

June 12, 2018

CONFIDENTIAL

The Board of Directors
Roosevelt Island Operating Corporation

Dear Board Members:

We have completed our audit of the financial statements of the Roosevelt Island Operating Corporation (RIOC) for the year ended March 31, 2018. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. This report is intended solely for the information and use of the Board of Directors, management and others within RIOC. We now present for your consideration our comments and recommendations based upon observations made during our audit.

Uniform Guidance Procurement Requirements

RIOC will begin receiving substantial Federal assistance that requires changes in its procurement policies and procedures. These policy changes are in effect beginning with the fiscal year commencing April 1, 2018.

In December 2013, the US Office of Management and Budget (OMB) issued comprehensive grant reform rules titled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.” With that issuance, there were important updates made to specific areas of Uniform Guidance. Procurement is one of the areas that had significant changes. For all non-Federal entities, the implementation date for the procurement standards 2 CFR 200.317 through 200.326 will start for fiscal years beginning on or after December 26, 2017.

Some of the general standards over procurement include:

- Every non-federal entity receiving federal awards must have documented procurement procedures that reflect federal law, Uniform Guidance standards, and any state regulations.

- Entities should focus on the most economical solution during the procurement process, and must avoid using federal funds for the acquisition of unnecessary items. Organizations are encouraged to consider the use of shared services and intergovernmental agreements to foster greater economy and efficiency.
- Written conflict-of-interest policies are required. No employee or agent of the entity may participate in the selection, award, or administration of a contract funded by federal grant dollars if he or she has an actual or apparent conflict of interest.
- The organization must document the procurement steps and activities required to be completed. This includes the basis for the type of procurement, contract type, and the basis for the contractor selection and price.
- Ultimately, the recipient of federal awards must maintain an appropriate level of oversight to ensure that contractors perform in accordance with the terms of their contract.

The Uniform Guidance also requires full and open competition. Contractors who assist in drafting specifications for requests for proposals (RFP) must be excluded from competing for those opportunities. In addition, RFP specifications cannot have unreasonable requirements that are meant to limit competition. Also, procurements must be conducted in a manner that prohibits the use of geographical preferences in the evaluation of proposals, except in certain case where federal law explicitly requires or encourages geographic preference or when contracting for architectural and engineering services, provided that specifying geographic location leaves an appropriate number of qualified firms.

The Uniform Guidance outlines five methods of procurement:

- Micro-purchase: Purchases where the aggregate dollar amount does not exceed \$3,000 (or \$2,000 if the procurement is construction and subject to Davis-Bacon). When practical, the entity should distribute micro-purchases equitably among qualified suppliers. No competitive quotes are required if management determines that the price is reasonable.
- Small purchase: Includes purchases up to the Simplified Acquisition threshold, which is currently \$150,000. Informal purchasing procedures are acceptable, but price or rate quotes must be obtained from an adequate number of sources.
- Sealed bids: Used for purchases over the Simplified Acquisition Threshold, which is currently \$150,000. Under this purchase method, formal solicitation is required, and the fixed price (lump sum or unit price) is awarded to the responsible bidder who conformed to all material terms and is the lowest in price. This method is the most common procurement method for construction contracts.

- Competitive proposals: Used for purchases over the Simplified Acquisition Threshold, which is currently \$150,000. This procurement method requires formal solicitation, fixed-price or cost-reimbursement contracts, and is used when sealed bids are not appropriate. The contract should be awarded to the responsible firm whose proposal is most advantageous to the program, with price being one of the various factors.
- Noncompetitive proposals: Also known as sole-source procurement, this may be appropriate only when specific criteria are met. Examples include when an item is available only from one source, when a public emergency does not allow for the time of the competitive proposal process, when the federal awarding agency authorizes, or after a number of attempts at a competitive process, the competition is deemed inadequate.

We recommend that RIOC review its procurement practices to ensure that contracts are in compliance with these rules. While we have outlined many of the key requirements above, it is important to fully read the procurement sections of the Uniform Guidance, located at 2 CFR 200.317 through 200.326, to ensure compliance.

Previous Recommendation

We reviewed the disposition of recommendations included in our letter dated June 8, 2017. The following is a summary of the action taken by RIOC with regard to our recommendations.

Information Technology Concerns

Data Recovery - RIOC implemented a short-term solution and continues to research a Disaster Recovery solution that will best meet the needs of the Corporation.

Cyber Security - RIOC has reviewed and adapted the several Cyber Policies based on NYS ITS Security Policies. Copies of these policies can be found on the Corporation's file server.

Disaster Recovery and Business Continuity - RIOC is researching the Technology portion of Business Continuity that includes:

- Data protection - offsite backup storage or cloud base solutions.
- Provide reliable network that never fails with comprehensive planning, development and testing.
- Disaster/Recovery plan to ensure recovery of data within the timeframe of the plan.

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We take this opportunity to thank the staff of the Roosevelt Island Operating Corporation for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

EFPR GROUP, CPAs, PLLC

A handwritten signature in black ink, appearing to read "D. E. Zimmerman", written in a cursive style.

Douglas E. Zimmerman, CPA
Partner
Chief Operating Officer