clients because of their geographic locations, and they are more easily accessible for consultations with audit engagement teams and our clients.

The Professional Practice Directors are independent of the Area practice leadership, and they report to and are evaluated and compensated by the National Professional Practice Department. This separation provides greater assurance on the objectivity of our consultation process. Given the volume and complexity of new accounting, reporting, and regulatory matters facing our audit engagement teams and our clients, we continue to increase our consultative resources.

- **Code of Professional Conduct** - The Ernst & Young Code of Conduct was developed to provide an ethical framework for all of our activities in the U.S. Each partner and employee is asked to sign an annual confirmation statement that they have read the document, “Making the Right Choices: The Ernst & Young Code of Conduct,” carefully, have become familiar with the elements of the Code of Conduct, understand their responsibilities with respect to its requirements, and agree to abide by its provisions as a condition of continued employment or association.

- **Ethics Hotline and Ethics Oversight Board** - The firm’s leadership has clearly communicated to our partners and employees an expectation of personal responsibility to pursue an understanding of any matter pertaining to ethics. Although in most instances consultation with client service partners,
business unit leaders, or others will resolve a matter, our Ethics and Professional Practice Hotline was designed to provide another—and confidential—way for our people to raise concerns about ethics, service quality, or other professional practice issues relating to client engagements. In addition, our Ethics Oversight Board, comprised of senior leaders in the firm, provides ongoing monitoring of the practices and principles that guide the way we do business.

**Independence** - Ernst & Young has a comprehensive set of independence policies. The firm’s written policies cover relationships with restricted entities (e.g., audit clients) as well as all other professional and regulatory independence requirements. Our independence policies and procedures comply with the SEC’s auditor independence rules issued in January 2003. Compliance with the firm’s policies and procedures is tested in several ways. Professionals who do not comply with professional or regulatory requirements are subjected to disciplinary sanctions.

**Document Retention** - The firm has a comprehensive Retention of Records policy that applies to all practices and personnel. This policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving Ernst & Young or one of our clients that may relate to our work.

**Audit performance**

**Audit Methodology** - As a result of substantial investment and our focused efforts to develop a state-of-the-art audit methodology and supporting tools, our auditors are well equipped to perform audits of the financial statements of companies of varying sizes and complexities. The Ernst & Young Global Audit Methodology provides a framework for application of a consistent thought process to all audits. The methodology contemplates team-based audit service delivery, and allows alternative solutions depending on client circumstances, professional judgment, and audit team input. We make enhancements to our audit methodology on a regular basis as a result of new standards, emerging auditing issues, or implementation experiences.

**Technology Enablers** - Numerous technology enablers are used by our audit engagement teams to assist in executing and documenting the work performed in accordance with the Ernst & Young Global Audit Methodology.

**Formation of Audit Engagement Teams** - Ernst & Young requires an annual review of partner assignments for public companies by Area practice leadership and the National Office Professional Practice Directors located in the Areas to make sure that the partners serving our public sector clients possess the appropriate competencies to fulfill their engagement responsibilities.

**Policies for review and consultation**

**Reviews of Audit Work** - Firm policies describe the requirements for timely, direct executive participation on audits and various levels of reviews of the work performed.

**An Independent Look at All Our Audits** - A professional and regulatory requirement for audits of public companies is that a partner independent of the audit team reviews the audit report on the financial statements and performs certain other procedures prior to issuance of the report. Ernst & Young has had such independent review procedures in place far longer than it has been a requirement of the profession, and we have required such reviews on all audits, of both public and private companies.

**Consultation Requirements** - Our consultation processes and related policies and procedures are designed to take advantage of all of the firm’s resources in reaching our conclusions on difficult accounting, auditing, reporting, SEC, and independence matters. Consultation is a decision-making process, not just a process to provide advice. For complex and sensitive matters, Ernst & Young requires consultation outside of the audit team with other personnel who have more experience or specialized knowledge, with the goal of deciding the appropriate firm position regarding these matters. We have an extensive list of matters that require consultation on any engagement where the situation is encountered, and we supplement the list of required consultations to focus on emerging matters. Our people are expected to, and do, consult regularly on other significant
accounting, auditing, reporting, SEC, and independence matters, as well as on other sensitive issues or sensitive communications to clients or others outside the firm.

Audit Engagement Team Disagreement Resolution Process - Ernst & Young has a collaborative culture and encourages its people to speak up if a professional-practice disagreement arises or they are uncomfortable about something having to do with a client engagement. The firm's policies provide all of our people with the authority to demand a hearing for their views and an understanding that the firm considers all points of view when resolving key issues. When a matter that goes beyond the audit engagement team is ultimately resolved, firm policies require it to be documented.

Internal accountability

Rotation of Partners - As required by the New York State Public Authorities Accountability Act, on audit engagements for public authorities the firm will rotate the lead audit partner and the reviewing partner no less frequently than the maximum consecutive years of service permitted. Our firm historically has imposed a more rigorous approach to audit partner rotation than required by the profession. Our goal is to provide the best service possible and that means having the professionals with the highest level of industry knowledge serving you.

