

**MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Monday, June 13, 2011 – 12:00 Noon**

Present: Mr. Richard Downs, presiding *via* teleconference; Ms. Varsovia Fernandez, Mrs. Dorothy Sumners Rush, Mr. Harold A. Honickman, Mr. Jeremiah White, Dr. Stephen M. Curtis, Jill Garfinkle Weitz, Esq. Mr. Todd E. Murphy, Ms. Elaine Kosieracki; and representing KPMG: Ms. Chris Chepel and Mr. Arthur Ayres.

AGENDA – PUBLIC SESSION

(1) 2010-11 Audit Process (Information Item):

Introductions were made by Ms. Chris Chepel, Engagement Partner and Mr. Arthur Ayres, Engagement Manager from KPMG, LLC. Mr. Ayres provided a brief overview of his background. He transferred from the New York area to Philadelphia and has eight years of experience in the private sector. In 2006, he joined KPMG working with a number of colleges and universities. He holds a B.A. in Accounting and a Masters in Economics from Brooklyn College. He obtained his CPA designation in 2006.

Ms. Chepel began her discussion by referring to the handout in Attachment A and briefly described their Client Service Team. Ms. Chepel noted that KPMG was very happy to have Mr. Ayres as part of the College's Audit team this year. Ms. Chepel highlighted the responsibilities of the auditor as well as management's responsibilities. She explained that there are required auditor communications that must be put in writing which are listed in the handout.

Mr. Downs asked how big the staff was this year. Ms Chepel stated that there would be one senior associate along with one to two staff people depending on the workload that week. However, if the manager felt additional staff was needed, they would adjust accordingly.

Mr. Ayres briefly discussed the scope of the audit which is contained in Attachment A. He described the deliverables that are part of their scope and walked through their auditing procedures. He discussed the General Financial Statement audit, the single A-133 audit, State Enrollment Agreed Upon Procedures audit and the State Department of Community Economic Development (DCED) audit. Mr. Downs asked what the DCED audit was. Mr. Murphy explained that this was facilitated through Congressman Brady as a grant that was provided to the union in order to settle the strike back in 2007. Since this grant period will close on June 30th of this year, the College must supply a separate audit as to how the money was disbursed. Ms. Chepel stated that the State requires the audit to be completed 120 days after the end of the grant period. She further explained that there will be an additional audit cost of \$5,400.00. Mr. White asked if the College was reimbursed by the union. Dr. Curtis responded that this was only a pass through grant. The union dictated to us how the money was to be disbursed. Ms. Fernandez asked if the cost of the audit was covered by the grant. Mr. Murphy responded that the cost was not built into the grant. Mr. Honickman felt that \$5,400.00 seemed high as this was merely as pass through for the union. Ms. Chepel described KPMG's procedures for auditing this grant. Management prepares a schedule of revenue and expense, which KPMG will audit and then express a separate opinion just on that grant. Ms. Chepel stated to the

Committee that she would be happy to reduce the fee. Mr. White agreed that the fee should be cut.

There was further discussion concerning the audit fee. Ms. Sumners-Rush stated that the College did not have any say on how the money was to be spent and therefore could not build in the audit fee. Ms. Weitz explained that these funds were supposed to be for the operational needs of the union. The procedure for the disbursement was that the union provided the College with a list of employees and the amount to be paid. That list was given to payroll and was subsequently disbursed with the College's normal payroll cycle as "bonus money." Ms. Fernandez stated that she was concerned about the DCED grant with regards to College policy and having the grant pay for the cost of the audit. She indicated that there should be an allowance for this built into the grant. The College should be able to predict the cost ahead of time. Dr. Curtis replied that these issues were not here four years ago. The College was only informed that money would be provided. We did not know how it was coming or that there would be any associated costs for the College. He further explained that he did not want this money as part of the formal union settlement. The bonus funds were a separate set of moneys provided politically outside the terms of the collective bargaining agreement.

Ms. Weitz stated that there was a side letter separate from the union agreement to be processed through the College's payroll. Mr. White asked if the College had any other DCED audits. Mr. Murphy replied that this was the only one.

Mr. Ayres continued discussing the audit plan timeline. He described the planning meeting and the various milestones that will need to be accomplished. He discussed that his audit team will begin the interim phase on Monday June 20th and will be back for final phase of field work on August 15th, where they will conduct more substantive testing. The audit will involve looking at processes and controls as well as a review of all IT procedures. The final results of the general financial statement audit will be presented to the Audit Committee at the September 27, 2011 meeting.

