

**MEETING OF AUDIT COMMITTEE  
Community College of Philadelphia  
Friday, February 25, 2011 – 12:00 Noon  
Academic Affairs Conference Room M2-34**

Present: Mr. Richard Downs, presiding (*via* telephone conference); Ms. Dorothy Sumners Rush, Mr. Jeremiah White, Dr. Stephen M. Curtis, Dr. Thomas R. Hawk, Dr. Samuel Hirsch, Dr. Beatrice E. Jones, Ms. Elaine Kosieracki, Mr. Gim Lim, Mr. Todd Murphy, Jill Garfinkle Weitz, Esq. (*via* telephone conference); and representing KPMG, LLP, Ms. Chris Chepel

**AGENDA – PUBLIC SESSION**

**(1) 2009-10 A-133 Audit Report (Information Item):**

Ms. Chris Chepel of KPMG reported on the 2009-10 A-133 audit process. Attached are two documents: KPMG's Single Audit Update (Attachment A) and a document prepared by the Federal Office of Management and Budgets outlining the expectations for the A-133 audit process (Attachment B).

Ms. Chepel noted that because several of the smaller A-133 audits had not yet been completed, the purpose of the meeting was to provide a progress report on the A-133 audit with the understanding that the official A-133 Audit Report will be distributed to the Committee in late March. A March 30, 2011 meeting of the Committee will be scheduled to review the 2009-10 A-133 audit. Ms. Chepel explained the factors which had resulted in a delay in completing the full A-133 audit process. In July 2010, after the original A-133 audit plan for the year had been developed with staff, the federal government announced changes in the A-133 audit process which increased the number of programs that were required to be audited. This was done by altering the selection process in a way that pulled smaller federally-funded programs into a required A-133 audit status. Any program that exceeds three percent of the total amount received for federally-funded programs is now considered eligible for an A-133 audit. A regulatory change made for the 2009-10 audit year was to exclude all financial aid programs from this computation, which means that the three percent computation results in a smaller-dollar audit threshold. This has meant that many colleges' and universities' smaller federally-funded programs that heretofore had not been included in the A-133 audit process are now required to receive an audit. For CCP, this meant four additional audits were required in the fiscal 2010 audit. The federal policy issue that stands behind this change is that a number of federal agencies providing grants to colleges and universities were concerned that the selection process for the A-133 audits meant that grant-funded projects, in some categories, were never audited. Unfortunately, because of the disproportionate use of federal financial aid programs by community colleges, the impact of the recent change in A-133 procedures has had a larger impact on community colleges than any other sector of higher education. The most important concern is that it is creating a significant increase in audit costs for community colleges at a time when financial resources are already greatly stressed.

Mr. Downs asked why the realization of the need to audit additional programs had occurred so late in the audit cycle. Ms. Chepel explained that it was an error at KPMG. The partner responsible for reviewing audit plans for higher education institutions did not alert the

College's audit team on a timely basis about the change in the required audit procedures under the revised A-133 audit guidelines. However, a qualified audit team has been assembled to complete the work in late February and early March in a time frame that will allow the timely submission to the federal government of the A-133 audit report by March 31, 2011.

Mr. White asked about the additional costs associated with each of the audits. Ms. Chepel noted that a typical A-133 audit usually cost between \$10,000 to \$12,000. The exact cost depends upon the complexity of the audit both in terms of transactions and regulatory requirements. Based upon the quick need to complete the audits, the four audits being done for the College, under this current A-133 audit process, are being done on a time-and-materials basis with a final number to be determined based upon the actual level of effort that is required. The College's planned audit cost, including the College's Foundation 990 return, for the 2009-10 year is approximately \$125,000. The late addition of the A-133 audit cost may add over 30 percent to the College's audit fees for the year. The Committee discussed the fact that the requirement to pay for the audits costs of smaller federally-funded programs may, in some cases, cause the College to not pursue some grant opportunities. Most federally-funded grants do not have any significant indirect cost reimbursement to the College at the present time. This means with the new audit requirements, accepting the grants will result in a net cost to the College.

Mr. Downs asked Ms. Chepel about the recent loss of Mr. Kris Knight as Account Manager. Ms. Chepel noted that Mr. Knight had left KPMG based upon an exciting opportunity to be head of accounting operations for the State of Delaware. At the time he left KPMG at the end of January, it was believed that all of the A-133 audit work had been completed. Ms. Chepel stated that she has been working with Mr. Jerry Maginnis, the Office Managing Partner for KPMG, to identify the individual who will serve as the College's Senior Manager for future fiscal year audits. A key goal will be to identify an individual who can provide the commitment needed to ensure stability in the audit process over an extended period of time.