Conflicts Resulting from Employment Relationships - Since long before there were professional standards or regulatory requirements that addressed situations where a firm's professionals accepted employment at the firm's audit clients, Ernst & Young has had policies and procedures in effect to address the potential for actual or perceived impairment of independence in such situations. We updated our policies in this area to address the SEC's one-year cooling off requirement, and in doing so developed consultation protocols within the firm for certain job positions to make sure that compliance is achieved with respect to both the letter and the spirit of the SEC's rules.

Partner Evaluation and Compensation Methods - Ernst & Young evaluates and compensates its partners based on several factors, which are aligned to the firm's overall strategy and direction. We reevaluated our partner compensation philosophy and procedures to make sure that we are in compliance with the letter and the spirit of the SEC's independence rules. We do not compensate our audit partners on the sale or delivery of non-audit services to their audit clients. Our compensation approach reflects the firm's deep commitment to providing quality service to our clients as well as our professional obligation to maintain our independence.

Staff Evaluations - Ernst & Young's Performance Management and Development Process is used to provide timely, specific feedback on job performance. The purpose of the process is to help our people grow in their careers and to understand how their personal development is linked to the firm's values, strategy, and overall success.

Client Acceptance and Continuance - Ernst & Young's audit client acceptance process involves a careful consideration of the risk characteristics of a prospective client and several due diligence procedures. Our approval process is rigorous, and no new audit client may be accepted without the prior approval of the National Office Professional Practice Director located in the Area. The Area Professional Practice Director is very involved in the client continuance process and must be satisfied with the Area practice leadership's decisions. Both client acceptance and client continuance decisions depend on, among other things, the absence of any perception that an Corporation's management pressures the audit engagement team to accept inappropriate accounting and reporting. Our considerations and conclusions on the integrity of management are essential to our acceptance and continuance decisions.

Practice Monitoring - Ernst & Young conducts an internal quality control review program under the direction and oversight of the firm's National Director of Assurance Quality Control that annually assesses the quality of our assurance work in a cross-section of practice offices. The objective is to evaluate the design and operating effectiveness of the firm's quality control policies and procedures covering its accounting and auditing engagements. The results help us evaluate the firm's quality controls, personnel performance, and areas where some improvement is needed. The PCAOB performs annual inspections of our firm's public corporation accounting and auditing practice.

Client Satisfaction - For several years our firm has deployed a client satisfaction system as another means to gather input on the quality of the services that we deliver to our clients and to make
continuous improvements in our service delivery. Reflective of the new environment in which we operate and the enhanced role of Audit Committees in the oversight of the financial reporting process, we recently implemented an expanded client satisfaction survey process with a new Audit Committee Satisfaction component to the survey process.

People management

- **Recruitment and Hiring** - One of Ernst & Young's strategic objectives is to attract and build life-long relationships with extraordinarily talented people. For the most part, the firm hires only candidates who have qualified academically to sit for the CPA examination in the state for which they are being recruited.

- **Professional Development** - Ernst & Young has requirements for continuing professional education that apply to all professionals. Our commitment to lifelong learning results in an improved ability to meet personal and professional goals and provide the highest quality service to our clients. An individual's professional development principally occurs through formal learning and on-the-job training. The core training courses are supplemented by training programs that are developed in response to changes in accounting and reporting standards, professional standards, and emerging practice issues.

Internal communications

- **Communication Technology and Knowledge Databases** - Ernst & Young has made significant investments in its knowledge and communications networks that enable rapid communication of information about our client engagements and business activities. The improved information flow assists engagement teams and firm management in monitoring the performance of our professional services. Examples of electronic mail communications and knowledge databases are: a daily newsletter that reports on the latest news and information about the firm and its services, a periodic (almost daily) newsletter that reports on recent accounting and auditing standard-setter activities and other important matters, and a document repository providing information on important accounting and auditing topics.

Review of Ernst & Young workpapers

In accordance with our internal quality control standards, all of our audit work, including all workpapers, will be reviewed in detail by the appropriate Ernst & Young assistant coordinator/supervisor in charge of the department/major program. Further, our engagement managers will perform a "second-level review" to be satisfied that the detailed review was adequate and that appropriate audit recognition was given to the audit areas.

The "detailed" and "second-level" reviews are critically important elements of our quality controls for audit engagements and help us satisfy our professional requirements pertaining to supervision because they focus our more experienced engagement team members on the adequacy of the audit work performed, the fair presentation of the financial statements and related disclosures thereto and the appropriateness of our auditor's reports.

Our engagement executive director and lead senior manager will also perform sufficient procedures in high-risk areas and other sensitive audit areas to be satisfied that the detailed review was adequate and that our auditor's reports are appropriate. Further, an engagement quality review will also be performed as discussed below.

