

NYC School Construction Authority

**Public Authorities
Accountability Act
Annual Report**

Fiscal Year 2007

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**New York City School
Construction Authority**
Financial Statements
**At June 30, 2007 and 2006 and for the
fiscal years then ended**



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Report of Independent Auditors

Members of the Board of Trustees of
New York City School Construction Authority

In our opinion, the accompanying statements of net assets and the related statements of activities present fairly, in all material respects, the financial position of the New York City School Construction Authority (the "Authority") at June 30, 2007 and 2006, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the information.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

October 30, 2007

Management's Discussion and Analysis (Unaudited)

This section of the New York City School Construction Authority's (the "Authority") Annual Financial Report ("AFR") presents management's discussion and analysis of the Authority's financial performance during the Fiscal years ended on June 30, 2007 and 2006.

Overview of Financial Statements

In accordance with the requirements of Governmental Accounting Standard No. 34 ("GASB 34"), the Authority presents herein its Management Discussion and Analysis Report, which is similar to that information that is presented by companies whose stock is publicly traded. This management discussion and analysis is intended to provide an overview and analysis of the Authority's financial activity, and identify the factors contributing to changes in the Authority's financial position.

In fiscal year 2007, the Authority committed over \$3,043 million in total contract obligations for school construction projects as compared to \$1,891 million in fiscal year 2006. The Authority processed approximately \$1,752 million in construction payments and payments related to general and administrative expenses (the "Operating Budget") during fiscal year 2007 as compared to \$1,525 million in fiscal year 2006. This represents a 15% increase from the prior year. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (DoE) for capitalization.

In fiscal year 2006, the Authority committed over \$1,891 million in total contract obligations for school construction projects as compared to \$2,240 million in fiscal year 2005. The Authority processed approximately \$1,525 million in construction payments and payments related to general and administrative expenses (the "Operating Budget") during fiscal year 2006 as compared to \$902 million in fiscal year 2005. This represents a 69% increase from the prior year. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (DoE) for capitalization.

The Authority has prepared and is responsible for the financial statements and related information included in this AFR. A system of internal controls is maintained to provide reasonable assurance that assets are safeguarded and that the financial records reflect only authorized transactions. Management believes that its system of internal accounting controls maintains an appropriate cost/benefit relationship.

In management's opinion, the financial statements present fairly the financial position and results of operations of the Authority in conformity with accounting principles generally accepted in the United States of America.

Results of Operations

The Authority's revenue is entirely funded by capital appropriations made by the City for capital expenditures of the Authority for the fiscal year, including operating and administrative costs. Sources of funding for the appropriations include City and State bonds. The state bonds will total \$1.8 billion pursuant to state legislation passed in April 2006, which created Expanding our Children's Education and Learning Program ("EXCEL").

The increase in revenue from fiscal year 2006 to fiscal year 2007 was \$152 million or 9%. Operating revenues in fiscal year 2007 were \$1,879 million as compared to \$1,727 million in fiscal year 2006. This increase was driven by an increase in capital project expenditures of 15% from fiscal year 2006 to fiscal year 2007.

During Fiscal Year 2007, the SCA awarded six hundred eighty-seven capital improvement projects with a construction value of \$1.3 billion dollars and twenty-nine capacity projects with a construction value of

Management's Discussion and Analysis (Unaudited)

\$1.0 billion dollars. The capacity projects completed as of September 2007 created 4,394 seat openings for the school year.

For Fiscal Year 2008 the SCA is projected to award twenty-six capacity projects with a total construction value estimate of \$940 million dollars and eight hundred thirty capital improvement projects with a total construction value of \$1.4 billion dollars. The SCA is projected to open 18 new schools for September 2008 which will create 11,757 seat openings for the school year.

The increase in revenue from fiscal year 2005 to fiscal year 2006 was \$661 million or 62%. Operating revenues in fiscal year 2006 were \$1,727 million as compared to \$1,066 million in fiscal year 2005. This increase was driven by an increase in capital project expenditures of 69% and an increase in operating budget expenditures of 23.5% from fiscal year 2005 to fiscal year 2006.

The Authority's operating expenses increased \$222 million from fiscal year 2006 to fiscal year 2007. Operating expenses in fiscal year 2007 were \$1,394 million as compared to \$1,172 million in fiscal year 2006. In fiscal year 2007, the value of completed contracts transferred to the Department of Education for capitalization as fixed assets was \$1,276 million as compared to \$972 million in fiscal year 2006. The increase in completed contracts transferred to the Department of Education from year to year was \$304 million. Operating transfers on behalf of the Department of Education decreased by \$81 million from year to year. Operating transfers on behalf of the Department of Education are defined as technology enhancements, reconstruction, and athletic field refurbishment.

The Authority's operating expenses increased \$129 million from fiscal year 2005 to fiscal year 2006. Operating expenses in fiscal year 2006 were \$1,172 million as compared to \$1,043 million in fiscal year 2005. In fiscal year 2006, the value of completed contracts transferred to the Department of Education for capitalization as fixed assets was \$972 million as compared to \$885 million in fiscal year 2005. The increase in completed contracts transferred to the Department of Education from year to year was \$87 million. Operating transfers on behalf of the Department of Education increased by \$42 million from year to year. Operating transfers on behalf of the Department of Education are defined as technology enhancements, reconstruction, and athletic field refurbishment.

Financial Highlights

The Authority's fund balances/net assets in the Government-wide financials increased by \$482 million from fiscal year 2006 to fiscal year 2007. This increase in net assets is principally due to the higher volume of payment activity for ongoing construction projects netted against the transfer of completed projects to the Department of Education and Operating transfers on behalf of the Department of Education. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2007. This transfer of completed contracts allowed for the capitalization of these contracts as fixed assets by the City in the current fiscal year.

The Authority's fund balances/net assets increased by \$564 million from fiscal year 2005 to fiscal year 2006. The increase in net assets in fiscal year 2006 was principally due to the higher volume of payment activity for ongoing construction projects netted against the transfer of completed projects to the Department of Education and operating transfers on behalf of the Department of Education.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2007 by \$2,097. The assets of the Authority exceeded its liabilities at the close of fiscal year 2006 by \$1,615 million. The balance in net assets primarily represents the investment in capital assets for construction work performed at New York City Public Schools. These assets are not available for future spending.

The change in net assets for the Capital Project Fund from fiscal year 2006 to fiscal year 2007 is principally attributable to the increase in construction project activity from year to year.

Management's Discussion and Analysis (Unaudited)

The change in net assets for the Capital Project Fund from fiscal year 2005 to fiscal year 2006 is principally attributable to the Authority's receipt of \$9,315 million in cash from the American International Group for the return of premium for prior years.

Total government-wide assets from fiscal year 2006 to fiscal year 2007 increased by \$612 million. The increase in total assets in fiscal year 2007 was primarily due to an increase in construction in progress. From fiscal year 2005 to fiscal year 2006 total assets increased by \$607 million. The increase in total assets in fiscal year 2006 was principally due to an increase in construction in progress.

Liabilities increased \$129 million from fiscal year 2006 to fiscal year 2007, principally, as a result of an increase in the accounts payable and accrued liabilities and retainage held for construction projects.

Liabilities increased \$44 million from fiscal year 2005 to fiscal year 2006, principally, as a result of increase in accounts payable and accrued liabilities and retainage held for construction projects.

Reconciliation of Net Assets and Change in Net Assets

The change in "fund balances/net assets" is calculated based on the change from prior year between assets and liabilities for the Authority. The change in "net assets" is supported by the net change reported in the Statement of Activities for the Government-wide financials. Amounts reported by the Authority as expenses in the statement of activities are based on transfers between the Authority and the DoE. These transfers represent the costs incurred for completed contracts, pass through expenses, lead paint abatement and skilled trades.

The Authority has no infrastructure assets and no debt issued to fund activities.

As a component unit of the City of New York, the Authority is not required to present a statement of cash flows.

Contacting the NYC School Construction Authority's Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the NYC School Construction Authority's Comptroller's Office, 30-30 Thomson Avenue, Long Island City, NY 11101.

New York City School Construction Authority
Statements of Net Assets
June 30, 2007 and 2006

(in thousands)

	2007			2006		
	Capital Project Fund	Adjustments (See Notes)	Government Wide	Capital Project Fund	Adjustments (See Notes)	Government Wide
Assets						
Cash	\$ 10,211		\$ 10,211	\$ 2,341		\$ 2,341
Temporary investments	10,576		10,576	15,161		15,161
Due from the City of New York	311,411	\$ 21,146	332,557	200,734	\$ 22,429	223,163
Prepaid expenses and other assets	65,667		65,667	45,240		45,240
Securities in lieu of cash retainage	1,353		1,353	1,837		1,837
Fixed assets, net		4,911	4,911		3,920	3,920
Construction in progress, assets held for City of New York		2,071,481	2,071,481		1,593,459	1,593,459
Total assets	<u>\$ 399,218</u>	<u>\$ 2,097,538</u>	<u>\$ 2,496,756</u>	<u>\$ 265,313</u>	<u>\$ 1,619,808</u>	<u>\$ 1,885,121</u>
Liabilities						
Accounts payable and accrued liabilities	\$ 287,535	\$ 17,352	\$ 304,887	\$ 183,903	\$ 11,081	\$ 194,984
Retainage payable	87,285		87,285	60,637		60,637
Accrued annual leave obligation	3,955		3,955	3,551		3,551
Accrued sick leave obligation		2,294	2,294		1,848	1,848
Accrued claims and contingencies		1,500	1,500		9,500	9,500
Total liabilities	<u>378,775</u>	<u>21,146</u>	<u>399,921</u>	<u>248,091</u>	<u>22,429</u>	<u>270,520</u>
Fund balances/net assets						
Total fund balances/net assets	<u>20,443</u>	<u>2,076,392</u>	<u>2,096,835</u>	<u>17,222</u>	<u>1,597,379</u>	<u>1,614,601</u>
Total liabilities and fund balances/net assets	<u>\$ 399,218</u>	<u>\$ 2,097,538</u>	<u>\$ 2,496,756</u>	<u>\$ 265,313</u>	<u>\$ 1,619,808</u>	<u>\$ 1,885,121</u>

The accompanying notes are an integral part of these financial statements.