Ms. Chepel explained that KPMG's IT Audit staff has already been working on reviewing the IT controls and procedures and expects them to complete their testing by June 30th. In addition, at the September meeting KPMG will discuss the determination of the major programs for this year's single (A-133) audit. The Committee will agree to what programs will be audited and what the audit cost will be. At the February 2011 Committee meeting, there was considerable discussion about the Federal changes to the definition of a major program and the increased audit costs associated. Mr. White asked if there were any changes in the accounting rules from last year. Ms. Chepel stated that there have been no changes since last year.

Ms. Fernandez asked if the audit team would be reviewing our construction projects and capital campaign and, if so, would there be any additional costs associated with this review. Ms. Chepel stated that, as far as the construction projects, the auditors would ensure that the correct items were capitalized and depreciated properly. They would ensure that any grant capital was recognized. In addition, they plan to review the donations for the capital campaign and review the mandatory use of Direct Lending. She further explained that they allowed for most of this in their fee and did not anticipate anything over and above the base audit cost.

Mr. White asked if KPMG's review consisted of a compliance audit. Ms. Chepel stated no.

Ms. Fernandez asked if the audit team would be reviewing Circular A-21 and prevailing wage with regards to the Colleges construction projects. Ms. Chepel stated they would look at that during the College's single (A-133) audit.

Current Year Considerations:

Ms. Chepel reviewed the current year considerations and new accounting standards section of Attachment A. She briefly discussed:

GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions – this directly affects the City of Philadelphia, but not the College as we are a Business Type Activity.

GASB 62 Codification of Accounting and Financial Reporting Guidance - there will no longer be a reference to FASB in GASB standards. Previously, the GASB standards frequently referred to FASB in many of its pronouncements. This will no longer be an issue.

GASB 61 The Financial Reporting Entity – this deals with the definition of a component unit and will not impact the College Foundation. This may however affect the City of Philadelphia which has many smaller entities that are a part of it.

The biggest concern is a Governmental Accounting Standards Board (GASB) exposure draft planned for June 2011. The GASB is strongly considering switching to the same standard as the Financial Accounting Standards Board (FASB) regarding Post-Employment Benefit Accounting. Currently, the College is allowed to amortize the Post-Employment benefit liability over 30 years. Now GASB wants the entire liability reported on the Colleges financial statements at once. If this draft is passed, this will have a large negative effect on the College's net assets.

Mr. Downs asked how serious the College should take the GASB exposure draft. Ms. Chepel said that they are very serious. While this is still in the due diligence process, KPMG has been advising their clients to respond during the exposure draft period. They are currently working with Philadelphia Gas Works (PGW) who has been communicating with the City of Philadelphia. Both they and the City are planning on responding. Mr. Downs stated that the College should stand up and respond. Ms. Weitz asked how the College should respond. Ms. Chepel said as soon as the draft is out and there is time to respond, she will let the Audit Committee know.

Mr. Ayres continued discussing the 2010-11 audit plan and referred to the "significant areas of concern" section of Attachment A and the use of managements estimates. Ms. Chepel noted that year round Pell is no longer a concern and should have been deleted from the handout. She also asked the Committee if there were there any issues that should be focused on during their audit.

Mr. Downs asked the Committee if they should look into and spend time reviewing Cloud Computing or the Dodd-Frank Act. Specifically, could an individual send information out

of the College using cloud computing. Ms. Fernandez said that the Board of Trustees had a brief discussion with Jody Bauer, Vice President of Information Technology, and the College was not currently planning on moving to the "cloud." The Board felt that there were a number of risks and security issues in making such a move that had not yet been worked out. She also explained the College's Information Technology Department would not be in control and was nowhere near being ready to recommend it.

Mr. Downs agreed that the Information Technology Department needs to be in control. Ms. Kosieracki explained that she would want to review any potential holes in the systems by moving to the "cloud." In addition, she stated the College is very Banner-specific and that going to the outside would be a big change for the College.