Engagement quality review

Prior to the issuance of our auditor's reports, we will have our engagement quality reviewer, John Good, perform procedures to evaluate the significant judgments made and conclusions reached by the engagement team in forming the overall conclusion on the engagement. These procedures have recently been enhanced as part of our continued focus on quality control and are formally documented in an audit program completed by the engagement quality reviewer. The procedures will include a review of the ASMs, prior year and current year financial statements, SEFA and Schedule of Findings and Questioned Costs, prior year and current year summary review memorandums, GAS and A-133 Single Audit checklists and any other
documentation necessary to achieve the objective of the review. The engagement quality reviewer will also hold discussions with the engagement partner and other members of the team relative to areas involving significant judgments and the related conclusions. We will communicate with our engagement quality reviewer throughout the engagement to avoid any surprises at the end that could potentially delay the issuance of the reports.

**Professional Practice Directors (PPDs)**

Technical excellence in accounting and auditing is required to support our tagline of "Quality In Everything We Do" and enhance our overall practice. Given the increasing complexities in accounting, financial reporting and regulatory matters, delivering consistent, high quality services to our audit clients requires timely access by our engagement teams and clients to our firm’s leading technical resources. With this in mind, the PPD organization has been structured to:

- Maintain trusted local consultation resources in the form of PPDs who have clear consultation paths to Area and Global technical leaders
- Improve the consistency of provided answers and timely responses through subject matter groups covering the most complex topics
- Provide direct assistance to our largest and most complex engagements and streamline the process for review of transactions
- Attain a culture where early identification of issues and timely consultation are a good business practice

The PPD group will be able to address your questions quickly because of its members’ extensive industry, technical accounting, tax, and financial reporting knowledge. If an issue requires additional input, they will resolve it swiftly via the firm’s industry advisors and members of the National Professional Practice Group, who work in 10 offices around the country in order to be close to field operations. No other Big Four firm decentralizes its national leaders in this way, which we believe is a huge advantage for Ernst & Young.

Our National PPD network is comprised of partners and senior managers physically located in each of the firm’s geographic operating sub-areas. The PPD network is a key part of our consultation process, so having them geographically located within the operating sub-areas helps the network be more knowledgeable about our people and clients, as well as more easily accessible for consultations with audit engagement teams and our clients. It is important to note that although the PPD network is located within the operating sub-area it is independent of the operating sub-area leadership. The partners in the network report to and are evaluated by the Vice Chair of Assurance Professional Practice and Risk Management to provide greater assurance on the objectivity of our consultation process.

Steve Hackett is a partner in the National PPD group assigned to the Northeast practice area which includes Massachusetts and will be available to provide consultative advice to assist our engagement partner and engagement quality reviewer.

**GAS CPE requirements**

In order to document our engagement team’s compliance with the continuing education requirements contained in GAS, our firm utilizes a form titled “Governmental Audits and Attestation Engagements CPE Compliance by Individual.” This form is completed by all members of our Corporation engagement team and approved by our coordinating partner.

**Federal Quality Control Reviews**

When required, we will participate in and assist the Federal Office of Inspector General (OIG) representatives in a quality control review (QCR) performed on our audit areas. This would involve making our professional staff available to answer any questions raised by the OIG representatives and, most importantly, assuring that all program areas are completed on-time and in accordance with Generally Accepted Auditing Standards, Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133.
Since we will use the audit approach currently used by Ernst & Young, which has been subject to QCR by the federal government in prior years with no major deficiencies, we do not anticipate any problems to arise from the performance of any QCRs during the period covered by this contract.

Assessment of service quality (ASQ)

After the audits are completed, we will request your participation in our ASQ process which provides us with your feedback concerning the quality of our services and allows us to stay in tune and aligned with your evolving needs and expectations. This feedback can be provided through an interview, a survey, or a combination of both. The interview, which we used in the prior ASQ, involves face to face meetings with City personnel with audit responsibilities and will be conducted by an independent party from Ernst & Young. The survey requires completion of a questionnaire by these same personnel and would be provided by mail, email or through our new Global Assessment of Service Quality Measurement System (GAMRS).

We will accumulate the results from this feedback and communicate the results to you. Further, we will respond to the suggestions and comments received during this process in our on-going effort to improve the quality of our service to you.

Audit quality review program

All Ernst & Young partners are required to participate annually in the firm’s Audit Quality Review (AQR) Program. Under this program, each partner has certain audit engagements selected that are then reviewed by other Ernst & Young executives using extensive AQR checklists. Feedback and an overall rating are then communicated to the partners. Randy Nelson, our coordinating partner for the Corporation, recently participated in this program and received the highest rating. Randy has also conducted AQRs on other Ernst & Young government engagements.
Part IV - Our use of technology

Computer audit techniques
Whenever it is deemed to be effective we will use of computer-assisted audit techniques (CAATs) on our audit of the Corporation. CAATs increase efficiency and effectiveness by using computer records as the primary source of the information to be examined. We have found that CAATs are essential to audit effectively sophisticated, on-line environments, such as those encountered in the Corporation.