New York City School Construction Authority
Statements of Activities
Years Ended June 30, 2007 and 2006

(in thousands)

	2007			2006		
	Capital Project Fund	Adjustments (See Notes)	Government Wide	Capital Project Fund	Adjustments (See Notes)	Government Wide
Revenues						
Operating revenues from or due from the City of New York	\$ 1,760,270		\$ 1,760,270	\$ 1,526,726		\$ 1,526,726
Operating revenues for payments made on behalf of Department of Education	118,662		118,662	199,993		199,993
Total revenues	<u>1,878,932</u>		<u>1,878,932</u>	<u>1,726,719</u>	<u>-</u>	<u>1,726,719</u>
Expenditures/expenses						
Capital projects	1,752,396	(1,752,396)		1,525,171	(1,525,171)	-
Fixed assets	2,395	(2,395)		1,511	(1,511)	-
Transfer of completed contracts to the Department of Education		1,275,778	1,275,778		972,101	972,101
Operating transfers on behalf of the Department of Education	118,662		118,662	199,993		199,993
Total expenses	<u>1,873,453</u>	<u>(479,013)</u>	<u>1,394,440</u>	<u>1,726,675</u>	<u>(554,581)</u>	<u>1,172,094</u>
Net revenues	5,479	479,013	484,492	44	554,581	554,625
Other revenues and expenses, net	<u>(2,258)</u>		<u>(2,258)</u>	<u>8,999</u>		<u>8,999</u>
Excess of revenues over expenses	3,221	479,013	482,234	9,043	554,581	563,624
Fund balances/net assets						
Beginning of year	17,222	1,597,379	1,614,601	8,179	1,042,798	1,050,977
End of year	<u>\$ 20,443</u>	<u>\$ 2,076,392</u>	<u>\$ 2,096,835</u>	<u>\$ 17,222</u>	<u>\$ 1,597,379</u>	<u>\$ 1,614,601</u>

The accompanying notes are an integral part of these financial statements.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2007 and 2006

Amounts are in thousands except where otherwise indicated

1. Description of the Entity

The New York City School Construction Authority (the “Authority”), a public benefit corporation and component unit of the City of New York (the “City”), was created by the State of New York Legislature in December, 1988. The Authority’s responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of the New York City public schools. The Authority’s capital projects include: new construction; building additions; major modernization and rehabilitation; construction, reconstruction or renovation of athletic fields, playgrounds and pools; and system replacements, including electrical, plumbing, elevators, roofs, security devices and system installation. Effective July 1, 2002, as a result of a change in legislation, the composition of the Board of Trustees changed such that the Mayor appoints the School’s Chancellor, who serves as the Chairman of the Board of Trustees, and the Mayor also appoints the other two trustees.

The Authority’s operations are funded by appropriations made by the City. Sources of funding for the appropriations include City and State bonds. The state bonds will total \$1.8 billion pursuant to state legislation passed in April 2006, which created Expanding our Children’s Education and Learning Program (EXCEL).

All of the Authority’s net assets are the property of the City and as such have been recorded as net assets - “Total Fund Balances/Net Assets.” Substantially all appropriations are guided by five-year capital plans, developed by the New York City Department of Education (the “DoE”). The City’s appropriations for the five-year capital plan for the fiscal years 2006 through 2009 is \$13.5 billion.

The Authority carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$88,003 and \$82,176 were made in fiscal 2007 and 2006, respectively, for this purpose.

As the Authority represents a pass-through entity, in existence for the sole purpose of capital projects, all costs incurred are capitalized into construction-in-progress. Upon completion of construction in progress projects, the assets are transferred to the DoE.

2. Summary of Significant Accounting Policies

Basis of Accounting

In accordance with accounting principles generally accepted for governmental entities, the financial statements of the Authority are organized on the basis of individual funds and account groups which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Based upon the nature of the operations of the Authority, only a capital projects fund is utilized (a Governmental Fund Type), as all transactions relate to expenditures and resources obtained for the acquisition, construction or improvement of capital facilities. Amounts reflected in the adjustment column of the financial statements of the Authority represent the operational accounts of the Authority and combined with the funds held in the Capital Project Fund form the overall Government-wide Financials.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2007 and 2006

Amounts are in thousands except where otherwise indicated

The fund financial statements of the Authority are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and assets are recognized when measurable and available to finance operations of the current period; expenditures and liabilities are recognized upon receipt of goods and services to the extent that they will be liquidated with expendable available resources. The Capital Project Fund of the Authority has no long-term assets and certain long-term liabilities, such as annual leave, sick leave and claims, are not accrued for in the fund financial statements.

The Government-wide financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred, including long-term liabilities such as annual leave, sick leave and claims.

Fiscal Years

The Authority's fiscal year ends on June 30 of each year. Fiscal years are designated in the notes to the financial statements by the calendar year in which the fiscal year ends ("fiscal 2007" and "fiscal 2006").

Due From the City of New York

Due from the City of New York represents amounts related to total liabilities net of certain assets.

Fixed Assets and Construction in Progress

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets applying the half-year convention. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related life of the lease. Upon the disposition of fixed assets, the cost of the asset disposed and the related accumulated depreciation are removed from the accounts, with any resulting gain or loss included in the statement of activities for the period.

Construction in progress includes such costs as construction contract costs, construction management fees, architecture and engineering fees, administrative costs of the Authority, and certain allocated DoE costs including salaries, related fringe benefits and overhead costs.

Budget versus Actual Revenues and Expenditures

Appropriations are made by the City for capital expenditures of the Authority, including operating and administrative costs. Such appropriations are based on the DoE five-year capital plan. Budgeted commitments and expenditures generally span more than one year and thus do not provide a meaningful basis for comparison of annual expenditures to budgeted amounts.

Statement of Cash Flows

As a component unit of the City, as defined in GASB Statement No. 34, no statement of cash flows is required to be presented.

Annual and Sick Leave

The Authority's full time employees are entitled to annual and sick leave benefits. Annual and sick leave are recorded as expenses in the period in which they are earned. Upon retirement or termination, employees with at least ten years of service will be paid one-half of their accrued sick leave balance, while no pay out will be made to those employees with less than ten years of service.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2007 and 2006

Amounts are in thousands except where otherwise indicated

Annual leave is limited to one year's worth of accrued benefits with any excess at the end of the calendar year paid out to the employees.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. The most significant assumptions and estimates relate to the determination of accrued expenses and the useful lives of assets. Actual results could differ from those estimates.

3. Cash

The Authority maintains cash accounts with a bank which are covered by FDIC insurance up to the maximum allowed by law. At June 30, 2007 and 2006 uninsured cash balances total \$10,111 and \$2,241, respectively. The Authority's management concludes that it mitigates its concentration of credit risk by maintaining all funds with a reputable commercial institution.

Additionally, the Authority maintains a zero balance checking account, which is funded by the City. As checks are presented at the bank, funds are transferred from the City into the zero balance account. Negative book balances, representing checks issued but not yet presented for payment, have been classified as accounts payable in the accompanying financial statements and aggregated \$45,798 and \$28,861 as of June 30, 2007 and June 30, 2006, respectively.

Additionally, at June 30, 2007 and 2006, \$107 and \$42, respectively, is held in escrow pending settlement of liens placed by a subcontractor against a primary contractor.

4. Temporary Investments

In accordance with Statement of Governmental Accounting Standards (SGAS) No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," the Authority categorizes its investments to give an indication of the level of risk assumed by the Authority at year end. The three categories of levels of credit risk are: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name, (2) uninsured and unregistered with securities held by a party other than the Authority or its agent, but in the Authority's name and (3) uninsured and unregistered securities held by a party other than the Authority or its agent, but not in the Authority's name. Pursuant to Section 1741.3 of the Enabling Act, the Authority invests in obligations in accordance with Section 11 of the General Municipal Law. These investments qualify under the first category of credit risk. The Authority's investments are recorded at fair market value. Cost plus accrued interest ("Amortized Cost") approximates the investments' fair market value. Investments are held in the Authority's name by a fiduciary institution.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2007 and 2006

Amounts are in thousands except where otherwise indicated

At June 30, 2007 investments consist of the following:

As of June 30, 2007	Amortized Cost	Fair Market Value
US Government Series Money Market		
Merrimac 4.89%, due on call	\$ 10,282	\$ 10,576
Total	<u>\$ 10,282</u>	<u>\$ 10,576</u>
As of June 30, 2006	Amortized Cost	Fair Market Value
US Treasury Bills, 4.47%, due 10/26/06	\$ 279	\$ 279
US Treasury Bills, 4.89%, due 10/26/06	9,767	9,844
US Treasury Bills, 1.5%, due 10/26/06	5,000	5,038
Total	<u>\$ 15,046</u>	<u>\$ 15,161</u>

5. Securities in Lieu of Cash Retainage and Retainage Payable

The Authority permits contractors to substitute marketable securities in lieu of cash retainage. These securities are maintained by a custodian on behalf of and in the name of the Authority. These investments qualify under the first category of credit risk.

Retainage payable consists of the following:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Securities retainage payable (FMV-2007-\$1,508; 2006-\$2,602)	\$ 1,353	\$ 1,837
Cash retainage withheld	85,932	58,800
Total retainage payable	<u>\$ 87,285</u>	<u>\$ 60,637</u>

New York City School Construction Authority
Notes to Financial Statements
June 30, 2007 and 2006
Amounts are in thousands except where otherwise indicated

6. Fixed Assets

Fixed assets consist of the following:

Asset Category	Estimated Useful Lives	Capital Assets at June 30, 2006	Additions	Dispositions	Capital Assets at June 30, 2007
Leasehold improvements	12	\$ 11,642	\$ 1,201		\$ 12,843
Furniture and fixtures	5-7	5,147	20		5,167
Computer equipment	3	13,850	533	\$ (649)	13,734
Office equipment	3-5	2,411	97		2,508
Computer software	3	3,482	88		3,570
Automobiles	5	2,264	455	(135)	2,584
		<u>38,796</u>	<u>2,394</u>	<u>(784)</u>	<u>40,406</u>
Less:					
Accumulated depreciation		<u>(34,876)</u>	<u>(1,400)</u>	<u>781</u>	<u>(35,495)</u>
Fixed assets, net		<u>\$ 3,920</u>	<u>\$ 994</u>	<u>\$ (3)</u>	<u>\$ 4,911</u>

In the Government-wide Financial Statements, depreciation is capitalized into construction in progress which totaled \$1,400 and \$1,331 for fiscal 2007 and 2006, respectively.