With respect to the A-133 audit process, Ms. Chepel noted that two audits are complete: Student Financial Aid and the ARRA federal stimulus funding that the College received in fiscal year 2010 *via* the State. In both cases, there were no A-133 audit findings. She noted that in the preliminary field work to date, there have not been any issues identified with the four other federal programs that are currently having audits completed.

A meeting of the Audit Committee has been tentatively scheduled for Wednesday, March 30, 2011. However, since two of the Audit Committee members are out of the area at the moment, a specific time has not yet been established. Mr. Downs recommended that, where possible, Board members attend the March 30<sup>th</sup> meeting in person with the understanding that for Board members for whom in-person attendance is not possible, participation by phone is an option.

## **(2) Internal Auditor Report (Information Item):**

Ms. Elaine Kosieracki, Internal Auditor, provided a summary of recent internal audit activities. She made the following points:

- Off-Campus Programs - She is continuing to monitor activity at all of the College's neighborhood sites. She has found no issues with respect to operating issues in the College's neighborhood off-campus programs.
- Procurement Card Program - In the context of recent issues at PHA (Philadelphia Housing Authority), she undertook a several-month audit of the College's procurement card program. She identified no issues with respect to categories of purchases or controls over the use of the card.
- SEVIS Audit – International Student Program Information System Audit. She noted that she had recently undertaken a look at the College's management of the international student reporting systems. During the course of the audit, she had found no issues, but did recommend that the supervisor of International Student Services do a periodic spot check to ensure that the College is completely up-to-date with required processing for international students. She noted that failure to submit timely information could result in the loss of a student's ability to stay in the United States.
- Direct Lending Program – Ms. Kosieracki reviewed the results of the College's first year of participation in the direct lending program. She noted that required federal procedures had been followed in all cases. The reconciliations of the loan fund balances had been accomplished on a timely basis, and all of the required promissory note documentation was in good shape.
- Federal Student Aid Awards – An audit of federal financial aid awards had been made in the context of national reports of ghost students receiving financial aid by applying for aid under several different identities. She stated that the College's controls within Banner were in good shape, and there were no incidences of multiple aid awards to the same student. The College utilizes effective controls to establish a unique identity for each student enrolling at the College.
- Corporate Solutions Faculty Issue – Ms. Kosieracki noted that there had been a situation where there had been issues associated with overlapping courses and resulting in inappropriate scheduling of faculty for non-credit courses in the Division of Corporate Solutions. She has made a recommendation to the Corporate Solutions Program leadership that a faculty manual, similar to the one which was developed several years ago for the Adult Literacy faculty, be created which will clearly establish the expectations and procedures that Corporate Solutions' non-credit faculty are expected to follow. She also noted that, in the course of undertaking the audit, she had identified student registration work that needed more timely and complete verification by the Corporate Solutions staff.
- Bursar Cash Shortage – Ms. Kosieracki noted that she had been asked by Mr. Murphy to undertake an audit of cash reconciliation and management procedures in the Bursar's Office based upon four instances of missing cash. There were two cases of a one hundred dollar bill missing from a deposit, and two cases where two hundred dollar bills were missing. Ms. Kosieracki noted that a restructuring of controls, including new counting procedures for cash, had been established in the Bursar's Office. Mr. Murphy noted that because the procedures for managing cash were now so tight in the Bursar's Office and there had still been two instances of missing one hundred dollar bills, that the investigation had gone on to the management of

cash by the armored courier delivery service and the bank. Officials from the bank are collaborating with the College to try to determine whether or not the missing one hundred dollar bills may be associated with an operational problem at the bank as opposed to the College.

**(3) Future Meeting Dates:**

The Committee will meet on March 30, 2011 to discuss the results of the remaining A-133 audits. A June meeting of the Committee will be held to discuss issues and procedures associated with the 2010-11 fiscal year audit.

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Attachments

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# **ATTACHMENT A**

**SINGLE AUDIT UPDATE  
PREPARED BY KPMG  
FEBRUARY 25, 2011**



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# **Community College of Philadelphia**

## **Single Audit Update**

**February 25, 2011**

# Agenda

## Overview of Single Audit Requirements

*See "Single Audits – Office of Management and Budget Circular No. A-133: Audits of States, Local Governments and Non-Profit Organizations" attached.*

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# What is a “Major Program?”