In order to perform our CAATS, we make extensive use of Audit Command Language (ACL). ACL is a state-of-the-art CAAT platform that is flexible, powerful, simple to use and has several advantages for our clients, including the following:

- ACL reduces the development time for CAAT applications for specific circumstances by as much as 50%
- ACL has the ability to process large client data files, cutting processing time by as much as 75% and reducing disruption to your data centers
- CAAT applications are more frequently used because ACL is easy to use and provides significant performance improvement over previous applications

We have effectively used ACL for many years in connection with our Single Audits. Some examples of our use of ACL include:

- Stratifying the sub-recipient universe in connection with our overall sub-recipient audit monitoring procedures
- Downloading of information from the modules in the respective Corporation's accounting system
- Selecting samples from the accounting system for compliance tests.

The integration of IT in the audit process
In the initial planning phase, we request assistance from our Ernst & Young information technology auditors to update our understanding relative to the significant computer processes for the significant processes we identify. We then update our review and evaluation of general computer controls for these significant processes. We then design tests of computer controls at those agencies where we have determined controls to be effective including the establishment and updating of benchmarks of computerized applications that process data for certain major programs at those agencies.

The computer auditors will also communicate with the engagement teams and review the appropriate planning documents for all major programs in order to identify additional uses of computer-assisted audit techniques and to confirm that the audit procedures continue to properly avoid unwarranted reliance on computer generated data. We have developed the "Computer Reliance Evaluation Form" that is completed for all departments and major programs to document the extent of our reliance/non-reliance on computer controls.
These planning procedures are designed to minimize to an acceptable level, unwarranted reliance on computer-generated reports and computer dependent controls and processes for those major programs where controls at such agencies are ineffective, to confirm that appropriate procedures have been integrated into the audit approach for those major programs where reliance is being placed on the computer-generated reports and to maximize our use of computer-assisted audit techniques.

The Ernst & Young IT Integration Model

Knowledge management and technology
Throughout the firm, Ernst & Young is driven by knowledge. Knowledge resources, along with our people and their approach to client service, distinguish us from our competition. We have developed technology and knowledge resources including audit software expressly to support our approach to conducting the audit. Ernst & Young has built a robust set of technology and knowledge management tools that increase efficiency and effectiveness of the audit function, but we are not resting on our laurels. We are committed to investing in the future, constantly striving to enhance our tools and technology. Ernst & Young is recognized as the technology leader of the Big Four.

The following summarizes the knowledge resources and technological tools that are available to all of our professionals and relevant to the Corporation’s audit. Every member of the engagement team is equipped with a personal computer that provides quick access, through the firm’s intranet, to our knowledge resources.
Global core loadset

Our core applications on each professional's personal computer include Outlook, Microsoft Office, Excel and PowerPoint and Internet Explorer. Recently our firm began a full-scale implementation of a significant upgrade to these PC applications to provide a more efficient, productive and integrated approach to serving our clients. These core applications are used extensively in our audits to maintain communication among our engagement team and perform calculations, produce workpapers including findings, develop slides and handouts for training presentations and provide access to federal and state websites.

Global Government and Public Sector Community Homespase

This database is the primary point of knowledge access for our public sector auditors. It empowers our service team to leverage our firm-wide resources, public sector experience and leading practices to aid all facets on your engagement. The Public Sector Homespase categorizes information and includes a search engine that enables users to quickly locate the desired information.

By accessing this Public Sector Homespase, any member of our audit team can immediately apply our proprietary knowledge capital. For example, the Regulations and Technical Standards section includes the following types of Information: governmental accounting and auditing standards, audit guides and federal regulations and guidance. The contents within each category are immediately available for use. Our audit team can similarly access the best examples of Ernst & Young's collective knowledge, such as benchmarks, leading practices, Ernst & Young position statements, exemplary deliverables, calendar of network and industry events and reference and training materials.

Our Federal Awards Audits (FAA) Discussion Database and State and Local Government GAAP Audits Discussion Database are also available to our team within the Public Sector Homespase. Our public sector team members can post questions on accounting and auditing issues related to the financial statement and federal awards audits in these discussion databases. Such questions are instantly accessible to all of our professionals. Our National public sector executives monitor and respond to these questions providing us with direct on-line access to our public sector thought leaders. Additionally, all of our public sector professionals are encouraged to post suggestions and provide other input based on their experiences. All questions and responses are maintained on these databases and as a result, these databases provide for not only instant access to our public sector executives but for a valuable sharing of information among all Ernst & Young professionals serving public sector clients.