7. Construction in Progress

Expenditures for construction in progress for fiscal 2007 and fiscal 2006 include:

	2007	2006
Outside construction costs	\$ 1,640,086	\$ 1,425,646
Authority payroll and related fringe benefits	78,260	57,429
Authority general and administrative costs	35,454	43,443
Total expenditures	<u>1,753,800</u>	<u>1,526,518</u>
Construction in progress - beginning of year	<u>1,593,459</u>	<u>1,039,042</u>
Total before transfer to DoE during the year	<u>3,347,259</u>	<u>2,565,560</u>
Costs transferred to the DoE during the year	<u>(1,275,778)</u>	<u>(972,101)</u>
Construction in progress - end of year	<u>\$ 2,071,481</u>	<u>\$ 1,593,459</u>

Included in outside construction costs are expenditures for site acquisition, construction, design/engineering, construction management, wrap-up insurance, initial outfitting and other outside construction costs.

During fiscal 2007, the Authority transferred \$1,275,778 to the DoE representing costs associated with substantially completed contracts and administrative costs. During fiscal 2006, the Authority transferred \$972,101 representing costs associated with substantially completed contracts and administrative costs.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2007 and 2006

Amounts are in thousands except where otherwise indicated

8. Transactions with the Department of Education and Operating Transfers

In addition to construction and renovation of school facilities, the Authority makes payments for certain asset purchases made by the DoE. The title for such purchases transfers directly to the DoE. For the years ended June 30, 2007 and 2006 pass-through purchases totaled \$96,042 and \$188,304, respectively, and have been recorded as operating transfers on behalf of the DoE. Included in these amounts are expenditures for technology enhancements, leasehold alterations and reconstruction.

DoE employees performed minor capital projects on behalf of the Authority, as shown below:

	2007	2006
Skilled trades, minor capital projects	\$ 8,486	\$ 9,170
Lead paint abatement	1,932	2,518
DOE administrative staff	12,202	
	<u>\$ 22,620</u>	<u>\$ 11,688</u>

Such costs are also included in “Operating transfers on behalf of the Department of Education.”

During the fiscal years ended June 30, 2007 and 2006, the Authority disbursed \$4,309 and \$4,469, respectively, for construction work performed at non-City schools. These amounts have been recorded as other revenues and expenses, net.

9. Commitments and Contingencies

On September 10, 1999 the Authority entered into a lease agreement for office space which expires in 2012, and is subject to a five-year renewal option at that time. This lease contains scheduled rent escalation clauses which, for the purposes of the Fund financial statements are charged/credited to rent expense on a straight-line basis over the related term of the lease agreement. On a Government-wide basis such charges are capitalized into construction in progress.

Future minimum annual rental payments under the non-cancelable operating lease agreement, having a term in excess of one year are as follows:

2008	\$ 4,721
2009	4,808
2010	4,808
2011	4,808
Thereafter	803
	<u>\$ 19,948</u>

Rent expense, in the Fund financial statements, totaled \$5,401 and \$5,270 in fiscal 2007 and fiscal 2006, respectively.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2007 and 2006

Amounts are in thousands except where otherwise indicated

Purchase orders, contracts and other commitments at June 30, 2007 and 2006 totaled \$3,156 and \$1,930, respectively, and represent the difference between the value of construction-related contracts and the amount incurred to date through the end of the year. At June 30 of each fiscal year, the City has encumbered funds to meet these obligations.

On January 1, 2003, the Authority entered into a contract with Liberty Mutual to provide General Liability (GL) and Worker's Compensation (WC) coverage for the Owner Controlled Insurance Program. This program was for two years and covers all contractors and sub-contractors working on construction projects for the Authority. This policy for GL had a large deductible and was loss retro for WC.

On January 1, 2005 the Authority entered into a contract with AIG to provide General Liability (GL) and Worker's Compensation (WC) coverage for the Owner-Controlled Insurance Program. This program is for three years and covers all contractors and sub-contractors working on construction projects for the Authority. This policy for GL is a guaranteed cost program and for WC is a deductible program. The Authority has recorded an estimated receivable of \$5,511 and estimated accrual of \$8,700 as of June 30, 2007 and 2006, respectively, based on an actuarial assessment of loss activity for WC.

In the normal course of its operations, the Authority has received notices of claims alleging amounts due related to contracts, financial loss, including loss through condemnation, and personal injuries sustained by individuals. After giving effect to available insurance coverage related to such claims, expenses, if any, are recorded in accordance with FASB No. 5. The Authority, with the assistance of the City's Corporation Counsel, has estimated and recorded the liability at June 30, 2007 and 2006 to be \$1,500 and \$800, respectively.

From time to time the Authority is involved in various litigations, claims and assessments ("claims"). The Authority records those claims which they believe to be probable of settlement based upon their best estimate of such settlements and discloses those claims considered to be reasonably possible of settlement along with the range of such possible settlements. As of June 30, 2007, the Authority has estimated that there are reasonably possible claims in the range of \$10 million to \$13 million outstanding.

In the normal course of business, the Authority is required to obtain a Certificate of Occupancy (CO) from the New York City Department of Buildings (DOB) upon completion of construction activity and before the school building can be occupied. Upon obtaining the CO and transferring the building to the Department of Education, insurance risk is passed to the City. In many instances a Temporary Certificate of Occupancy (TCO) is obtained from the DOB instead of a CO and the Authority continues to provide insurance to cover any potential risk until a CO is issued. A TCO is issued in circumstances where the DOB has concluded that the school building may be occupied; however, there remain certain construction matters that must be completed before a CO can be issued. TCOs generally expire after one year. If a TCO expires, and a CO is not issued, the DOB will typically issue a renewed TCO, and the Authority will continue to have insurance risk with respect to such property. As of June 30, 2007, the Authority is not aware of any claims related to the above, and continues to closely monitor the expiration dates of TCOs to obtain renewals, or COs.

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10. Pension Plans, Deferred Compensation Plan and Other Post-Employment Benefits

Pension Plans

Substantially all of the Authority's employees have the option to participate in the New York City Board of Education Retirement System-Qualified Pension Plan ("BERS"), a cost sharing multiple employer defined benefit pension plan. Additionally, certain employees who were previously employed by the City may continue to participate in certain other retirement plans including those of the New York City Employee Retirement System and the Teachers' Retirement System of the City.

Contributions to the pension plans are made by the Authority and the employees. Contributions paid or accrued by the Authority under these plans totaled \$5,383 and \$4,714 for fiscal 2007 and fiscal 2006, respectively. The Authority's contributions are actuarially determined at rates that are designed to accumulate sufficient assets to pay benefits when due. Member contributions are determined by law and vary by Plan. The retirement plans provide pension benefits to retired employees based on salary and length of service. In addition, the pension systems may provide for cost-of-living and other supplemental benefits to qualified retirees and beneficiaries. In the event of disability during employment, participants are entitled to retirement allowances based on satisfaction of certain service requirements and other provisions. The plans also provide death benefits.

Information regarding actuarial data including vested and unvested benefits, assets to fund such benefits, amortization of unfunded actuarial accrued liability, significant actuarial assumptions, date of actuarial valuation, significant changes in the System or other retirement plans or the effect of any such changes and accounting and reporting policies of the System of other retirement plans are not presented herein as BERS and other retirement plans are administered through agencies of the City. Information about these plans is included in the financial statements of the City or the DoE. Copies of plan reports may be obtained from the City or the plan's administrative agency.

The Authority's obligation associated with the Pension Plans is limited to its contributions to the City.

Deferred Compensation Plan

The employees of the Authority are eligible to participate in a deferred compensation plan administered by the City, in accordance with Internal Revenue Code Section 457 (the "Plan"). The Plan is available to all Authority employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable hardship. Pursuant to SGAS No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the City complied with the Internal Revenue Code 457 subsection (g) by establishing a fully funded trust account for employees (including those of the Authority), effective January 1, 1999. Consequently, all assets held under the Plan are restricted to the exclusive use of plan participants and their beneficiaries and are no longer subject to the claims of the City's general creditors.

Other Post-Employment Benefits

Subject to the provisions of the City's retirement system, the Authority provides other post-employment benefits through various welfare funds that cover retirees for various healthcare

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benefits not provided through the basic coverage. Welfare fund benefits may include, but are not limited to, prescription drug coverage and vision and dental coverage.

Effective June 30, 2006, the City early adopted GASB 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". This Statement establishes standards for the measurement, recognition, and presentation of Other Postemployment Benefits (OPEB) expenditures/expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits when provided separately from a pension plan.

The Authority has recorded \$17 million and \$11 million of expenditures and a related liability with respect to its OPEB obligations as of June 30, 2007 and 2006.

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I. Information Technology Comments

1. Information Security

- a. Use of Generic accounts should be monitored and restricted.*

Observation:

While management has responded to last year's comment by implementing individual administrator accounts at the application level the Database Administration staff share one generic system administrator account to perform administrative functions with respect to the Oracle database which hosts the underlying information for the Oracle Financials application.

Implication:

The absence of individual and unique user ids for each person performing a function on the database increases the risk that inappropriate/unauthorized transactions may be processed and the individual responsible for such transactions may not be identified. The risk is heightened when the generic account in use is the system administrator account. This account has READ, WRITE, and UPDATE access to the database and it is used to design the database and implement updates to the database software. The use of this account, without specific individual identifiers, increases the risk that unintentional/intentional updates to data could occur, leaving management without the appropriate evidence to perform an investigation to ascertain the identity of the user of the account/processor of the transactions.

Recommendation:

We recommend that management re-assess these shared accounts and assign unique user IDs to each administrator of the Oracle Database. Further, management should perform a periodic review of all IDs to ensure access is commensurate with job responsibilities.

Management Response:

The generic or default System Administrator account is critical to the daily operations and support of the Oracle Database and Financial System. Disabling this account is not an option and is not recommend by Oracle support. Policies are in place to insure that the password for this account is changed every six months. Access to the Oracle privileged account will be limited and made available to only the Senior DBA Manager within Operations. Controls are in place to automatically log account access and activities. New accounts will be created for the remaining DBA staff to perform change control requests and system administrator related tasks. A periodic review of all user accounts including super user IDs is performed on an annual basis.

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b. Remove terminated users on a timely basis

Observation:

It was noted through examination of the current list of Windows active users that 1 of the 10 terminated users selected for testing still had access to the network during the time of testing. Upon further discussion with IT Management it was discovered that the employee in question follows a different notification process than that employed by the NYCSCA.

Implication:

Failure to remove terminated user access in a timely manner can potentially compromise the integrity of sensitive data.

Recommendation:

We recommend that the notification process is consistently followed for all terminated NYCSCA employees. Additionally we recommend that a process be implemented to periodically review user access to ensure that terminated employees, which may not have been removed as part of the front end preventative control process, be captured and removed by this detective control.