**A “Major Program” is one that is subject to detailed audit procedures in a Single Audit**

## **Risk-based approach**

- Threshold for risk assessment is the greater of \$300,000 or 3% of federal expenditures (excluding certain programs that include loans and loan guarantees) for entities receiving less than \$100 million.
- Programs exceeding this threshold are “Type A” programs.
- Type A programs are major programs unless they are determined to be low risk because they have:
  - Been audited in one of the two most recent audits
  - Had no findings in the most recent audit that are: material weaknesses, significant deficiencies, or material noncompliance
  - Been determined to be low risk in the auditor’s professional judgment
  - No ARRA (Stimulus) funding (with certain exceptions)



## What is a “Major Program?” (Continued)

**A “Major Program” is one that is subject to detailed audit procedures in a Single Audit**

### **Risk-based approach**

- Low-risk Type A programs are replaced 1 for 1 with high-risk “Type B” programs – those in excess of the greater of \$100,000 or 0.3% of federal awards expended but less than the Type A threshold.
- Type B programs are evaluated on criteria including, but not limited to: prior audit experience, length of time since last audit, known questioned costs, whether the program has ARRA funding or is otherwise deemed higher risk by the federal government, the extent of oversight by federal or pass-through entities, the complexity of the program, and recent changes in the program or its control environment, including key personnel.
- Additional major programs may be necessary to meet the “percentage of coverage” rule – in CCP’s case, this is 25% of total federal expenditures as a “low risk” auditee.

## Major Program Determination Changes for FY 2010

- In determining the threshold for “Type A” programs for June 30, 2010, there is a clarified requirement that if a program with loans and loan guarantees (such as Student Financial Aid) exceeds **four times** the largest non-loan program, then the **entire program** should be excluded from the calculation.

- The effect of this requirement on the Type A threshold was as follows:

Total federal expenditures:	\$82,915,000
Less: Student Financial Aid Cluster	(75,522,000)
	<u>7,393,000</u>
x 3%	<b>221,790</b> (use minimum of \$300,000)

- By comparison, the Type A program threshold for FY 2009 was \$960K on \$60 million of federal expenditures.

- CCP has in the current year:

- Seven (7) “Type A” programs, of which one (1) was determined to be low risk.
- One (1) “Type B” program, which was determined to be low risk.

## CCP Single Audit Status

Major Program	Amount	Status
Student Financial Aid (Type A)	\$75,521,973	Substantially complete – no findings identified
ARRA - State Fiscal Stabilization (Type A)	\$2,844,299	Substantially complete – no findings identified
Vocational Education (Type A)	\$967,239	In process
TRIO Cluster (Type A)	\$548,752	In process
Economic Development – Technical Assistance (Type A)	\$445,891	In process
Child Care Access Means Parents in School (Type A)	\$309,982	In process



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## **ATTACHMENT B**

**SINGLE AUDIT—OFFICE OF MANAGEMENT AND BUDGET CIRCULAR  
NO. A-133: AUDITS OF STATES, LOCAL GOVERNMENT,  
AND NON-PROFIT ORGANIZATIONS**

## **Single Audits—Office of Management and Budget Circular No. A-133: Audits of States, Local Governments, and Non-Profit Organizations**

**PURPOSE OF THIS TOOL:** The Office of Management and Budget (OMB) Circular A-133 was issued pursuant to the Single Audit Act of 1984 and subsequent amendments. It establishes the standards in order to obtain consistency and uniformity among federal agencies for the audit of states, local governments, and not-for-profit organizations expending federal awards.

This tool is intended to aid not-for-profit organizations in complying the requirements and expectations of the Single Audit Act, as well as to assist with compliance of the provisions of the act.

The Single Audit Act requires that nonfederal entities that expend \$500,000 or more in a year in federal awards have a single or program-specific audit in accordance with the provisions of the act's audit requirements. The determination of when an award is expended should be based on when the award activity occurs. Expenditures include cash transactions, loans, loan guarantees, federally restricted endowment funds, and various other types of noncash assistance, such as interest subsidies. A program-specific audit may be elected only when an auditee expends federal awards under one federal program (excluding research and development, which is considered as one major program) and the federal program's laws, regulations, or grant agreements do not require the auditee to have a financial statement audit.







