MEETING OF AUDIT COMMITTEE Community College of Philadelphia Tuesday, September 27, 2011– 12:00 Noon

TO: Audit Committee of the Board of Trustees

FROM: Todd E. Murphy

DATE: September 26, 2011

SUBJECT: Committee Meeting

A meeting of the Audit Committee will be held on, **Tuesday**, **September 27**, **2011 at 12:00 noon** in the College's **Isadore A. Shrager Boardroom**, **M2-1**. Lunch will be provided for the meeting.

REVISED AGENDA – PUBLIC SESSION

(1) <u>2010-11 Final Budget Results (Information Item)</u>:

Dr. Hawk and Mr. Spiewak will provide an overview of the College's budget results for fiscal year 2010-11. The results were favorable. Despite a mid-year reduction in City funding of \$1.06 million, the College was able to end the year with a \$1.5 million surplus in the operating budget. The various factors which contributed to the financial performance results for the year will be reviewed in detail. Attachment A (pages 4 to 9) contains the fiscal year 2011 budget summary that will be discussed at the meeting.

(2) 2010-11 Fiscal Year Audit Report (Action Item):

Ms. Chris Chepel, Engagement Partner, and Mr. Arthur Ayres, Engagement Manager, from KPMG LLC will present the results of the 2010-11 fiscal year audit. Attached separately is the draft of the 2011 Financial Statements. These do not include the 2011 Statement of Cash Flows which will be incorporated into the final version of the statements. As shown in the Statement of Revenues, Expenses and Changes in Net Assets, the College had a positive change in net assets of \$1,526,009 for the year. Absent the impact of GASB 45 reporting, net assets for the College would have increased by \$7,564,644. The Financial Statements include the GASB 44 statistical reporting which was first required for the 2005-06 fiscal year. These are found on pages 47 to 52 of the 2011 Financial Statements. Committee recommendation of acceptance of the 2010-11 fiscal year KPMG audit report to the full Board is requested.

(3) <u>Audit Committee Self Evaluation (Information Item)</u>:

Mr. Rich Downs, Audit Committee Chair, will discuss conducting an audit committee self evaluation. (Attachment B)

(4) Internal Audit Plan 2011-2012 Year Update (Information Item):

Ms. Elaine Kosieracki, Internal Auditor, will present a status report on 2011-2012 audit plan.

(5) <u>February 2012 Meeting Date (Action Item)</u>:

A February 2012 meeting of the Audit Committee will be scheduled to discuss the 2010-11 A-133 audit report.

TRH/Im Attachments

c: Dr. Stephen M. Curtis

Ms. Elaine Kosieracki Mr. Todd Murphy Mr. James P. Spiewak Jill Garfinkle Weitz, Esq.

Representing KPMG: Ms. Chris Chepel

Mr. Arthur Ayres

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ATTACHMENT A

2010-11 FINAL BUDGET RESULTS

Community College of Philadelphia Enrollment Information (FTEs) for Fiscal Year 2010-2011

	Actual FY 09-10	Budgeted FY 10-11	Actual FY 10-11	Actual FY 11 vs Actual FY 10	% Variance	Actual FY 11 vs Budgeted FY 11	% Varianc
CREDIT							
Summer 2	1,862	1,862	1,921	59	3.19%	59	3.19%
Fall	13,275	13,719	13,550	275	2.07%	(170)	-1.24%
Spring	13,644	14,001	13,706	62	0.45%	(295)	-2.11%
Summer 1	2,834	3,005	3,005	171	6.03%	0	0.00%
Credit Year-to-date Totals - Annual FTEs	15,808	16,294	16,091	283	1.97%	(203)	-1.37%
NONCREDIT							
Summer 2	123	123	99	(24)	-19.51%	(24)	-19.51%
Fall	937	955	858	(79)	-8.43%	(97)	-10.16%
Spring	695	705	776	81	11.65%	71	10.07%
Summer 1	328	265	295	(33)	-10.06%	30	11.32%
Noncredit Year-to- date Totals - Annual FTEs	1,042	1,024	1,014	(28)	-2.64%	(10)	-0.98%