Management Response:

Termination and separation notices for NYCSCA employees are submitted to the IT Service Desk via e-mail from one of three sources: Human Resources; the Inspector General's Office (IG) and Department Directors, Managers, CPO's (for temps and consultants). The Windows account in question was assigned to an IG employee. The IG's office did not notify the Service Desk of this employee's departure in a timely manner. The user account was immediately disabled upon notification.

Security policies are in place to perform a monthly review of user account access. User accounts and access to system resources are disabled if no activity is detected for 90 days or more. We will work with the IG's office to implement a more effective and timely notification process.

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2. Operations

a. Continue to Enhance Disaster Recovery and Business Continuity Plans*

Observation:

A high level DRP/BCP was developed in 2003 but has not been finalized to include detailed recovery procedures nor has the plan ever been tested. Unlike the procedures described in the daily system backup policy, which addresses daily processes, such as a file that may need to be restored in the normal course of business, the detailed recovery procedures with respect to this observation relate to the overall recovery of critical business processes in the event of a disaster (e.g., a flood). In addition, although a Business Impact Analysis (a process that determines the length of time that alternative procedures can be performed before significantly impacting ongoing business operations) effort was conducted in 1998; the organization has not completed the development of a formal Business Continuity Plan for critical business functions at the local level. For example, the plan should include what critical steps in payroll would need to be performed offsite should the payroll center be destroyed.

Implication:

The lack of comprehensive, and tested, disaster recovery and business continuity plans, increases the risk of prolonged and inadequate recovery which may result in financial losses and contract difficulties.

Recommendation:

We recommend that management formalize a comprehensive disaster recovery and business continuity plan (BCP and DRP). In addition, we recommend that the current disaster recovery plan for the SCA IT department be reviewed and updated continually and that such plan include step-by step instructions for recovery of data processing through the use of the Inspector General's office. All plans in place should be tested for operating effectiveness on a regular basis.

Management Response:

The SCA recognizes the importance of having a DRP/BCP plan in place and engaged the services of KPMG to assess IT readiness, recovery options, cost proposal and documented future plans for implementation. Funding for Phase I of DRP/BCP project is included in the SCA's fiscal year 2008 Operating Budget. We have determined that the Inspector General's office is no longer a viable option for serving as a warm recovery site due to office space constraints and expiration of our lease. An alternative site has been identified at the DOE DIIT Data Center located at 2 MetroTech.

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II. Operational Comments

1. Remove Capital Assets that are No Longer In-Use from G/L*

Observation

We noted that the SCA does not remove fully-depreciated capital assets that are no longer in-service from their Gross Capital Asset balance. This is due to the Oracle conversion that occurred during July 2001. Per John Hepburn, all assets that existed on the SCA's books prior to July 2000 were converted in a lump sum amount by fiscal year into their respective category, making it difficult to specifically identify assets that have been disposed of.

Implication

Since capital assets are reported on the financial statements at a net balance, removal of fully depreciated assets would not have an impact on the financial statement balances; however, the gross amount of capital assets does not accurately report the assets that the SCA has on hand and is currently utilizing.

Recommendation

We recommend that the SCA evaluate which assets included in their general ledger are no longer in-use and have been disposed of and remove these assets from the general ledger. This will ensure that the gross capital asset balance reports accurately what the SCA has on hand.

Management Response

Management agrees with this recommendation. As fixed assets are disposed of, a review of the fixed asset sub-ledger is performed and the appropriate journal entry to remove the assets from the sub-ledger is performed. Fixed assets that existed on the SCA's books prior to July 2000 were converted in a lump sum amount by fiscal year into their respective categories. This makes it difficult to specifically identify assets that have been disposed of that were purchased prior to July 2000. The SCA continues to review fixed assets that have been disposed to investigate the possibility of recording a dollar amount adjusting entry to the years prior to July 2000 in the Oracle Financial System. In Fiscal Year 2007, an adjustment was recorded for \$600K.

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2. Improve the Project Manager RFP Submission Process

Observation

As a result of our testing of accounts payable, we noted that project managers submit construction expenses without request for payments (rfp), which are then recorded as accounts payable. The project manager is allowed several weeks to submit the rfps to the accounts payable department for processing. The accounts payable department will not issue a check if an rfp is not submitted.

Implication

The accounts payable balance may be overstated in the event the project manager does not submit the rfp and the NYCSCA does not pay the payment request, or the rfp is submitted without relieving the previously established payable and a new payable is recorded which effectively duplicates the charge and payable

Recommendation

We recommend that the AP department establish a mechanism for monitoring the age of these payables and develop follow-up procedures for any rfps not submitted by the project manager within 30 days.

Management Response

Management agrees with this recommendation. A report will be generated from Expedition aging outstanding RFP's not submitted by the project manager within 30 days. This report will be distributed to the Vice-President of Project Management and the Chief Project Officers for corrective action.

3. Maintain an Analysis of Costs by Project Within Construction-in-Progress

Observation

Construction in Progress ("CIP") consists of hundreds of different projects of varying sizes with an aggregate balance of approximately \$2 billion as of June 30, 2007. The Authority maintains a database (Expedition) which is used for operational purposes and provides various details on each construction project. While the Authority has controls over the recording of assets into and the transfer of assets out of CIP, the present process does not include a financial analysis on a project-by-project basis which reconciles to the aggregate amount reported in the general ledger. During the course of our audit we made inquiries regarding the financial information available through Expedition and were advised that financial data by project is available. The Authority obtained this financial data and noted that there was a difference between the information in Expedition and the amount recorded in the CIP's general ledger. These differences can be attributed to a variety of reasons, such as projects transferred out of one system and not the other, and timing differences in costs recorded as incurred in one system and not recorded on the other.

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Implication

CIP represents the single most significant account of the Authority. Given the amount of activity throughout the year, the number of projects and the manual nature of recording such activity in this account, it is possible that smaller projects might age without being transferred upon completion. While it is unlikely that any amounts material to NYC would not be properly captured given the other cost controls and monitoring that are in effect, without a reconciliation process between Expedition and the general ledger control account, there is a greater chance that errors in either system would go undetected, which could lead to amounts not being transferred upon project completion.

Recommendation

The reconciliation of the financial data in Expedition to the general ledger would be equivalent to the reconciliation of a subledger to a control account and would represent an enhancement in the present controls over the recording of financial data. We recommend that management begin analyzing balances in Expedition to the balances in the general ledger control account, investigate the cause of differences, and maintain an ongoing reconciliation between the two systems on a monthly basis.

Management Response

Management agrees with this recommendation. During the year end audit process a report was generated from Expedition to review balances on Oracle active projects to reconcile against the Oracle General Ledger balance. This report will be refined and utilized during the Fiscal Year 2008 audit to reconcile Expedition to the General Ledger to validate the appropriateness of the CIP balance recorded.

4. Approve Payroll Journal Entries in a Timely Manner*

Observation

During our testing of the Authority's payroll controls, we noted that the payroll journal entries selected from April and May were not approved.

Implication

When payroll entries are not reviewed timely, there is a risk that errors, omissions or misappropriations are undetected and improperly applied to the financial statements.

Recommendation

We recommend that management ensure that all payroll journal entries are reviewed timely and recorded as part of the month-end closing process.

Management Response

Management agrees with this recommendation. All payroll adjusting journal entries, for liabilities and other obligations, are prepared on a timely basis to ensure that errors or omissions are detected and corrected in a timely manner. The journal entries are approved by the Finance Accounting Manager prior to entry into the general ledger. The

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Comptroller's review and signoff is lagging. A monthly close calendar and close process review meeting is being put into place. During the close review process all manual journal entries will be checked to make sure that all of the appropriate approval signatures have been obtained.

5. Review of HR forms for New Hire Employee

Observation

While performing control testing in the payroll cycle we noted that 5 of the Personnel Action Forms (PAF) were not properly signed as reviewed. It is company policy that a signature is required from the HR Manager, Department VP, VP of Administration, or President for all new hire PAFs.

Implication

There is a risk that the new hire's data is not properly entered into the system. This also increases the risk of an employee's salary being calculated incorrectly and resulting in a misstatement in the Payroll Expense.

Recommendation

We recommend that all Personnel Action Forms be properly signed off for approval in accordance with company policy.

Management Response

Management agrees with this recommendation. The payroll unit is not authorized to make any changes without the appropriate documentation signed by the Director of HR, appropriate Departmental VP, and the VP of Administration. An HR Manager, not involved in payroll supervision, receives a payroll personnel change report issued by ADP and verifies that the correct information has been entered in relation to the HR Personnel Action Form. Management will review the current procedures in place and initiate changes to correct any deficiencies in order to minimize any potential exposure or risk.

6. Perform Thorough and Timely Property and Equipment Analysis

Observation

We noted that the property and equipment roll forward analysis are not being prepared and reviewed in a timely manner. In some instances, the date of the review is as last as several months after the month end.

Implication

When such roll forward analyses are not reviewed in a timely manner, there is a risk that errors may go undetected and may be inappropriately carried forward to subsequent months.

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Recommendation

We recommend that the SCA review the property and equipment roll forwards shortly after month end in order to reduce the risks of errors.

Management Response

Management agrees with this recommendation. All property and equipment roll forwards are prepared on a timely basis to ensure that errors or omissions are detected and corrected in a timely manner. During the monthly close review process the property and equipment roll forward will be checked to make sure that all of the appropriate approval signatures have been obtained. The Comptroller's review will be more timely.

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III. Site Visit Comments

1. Improve Site Security and Safety

Observation

- P.S./I.S. 260 – One (1) security guard is on site during non-working hours as per contract requirements; however, despite this, substantial problems with graffiti and some equipment theft had occurred. The SCA Project Officer indicated that graffiti was still an issue due to the project being easily accessible from the fire escape of an adjacent building. The SCA is in the process of trying to address the access issue to prevent further graffiti occurrences, but it appears a resolution to this problem will not be forthcoming on a timely basis.

Implication

The lack of a timely resolution to this site access finding could result in continued breach of project security, unauthorized access, property damage and could also result in serious injury to those persons entering the site illegally. This could subject the SCA to subsequent legal actions resulting in substantial additional costs and project delays.

Recommendation

The SCA should take timely and appropriate steps to prevent unauthorized access to the site and expedite the review and implementation of the proposed solutions to this problem currently being explored.

Management Response

In response to the breach of project security, the contractor has increased the frequency of security patrol and installed permanent doors at all the exterior entrances and roof access points. All accesses to the building are locked after normal work hours.

The bulletin has been issued to the contractor to install a new 12' security fence at the roof next to the adjacent building as a permanent measure to prevent any future break-in after the building has been occupied.