EY/GAAT

This tool provides all of our auditors with a full set of electronic up-to-date technical references (GASB statements, auditing and other professional standards, Ernst & Young Policy and Practice Statements and a separate section of government forms (illustrative auditor's reports, letters of representations and quality control checklists). Current developments affecting the authoritative guidance are communicated through our monthly public sector newsletters via Outlook along with any required updates to the government forms.

Audit command language (ACL)

ACL can enable us to test a large volume of transactions within any risk area, in minutes. This tool allows our teams to spend less time on administrative and manual review activities and more time in meaningful analysis. The use of this tool on government audits has been discussed in detail in a previous section of this work plan.

EY/Microstart

This tool is an audit planning tool that assists in planning an effective and efficient audit strategy for those audit areas that involve sampling using the firm's Audit Risk Tables. It can be used to consider the audit strategy effects of testing controls beyond a walk-through, obtaining additional assurance from other substantive procedures (e.g., analytical procedures) and expanding tests of details on individual key items.
GAMx

GAMx drives consistent application of our global audit methodology and appropriate documentation of every Ernst & Young audit. GAMx also has reminder diagnostics, which help determine that audit procedures have been performed and properly documented. GAMx workflow provides a disciplined, consistent approach to audit execution—encouraging performance of audit procedures at the appropriate time.

GAMx does more than just automate manual working papers. It enables a visual building-block approach that mirrors our process of accumulating and evaluating audit evidence. It also enables mobile computing and real-time sharing of audit information and knowledge. Linking electronically, our team can create a collaborative working environment on or off site.

eRoom

Ernst & Young online eRoom is a secure, web-based workspace that enables distributed teams to work together more efficiently. Some of the features of eRoom include a control document access which allows you to specify who can see or edit specific documents, notifying participants with updates or changes to a document with the alert feature and tracking of version-controlled documents to prevent sifting through email.

We have the right technology and resources to support the Corporation. As our client, you reap the advantages of our substantial ongoing investments and our use of a broad range of tools and technologies.

Our policy regarding electronic files

Because the firm’s reputation depends upon the people of Ernst & Young making the right choices and taking the right actions, a policy has been written to support both the EY Global Code of Conduct and the EY Code of Connection: Global IT Security Policy. The purpose of this policy is to define Ernst & Young personnel responsibilities for protecting the security of all mobile data devices that are used to conduct firm business, and also to safeguard any information that is accessible via these devices. For purposes of this policy, mobile data devices include any devices used to conduct business on behalf of Ernst & Young (whether firm-owned or personally owned) such as desktop and laptop computers, handheld devices (also known as personal digital assistants or PDA’s), mobile phones, digital cameras, and removable storage media such as an USB memory drives, external hard drives, CDs, DVDs or diskettes. We would be more than happy to share the details of this policy with the Corporation upon request.
Part V - Compensation

Reasonable fees for quality service

At Ernst & Young, the concept of "quality service" includes the concept of "reasonable costs." This does not mean that we cut corners in the quality of our work, but rather, that we use methods that promote the greatest efficiency in the conduct of our audit. We strive to keep our fees at the lowest level consistent with the highest professional standards.

Accordingly, each job is carefully budgeted on a task basis in light of the client's environment, audit requirements, prior experience, expected degree of internal control and effective accounting procedures applicable to the client. Timely progress reports are maintained by the staff on each engagement, together with a full reporting and follow-up system. We believe this control is essential to provide you maximum service in a minimum amount of time.

Based upon our understanding of the objectives and scope of the engagement as previously discussed in this proposal, our annual fee cap for all services for the years ending October 31, 2015, 2016, 2017, and 2018 will be the following:

<table>
<thead>
<tr>
<th>Year Ending October 31</th>
<th>Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$218,000</td>
</tr>
<tr>
<td>2016</td>
<td>226,000</td>
</tr>
<tr>
<td>2017</td>
<td>234,000</td>
</tr>
<tr>
<td>2018</td>
<td>242,000</td>
</tr>
</tbody>
</table>

We also assume that (a) all financial records are reconciled and proved to the subsidiary records with completed account analysis; (b) requested special analyses would be prepared; (c) we would receive full cooperation in the area of photocopying, locating invoices, account analysis, etc., and (d) adequate working facilities would be available to our staff. Should any unforeseen situation develop which would require an unusual amount of additional work, we would, of course, confer with prior to expanding our work.

Letters to underwriters

Our fee for services performed in connection with the issuance of bonds is directly related to the specific requirements and the time incurred at the various levels of responsibility. Generally we have found that the issuance of our Consent Letter is sufficient for most governmental bond issuances. If the underwriter requests the issuance of a Comfort Letter the specific fee will be based on the nature of the procedures for which the underwriter requests comfort. Our fee relating to the issuance of consent letter will continue to be $9,000 throughout the period of our agreement.

