MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Thursday, July 24, 2014 – 11:00 a.m.

Present: Mr. Anthony J. Simonetta, Mr. Matthew Bergheiser, Donald Generals, Ed.D. (via telephone), Mr. Todd E. Murphy, Mr. James P. Spiewak, Jill Garfinkle Weitz, Esq., Mr. Robert Lucas; and representing Grant Thornton: Mr. Brian Page, Ms. Elizabeth Ireland, and Mr. Anthony B. Scott (via telephone).

Not Present: Mr. Jeremiah White

AGENDA – PUBLIC SESSION

1. 2013-2014 Audit Process (Information Item):

Attachment A contains the formal presentation made by Mr. Brain Page, Engagement Partner, and Ms. Elizabeth Ireland, Senior Manager, from Grant Thornton. Mr. Page began his discussion by informing the committee that his firm was 90% complete in their planning procedures. He then walked through the required communications and identified potential risk areas.

A question was raised by Mr. Simonetta to see if Grant Thornton had a chance to review KPMG's work papers from last year. Mr. Page indicated that they had and everything went well as part of their planning process.

Mr. Page then briefly discussed the significant audit areas as outlined in Attachment A. He described the audit methodology, audit approach, timeline, as well as management's responsibilities and those charged with governance. He also discussed the opinions that Grant Thornton will issue regarding the general financial statement and the College's Federal A-133 audits. Mr. Page asked committee members if there were any other areas that the committee would like the audit team to focus. Committee members affirmed that they were satisfied with the proposed audit scope.

Ms. Ireland walked through the timeline and described what procedures they had analyzed and discussed in the planning work that had been completed. She indicated that they had already pulled their sample for financial aid testing as part of the A-133 audit. This was accomplished in advance to determine if there were any compliance findings, so the College would have time to review, understand and potentially remediate for next year. Mr. Page indicated that he would provide conclusions in the next few weeks. Ms. Ireland and Mr. Page then focused their discussion on areas of fraud and asked committee members if they were aware of any areas of fraud. Both Mr. Simonetta and Mr. Bergheiser affirmed they were not aware of any fraud issues.

Mr. Simonetta discussed a letter that PIDC had received from the City of Philadelphia, where they are now required to have their auditors perform subsequent events procedures. Mr. Page stated that he had received a similar letter for the College. This is to ensure that no significant events transpire up until the City issues their financial statements in January. Grant Thornton is required, under group auditing standards, to perform these procedures up until a certain date because the College is a component unit of the City of Philadelphia.

Mr. Spiewak raised a question about the College awaiting approval from PDE for its renovations of its Biology Labs in the West Regional Center, Northwest Regional Center, and Main Campus. Since it is the College's intention to obtain a loan to fund these renovations, Mr. Spiewak questioned if this would be the type of transaction that needs to be reported. Mr. Page affirmed. However, he did indicate that the City will set a dollar scope on what type of transactions will need to be communicated. Therefore, since the City has so many component units, when they aggregate them as a whole, this event may not be material to the City and therefore, they may not disclose.

Ms. Ireland continued to walk through the different areas the audit team will focus on during the audit; specifically, tuition revenue recognition, accounts receivables, state and city appropriations, state and federal contracts, investments and auxiliary income. The audit team will perform reasonableness tests on all income to ensure proper accounting. The Information Technology (IT) control review related to the College's ERP system was completed and is currently under review. However, no control deficiencies were identified.

Mr. Page and Ms. Ireland discussed several new GASB accounting pronouncements. Specifically, they focused on a couple key areas: GASB 65 which reclassifies previously reported assets and liabilities as deferred inflows and deferred outflows of resources. Although the reporting will not have a great impact, it will change the reporting for debt refunding and debt issuance costs. This will occur for debt issuance costs that were previously amortized over the life of the debt. Now the College will have to expense all deferred financing fees, which will need to be restated from prior years.

GASB 68 relates to accounting for pensions with State and local governments. The College has faculty (29 employees) who participate in PSERS and SERS. Beginning with the next fiscal year, the College will now have to recognize an actuarial calculated liability on its financial statements.

Mr. Page discussed several different major projects that GASB is currently working on that may impact the College at a future date, which is outlined in Attachment A. One key GASB project that he highlighted is a potential change to the GASB 45 Post Employment Benefit Liability, which may now be shown differently on the College's Net Position in the 2016-17 year. Currently, the Post Employment Benefit Liability for the College is phased in over 30 years. This new project may require institutions with Post Retirement Benefits to recognize the entire liability all at once.