On another subject, Mr. Downs asked how the College was doing with the budget. Mr. Murphy said he would supply Mr. Downs with the budget information that was presented to the Business Affairs Committee. Dr. Curtis replied that the College right now is predicting a deficit budget of around \$767,000. However, we always have a goal to try and balance the budget each year. We are still optimistic that this year we may be able to do that. As far as next year's budget, the Board approved it with a projected 2.3 million dollar deficit. Dr. Curtis reminded the Committee that the community colleges were receiving a 10% cut from the State. He explained that the problem the College faces is the fact that the community college cut is much less than other public institutions. He has spoken to some of the elected officials who have said "aren't you guys lucky" meaning that other State universities are facing up to 50% cuts. The College is still pushing to improve proposed funding. One effort is pushing additional capital dollars. Currently, CCP has not received any additional funding for capital. Dr. Curtis explained that this may help give the College a back door into getting additional state funding.

(2) Internal Audit Plan 2011-12 Year (Information Item):

Ms. Kosieracki began by stating that she wanted to follow up on two items from the last Audit Committee meeting. The missing cash in the Bursar Office and the procurement card review. She explained that Mr. Murphy and Mr. Canning had determined that the issue was with the armored car carrier. In fact, she mentioned that the College's internal controls for cash collection were strong. Mr. Murphy described going up to the bank's processing facility and reviewing the cash controls. While visiting there, he had the opportunity to examine the deposit bags that had the missing money. During the examination, he noticed a small hole on the side of one of the bags that could allow someone to slide an object down and pull out some of the bills. When the armored carrier (Brinks) was contacted and we described that the College was missing \$100 dollar bills, the company had already gotten complaints for the same issue from other clients and had fired the carrier. Brinks fully reimbursed the College for all of its losses.

Ms. Kosieracki then explained that she was still in the process of reviewing procurement card transactions regarding limits, split transactions and the use of outside catering. In addition, she mentioned that Jim Spiewak, Assistant Vice President for Budgets and Financial Services, had some issues he wanted her to review.

The discussion continued with Ms. Kosieracki providing an update to her audit plan for the 2010-2011 year. She discussed reviewing the College's compliance with credit card

processing and PCI compliance. She reviewed two small grants this year and noted no exceptions. She examined the Direct Lending procedures and noted no exceptions. She did mention a concern that there were not documented procedures in the Records and Registration area; and that if someone leaves, there could potentially be an issue.

Ms. Kosieracki then discussed the 2011-2012 Audit Plan (Attachment B) and walked through each item describing the amount of time that will be needed along with the potential risk factors. She explained how the audit plan is compiled. She meets with all the College's Vice Presidents to see if they have any specific areas that they would like her to audit. Specifically, she stated that Dr. Hawk suggested that since the College was hiring a new Bursar that it would be a good time to review that area. In addition, the College is moving to a new billing process and that would be an area to look at as well. Mr. Downs asked if this Audit list is not confidential, do we have to worry that non-listed departments will know that they will not be audited? Dr. Curtis replied that senior management always adds areas to the internal audit plan. Mr. Downs asked if the Committee had any objections to the plan. There were no objections. Mr. Downs then asked if the committee would like to go into executive session. No executive session was held.

(3) September Meeting Date (Action Item):

Mr. Downs said he had spoken with Mr. Murphy prior to the meeting regarding the next Audit committee meeting and wanted to see if there were any objections to the date of Tuesday, September 27, 2011 at 12:00 noon in the Isadore A. Shrager Boardroom, M2-1. There were no objections.

The meeting was adjourned.

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Attachments
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ATTACHMENT A

**KPMG PRESENTATION TO THE AUDIT COMMITTEE
REGARDING THE PLANNED 2010-11 AUDIT PROCESS
JUNE 13, 2011**



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Discussion with the Audit Committee

Community College of
Philadelphia

June 13, 2011

Agenda

2011 Audit Plan

Client Service Team

Objective of an Audit

Responsibilities

Audit Plan

- Scope
- Timelines
- Current year considerations
- Significant audit areas
- Approach to fraud risk
- Definitions - Material weakness and significant deficiency
- Other matters for discussion