		Co	mmunity	College of P	hiladelphia		
			Operatin	g Budget Pro	ojections		
		as	of Fiscal	Year End Ju	ine 30, 2011		
					<u>Original</u>		
					<u>Budget</u>	Final Result	<u>Change</u>
<u>REVENUES</u>							
Student Tuition and F	ees				\$69,545,261	\$69,701,839	\$156,578
Commonwealth of Pe	nnsylvania				31,409,104	31,343,227	(65,877)
City of Philadelphia					19,116,376	18,091,851	(1,024,525)
Other Income					1,653,788	2,453,996	800,208
TOTAL REVENUES					\$121,724,529	\$121,590,914	(\$133,615)
<u>EXPENSES</u>							
Salaries, net of Lapsed	d Funds				\$73,815,722	\$73,186,125	(\$629,597)
Fringe Benefits					29,631,642	29,036,778	(594,864)
Other Expenses					20,207,325	17,718,472	(2,488,853)
Student Financial Aid					135,000	143,447	8,447
TOTAL EXPENSES					\$123,789,689	\$120,084,822	(\$3,704,867)
OPERATING BUDGET	STATUS pr	ior to re	cording				
the \$6,038,635 GAS	B 45 post-re	tiremen	t expense	accrual.	<u>(\$2,065,160)</u> *	<u>\$1,506,092</u>	<u>\$3,571,252</u>
* Operating	g Budget Pro	jection	prior to the	e \$1,058,717			
city fund	ling reduction	on in Se	ptember, 2	2010.			

	Community College	of Philadelphia		
	Operating Budg			
· ·	as of Fiscal Year E	•		
	Original			
	Budget	Final Result	<u>Change</u>	
OPERATING REVENUES				
State Funding	\$31,152,104	\$31,152,104	\$0	
				Lower than budgeted
State Lease funding	257,000	191,123	(65,877)	replacement costs for PCs.
Total State Revenues	31,409,104	31,343,227	(65,877)	
Tuition - Credit Students	56,279,680	56,416,463	136,783	
Technology Fee	11,325,881	11,237,156	(88,725)	
Net Contribution from: Contracted Noncredit				Lower than budgeted
Instruction; Other Noncredit Instruction; Adult Community Noncredit Instruction	782,000	568,512	(212 400)	financial results.
Course Fees	2,966,000	3,088,093	122,093	Tillaliciai results.
Student Regulatory Fees	953,700	890,739	(62,961)	
Student Regulatory Fees	955,700	690,739	(62,961)	
Tuition Adjustments Student Bessivable				Lower than hudgeted
Tuition Adjustments - Student Receivable				Lower than budgeted
Write-offs, Collection Costs, Credit Card	(0.700.000)	(0.400.404)	000.070	Opportunity Now
Costs & Senior Citizen Discount	(2,762,000)	(2,499,124)	262,876	exemptions.
Total Childrent Tuition 9 Face	60 E4E 264	60 704 920	4EC E70	
Total Student Tuition & Fees	69,545,261	69,701,839	156,578	
				Mid-year reduction in City
City Operating Funds	19,116,376	19 001 951	(4 024 525)	Appropriation.
City Operating Funds	19,110,370	18,091,851	(1,024,525)	Арргорпацоп.
				Includes \$203,817 of
				unrealized gains on
Investment Income	562,500	700,181	127 601	investments.
Vocational Education Funding	300,000	179,614	(120,386)	investments.
Indirect Costs. Administrative Allowances	300,000	228,484	(71,516)	
Parking Proceeds & Miscellaneous Income	491,288	569,773	78,485	
r arking r roceeus & Miscenarieous income	431,200	309,773	70,403	
Total Other Income	1,653,788	1,678,052	24,264	
Total Other modile	1,000,700	1,070,032	24,204	
				PDE forgiveness for audit
		exceptions during years		
		when College did not receive		
State Audit Forgiveness EV2 2002 04 9 2004 4	06	775 044	775.044	full FTE funding.
State Audit Forgiveness - FYs 2003-04 & 2004-0	03	775,944	775,944	Tuli FIE Tuliuliig.
TOTAL OPERATING DEVENUES	\$424 724 F20	\$124 E00 044	(\$422 G4E)	
TOTAL OPERATING REVENUES	\$121,724,529	\$121,590,914	(\$133,615)	