Mr. Murphy raised the point that if this is implemented, the College will be faced with negative net assets on its Statement of Net Position. Mr. Page reminded the committee that all Bond covenants will need to be looked at closely to see if there is liquidity or an unrestricted net asset clause which may be impacted if this were to be implemented. The College's rating agency, Moody's, has indicated they understand the reporting impact of GASB 45 on governmental entity financial reports. To date, this yearly increasing accrued liability has not had a negative impact on the current bond rating (A1).

Mr. Page discussed some tax and regulatory updates that may be coming forward. Mr. Spiewak mentioned the College is looking into other sources of revenue, so this may have an affect going forward. New business activities will need to be further discussed from a legal perspective to see how the correct business structure will need to be set up to deal with the tax and financial reporting implications. All accounting and regulatory rules would have to be looked at closely to see how this could affect future Bond issues.

Mr. Page concluded the presentation by pointing out industry updates in Attachment A. He asked the committee and management to review and determine if there is anything we would like discussed and/or focused on at the next audit committee meeting. Dr. Generals asked that the Committee needs to discuss new revenue streams and more Corporate Solution's focus on partnerships and career training in the future. Mr. Page affirmed and stated that he would be happy to sit down with the President and any members of management to discuss further.

2. **2013-2014 Budget Update (Information Item)**:

Mr. Spiewak provided a handout (Attachment B) to the committee, which was previously presented at the May 2014, Business Affairs Committee. The Controller's Office is in the final stages of the year end close. However, the information provided in the handout is based on assumptions at that time. In reviewing what has been recorded to date, revenues are close to the May, 2014 projection. Actual expenses, however, appear to be much less than earlier projections in the budget. There are a number of areas throughout the budget where divisions and departments did not spend out their budgets by June 30th. Mr. Spiewak noted that final expenses will be about one million dollars less than the May, 2014 projection, with the wildcard of the results of the self-funding insurance claims, as well as the amount of the College's insurance reserve adjustment. Mr. Spiewak explained that all indications are that the College budget will improve significantly from what was listed in the handout.

3. **Internal Audit Plan 2014-2016 Year (Information Item)**:

Mr. Lucas provided an update on the 2013-2014 and presented the 2014-2016 internal audit plans. He indicated that last year's plan was very ambitious and that several of the items are still in process. Mr. Lucas discussed the reasons for the number of audits completed versus planned. Specifically, he was not sure of the approach by his predecessor or the time budgeted for audits by his predecessor and that many of the areas had never been audited in the past. Therefore, findings in some of these areas had added much more time then was allotted. In addition, he was asked by senior management to look at a number of other areas during the year that were not in the original plan. Some of these areas had findings which meant these were good topics to request. One request came from the Audit Committee, and the other came from Senior Management. Mobile devices brought out control issues, as well as data management concerns. There are significant steps needed to be taken to fix these technological concerns, which is why they are still open items on the Audit Matrix. Mr. Lucas mentioned that because of some delayed responses from the audits, he modified his approach mid-year. Mr. Lucas now provides draft responses, and suggested timelines for management to consider. This provides management the opportunity to review, edit and understand the type of responses, as well as timelines and action plans Internal Audit requires. This has become a more efficient procedure and a better approach.

Mr. Simonetta asked for confirmation that some of the items labeled as low risk from last year's plan had dropped off. Mr. Lucas indicated that some items carried over into the 2014-16 plan are still low risk because there is a management concern or concerns that they have not been audited in a while. Mr. Lucas explained that the new 2014-2016 plan now incorporates two years at the suggestion of Dr. Judith Gay, which includes many carryover items from the previous year. This new internal audit plan will enable more areas to be looked at in a longer period. Many institutions have several year internal audit plans. However, he believes that the two year approach is optimal for this institution. Summaries of audits completed will be provided at each meeting for the committee.

Mr. Simonetta asked if Grant Thornton received copies of the audit reports. Mr. Page indicated yes and that they evaluate to determine if there is any change in their risk assessment. Another step in the internal audit process this year was to share copies of all reports with the President's cabinet for discussion. This allows senior staff to know what may be going on in other areas and why certain procedures need to be changed for internal control reasons. Mr. Lucas explained that a 1 or 2 page executive summary is prepared to share with the cabinet.

Mr. Lucas concluded his discussion by referring to the follow up matrix in Attachment C, which represents a list of ongoing and completed audit items.

4. September Meeting Date (Information Item):

The next meeting is scheduled for September 26, 2014 at 12:00 p.m. in the Isadore A. Shrager Board Room, M2-1. Lunch will be provided.

TEM/lmh
Attachments

cc: Donald Generals, Ed.D.
Mr. Robert Lucas
Mr. James P. Spiewak
Jill Garfinkle Weitz, Esq.
Representing Grant Thornton: Mr. Brian Page and Ms. Elizabeth Ireland