

**Date:** March 29, 2016

**To:** Audit Committee Members

**From:** Thomas Concadoro  
Vice President & Controller

**Subject:** Non-Audit Services Engagement - KPMG

SUMMARY

Staff requests the Audit Committee's approval to engage KPMG to provide consultation services to the Authority relating the potential transfer of the New York State Canal Corporation (the Canal Corporation) to the Authority including financial due diligence and integration services. Financial due diligence and integration are specialized and complex fields and KPMG has the expertise and experience to provide advice to the Authority as to the provisions of the potential Canal transfer. KPMG's services for this project will be supervised by a partner in their Deal Advisory & Financial Due Diligence practice and staff assigned will be different than the staff performing our financial statement audit. Compensation for these services will be paid to KPMG at discounted rates quoted within their letter of engagement.

BACKGROUND

On January 13, 2016, the Governor submitted, as part of his Executive Budget Proposal, legislation authorizing the transfer of the New York State Canal Corporation (the "Canal Corporation") from the New York State Thruway Authority (the "Thruway Authority") to the Authority. The proposed legislation authorizes the Authority to transfer moneys, property and personnel to the Canal Corporation and also authorizes the Authority to issue debt for the purposes of financing the construction, reconstruction, development and improvement of the New York State Canal system. The Authority has begun to assess the nature and scope of the Canal Corporation's operations, financial condition, assets, liabilities and capital and operating needs and the potential impact of the proposed transfer on the Authority. The proposed legislation provides that the transfer will be effective on January 1, 2017. However, such legislation also authorizes the Authority to reimburse the Thruway Authority for Canal System expenses for the interim period of April 1, 2016 through January 1, 2017.

## DISCUSSION

The Authority has contracted with KPMG LLC for independent accounting services including annual audits of the Authority's financial statements and related reporting on internal controls and investments. The contract contains a provision for engaging KPMG to perform other non-audit services which may include, but are not limited to reviews and advice regarding taxes internal process and procedural matters. Prior to engaging KPMG for non-audit services, the contract requires that Authority's audit committee approve the each non-audit service engagement. In addition, New York State Public Authorities Law Section 2802 (5) prohibits the independent accountant who audits an authority's financial statement from performing non-audit services without prior written approval of the Authority's audit committee. The Authority's Audit Committee Charter includes within its Functions and Powers section the responsibility to "assure the independence of the independent accountants by approving any non-audit work for the Authority and examining the accountant's relationship with the Authority".

## RECOMMENDATION

It is requested that the Audit Committee authorize the engagement of KPMG LLC to provide services associated with the potential transfer of the New York Canals Corporation to the Authority, under the existing contract with KPMG for independent accounting services.