	Community Colleg	e of Philadelphia	1				
Operating Budget Projection							
	as of Fiscal Year I	End June 30, 201	1				
	<u>Original</u> Budget	Final Popult	Change				
	<u> Buuget</u>	<u>Final Result</u>	Change				
OPERATING EXPENSES							
Salaries							
Full-Time Administrative Salaries	\$15,189,272						
Less: Projected Lapsed Salaries	(800,000)						
	\(\frac{1}{2} \) \(\frac{1} \) \(\frac{1} \) \(\frac{1}{2} \) \(\frac{1}{2} \)			Increase in lapsed salaries			
				due to more vacancies and			
Net Full-Time Administrative Salaries	14,389,272	13,850,646	(538,626)	positions freeze.			
			```				
Full-Time Faculty Salaries	28,687,443						
Less: Projected Lapsed Salaries	(200,000)						
Net Full-Time Faculty Salaries	28,487,443	28,435,140	(52,303)				
Full-Time Classified Salaries	10,817,036						
Less: Projected Lapsed Salaries	(600,000)						
				Increase in lapsed salaries			
				due to more vacancies and			
Net Full-Time Classified Salaries	10,217,036	9,922,940	(294,096)	positions freeze.			
Subtotal - Full-Time Salaries	53,093,751	52,208,727	(885,024)				
				Higher than anticipated			
				number of sections were			
Part-Time & Overload Credit Salaries	11,137,591	11,689,422	551,831				
				Higher than anticipated			
				number of sections were			
Summer Credit Instruction	4,082,296	4,408,979	_	offered.			
Part-Time & Overload Non-Credit Salaries	369,349	419,281	49,932				
				Lower than budgeted			
				expenses in PT			
				Administrative Hourly, PT			
				Classified, Overtime, Student			
All Other Salaries	4 692 725	4 170 122	(502,612)	Workers and Learning Lab Specialist categories.			
All Other Salaries	4,682,735	4,179,123	(503,612)	Expense of Employees			
				participating in retirement			
				incentive option was offset			
				by prior-year elections that			
Early Retirement Incentive Payments	450,000	280,593	(169 407)	were rescinded.			
Subtotal - Other than Full-Time Salaries	·	20,977,398	255,427	were resumueu.			
Castomi Caler than I this Inne Galaries	20,121,311	20,311,390	200,421				
Total Salaries	73,815,722	73,186,125	(629,597)				
	. 0,010,122	: 0, : 00, : 20	(==0,001)				

	Community College	of Philadelphia		
	Operating Budg	-		
	as of Fiscal Year Er	d June 30, 2011		
	Original			
	Budget	Final Result	Change	
Fringe Benefits				
				Actual claims from self-
				funded medical program
				were lower than actuarially
Medical Program	18,969,713	18,544,192		projected.
Retirement	5,449,099	5,501,011	51,912	
FICA	2,786,839	2,982,514	195,675	
Tuition Remission	609,500	647,301	37,801	Dudget assumed a 159/
				Budget assumed a 15% increase over prior year; RFP
				process resulted in decrease
Group Life	426,453	357,376	(69.077)	in rates.
Unemployment Compensation	340,101	247,887	(92,214)	
Workers' Compensation	302,071	302,328	257	
Unused Vacation	279,515	102,990	(176,525)	
onasca vacation	275,313	102,330	(170,323)	Budget assumed a 15%
				increase over prior year; RFP
				process resulted in decrease
Disability Premium	335,150	270,644	(64.506)	in rates.
Forgivable Education Loan	133,201	80,535	(52,666)	
3			` '	
Total Fringe Benefits	29,631,642	29,036,778	(594,864)	
Facility Expenses				
				Budget assumed worst-case
				scenario due to electricity
				deregulation; College
				conducted a bid process that
Liatitation	0.000.005	0.000.014	(700.001)	resulted in lower electric
Utilities Contracted Security	3,089,635	2,362,814		rates than prior year.
Contracted Security	1,250,000	1,181,186	(68,814)	
Contracted Cleaning	1 207 500	999,994	(207 605)	Bid process resulted in lower costs than prior year.
Contracted Cleaning	1,207,599	333,334	(207,005)	Reduction in property tax
				and management fee
				associated with transfer of
				Center for Business &
All Other Facility Expenses	1,549,317	1,495,341	(53 976)	Industry building.
Caron racing Expended	1,040,011	1,500,051	(55,576)	
Total Facility Expenses	7,096,551	6,039,335	(1,057,216)	
	.,555,551	-,,	( ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	

	Community College	of Philadelphia		
	Operating Budg	et Projection		
а	s of Fiscal Year E	nd June 30, 2011		
	<u>Original</u>	Final Beault	Change	
	<u>Budget</u>	<u>Final Result</u>	Change	
All Other Expenses				
All Other Expenses				Lower than budgeted
				expenses due to delayed
				replacement of server and
				data storage equipment,
				lower than budgeted costs
				for PC replacements and
				copier equipment and later
				than budgeted start date for
				redundant server room
Leased Equipment & Software	4,044,416	3,376,673	(667.743)	equipment.
1-1	,- , -		(, -,	Additional funds transferred
				from institutional
				contingency to market