Consultation relative to tax and accounting issues

It is not Ernst & Young's policy to charge for consulting on general accounting or tax matters, however if the nature of the discussion would require work beyond the norm we will alert you to this fact. In cases where it is determined that a special project should be undertaken, we will come to an agreement with you regarding the scope of the project and the all-inclusive fee prior to performing any work. Fees for such work will be based on the hourly rates by personnel classification included above.
Engagement letter

Similar to our past agreement with the Corporation, Ernst & Young requires that all agreements to provide audit services by Ernst & Young be listed in our standard engagement letter that includes a description of our firm's dispute resolution procedures, unless specifically prohibited by state law. Our engagement letter will be required to be included as an addendum to any contract or as a stand-alone document.

Audit responsibilities and limitations

We will conduct our audit in accordance with generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance that the financial statements are free of material misstatement, whether caused by error or fraud. As you are aware, there are inherent limitations in the audit process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material errors, fraud or illegal acts. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

As part of our audit, we will consider the Corporation’s system of internal accounting controls, solely for the purpose of determining the nature, timing and extent of our audit procedures. This consideration will not be sufficient to enable us to provide assurance on the internal control.

We will make certain that the Board and appropriate members of management are informed of fraud or illegal acts, of which we become aware. In addition, we will inform the Board and appropriate members of management of significant audit adjustments and reportable conditions.

We may also communicate other opportunities we observe for economies in or improved controls over the Corporation’s operations.

Management's responsibilities and representations

The Corporation's management is responsible for the financial statements, for maintaining effective internal control, for properly recording transactions in the accounting records, for safeguarding assets and for the overall fair presentation of the financial statements. In addition, Management is responsible for identifying and ensuring that the Corporation complies with the laws and regulations applicable to its activities.

As required by generally accepted auditing standards, we will make specific inquiries of management about the representations contained in the financial statements and the effectiveness of the internal control over financial reporting. Generally accepted auditing standards also require that we obtain representation letters from certain members of management about these matters. The responses to those inquiries, the written representations and the results of our audit tests comprise the evidential matter upon which we will rely in forming an opinion on the financial statements. Management is responsible for providing us with all financial records and related information on a timely basis; its failure to do so may cause us to delay our report, modify our procedures or even terminate our engagement.

Disclosures*

Financial information

Ernst & Young is a limited liability partnership for which public financial statements are not available. However, for the purposes of this proposal, we submit the following information about the financial capabilities of our firm: Our gross volume of business in the United States is in excess of $10.9 billion. We have more than 87 offices throughout the United States, and worldwide offices in over 150 countries. Our resources include a staff of over 45,000 in the United States and over 190,000 in our foreign offices.
Disciplinary action
The Ernst & Young engagement team designated to serve the Corporation is not subject to any disciplinary action by the AICPA, the States of New York, New Jersey, or Connecticut, the SEC, or any other regulatory authority within the past five years, nor are there any pending investigations that could result in disciplinary actions to the Client Service Executive Team that we are aware of. In addition there is no litigation that could adversely affect the ongoing viability of Ernst & Young that we are aware of.

Conflict of interest
To the best of our knowledge, there are no existing or potential relationships between Ernst & Young LLP and the Corporation or any officer or servant of the Corporation that could lessen our independence and objectivity because of a perceived or actual conflict of interest.
Doing Business Data Form

Any entity receiving, applying for or proposing on an award or agreement must complete a Doing Business Data Form (see Q&A sheet for more information). Please either type responses directly into this fillable form or print answers by hand in black ink, and be sure to fill out the certification box on the last page. Submission of a complete and accurate form is required for a proposal to be considered responsive or for any entity to receive an award or enter into an agreement.

This Data Form requires information to be provided on principal officers, owners and senior managers. The name, employer and title of each person identified on the Data Form will be included in a public database of people who do business with the City of New York; no other information reported on this form will be disclosed to the public. This Data Form is not related to the City's VENDEX requirements.

Please return the completed Data Form to the City office that supplied it. Please contact the Doing Business Accountability Project at DoingBusiness@cityhall.nyc.gov or 212-788-8104 with any questions regarding this Data Form. Thank you for your cooperation.

Section 1: Entity Information

Entity Name: Ernst & Young LLP
Entity EIN/TIN: 13-3190189

Entity Filing Status (select one):
☐ Entity has never completed a Doing Business Data Form. Fill out the entire form.
☒ Change from previous Data Form dated 05/09/13. Fill out only those sections that have changed, and indicate the name of the persons who no longer hold positions with the entity.
☐ No Change from previous Data Form dated ____________. Skip to the bottom of the last page.

Entity is a Non-Profit: ☐ Yes ☒ No
Entity Type: ☐ Corporation (any type) ☐ Joint Venture ☒ LLC ☒ Partnership (any type)
☐ Sole Proprietor ☐ Other (specify):

Address: 5 Times Square

City: New York State: NY Zip: 10036

Phone: 732-516-4340 Fax: 866-244-9551

E-mail: randy.nelson@ey.com

Provide your e-mail address and/or fax number in order to receive notices regarding this form by e-mail or fax.