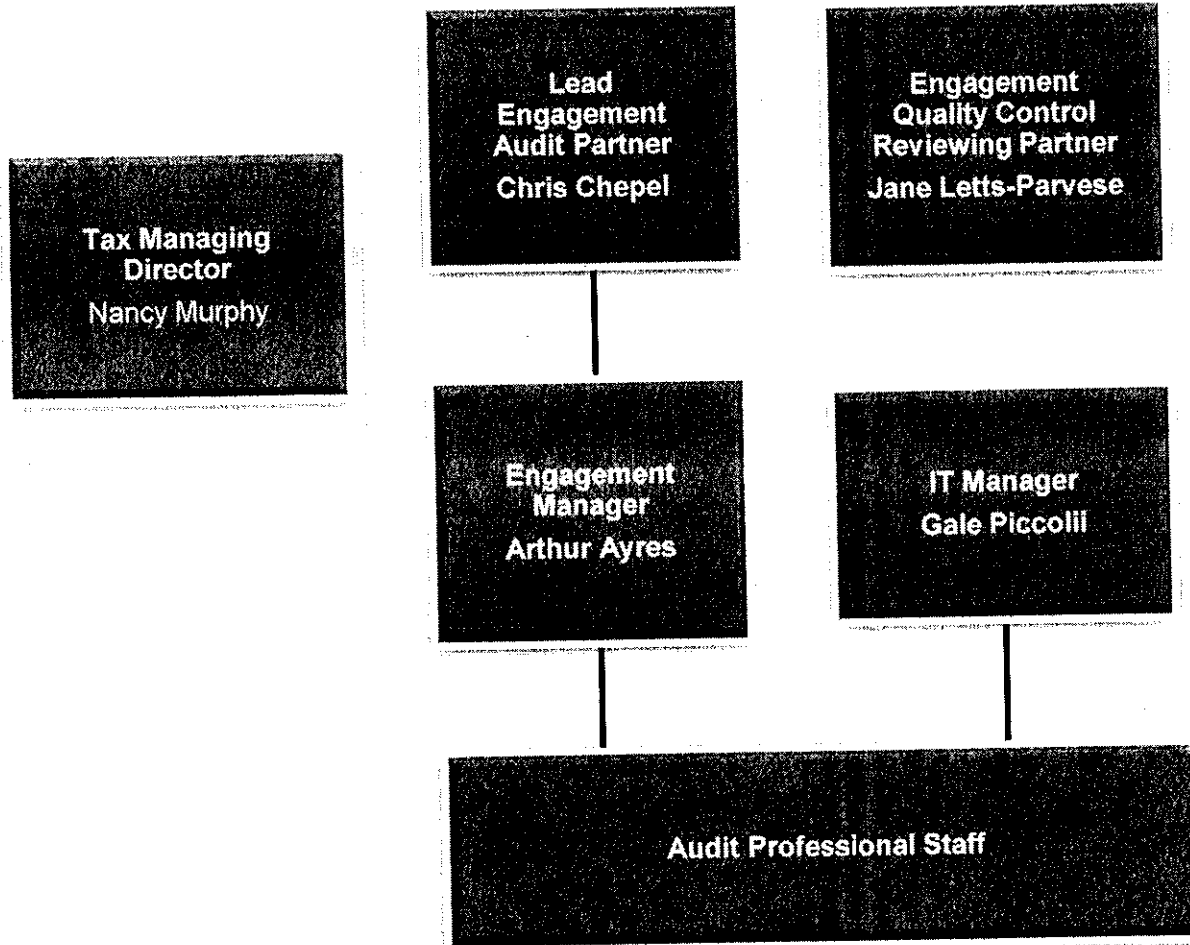
New Pronouncements

KPMG's Audit Committee Institute

Appendix – Recent KPMG Publications

This presentation to the Audit Committee is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

Client Service Team



Objective of an Audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- We plan and perform the audit to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement, whether from error or fraud.
- We design tests of controls to obtain sufficient evidence to support the auditor's control risk assessments for purposes of the audit of the financial statements.

