

**MINUTES OF THE 24TH MEETING OF THE
TOBACCO SETTLEMENT FINANCING CORPORATION
AUDIT COMMITTEE
HELD ON SEPTEMBER 15, 2011 AT 11:09 A.M.
AT ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022**

MEMBERS AND DESIGNEES

PRESENT:

Kenneth M. Bialo	Member
Andrew A. SanFilippo	Member
Meghan Anderson	Division of the Budget, representing Robert Megna, Member (via video conference)

Karen A. Phillips, Vice Chairperson of the New York State Housing Finance Agency, the Affordable Housing Corporation, and the State of New York Mortgage Agency attended and chaired the meetings for HFA, AHC, and SONYMA; Kenneth M. Bialo, Vice Chairman of the State of New York Municipal Bond Bank Agency and the Tobacco Settlement Financing Corporation chaired the meetings of MBBA and TSFC in the absence of a Chairman. Alejandro J. Valella, Vice President and Deputy Counsel, acted as Secretary. The meetings of the Audit Committees opened in joint session for the consideration of various matters of shared importance. These minutes reflect only those items being considered by the Members of the Tobacco Settlement Financing Corporation. A record of items considered by the other Agencies' Audit Committees is contained in the minutes of each Committee respectively.

Royce A. Mulholland, Thomas H. Mattox and his designee, Aida Brewer, Members of the New York State Housing Finance Agency and the New York State Affordable Housing Corporation, and Don Lebowitz, Director of the State of New York Mortgage Agency, attended the meeting as guests.

The next item on the Agenda was an information item regarding the Financial Statement Update for the Third Quarter Fiscal Year 2011. The Members had received information about this item in the materials given to them in advance of the meeting. There were no questions from the Members.

The next item on the Agenda was an Auditor's Presentation by Ernst & Young. Gary Weinstock, Vice President/Comptroller, introduced Randy Nelson and David Milkowski

from Ernst & Young. Mr. Milkowski advised the Audit Committee on doing audit committee training administered by Ernst & Young. He then summarized the audit plan for Ernst & Young's upcoming audit of the Agencies. He outlined the different opinions that would be completed, the various submissions and reports, and other issues pertaining to the Public Authorities Accountability Act. He stated that the upcoming audit would use a "risk-based" audit approach.

Mr. Nelson then detailed specific aspects of the upcoming audit. He noted that the audit would focus on areas such as internal controls, cash and investments, and accounts receivable. An emphasis would also be placed on any policy or procedure changes since the last audit. Although the audit will identify these changes, he also stated that Ernst & Young has an ongoing dialogue with the Agencies' staff where they often discuss ways to improve the current policies and procedures. He stressed that the audit would also examine GASB 45 and 53 compliance, classification of net assets, calculation of litigation loss contingency and claims reserve, as well as compliance with various laws and regulations. He stated that Ernst & Young has a solid reputation for completing its audits on time and that he expects that this audit will be completed according to the timetable provided. Lastly, he explained that the accounting standards have remained relatively the same since the last audit. However, he did explain one complicated change related to GASB 63. This relates to providing a Statement of Net Position instead of providing a Statement of Net Assets.

Thomas Mattox asked the presenters if they had any observations on the use of automated controls versus manual controls. He stated that the Agency's internal controls feature predominantly manual controls and he inquired whether best practices might favor utilizing more automated controls. Mr. Nelson responded that the Agencies' mixed-use of automated and manual controls was consistent with what he has observed at other housing agencies. Mr. Milkowski added that manual controls are always necessary because inevitably there are non-routine transactions that automated controls cannot account for. Mr. Milkowski also added that the upcoming audit could include a cost-benefit analysis addressing ways to improve the use of automated controls.

Mr. Mattox then inquired how the upcoming audit would test the Agencies' improvements in formalizing its accounting policies and procedures. Mr. Milkowski explained that formalizing these policies and procedures in a manual was a recommendation produced in a previous audit. However, he acknowledged that completing this recommendation would take a significant amount of time and effort. He then stated that Gary Weinstock had provided some completed sections that had been updated for his review. Mr. Mattox asked how long this process would take to complete. Gary Weinstock responded that he has spent a considerable amount of his time working on this initiative. He said while the work is finished for some of the Agencies, more work still needs to be done. He also discussed that he is working to make the different procedures of each Agency more uniform across the Agencies. Mr. Mattox stated that the integration of the Agencies was very important to the Directors and that maybe they could look into providing some additional assistance to help speed up the process of formalizing the Agencies' policies and procedures.

Royce Mulholland then asked for the presenters to explain again the accounting standard changes related to GASB 63 and the Statement of Net Position. His question focused on how the Directors should interpret changes in net position and how changes in net position might impact the Agencies' credit ratings. Vice Chairperson Phillips had a similar question. Mr. Nelson explained that the Statement of Net Position would be replacing the Statement of Net Assets and that this change might alter how a deficit is calculated. Mr. Milkowski emphasized that explanations on this change would be included in the audit report to help facilitate better understanding.

Don Lebowitz then asked whether the changes relating to net position would help improve or weaken the accuracy of the financial statements. Mr. Milkowski responded that the changes were designed to improve the consistency in comparing financial statements.

Mr. Mattox then stressed that additional explanations in the audit report would be very helpful in understanding this change. Mr. Lebowitz added that the Directors might have to rely on staff to help fully understand this change. Vice Chairperson Phillips then thanked Mr. Nelson and Mr. Milkowski for their presentation.

Vice Chairperson Phillips then inquired whether there was any unfinished business. Joanne Hounsell, Senior Vice President and Interim Chief Financial Officer, stated that Gary Weinstock would like to update Vice Chairperson Phillips on a request she made at the previous Audit Committee meeting regarding an audit finding on NSP sub-grantee reporting compliance. Mr. Weinstock explained that the staff contacts every NSP sub-grantee to ask whether they need to have a Single Audit completed; the sub-grantees must certify their response in writing. Mr. Weinstock explained that a sub-grantee must complete a Single Audit if it expends more than \$500,000 in federal funds within a fiscal year. Mr. Weinstock outlined that the Agencies then compare the sub-grantee's response with its own information to determine if any discrepancies exist.

Don Lebowitz asked whether the staff could rely on sub-grantees to determine whether a Single Audit was required. Mr. Weinstock responded that the staff had to rely on the sub-grantees' responses. He then emphasized that the Agencies require the sub-grantees to certify their response in writing. Vice Chairperson thanked the staff for their update.

There being no unfinished business, Mr. SanFilippo moved to adjourn the meeting; Ms. Anderson seconded the motion; and the meeting was adjourned at 11:55 a.m.



Secretary