©2008 For information or assistance, call the Doing Business Accountability Project at 212-788-8104.
Section 2: Principal Officers

Please fill in the required identification information for each officer listed below. If the entity has no such officer or its equivalent, please check "This position does not exist." If the entity is filing a Change Form and the person listed is replacing someone who was previously disclosed, please check "This person replaced..." and fill in the name of the person being replaced so his/her name can be removed from the Doing Business Database, and indicate the date that the change became effective.

Chief Executive Officer (CEO) or equivalent officer

The highest ranking officer or manager, such as the President, Executive Director, Sole Proprietor or Chairperson of the Board.

First Name: Steven

MI: ________

Last: Howe

Office Title: Americas Managing Partner

Employer (if not employed by entity): Ernst & Young LLP

Birth Date (mm/dd/yy): 12/21/61

Home Phone #: 914-747-4240

Home Address: 30 Clark Street, Pleasantville, NY 10570

☐ This person replaced former CEO: __________________________ on date: __________

Chief Financial Officer (CFO) or equivalent officer

The highest ranking financial officer, such as the Treasurer, Comptroller, Financial Director or VP for Finance.

First Name: Gregory

MI: ________

Last: Liss

Office Title: Partner, americas Finance Lead & Group CFO-PBFA

Employer (if not employed by entity): Ernst & Young LLP

Birth Date (mm/dd/yy): 08/14/61

Home Phone #: 201-337-5448

Home Address: 33 Chickasaw Drive, Oakland, NJ 07436

☐ This person replaced former CFO: __________________________ on date: __________

Chief Operating Officer (COO) or equivalent officer

The highest ranking operational officer, such as the Chief Planning Officer, Director of Operations or VP for Operations.

First Name: Gary

MI: ________

Last: Belske

Office Title: Chief Operating Officer

Employer (if not employed by entity): Ernst & Young LLP

Birth Date (mm/dd/yy): 07/27/56

Home Phone #: 817-459-3971

Home Address: 2500 Royal Glen Court, Arlington, TX 76012

☐ This person replaced former COO: __________________________ on date: __________

For information or assistance, call the Doing Business Accountability Project at 212-788-8104.
Section 3: Principal Owners

Please fill in the required identification information for all individuals who, through stock shares, partnership agreements or other means, own or control 10% or more of the entity. If no individual owners exist, please check the appropriate box to indicate why and skip to the next page. If the entity is owned by other companies, these companies do not need to be listed. If an owner was identified on the previous page, fill in his/her name and write “See above.” If the entity is filing a Change Form, list any individuals who are no longer owners at the bottom of this page. If more space is needed, attach additional pages labeled “Additional Owners.”

There are no owners listed because (select one):

☐ The entity is not-for-profit
☐ There are no individual owners
☒ No individual owner holds 10% or more shares in the entity
☐ Other (explain):

Principal Owners (who own or control 10% or more of the entity):

First Name: N/A  MI: ___  Last: ______________
Office Title: ______________
Employer (if not employed by entity): ________________________________
Birth Date (mm/dd/yy): ______________  Home Phone #: ______________
Address: ______________

First Name: N/A  MI: ___  Last: ______________
Office Title: ______________
Employer (if not employed by entity): ________________________________
Birth Date (mm/dd/yy): ______________  Home Phone #: ______________
Address: ______________

First Name: N/A  MI: ___  Last: ______________
Office Title: ______________
Employer (if not employed by entity): ________________________________
Birth Date (mm/dd/yy): ______________  Home Phone #: ______________
Address: ______________

Remove the following previously-reported Principal Owners:

Name: ___________________________  Removal Date: ______________
Name: ___________________________  Removal Date: ______________
Name: ___________________________  Removal Date: ______________

For information or assistance, call the Doing Business Accountability Project at 212-788-8104.
System Review Report

To the Partners of Ernst & Young LLP
and the National Peer Review Committee of the AICPA Peer Review Board:

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the firm) applicable to non-SEC issuers, in effect for the year ended June 30, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under Government Auditing Standards; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements].

In our opinion, the system of quality control for the accounting and auditing practice of Ernst & Young LLP, applicable to non-SEC issuers, in effect for the year ended June 30, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Ernst & Young LLP has received a peer review rating of pass.

KPMG LLP

December 6, 2013
Internal Audit has completed its review of the President’s Office expenses for the period February 1, 2014 to April 30, 2015.

I. Background Information:
The President’s Office is governed by the guidelines of the Corporation’s Travel Expenses policy in the Employee Handbook. The purpose of the Corporation’s travel expense policy is to provide employees who travel locally or out-of-town to conferences, training and seminars with adequate transportation, lodging, meals and other services that are a necessary part of doing business.

In addition, the car services policy states that employees may use corporate car service or “yellow cab” taxis for travel to and from airport or when working past 7:30 pm. The President may use the corporate car in performance of his official duties and is entitled to the use of a full-time car, including for commuting purposes, in accordance with the Memorandum of Understanding issued by HIC’s legal consultant, Debevoise & Plimpton, and adopted by the Board.