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal control over financial reporting
- Identifying and confirming that the College complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to management's:
 - disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the College's ability to record, process, summarize, and report financial data; and
 - acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and internal control over financial reporting

Management and the Audit Committee are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Planning and performing the audit to obtain reasonable – not absolute – assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected.
- Evaluating:
 - (a) whether the College's controls sufficiently address identified risks of material misstatement due to fraud; and
 - (b) controls intended to address the risk of management override of other controls
- Communicating to you in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention
- Conducting our audit in accordance with professional standards
- Complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee

Audit Plan – Scope

	Deliverables
Primary Audit	- Opinion on the financial statements of the College and its component unit Foundation - Report under <i>Government Auditing Standards</i> on internal control, compliance and other matters - Reports required under U.S. OMB Circular A-133, <i>Audits of States, Local Governments and Not-for-Profit Organizations</i> (Single Audit) - Enrollment (State) agreed-upon procedures letter - Issue management letter presenting our recommendations regarding internal controls and other operational matters - Report to the Audit Committee on various matters in accordance with SAS 114, <i>Communication with those Charged with Governance</i>
Other Reports and Services	- Tax Services (Form 990 for the Foundation) - PA Department of Community and Economic Development (DCED) audit report(s) (if required)

Audit Plan – Timelines – Financial Statement Audit

Interim Phase (June)

- Planning meeting with management
- Audit Committee Meeting to discuss the 2010 audit plan
- Conduct review of the internal financial statements, and meet with senior management to discuss year-to-date results and identify any emerging accounting and financial matters
- Update understanding of key processes, risks, and internal controls
- Perform audit procedures on internal controls and selected interim balances
- With respect to the A-133 audit, identify preliminary major programs and hold A-133 planning meeting with key members of program management
- Start A-133 procedures
- Information Technology procedures
- Provide feedback on results on interim procedures, potential management letter comments, and audit plan revisions, if any

Financial Statement Phase (August – September)

- Perform substantive audit procedures on year-end balances
- Meet with management to review final audit findings and draft auditors' reports
- Present final drafts of audited financial statements and management letter to the Audit Committee in September 2011
- Issue final financial statements, Government Auditing Standards report, and management letter
- Final determination of major programs for A-133 Audit

Other Reporting Phase

State AUP (enrollment) report

- Targeted issue date 12/15
- Due 12/31

Single (A-133) Audit

- Targeted issue date 1/31
- Due 3/31

DCED Reports

- Due 120 days after grant end date

Current Year Considerations

Ongoing and recently completed construction projects

- Main campus
- Northeast Regional Center

Foundation capital campaign

Developments in Federal Student Financial Aid

- Mandatory use of Direct Lending

GASB projects

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

- Effective for June 30, 2010 year-ends
- Scope does not include entities reporting as Business Type Activities such as CCP

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

- Effective for periods beginning after December 31, 2011

Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*

- Effective for periods beginning after June 30, 2012
- Is not expected to change the treatment of Community College Foundations

Postemployment Benefit Accounting and Financial Reporting

- Preliminary views document issued June 2010
- Currently in deliberation
- Pension exposure draft planned June 2011, final planned June 2012
- OPEB exposure draft planned June 2012, final planned May 2013

Audit Plan – Significant Audit Areas

Routine balances and transactions	Significant management estimates and nonroutine items
• Cash and cash equivalents (including appropriate collateralization) • Tuition and fee revenue and related accounts and loans receivable • Auxiliary enterprises • Student financial aid • Gifts, grants and contracts and related receivables • State and city appropriations and related payables and receivables • Investments and related return • Capital assets and related depreciation • Accounts payable and expenses • Long-term debt and related accounts • Payroll-related accruals and expenses • Activities of component unit Foundation • Journal entries (consideration of risk of management override)	• Fair value of investments in investment companies (e.g., Common Fund) • Postretirement benefit obligations • Discount and allowance for pledges receivable (Foundation capital campaign) • New construction (expenditure of bond proceeds) • Implementation of Direct Lending • Financial statement impact of “year-round” Pell

Audit Plan – Approach to Fraud Risks

Identification of fraud risks:

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the engagement team the susceptibility of the entity to fraud
- Perform fraud inquiries of management, the Audit Committee and others
- Evaluate the College's broad programs/controls that prevent, deter, and detect fraud

Response to identified fraud risks:

- Evaluate design and implementation of anti-fraud controls
- Test effectiveness of anti-fraud controls
- Address revenue recognition and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Evaluate audit evidence
- Communicate to management and the Audit Committee
- Fraud risk presumed under professional standards:
- Risk of management override of internal controls (Journal Entries)

Audit Plan – Definitions of Material Weakness and Significant Deficiency

Material Weakness

A deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the College's annual financial statements will not be prevented or detected on a timely basis.

Significant Deficiency

A deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the College's financial reporting.