				expanded Northeast
Catalogs and Advertising	1,599,999	1,691,132	91,133	Regional Center.
Supplies-Pool	1,437,780	1,336,894	(100,886)	
				Includes \$106,000 for
Contracted Services	1,050,806	1,167,522	116,716	temporary clerical services.
Consultant	718,902	708,363	(10,539)	
				Lower than budgeted repair
				costs in multiple
Maintenance & Repairs	599,064	431,713	(167,351)	departments.
				Lower than budgeted costs
				reflect continued efforts to
			<b></b>	communicate with students
Postage	543,000	472,873	(70,127)	via email.
				Includes \$72,600 for builder's
			<b></b>	risk insurance for
Insurance	509,950	580,559		construction projects.
Legal Fees	225,000	163,519	(61,481)	Lower than budgeted costs
				in a variety of budget
Other Expenses	2,381,857	1,749,889	(631.069)	categories.
Other Expenses	2,301,037	1,749,009	(031,900)	categories.
Total All Other Expenses	13,110,774	11,679,137	(1,431,637)	
- Color Par Galler Experience	10,110,111	11,010,101	(1,101,001)	
King Scholarship	135,000	143,447	8,447	
TOTAL OPERATING EXPENSES	\$123,789,689	\$120,084,822	(\$3,704,867)	
OPERATING BUDGET STATUS prior to recordi	ng			
the \$6,038,635 GASB 45 post-retirement				
expense accrual.	(\$2,065,160) *	\$1,506,092	\$3,571,252	
* Operating Budget Projection prior to the \$1,0	58,717			
city funding reduction in September, 2010.				

## **ATTACHMENT B**

Conducting an Audit Committee Self-Evaluation: Guidelines and Questions

**PURPOSE OF THIS TOOL:** Audit committees should conduct a self-evaluation on an annual basis. This can be accomplished in a number of different evaluation formats and scenarios (through the use of outside evaluators, a 360-degree evaluation format, and other methods). The sample questions included in this tool are suggestions and intended to provide a starting point to evaluating the performance and effectiveness of the audit committee. Follow-up questions are encouraged, and the committee should plan for further action as appropriate.

An audit committee should conduct a comprehensive self-evaluation on an annual basis. The self-evaluation can take different forms, involve a number of participants, and use diverse techniques. Most important, however, the self-evaluation should adopt a straightforward approach that will aid the audit committee in assessing its strengths and weaknesses and lay a foundation for future improvement. Some guidelines in designing the format for self-evaluation would include the following areas of consideration.

- 1. *Introspection*. Be introspective. Evaluate the audit committee's performance by asking specific questions about the impact it has had on the organization, such as its financial reporting process, the annual audit, the relationship with the external auditor, and members of management. Include the chair of the board in this evaluation session and ask for his or her input as well.
- 2. Comprehensive. Conduct 360-degree evaluations of all audit committee members and the committee chair. A 360-degree evaluation is one that obtains anonymous feedback from a large group of individuals representing various perspectives. In this setting, each committee member would conduct a self-evaluation and be evaluated by the other committee members, the board chair, chief audit executive, CFO, and CEO, and if appropriate, other senior finance and accounting personnel. There should be thought into how the data will be collected (by someone independent), and the board chair and the audit committee chair should consider the result of the evaluations. Making sure to stay consistent with corporate bylaws, they should decide who, if any, of the members of the committee should be rotated off the committee or whether the chair of the committee should be rotated, or both. The members' attendance record and level of participation should be considered during this process.
- 3. *Qualifications.* All audit committee require financial expertise. Please refer to the tool regarding financial expertise.

**INSTRUCTIONS FOR USING THIS TOOL:** The sample questions provided in this tool are only a starting point to evaluate the performance and effectiveness of the audit committee. Before completion, the committee should determine how it can best ensure that responses reflect a forthright exchange of ideas and opinions among audit committee members. The committee should determine how the process should be completed. The following sample questions can be completed anonymously before attending an evaluation discussion meeting or during a session of the committee. Discuss the following questions and include notes and comments if you feel further action is appropriate.

## Three quick things to note:

- 1. Although it is best practice to have an audit committee separate from your finance committee, there may be barriers to achieving that. However, when feasible and practical, you should try to have a separate audit committee.