II. Audit Objectives:
The objectives of this audit were to:

1. Evaluate the effectiveness of the internal controls system and to ensure that the President’s Office expense reimbursements are business-related, reasonable, justified, properly documented and accurately recorded.
2. Determine whether the expenses classified under the President expenses adhere to the applicable policies and procedures for employee expense reimbursements.

III. Audit Scope and Methodology:
The audit scope covered all expenditures classified under the President’s Office (general ledger division number “500000”) for the period of February 1, 2014 through April 30, 2015. During this period, the Corporation made reimbursements to the President totaling $9,303.53; the Sr. VP
Policy, totaling $966.82; one HDC Fellow, totaling $2,644.99 and direct payments to fifteen (15) vendors on behalf of the President’s office, totaling $13,530.60 in the following eight expense categories:

1. Publication and Books  
2. Printing & Photograph  
3. Local Transportation  
4. Training and Conferences (including the associated costs, such as meals, travel, and lodging expenses)  
5. Messenger Service  
6. Miscellaneous  
7. Legislative Travel Expenses  
8. Working Meals

In conducting the audit, we relied on our evaluation of the controls over travel and related expenses and the analysis of the associated risks performed in the last President’s Office Expenses audit (5/1/13 to 1/31/14) since there were no changes in the policy or procedures since that audit.

During the audit, we tested controls of expenses classified under the President’s Office and reviewed the supporting documentation to ensure that it was complete and that expenses were reasonable, justified, business-related, authorized and accurately recorded.

IV. Summary of the Audit Results:

Upon completion of this audit, we noted no matters involving internal control and its operation that we consider to be material weaknesses. We found the Corporation’s guidelines were effective and that the President’s Office expenses were generally processed with supporting documentation and correctly recorded according to the policies in the Employee Handbook.

Cc: Gary Rodney, President  
    Richard Froehlich, COO, EVP and General Counsel  
    Cathleen Baumann, SVP and Treasurer
Internal Audit has completed its 2015 Accounts Payable (AP) Audit covering the period January 1, 2014 to December 31, 2014.

I. Background

The Accounts Payable (AP) function within the Cash Management Division consists of two staff members responsible for processing payments for vendor invoices that are entered into Oracle Payables for Corporate/OTPS expenses. AP also processes the payments for invoices entered by Loan Servicing for Escrow, Reserve for Replacement (RFR) and Mortgage disbursements. AP generates check payments from Payables and records the wires processed through SymPro, the cash management system.

For payments made from the Corporate/OTPS accounts, AP ensures that all invoices are matched to the Purchase Orders processed through the Purchasing Module, confirms that the goods and contracted services were received, verifies the accuracy of the amounts charged by the vendors and ensures that authorization by the appropriate approvers is evident on the supporting documentation.

AP processed 9,781 payments totaling $1,974,225,025.50 during Calendar Year 2014.

II. Audit Objectives

The objectives of the audit were to evaluate the adequacy and effectiveness of internal controls over the Accounts Payable process. Specifically to:

2. Determine whether all the payments processed in Payables were properly recorded in the General Ledger (GL).
3. Ensure that the selected check and wire disbursements were made in compliance with AP policies and procedures.
4. Ensure that system access to Oracle Payables was appropriate, based on job responsibilities.
5. Determine whether access to the cash management storage room, which contains the blank checks and the Oracle check disk, was adequately restricted.
III. Audit Scope and Methodology

We performed this audit by:

1. Reviewing AP and Cash Management policies and procedures.
2. Interviewing key personnel and management to gain an understanding of the AP process.
3. Reviewing system access to determine if the access levels are appropriate based on job responsibilities and if proper segregation of duties exist over the AP function.
4. Testing a sample of disbursements to ensure that payments were made in compliance with policy and procedure and the transactions were correctly recorded in the GL.
5. Determining whether the physical checks are kept secure and access to them is restricted.

IV. Audit Results:

We found no significant issues; the AP policies and procedures were adequate but needed to be updated; payments processed through Oracle Payables for Calendar Year 2014 were properly recorded in the GL; payments were authorized and supported by adequate documentation; system access to the Payables Module was appropriate, based on job responsibilities; and the blank checks and Oracle check disk were secure.

We discussed the issues with you during the course of the audit and during the closing conference held on June 10, 2015. The meeting was attended by Keith Dealissia and Lisa Geary, Vice Presidents of Cash Management, Paulette Todman, Senior AP Administrator and the Internal Audit staff.

cc: Gary Rodney, President
    Richard Froehlich, EVP, COO and General Counsel
    Jim Quinlivan, SVP for Administration
    Ellen Duffy, SVP for Debt Issuance / Finance
    Cathleen Baumann, SVP and Treasurer
    Bharat Shah, Controller
    Paulette Todman, Sr. AP Administrator