Additional Considerations

- Evaluation of the severity of a deficiency, individually or in combination, considers both qualitative and quantitative factors
- The severity of a deficiency does not depend on whether a misstatement has actually occurred, but rather on whether there is a reasonable possibility that the College's controls will fail to prevent or detect a material misstatement on a timely basis
- More attention is given to the evaluation of deficiencies with the most potential to be material or important enough to merit the attention by those with oversight responsibility for the College's financial reporting.

Audit Plan – Other Matters for Discussion

Other Matters for Discussion With the Audit Committee Include Its Views About:

- The appropriate person (Audit Committee Chair or full committee) for communication of audit matters during the audit
- Allocation of responsibilities between management and the Audit Committee
- College's objectives and strategies and related business risks
- Areas that warrant particular attention during the audit
- The nature and extent of communications expected with the Audit Committee about misappropriations perpetrated by lower-level employees
- Significant communications with regulators
- The importance of the College's internal controls, effectiveness of internal controls, and detection of fraud
- Developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Previous communications with the auditor

KPMG's Audit Committee Institute (ACI)

Communicating with Audit Committees Since 1999

Resources

- *Audit Committee Insights – U.S. and International editions (biweekly electronic publications): www.kpmginsights.com*
- ACI Website: www.auditcommitteeinstitute.com
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)

See attached *Highlights from the 7th Annual Audit Committee Issues Conference: Preparing the 2011 Agenda.*

**Appendix: Highlights
from the 7th Annual Audit
Committee Issues
Conference**



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ATTACHMENT B

2011-12 INTERNAL AUDIT PLAN

Draft for Discussion Purposes Only

**Community College of Philadelphia
Audit Plan - July 1, 2011 to June 30, 2012 with Risk Explanations**

Functional Areas	Risk Rating	Risk Explanation	# of days allocated	% of Total
Financial Audits				
Procurement Cards	M	Untimely submission of supporting documentation, lack of appropriate documentation, risk of personal purchases.	5	
Bursar's Office Cash Balancing, Reconciliations	M	New Bursar, new cashier supervisor	12	
Bursar Billing Procedures	M	New billing procedures using payment groups	22	
Contingency Fund and President's Expenses	L	Last time audit 2009. Board requested periodic review.	5	
		Sub Total	44	20%
Operational Audits				
Site Visits, neighborhood ESL and GED sites	M	Routine spot check.	5	
Financial Aid work study	L	Periodic review.	15	
Purchasing	M	Spot check over bidding procedures and document retention, new management over area.	13	
		Sub Total	33	15%
Construction Projects				
Main Campus Expansion	H	Significant expense, multiple contractors involved.	15	
Bonnell, Main, West Renovation (BMW)	H	Significant expense, multiple contractors involved.	18	
		Sub Total	33	15%
Compliance				
Grants: Trade Adjustment Act Path Out of Poverty Freedom Rings Gear Up	M	Grants with subcontracts pose risk that other parties will not be in compliance with regulations.	44	
Payment Card Industry Compliance Institutional Advancement	H	Institutional Advancement will collect credit numbers if donor requests, credit card numbers may be on file in Raiser's Edge system.	10	
		Sub Total	54	25%

Draft for Discussion Purposes Only

Community College of Philadelphia
Audit Plan - July 1, 2011 to June 30, 2012 with Risk Explanations

Follow Up Audits				
Culinary Arts and Hospitality	H	Prior audit noted a lack of policies/procedures/faculty handbook, controls over food inventory, catering charge backs to departments.	15	
Study Abroad	M	Increased number of trips, prior audit noted a lack of comprehensive procedures.	15	
SEVIS	L	Prior audit noted a lack of supervisory oversight.	1	
Corporate Solutions	M	Prior audit noted lack of an instructor guide, reconciliation procedures over registration and distribution of invoices for 3 rd party billing.	13	
		Sub Total	44	20%
Continuous Risk Assessment	n/a	Time used to research new areas of concern.	5	
Professional Development	n/a		7	
		Sub Total	12	5%
Total Days			220	100%

Risk Assessment Criteria:

Volume of Transactions
Regulatory Impact
Duration/Quality of Management
Reputational Impact
Last Time Audited

Audit Plan is prepared so that there is audit coverage throughout the College in any given year. Also input from VP is evaluated and utilized in preparation of Audit Plan.