The American Recovery and Reinvestment Act of 2009 (ARRA) provides a new source of federal funds, with a primary purpose of the ARRA to preserve and create jobs to promote economic recovery, provide investments needed to increase economic efficiency, and to assist those most impacted by the recession. The ARRA provides \$787 billion of funding with a majority of the funds going towards existing programs, and with a goal of using at least 50 percent of the funds for programs that can be initiated within a limited time frame from its enactment. The ARRA intends to make a short- and long-term impact in investments that create jobs and provide future resources through building infrastructure, promoting science and education, improving health care, and increasing clean energy use.

With respect to the utilization of the ARRA funds, the ARRA holds organizations receiving such fund to a high standard of accountability and transparency. This includes additional federal reporting requirements placed on institutions receiving ARRA funds. The OMB requires organizations to separately track and monitor recovery funds, thereby not allowing organizations to commingle the funds with non-ARRA funds







Additionally, the ARRA requires organizations with such funding to ensure performance of audits and reviews to assure accountability, consistency, controls, and transparency. The ARRA will also place a greater burden on institutions in receipt of ARRA funds to assess how such funds complement their existing research and other organizational strategies, and what level of institutional infrastructure and resources are necessary to manage and monitor expenditures funded through the ARA.

## **Requirements and Responsibilities**





Recipients of federal awards are required to

-  maintain a system of internal control over all federal programs in order to demonstrate compliance with pertinent laws and regulations.
-  identify all grant programs by Catalog of Federal Domestic Assistance number and title, awarding agency, year of award, and any pass-through entities if applicable.
-  ensure that audits mandated under OMB Circular A-133 are performed and filed with appropriate federal entities as required.
-  follow-up on any audit findings, questioned costs, or compliance issues. This involves specific responses and, when necessary, taking corrective action that will resolve current or previous findings, or both.
-  complete the official data collection and single audit submission form that is prepared in conjunction with the external auditor. The reporting package is submitted electronically, with the data collection form electronically signed by both the auditee and the auditor. The recipient organization is legally responsible for the accuracy and timely submission of these forms even if the auditor prepares the forms.
-  if the organization has any subrecipients—for example, organizations that the federal awards are passed on to—additional monitoring procedures must be performed.

Auditors of recipients of federal awards are required to







-  plan and conduct the audit in accordance with generally accepted auditing standards (GAAS) and generally accepted government auditing standards (GAGAS).
-  determine if the organization-wide and federal awards financial statements are presented fairly in accordance with GAAS and GAGAS.
-  determine if Schedule of Expenditures of Federal Awards is presented fairly in relation to the organization's financial statements as a whole.
-  perform tests that demonstrate an understanding of the recipient's internal controls in order to support a "low assessed risk" for major programs.
-  determine that the recipient has complied with laws, regulations, and grant agreements through review and testing procedures.
-  follow-up on the status of previous audit findings.

Awarding agencies have the following responsibilities in the audit process:

-  Ensure that audits are completed and filed on time
-  Provide technical assistance to auditors and recipients who may have audit questions
-  Issue a management decision on financial and compliance audit findings within six months after an audit report has been submitted
-  Ensure that recipients follow up on audit findings and develop and implement a corrective action plan if necessary

## **Reporting**

The auditor's report may be in the form of either combined or separate reports. The auditor's report will state that the audit was conducted in accordance with OMB Circular A-133 and include the following:

-  An opinion (or disclaimer of opinion) about whether the financial statements and schedules of expenditures are fairly presented in accordance with U.S. generally accepted accounting principles
-  Report on the status of internal controls relative to the financial statements and major programs
-  Compliance report that describes the degree to which the recipient has complied with laws, regulations, and the terms and conditions of the federal assistance awards
-  Schedule of findings and questioned costs
-  List of major programs using the required risk-based methodology
-  Determination concerning federal programs regarding whether the recipient of the federal award is a "high risk" or "low risk."

## **Conclusion**

The specific requirements and responsibilities of federal agencies and nonfederal recipients are detailed in OMB Circular A-133 (see the circular available at [www.whitehouse.gov/omb/circulars/a133/a133.html](http://www.whitehouse.gov/omb/circulars/a133/a133.html)). Federal agencies are required to apply the provisions of Circular A-133 to all nonfederal entities that receive and expend federal awards either directly from federal awarding agencies or as sub-recipients who receive federal awards from a pass-through entity. Other OMB circulars, including allowable costs and cost allocations, are at this Web site as well.