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2. Enhance Project Cost Reporting & Tracking

Observation

Based on conversations with project management, none of the projects visited were expected to have cost overruns in excess of the project budget as of the date of our site visit.

However, we did note some discrepancies regarding the cost per square foot (Cost/SF) data for the projects visited. The chart below captures the relevant information for hard costs only (the GC's cost) for each project and breaks out the Cost /SF in various ways.

School:	P.S. 829R Staten Island, NY	Sunset Park HS Bklyn, NY	P.S./I.S. 260 Corona, NY	Bronx Coalition HS Bronx, NY	
General Contractor:	AMCC	DeMatteis	Hunter Roberts	Bovis	Mean Average
Orig. Contract Amt. (Hard Cost Only)	\$ 22.1 M	\$ 77.4 M	\$ 43.8 M	\$ 57.8 M	\$ 50.2 M
Approved CO's to Date	\$ 0.4 M	\$ 0.1 M	\$ 0.4 M	\$ 0.02 M	\$ 0.9 M
Current Contract Amt.	\$ 22.5 M	\$ 77.5 M	\$ 44.2 M	\$ 57.8 M	\$ 50.5 M
Current Contract Amt.	\$ 22.5 M	\$ 77.5 M	\$ 44.2 M	\$ 57.8 M	\$ 50.5 M
Anticipated Cost-to-Complete (incl. forecasted costs)	\$ 23.3 M	\$ 79.7 M	\$ 44.6 M	\$ 59.5 M	\$ 51.8 M
% of Cost over Orig. Contract Amt.	5.0%	3.0%	1.8%	3.0%	3.2%
Total Building SF	47,704 SF	197,598 SF	110,667 SF	148,358 SF	126,082 SF
Total Cost / SF (PwC)	\$488 / SF	\$403 / SF	\$403 / SF	\$401 / SF	\$424 / SF
Base Building Cost / SF (using SCA's estimate)	\$460 / SF	\$379 / SF	\$363 / SF	\$386 / SF	\$397 / SF

(Note: The SCA's target for base building costs (excluding site specific items) for projects bid in 2005 (PS/IS 260Q) was \$368 and for projects bid in 2006 (other three schools in sample) was \$375.)

The total anticipated Cost /SF as determined by PwC for the projects we visited ranged from \$401/SF to \$488/SF. We did note that P.S. 829R is not a typical building project due to the type of facility, the existing construction, extent of renovation required, and the historic landmark status of the building; all of which potentially increased the cost of construction. However; the other projects are typical projects and the anticipated total cost for these are all higher than the SCA's target Cost /SF as indicated in the note below the table.

We understand the SCA has a process in place that compares the "base building" cost for the projects as bid to the SCA's target Cost / SF criteria for "base building" costs only, excluding site specific costs (items considered to be over and above the typical project base building cost). Our review of supplemental information provided to us after our

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initial site visits (i.e. SCA's Cost / SF summary sheets, SCA's independent cost estimate, and GC's bid breakdown), confirmed that the Cost / SF for "base building" costs (using the SCA's estimate) for three (3) of the four (4) projects visited was slightly higher than the Cost /SF target established by the SCA (see note below table) for projects bid in 2006 - the period during which these projects were bid.

We concluded that some of the assumptions made by the SCA regarding the value of site specific costs could not be validated by the GC's bid breakdown because the bid detail provided by the GC did not correspond directly to the site specific categories identified by the SCA in its independent cost estimate. We also noted that in every instance, the SCA's independent cost estimate was lower than the GC's bid amount, and this variance ranged from 4% to 13% lower.

The SCA does not require the GC to submit their bids in a manner that would enable them to perform a direct comparison of the estimated costs vs. the actual GC's costs associated with the site specific items. Although the SCA has advised us that there are discussions and reviews of the bids between the SCA estimate and the successful GC bidder after bids were received on these projects, the SCA uses its independent cost estimate as the basis in determining the allocation of total actual costs to site specific costs and there is no third party documentation to affirm that this cost allocation reflects the actual site specific costs discussed with the GC. Since the basis for the determination of actual base building cost is also based on this allocation, such costs may not be representative of the actual costs incurred by the SCA for base building costs.

Considering the overall variance between the SCA's independent estimate and the GC's bid as noted above, and the lack of sufficient third-party verifiable information to compare the estimated value of the site specific items to the GC's bid value for these same items, the estimated costs associated with the site specific items may not reflect the actual costs for such site specific items and by extension, the base building cost estimate per SF may not reflect the actual base building cost variance. The SCA calculates the percentage of the site specific items vs. the total estimated cost in the SCA's independent estimate and then applies that same percentage to the GC's bid to determine the value of the site specific items in the GC's bid.

Implication

The inability to perform a direct comparison of SCA estimates vs. GC bid costs associated with site specific items could skew the Cost / SF information related to base building costs.

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Recommendation

The SCA should consider modifying its methodology for determining the Cost/ SF and tracking same vs. the target criteria. The SCA can request in its bid solicitations that the GC bids be broken out as required to conform to their Cost / SF format, which would enable them to confirm the site specific costs as bid. In addition, the SCA may wish to consider requesting the GC to break out their pay applications to include the site specific items and their associated costs.

Management Response

Management agrees with this recommendation. The SCA will improve its project cost evaluation process by being more aggressive in requiring bidders to submit bid breakdowns that will allow the SCA to compare the contractor's costs more directly to the SCA's estimates. Beginning in fiscal year 2008, the SCA requires bidders to submit this information in a comparable format within 24 hours of bid opening. The SCA will modify the Bid Breakdown Comparison Sheet which compares our estimate with the contractor's by adding a comments column to document why discrepancies exist.

There are potential limitations to the ultimate effectiveness of this analysis for cost comparison purposes. Hard bid contractors often develop their bids in ways that will not permit this comparison.

The SCA does not see the value of requiring the contractor to breakout pay applications in this format and will not implement this part of the recommendation.

3. Enhance Accountability for Design Errors & Omissions

Observation

We noted numerous requests for information (RFIs) processed on each project visited. We could not determine how many of these resulted in added cost to the projects because the RFI logs did not indicate this information. We did note, however, that many of the change requests processed to date on each project were the result of design errors and omissions as indicated on the change request logs. For example –

- P.S. 829R – 166 RFIs issued to date and approximately \$22,000 in changes was identified as being the result of design errors and/or omissions.
- Sunset Park HS – 166 RFIs issued to date, and project is still only in excavation / foundation phase. To date, approximately \$150,000 in changes was identified as being the result of design errors and/or omissions.
- P.S. / I.S. 260 – 385 RFIs issued to date and approximately \$213,000 in changes were identified as being the result of design errors and/or omissions.
- Bronx Coalition HS – 322 RFIs issued to date, but only approximately \$25,000 in change orders have been processed on the project. Of this amount, only approximately \$5,000 was identified as being the result of design errors and/or omissions.

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Implication

Numerous RFIs and substantial amounts attributable to design errors and/or omissions may be indicative of problems related to the quality of the contract documents produced for these projects such as incomplete drawings and specifications, non-conforming architectural, structural, mechanical/electrical drawings or issuing documents that did not conform to code and/or SCA requirements.

Recommendation

We understand from our subsequent discussions with SCA management that the SCA has a process in place for identifying and tracking design errors and omissions and that cost recovery efforts are taken when the error and/or omission impacts life safety or represents a code violation. However, cost recovery efforts are not taken on other errors and/or omissions unless they exceed 4% of the contract value. Based on the existing procedures, cost recovery on a \$50M contract would not be initiated unless the cost of errors and/or omissions exceeds \$2M, which is a significant amount. The SCA should consider re-evaluating its current policy to undertake cost recovery efforts and base that decision on other factors (i.e. substantial amount of change orders coded to E&O, costs exceeding a certain dollar threshold amount, etc.) rather than basing its decision to pursue cost recovery solely on exceeding 4% of contract value.

With regard to RFIs, the SCA should consider implementing additional project reviews on projects with extensive RFIs to determine whether or not there is a quality control issue related to the project documents produced by the architect/engineer (A/E). This may in turn, warrant more extensive design and constructability reviews of project documents prior to bidding certain projects.

Management Response

Due to the extensive amount of staff resources needed to pursue cost recovery, the SCA believes that the 4% threshold is appropriate. However, we will expand our focus in this area by implementing other measures to address errors and omissions change orders. Specifically, we are enhancing monthly change order reporting and our performance evaluation process to identify and address errors and omissions issues by design firm. We are also implementing a new procedure in which A&E will participate in coding change orders. All of these measures will improve our ability to take appropriate measures in response to errors and omissions change orders.

4. Enforce GC's Compliance w/ Contract Terms

Observation

PwC noted two instances where the GC was not in compliance with contract terms.

On Sunset Park HS, the SCA Project Officer noted that DeMatteis (General Contractor) has not provided a full-time project manager on site as required by contract. The issue was deemed to be critical due to circumstances and project needs that are not currently

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being met. As a result, this issue was escalated to the SCA senior Project Officer responsible for this project for appropriate action. According to the SCA project officer the issue has not been satisfactorily resolved and a reasonable explanation has not been provided as to why DeMatteis has not complied with this contract requirement.

On P.S. /I.S. 260, many unilateral change orders (COs not accepted by Hunter Roberts) have been issued because of a disagreement between the GC and the SCA on which items can be properly included in CO pricing. Reportedly, Hunter Roberts has insisted on including various mark-ups on COs for GC field supervision, Subguard insurance coverage, etc. that the SCA has denied.

Implication

Failure to comply with contract terms and conditions can adversely affect the project in various ways. Failure to provide the requisite project administration and oversight, and the lack of decision-making capabilities on the part of the GC's field superintendent can result in delays to the project, improper work and added costs associated with corrective work that may be required due to lack of proper oversight.

Regarding the issuance of unilateral change orders, this can adversely affect the cash flow to the GC and subcontractors because the GC can only bill the SCA 70% of the value of the unilateral COs. This in turn, could lead to some subcontractors pulling back on manpower because of non-payment for CO work performed, which ultimately could impact the project's schedule.

Recommendation

The SCA should take timely and appropriate steps to meet with senior executives at both GC firms, discuss the issues and resolve same as quickly as possible to avoid potential problems on these projects and avoid future claims that could result if these issues remain unresolved.

Management Response

At Sunset Park, the SCA has met with senior management of the GC firm about full time on-site project management. The assigned full time GC project manager conducts most business from the DeMatteis home office and spends the great majority of his time there. A full time superintendent is on the job site. As the project progresses, on site PM presence is expected to increase.