- 2. Although the questions below do not signify requirements of an audit committee, they are reflective of the best industry practices for an effective audit committee. In most circumstances, organizations that answered "no" to a particular question should consider additional follow-up as they strive to have an effective committee.
- 3. Specific requirements for audit committees may vary state by state. Please check your specific state requirements for complete compliance.

Audit Committee Self-Evaluation Tool	Yes	No	Not Sure	Comments
<ol> <li>Are the members financially literate and has the audit committee determined that it has adequate financial expertise in accordance with its charter?</li> </ol>				
For additional reference, please see the tool "Audit Committee Financial Expertise Considerations" in this toolkit.				
2. Does the audit committee have the appropriate number of members?				
We would suggest a minimum of three members. The audit committee should not be so large that				
<ul> <li>its ability to operate efficiently and effectively is reduced.</li> </ul>				
<ul> <li>members' ability to raise issues is hampered.</li> </ul>				

Audit Committee Self-Evaluation Tool	Yes	No	Not Sure	Comments
<ul> <li>it is difficult to get a quorum when a time-sensitive issue arises.</li> </ul>				
The audit committee should have a sufficient number of members to ensure needed skill sets and knowledge are represented on the committee.				
An independent nominating and governance committee or independent directors have responsibility for appointing audit committee members and selecting the chair.				
Do all members continue to be independent, as defined by policies applicable to the organization?				
In addition to meeting the technical definitions of independence, committee members demonstrate their objectivity during meetings, through behaviors such as driving and influencing agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.				
Are differences of opinion on issues resolved to the satisfaction of the committee?				
Do the members challenge or defer to the chair as appropriate, or both?				
Is the audit committee charter used as a document to guide the committee in its efforts, and to help guide the committee's agenda?				
The audit committee could use the charter matrix to document compliance with the precepts of the charter.				
7. Does the committee engage outside experts, if and when appropriate?				
A mechanism should be in place for the committee to engage with outside experts if needed.				

(continued)

Audit Committee Self-Evaluation Tool	Yes	No	Not Sure	Comments
Are the organization's financial reporting processes stronger as a result of management's interactions with the audit committee?				
For example:				
(a) The audit committee understands and agrees with the board on which categories of internal control it oversees. Categories include the following (from the Committee of Sponsoring Organizations of the Treadway Commission [COSO] standards):				
i. Integrity of financial reporting.				
ii. Compliance with laws and regulations.				
iii. Operational efficiency and effectiveness.				
The committee and the board concur with any changes to the committee's internal control oversight mandate.				
(b) The audit committee understands the current high-risk areas as viewed through an overall enterprise risk management system in the categories of controls it oversees, as well as how management addresses those areas.				
Is the committee cognizant of the line between oversight and management, and does it endeavor to respect that line?				
When the committee conducts executive sessions, are they done in an effective manner?				
An effective manner offers a "safe haven" to the individual, while asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.				

Applit Operation Optic Exploration Total	V	NI-	Not	0
Audit Committee Self-Evaluation Tool	Yes	No	Sure	Comments
11. Do audit committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory, and ethics areas?				
12. Does the committee do its part to ensure the objectivity of the internal audit team?				
13. Does the committee provide constructive feedback to the chief audit executive at least annually?				
Follow-Up Questions				

(continued)

Audit Committee Self-Evaluation Tool	Comments
Other Self-Evaluation Notes	