At P.S. /I. S. 260, the SCA has met with the senior management of the GC firm in an attempt to resolve the issue related to the unilateral change orders. However, the meeting did not produce any meaningful improvement since the GC firm insists on reserving the right to file future claims that the SCA has denied.

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June 30, 2007
Report to Management

5. Avoid Implementation of Revised SCA Standards on Active Projects

Observation

On Bronx Coalition HS, the SCA Project Officer noted a change to the SCA design standards related to damp proofing on the exterior masonry back-up block. This change had been made well after the project was underway, but the SCA mandated that this change be incorporated on this project. The SCA notified the GC of this requirement and the GC is in the process of compiling the appropriate change request and time extension.

Implication

The project was estimated to be approx. 2 months ahead of schedule at the time of our site visit, but because of the need to implement the change noted above the exterior masonry work is being delayed and will adversely affect the project's schedule. It is also possible that this change may hinder the GC's efforts in completing the building envelope before the winter season, which could result in added costs for temporary heat.

Recommendation

The SCA should re-evaluate their protocols for implementing design standards on active projects and carefully evaluate the risk and associated impact of a potential change to design standards, before mandating its implementation on an active project.

Management Response

A&E will implement an improved procedure regarding issuance of Bulletins, and specifically regarding the implementation of changes or additions to our design standards (Design Requirements, Standard Specs, Standard Details, Room Planning Standards) on projects that are in design or construction.

It is A&E's intention to require the implementation of new or revised standards on projects that are in design and construction only when the changes can be easily accommodated, or when not implementing the new/revised standards would result in a dysfunctional end product, or would result in the need for new project immediately after construction completion.

According to the new procedure, A&E will advise PM and QA/QC of a new bulletin prior to its issuance to allow for general discussion and specific implementation decisions on a project-by-project basis.

Public Authorities Accountability Act Officer's Certification

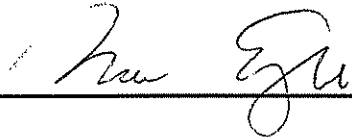
I, Sharon L. Greenberger, President and CEO, and I, Marianne Egri, Vice President of Finance & Information Technology, to the best of our knowledge and beliefs, make the following certifications regarding the financial reports included in the New York City School Construction Authority's Public Accountability Act Annual Report: (a) the information provided therein is accurate, correct, and does not contain any untrue statement of material fact; (b) does not omit any material fact which, if omitted, would cause the financial statements to be misleading in light of the circumstances under which such statements are made; and (c) fairly presents in all material respects the financial condition and results of operations of the Authority as, of, and for, the year ended June 30, 2007.



7.9.08

Sharon L. Greenberger, President & CEO

Date



7/9/08

Marianne Egri, Vice President of Finance & Information Technology

Date

FY07 Projects and Key Accomplishments

Design and Construction

Total construction expenditures were \$1.24 billion in FY 07. As of June 30, 2007, the SCA had 608 projects worth \$2.3 billion in construction. There are currently 771 projects in scope and design with an estimated construction value of \$2.2 billion.

In FY07, the SCA awarded 29 contracts for new schools and additions valued at \$1 billion. The SCA also awarded 687 contracts for Capital Improvement Projects totaling \$1.29 billion. Total capital commitments in FY07 exceeded \$3 billion.

Among the major projects completed in FY07 (September, 2006 and September, 2007 school openings) are:

- High School for Construction Trades, Engineering and Architecture, Queens, 992 seats (\$44,900,000)
- Bathgate High School, Bronx, 1313 seats (\$50,120,000)
- Early Childhood Center@ St. Thomas Aquinas, Brooklyn, 372 seats (\$5,466,000)
- PS/IS 210, Manhattan, 503 seats (\$28,890,000)
- PS/IS 263, Queens, 630 seats (\$39,513,000)
- IS 113, Bronx, 192 seats (\$4,483,000)
- IS 189, Bronx, 916 seats (\$45,889,000)

Major projects awarded in FY07 and currently under construction include:

- PS/IS 44 Annex, Staten Island, 882 seats (\$50,539,000)
- Monroe High School Annex, Bronx, 1144 seats (\$57,790,000)
- PS/IS 237, Brooklyn, 1154 seats (\$56,587,000)
- Mott Haven Educational Campus, Bronx, 2310 seats (\$157,820,000)
- Family Court High School Complex, Brooklyn, 1173 seats (\$56,565,000)
- PS/IS 366, Brooklyn, 506 seats (\$34,444,000)
- Metropolitan Educational Campus, Queens, 1911 seats (\$158,000,000)
- PS/IS 798, Brooklyn, 700 seats (\$50,875,000)
- PS 128. Queens, 648 seats (\$49,475,000)
- Gateway High School, Queens, 805 seats (\$70,877,000)
- PS 113, Queens, 446 seats (\$40,475,000)
- Bronx Studio & Writers PS/IS, 652 seats (\$46,432,000)
- Gregorio Luperon High School, Manhattan, 492 seats (\$34,742,000)

Other Accomplishments

Green School Design Standards

The New York City School Construction Authority has developed the NYC Green Schools Guide and Rating System that will be used to guide the sustainable design, construction and operation of new schools, modernization projects and school renovations, and to achieve compliance with Local Law 86 of 2005 (New York City's Green Building Law). Local Law 86 established a set of demanding sustainable standards for public design and construction projects, and makes NYC one of the first and largest school districts in the nation to have sustainable guidelines required by law.

On March 13, 2007, the Director of the Office of Environmental Coordination, on the behalf of the Mayor, determined that the NYC Green Schools Rating System is no less stringent than LEED New Construction, version 2.2, for the achievement of a LEED Certified rating (the minimum required by Local Law 86 for school projects).

Designing and building sustainable schools by following the NYC Green Schools Guide will utilize standards best suited to school buildings in New York City, and allow "building green" to be integrated with the SCA's other core mandates of designing and building high quality projects, within aggressive timeframes, as cost effectively as possible.

Restructuring

Twenty (20) large high school campuses are being transformed into smaller learning campuses through multi-year projects in which individual schools are provided with independent learning spaces and share common facilities.

Enhanced Operational Efficiencies

- Improved prequalification process
- Increased competition among top-tier firms
- Aggressive outreach to M/W/LBE Community
- Improved payment performance
- Improved change order and close-out
- Enhanced use of the Internet

Strategic Initiatives

Development of improvement areas for the agency, including a new centralized training function, improvements to the Primavera implementation for better project controls, a refined costing system for capital planning, and improved transparency and increased communication with stakeholders.

Labor Law Compliance

Development of an electronic certified payroll reporting system for contractors. Training and pilot program for 40+ contractors is currently underway.

**REAL PROPERTY OWNED BY THE NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
AS OF JUNE 30, 2007**

PROPERTY DESCRIPTION	DEPT. OF FINANCE ADDRESS	ZIP CODE	BOROUGH	BLOCK	LOT	ESTIMATED MARKET VALUE	STATUS
P.S. 15-X AND SCHOOLYARD	2180 ANDREWS AVENUE NORTH	10453	BRONX	3217	1	132,000	FACILITY OCCUPIED
	2190 ANDREWS AVENUE NORTH	10453	BRONX	3217	4	64,300	
	2194 ANDREWS AVENUE NORTH	10453	BRONX	3217	6	74,600	
	2202 LORING PLACE NORTH	10453	BRONX	3224	9*	30,200,000	
P.S. 54-X	2703 WEBSTER AVENUE	10458	BRONX	3278	14	20,700,000	FACILITY OCCUPIED
SITE FOR P.S. 169-X	3771 BOSTON ROAD	10466	BRONX	4894	1	525,000	IN CONSTRUCTION
P.S. 171-X	1701 FULTON AVENUE	10457	BRONX	2930	75*	9,090,000	FACILITY OCCUPIED
P.S. 172-X	1380 MERRIAM AVENUE	10452	BRONX	2535	10*	5,180,000	FACILITY OCCUPIED
SITE FOR P.S./I.S. 189-X	3550 BIVONA STREET	10475	BRONX	5263	70*	12,300,000	IN CONSTRUCTION
	3441 STEENWICK AVENUE	10475	BRONX	5263	112	195,000	
	3441 STEENWICK AVENUE	10475	BRONX	5263	115	80,000	
	2189 REEDS MILL LANE	10475	BRONX	5263	116	108,000	
	REEDS MILL LANE		BRONX	5263	190	91,100	
	REEDS MILL LANE		BRONX	5263	191	138,000	
P.S. 226-X AND ANNEX	1900 SEDGWICK AVENUE	10453	BRONX	3222	100	9,690,000	FACILITY OCCUPIED
I.S. 306-X	50 WEST TREMONT AVENUE	10453	BRONX	2862	14*	32,000,000	FACILITY OCCUPIED
SITE FOR P.S./I.S. 338-X	1780 MACOMBS ROAD	10453	BRONX	2866	100	3,530,000	IN DESIGN
SITE FOR M.S./H.S. 362-X	901 EAST 228 STREET	10466	BRONX	4864	35	662,000	IN CONSTRUCTION
H.S. FOR LAW, GOV'T & JUSTICE	224 EAST 163 STREET	10451	BRONX	2445	6*	23,500,000	FACILITY OCCUPIED
SITE FOR NEW SETTLEMENT SCHOOL	1526 INWOOD AVENUE	10452	BRONX	2859	20	680,900	IN DESIGN
	1535 JEROME AVENUE	10452	BRONX	2859	58	116,000	
	1533 JEROME AVENUE	10452	BRONX	2859	61	16,170	
	JEROME AVENUE		BRONX	2859	65	141,100	
	1521 JEROME AVENUE	10452	BRONX	2859	68	570,000	
	1511 JEROME AVENUE	10452	BRONX	2859	73	35,700	
	1509 JEROME AVENUE	10452	BRONX	2859	77	1,580,000	
	WEST 172 STREET		BRONX	2859	90	219,100	
SITE FOR PS/IS & CHARTER SCHOOL	900 VAN NEST AVENUE	10462	BRONX	4091	1	2,040,000	IN DESIGN
BRONX SCHOOL FOR VISUAL ARTS	BRONXDALE AVENUE		BRONX	4290	32	34,200	FACILITY OCCUPIED
	20 MERCY COLLEGE PLACE	10462	BRONX	4290	36	669,000	

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PROPERTY DESCRIPTION	DEPT. OF FINANCE ADDRESS	ZIP CODE	BOROUGH	BLOCK	LOT	ESTIMATED MARKET VALUE	STATUS
	50 MERCY COLLEGE PLACE	10462	BRONX	4290	48	7,540,000	
	ANTIN PLACE		BRONX	4290	100	39,900	
I.S. 2-K	697 PARKSIDE AVENUE	11226	BROOKLYN	5050	51	3,959,000	FACILITY OCCUPIED
	PARKSIDE AVENUE		BROOKLYN	5050	80	54,600	
	PARKSIDE AVENUE		BROOKLYN	5050	81	108,000	
P.S. 7-K	21 CRESCENT STREET	11208	BROOKLYN	4106	27	143,000	FACILITY OCCUPIED
	CRESCENT STREET		BROOKLYN	4106	28	96,200	
	850 JAMAICA AVENUE	11208	BROOKLYN	4106	38	342,000	
	852 JAMAICA AVENUE	11208	BROOKLYN	4106	39	22,500,000	
P.S. 12-K	1438 ST MARK'S AVENUE	11233	BROOKLYN	1457	32	13,859,800	FACILITY OCCUPIED
P.S. 22-K AND SCHOOLYARD	662 CLASSON AVENUE	11238	BROOKLYN	1148	49	86,700	FACILITY OCCUPIED
	443 ST MARK'S AVENUE	11238	BROOKLYN	1148	50*	22,745,000	
P.S. 24-K	975 4 AVENUE	11232	BROOKLYN	701	1	15,120,000	FACILITY OCCUPIED
P.S. 66-K	832 ROCKAWAY PARKWAY	11236	BROOKLYN	8129	60	18,582,000	FACILITY OCCUPIED
P.S. 69-K	6302 9 AVENUE	11220	BROOKLYN	5735	32	22,400,000	FACILITY OCCUPIED
SITE FOR P.S./I.S. 237-K	34 AVENUE P	11204	BROOKLYN	6618	1	1,140,000	IN CONSTRUCTION
	1631 STILLWELL AVENUE	11223	BROOKLYN	6618	57	143,000	
	1629 STILLWELL AVENUE	11223	BROOKLYN	6618	58	103,000	
	1627 STILLWELL AVENUE	11223	BROOKLYN	6618	59	103,000	
	1625 STILLWELL AVENUE	11223	BROOKLYN	6618	60	103,000	
	1623 STILLWELL AVENUE	11223	BROOKLYN	6618	61	103,000	
	1619 STILLWELL AVENUE	11223	BROOKLYN	6618	62	103,000	
	1617 STILLWELL AVENUE	11223	BROOKLYN	6618	63	103,000	
SITE FOR P.S./I.S. 366-K	963 EAST 107 STREET	11236	BROOKLYN	8215	12	2,275,000	IN CONSTRUCTION
	EAST 107 STREET		BROOKLYN	8215	21	88,000	
P.S. 376-K	271 WILSON AVENUE	11237	BROOKLYN	3287	1*	16,400,000	FACILITY OCCUPIED
SITE FOR P.S./I.S. 798-K	694 JAMAICA AVENUE	11208	BROOKLYN	4102	19	649,000	IN CONSTRUCTION
	716 JAMAICA AVENUE	11208	BROOKLYN	4102	27	76,300	
	26 RICHMOND STREET	11208	BROOKLYN	4102	33	517,500	
	30 RICHMOND STREET	11208	BROOKLYN	4102	35	127,000	
	34 RICHMOND STREET	11208	BROOKLYN	4102	36	782,000	

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SITE FOR SUNSET PARK HIGH SCHOOL	156 34 STREET	11232	BROOKLYN	688	26	3,582,500	IN CONSTRUCTION
	932 4 AVENUE	11232	BROOKLYN	688	44	390,000	
SITE FOR ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL	510 WAVERLY AVENUE	11238	BROOKLYN	2011	39	1,630,000	IN DESIGN
I.S. 5-Q	KNEELAND STREET		QUEENS	2449	45	483,000	FACILITY OCCUPIED
	50-40 JACOBUS STREET	11373	QUEENS	2450	17	40,283,000	
P.S. 28-Q	109-04 47 AVENUE	11368	QUEENS	2003	23	10,835,000	FACILITY OCCUPIED
P.S. 43-Q	112 BEACH 29 STREET	11691	QUEENS	15820	1*	32,000,000	FACILITY OCCUPIED
P.S. 58-Q	72-50 GRAND AVENUE	11378	QUEENS	2802	1	17,100,000	FACILITY OCCUPIED
	57 AVENUE	11373	QUEENS	2802	82	1,220,000	
	72-13 57 AVENUE	11378	QUEENS	2802	90	2,640,000	
	72-24 GRAND AVENUE	11378	QUEENS	2802	94	1,010,000	
	72-28 GRAND AVENUE	11378	QUEENS	2802	96	673,000	
	72-30 GRAND AVENUE	11378	QUEENS	2802	97	814,000	
I.S. 137-Q	109-15 98 STREET	11417	QUEENS	9172	1	10,900,000	FACILITY OCCUPIED
P.S. 161-Q	124-02 101 AVENUE	11419	QUEENS	9491	1	19,600,000	FACILITY OCCUPIED
GLEN OAKS SCHOOL CAMPUS	76-10 COMMONWEALTH BOULEV	11375	QUEENS	7870	60	49,675,000	FACILITY OCCUPIED
	74-30 COMMONWEALTH BOULEV	11426	QUEENS	7870	70	41,090,000	
	74-20 COMMONWEALTH BOULEV	11426	QUEENS	7870	72	70,800,000	
	74-10 COMMONWEALTH BOULEV	11426	QUEENS	7870	74	38,280,000	
P.S. 212-Q	34-24 83 STREET	11372	QUEENS	1443	19	24,000,000	FACILITY OCCUPIED
P.S. 222-Q	86-15 37 AVENUE	11372	QUEENS	1460	34	9,800,000	FACILITY OCCUPIED
P.S. 228-Q	93-01 NORTHERN BOULEVARD	11372	QUEENS	1423	57	7,319,550	FACILITY OCCUPIED
I.S. 230-Q	34-07 73 STREET	11372	QUEENS	1260	1	24,000,000	FACILITY OCCUPIED
P.S. 239-Q	17-15 WEIRFIELD STREET	11385	QUEENS	3561	1	22,800,000	FACILITY OCCUPIED
P.S. 242-Q	136-11 31 ROAD	11354	QUEENS	4371	173	8,990,000	FACILITY OCCUPIED
SITE FOR P.S. 244-Q	137-20 FRANKLIN AVENUE	11355	QUEENS	5137	43	999,000	IN CONSTRUCTION
	138-02 FRANKLIN AVENUE	11355	QUEENS	5137	54	1,290,000	
SITE FOR P.S. 245-Q	1726 STOCKHOLM STREET	11385	QUEENS	3428	12	771,000	IN CONSTRUCTION
	1728 STOCKHOLM STREET	11385	QUEENS	3428	13	780,000	

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	384 SENECA AVENUE	11385	QUEENS	3428	16	772,000	
P.S. 253-Q	12-95 CENTRAL AVENUE	11691	QUEENS	15541	1	19,215,000	FACILITY OCCUPIED
P.S. 254-Q	84-40 101 STREET	11418	QUEENS	9177	23	27,090,000	FACILITY OCCUPIED
SITE FOR P.S./I.S. 260-Q	40-09 99 STREET	11368	QUEENS	1608	1	9,572,000	IN CONSTRUCTION
	99-20 ROOSEVELT AVENUE	11368	QUEENS	1608	8	87,700	
	ROOSEVELT AVENUE		QUEENS	1608	14	33,300	
SITE FOR P.S. 262-Q	96 STREET		QUEENS	8975	100	2,340,000	IN CONSTRUCTION
SITE FOR P.S./I.S. 263-Q	222-22 JAMAICA AVENUE	11428	QUEENS	10813	5	7,870,000	IN CONSTRUCTION
	222-40 JAMAICA AVENUE	11428	QUEENS	10813	15	2,788,000	
P.S. 268-Q	175-02 JAMAICA AVENUE	11432	QUEENS	10215	1	15,015,000	FACILITY OCCUPIED
P.S. 270-Q	233-15 MERRICK BOULEVARD	11422	QUEENS	12973	1	140,414,800	FACILITY OCCUPIED
SITE FOR P.S. 273-Q	88-01 102 STREET	11418	QUEENS	9288	101	2,630,000	IN DESIGN
	102-12 88 AVENUE	11418	QUEENS	9288	106	480,800	
LONG ISLAND CITY HIGH SCHOOL	12-02 BROADWAY	11106	QUEENS	529	2*	78,435,000	FACILITY OCCUPIED
HS FOR CONSTRUCTION TRADES	102-21 95 AVENUE	11416	QUEENS	9381	44	23,373,751	FACILITY OCCUPIED
GATEWAY TO HEALTH SCIENCES SECONDARY SCHOOL	150-89 155 STREET	11432	QUEENS	9707	48	4,900,000	FACILITY OCCUPIED
SITE FOR METROPOLITAN AVENUE SCHOOL CAMPUS	METROPOLITAN AVENUE		QUEENS	3886	800	10,200,000	IN CONSTRUCTION
TOWNSEND HARRIS HIGH SCHOOL	149-11 MELBOURNE AVENUE	11367	QUEENS	6507	200	30,770,000	FACILITY OCCUPIED
P.S./I.S. 210-M	1864 AMSTERDAM AVENUE	10031	MANHATTAN	2084	29	500,000	IN CONSTRUCTION
P.S. 178-M	12 ELLWOOD STREET	10040	MANHATTAN	2171	36	8,850,000	FACILITY OCCUPIED
SITE FOR P.S./I.S. 263-M	186 SHERMAN AVENUE	10034	MANHATTAN	2226	41	1,610,000	IN DESIGN
P.S. 6-R	555 PAGE AVENUE	10307	STATEN ISLAND	7760	1*	26,400,000	FACILITY OCCUPIED
SITE FOR I.S./H.S. 43-R	ESSEX DRIVE		STATEN ISLAND	2450	80	55,400	IN CONSTRUCTION
	ESSEX DRIVE		STATEN ISLAND	2450	85	2,060,000	

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P.S. 58-R/PORION OF WESTPORT STREET	RICHMOND HILL ROAD	10314	STATEN ISLAND	2410	316	572,000	STREETBED BUILT

NOTES:

Estimated Market Values were obtained from the New York City Department of Finance's Final Assessment Roll for 2007-2008

Asterisks () denote tax lots in which the New York City School Construction Authority holds a partial fee interest.*

Code of Business Ethics

Ethics Guidance for Working Partners of the New York City School Construction Authority

Introduction

The New York City School Construction Authority (the "Authority"), a public-benefit corporation, requires its members, officers and employees, as well as the contractors, consultants and vendors with whom the Authority interacts -- its Working Partners -- to adhere to the highest ethical standards.

The Authority is governed by Chapter 68 of the New York City Charter ("Conflicts of Interest"). The Authority also requires that all of its members, officers and employees perform their official duties consistent with the requirements of the New York State Public Officers Law, and other applicable laws, rules, and regulations, and comply with the Authority's own internal policies.

The Authority encourages and supports a fair, open and honest business relationship with its Working Partners based on quality, service, price, and business integrity. The Authority believes that this objective can be achieved only if the Authority's employees and its Working Partners adhere to a high standard of ethical business practices.

Conduct of Authority Members, Officers and Employees

Authority employees are required to conduct business with our Working Partners in a fair and professional manner. Chapter 68 provides the legal framework governing the conduct of Authority employees. The Authority also has its own internal Code of Ethics to which the members of the Authority must adhere.

Ethics Programs

In addition to considering technical competence and financial capability, the Authority assesses the corporate integrity of its Working Partners through its prequalification process. Contractors seeking to do business with the Authority must first successfully be screened through this prequalification in order to be able to participate in bidding on Authority contracts and projects.

The Authority encourages its Working Partners to advance and support ethical business conduct and practices among their respective directors, officers and employees, preferably through the adoption of corporate ethics awareness training programs and written codes of conduct, copies of which are available through the Authority.

To promote ethical business practices, our Working Partners are expected to:

- Furnish all goods, materials and services to the Authority as contractually required and specified;
- Submit complete and accurate documents to the Authority as required;
- Refrain from seeking, soliciting, demanding or accepting from the Authority any information, whether verbal, written or in electronic form, that gives them an unfair advantage over a competitor;
- Refrain from engaging in any activity or course of conduct that restricts open and fair competition on Authority-related projects and transactions;
- Refrain from engaging in any activity or course of conduct with Authority employees or its agents that constitutes a conflict of interest, in fact or in appearance;
- Refrain from offering any gifts, gratuities or anything of value to Authority employees in excess of \$1.00
- Refrain from engaging in any other conduct that violates Chapter 68, or any other laws, regulations, or Authority policies; and
- Report to the Authority any activity by an Authority employee or Working Partner that appears to violate Charter 68 or any other laws, regulations, or Authority policies.

No Gifts to Authority Employees

Section 73(5) of the Public Officers Law expressly prohibits any firm or its agents, either doing or seeking to do business with the Authority, from directly or indirectly offering or giving any gift having more than a nominal value to an Authority employee under circumstances in which it:

- could be reasonably inferred the gift was intended to influence the employee in the performance of his or her official duties, or
- could reasonably be expected to influence the employee in the performance of his or her official duties, or
- was intended as a reward for the employee's official action.

Such prohibited gifts include, in addition to cash, a service, a loan, travel, lodging, meals, refreshments, entertainment, a discount, forbearance or a promise.

Because gifts from Working Partners can *per se* be inferred to be intended to influence or reward official action, gifts of greater than nominal value would be prohibited by Section 73(5). *See also Chapter 68 Section 2604(b)(5).*

Although Authority employees are governed by the New York State Public Officers Law and the Chapter 68 of the New York City Charter, the Authority has adopted a stricter standard in its own internal policy, prohibiting an Authority employee from accepting anything of value in excess of one dollar (\$1.00) from any individual or entity seeking to do business with the Authority. Our Working Partners should not offer to Authority

employees gifts of *any* value, and Authority employees are obligated to immediately report any such violation. Violations of the gift provisions may be grounds for contract termination and/or referral for civil action or criminal prosecution.

Employing Relatives of Authority Employees

Although Working Partners may employ relatives of Authority employees, the Authority must be made aware of such circumstances as soon as possible, preferably in writing, to ensure a conflict of interest situation does not arise. The Authority reserves the right to request that its Working Partners modify the work assignment of an Authority employee's relative where a conflict of interest, or the appearance thereof, is deemed to exist. Under no circumstances should an Authority employee have an involvement in the solicitation for or hiring of a relative by a Working Partner.

Hiring of Authority Employees by a Working Partner

Our Working Partners may hire former Authority employees; however, Chapter 68 prohibits the former employee from appearing before the Authority for a period of one (1) year following the employee's separation from Authority service. In addition, former Authority employees are subject to a "lifetime bar" which prevents them from working on or receiving compensation for services regarding any transaction in which they participated in a personal and substantial manner or which was under their active consideration during their tenure with the Authority.

Questions

Questions relating to these guidelines should be directed to the Authority's Vice President & General Counsel at (718) 472-8220.

When in doubt, please seek guidance.

Assessment of the Effectiveness of Internal Control Structures and Procedures

1. Describe the review process used by the Authority during FY07 to assure that internal controls were evaluated regularly

- Departments complete self-evaluations based upon internal training and instruction. Departments identify key functions, potential risks, related controls, and recommended policy changes as appropriate.
- The SCA continuously assesses its risk management policies and procedures.
- The SCA continuously updates and improves its project and financial tracking systems.
- The SCA's Information Technology department continues to create and enhance its web site and computer operations to increase the information base to staff, contractors, and consultants.
- The SCA's Internal Auditor performs internal audits of business operations and programs.
- The financial statement audits are conducted by the SCA's independent certified public accounting firm which includes a review of major internal accounting controls.

2. List all high-risk activities and indicate which were evaluated during FY07

- The SCA reviewed its internal financial and accounting controls which were also evaluated by the SCA's internal auditor and independent certified public accountants as part of the audit of the SCA's financial statements. The internal auditors performed audits of the SCA's accounting, project management, capital planning process, bid and award procedures, change order review, approval and payment processes, and audits of other programmatic activities based on perceived risk. In addition, the SCA prepares a Fraud Prevention Assessment each year that is submitted to the New York City Department of Investigation for its review. The SCA is also preparing an updated Disaster Recovery/Business Continuity Plan.

3. **Identify the significant deficiencies revealed through the FY07 review process. Outline the actions taken or planned to eliminate the deficiencies. Highlight the most important internal control improvements made during the fiscal year.**
 - Although no significant deficiencies were identified during FY07, the above-referenced Fraud Prevention Assessment highlighted areas of potential concern and set forth the improvements that had been made, including

4. **Describe the monitoring system installed by the SCA to verify that corrective actions are taken. Discuss the extent to which electronic data processing systems are used to track steps taken to reinforce internal controls.**
 - The SCA's Director of Internal Audit tracks the implementation of recommendations that have been accepted by management and reports to the Vice President & General Counsel and the Audit Advisory Committee. This report sets forth dates by which recommendations must be implemented, and any delay in doing so and the reasons therefore.

5. **Summarize specific actions the SCA has taken to install a compliance testing program.**
 - Formal compliance testing of internal controls is performed during internal audits within various departments. Controls are also reviewed through management's oversight of SCA business functions and operations. In addition, the SCA's actions are subject to audit by its outside auditor.

6. **Discuss the methods used in FY07 to provide internal control education and training to keep the SCA staff aware of the needs for internal controls.**
 - Training sessions by each department are periodically conducted to highlight the nature and types of potential risks and the identification of internal controls in place. The involvement of SCA staff in the internal audit process serves as a reminder of the need to assess continually the adequacy of internal controls and compliance with them.

7. Describe measures to sustain the effectiveness of the internal control program during FY07. Include information on reorganizations and other revisions in the program to enhance operations.

- The recommendations contained in the internal audits of the SCA's operations and construction program assure the sustained effectiveness of the SCA's internal control efforts [add material from OIG anti-corruption letter]

8. For those agencies required by BPRM Item B-350 to have an internal audit function, demonstrate how that function complies with requirements of the Internal Control Act and professional IA standards.

- Although it is not required by law to do so, the SCA maintains an internal control function. Cheryl Hood-Francis is the Director of Internal Audit and reports to the Audit Advisory Committee and administratively to the SCA's Vice President & General Counsel. Prior to her current position, Ms. Hood-Francis was the Director of Capital Planning for the New York City Department of Education.

The IA function is independent from the processing of transactions and other management activities that would impair its objectivity. Each of the members of the Audit Advisory Committee is independent of and has no employment relationship with the SCA. All controls and procedures recommended by the internal auditor must be implemented by the senior manager in the organization responsible for the specific issues addressed in a particular internal audit.

The IA department develops and follows a risk-based audit plan. When audits are conducted, internal controls are evaluated, weaknesses are identified, and recommendations for corrective action are made. The internal audit staff maintains adequate work papers and conducts repeat audits as appropriate for significant matters, functions, and processes.

A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties

- The IA function is independent from the processing of transactions and other management activities that would impair the independence of the IA Department and the Audit Advisory Committee. Further, any recommended controls and control

enhancements are the responsibility of the managers in the organization that are responsible for the related functions. Those managers must implement the appropriate procedures and controls for all audit recommendations that are made.

A demonstration of how the IA function conducts its operations in accordance with professional IA standards by responding to the following questions:

a. Does the IA function develop and follow a risk based audit plan? Yes

b. When audits are conducted, are internal controls evaluated, weaknesses identified and recommendations made to correct those weaknesses? Yes

c. Does the IA function maintain adequate work papers? Yes

d. Does the IA function conduct follow-up audits? Yes, for significant where follow-up prior to a subsequent cycle is appropriate.

9. Outline the specific actions taken to implement recommendations included in the Internal Control Task Force report, “*The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards.*”

- See responses above. In addition, Internal Audit is planning to conduct a self-assessment and customer satisfaction survey to assure that its services are in compliance with SCA internal control policies and procedures.

Internal Control Certification

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New York City School Construction Authority

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I hereby certify that the New York City School Construction Authority (“Authority”) has complied with the following provisions regarding its internal controls:

- A. Establish and maintain guidelines for a system of internal controls for the Authority. Internal control guidelines communicate the management and programmatic objectives of the Authority to its employees and provide the methods and procedures used to assess the effectiveness of the Authority’s internal controls in supporting these objectives.
- B. Establish and maintain a system of internal controls and a program of internal control review for the Authority. The program of internal control review shall be a structured, continuing and well-documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the Authority’s internal controls.

- C. Make available to each officer and employee of the Authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of the Authority shall be expected to comply. Such statements shall emphasize the importance of effective internal controls to the Authority and the responsibility of each officer and employee for effective internal controls.
- D. Designate an internal control officer, who shall report to the head of the Authority or her designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item.
- E. Implement education and training efforts to ensure that officers and employees within the Authority have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.
- F. Periodically evaluate the effectiveness of the internal audit function.


Sharon L. Greenberger
President & CEO

July 7, 2008