

**MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Tuesday, June 26, 2012 – 12:00 Noon**

Present: Mr. Richard Downs (Chair), presiding; Ms. Dorothy Sumners Rush, Mr. Gil Wetzel *via teleconference*, Ms. Varsovia Fernandez, Dr. Stephen M. Curtis, Dr. Thomas R. Hawk, Ms. Elaine Kosieracki, Mr. James P. Spiewak, Jill Garfinkle Weitz, Esq., Mr. Todd E. Murphy and representing KPMG, LLC: Ms. Chris Chepel and Mr. Arthur Ayres

AGENDA – PUBLIC SESSION

1. 2011-2012 Audit Process (Information Item):

Attachment A contains the formal presentation made by Ms. Chris Chepel, Engagement Partner and Mr. Arthur Ayres, Engagement Manager from KPMG, LLC. Ms. Chepel began her discussion by briefly describing their Client Service Team. She noted that there was a change in the IT Audit staff and that their work was almost complete. Ms. Chepel explained that the annual audit is a collaboration of the College's financial managers, Internal Auditor, Audit Committee members, and the KPMG audit team. Through this collaboration, KPMG helps to ensure that there is good communication to all these groups before they actually begin the audit.

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 reviewed the auditing procedures. Audit components include the General Financial Statement audit, Foundation audit, the A-133 audit, and the State Agreed Upon Procedures (Enrollment) audit.

Mr. Downs asked if the requirements had changed for the A-133 audit. Ms. Chepel explained that nothing has changed as of yet; however, there are two proposals on the table. The first is to change the threshold from \$500,000 to \$1,000,000 or possibly \$3,000,000 as the level of federal awards at which an A-133 audit is required. This would not affect CCP because the College receives \$90,000,000 in federal awards. The second change revises the compliance requirements so that the some of the audit fieldwork is reduced. This change will not go into effect until 2012-13 or a later fiscal year. The Federal Government has recognized that single audits have put an undue burden on many not-for-profits and governmental entities.

Ms. Chepel outlined several items that KPMG would focus on during the audit. These include: the construction projects, the Foundation Capital Campaign, the transfer of funds from

the Foundation, and the TAACCCT grant. The TAACCCT grant may have the impact this year of reducing the number of other federal programs KPMG includes in the A-133 audit process. Because of the large size of the grant, the computation for what is a major program will change.

Ms. Chepel provided an update on potential GASB standard changes. These changes may be in place as early as reporting for 2012-13. The first is the introduction of a new reporting concept different from assets and liabilities called "deferred inflows and outflows of resources." This is very similar to the concept of "other comprehensive income." The biggest impact for this change will occur for governmental entities holding derivative instruments. This is not an issue for CCP. The second impact is in the new pension and other post employment benefit standards. GASB just approved a change to the pension benefit that requires the whole liability to be recognized at once in the financial statements. The College does not have a College-based pension plan; however, it is likely that GASB will follow the same rule for "other post retirement benefits." This could have the impact of requiring the College to record the entire OPEB (Other Post-Employee Benefit) retirement liability immediately rather than amortizing it in over thirty years as is now being done. However, there is consideration for a part of the liability to be in a "deferred outflow" category. Current employees will be treated in the "deferred outflow," while retirees will continue to be recorded as a deferred expense. This will change the accounting for OPEB significantly and may reduce the value of the GASB 45 liability recorded on the statements.

Dr. Curtis asked if some of the accounting entries we have already made for GASB 45 would be reversed. Dr. Hawk explained that it would be possible; however, it is a complex question that our actuary would have to help us answer.

Ms. Chepel asked the Committee if there were any additional areas that they would like to see KPMG focus on during the 2011-12 audit. Mr. Downs expressed his concerns about future College budgets. Mr. Downs noted the areas the Committee should be concerned about that might affect the College budget in the future are enrollment, contributions from the State and City, and the impact of tuition increases on enrollment. Ms. Chepel stated that those types of issues should be covered in the commitments and contingencies questions and disclosed in the financial statements' "Management Discussion and Analysis." Mr. Murphy pointed out that even though the MD&A is "unaudited," this section of the financial statements is looked at very

closely by the auditors. Ms. Chepel pointed out that the auditor's role is limited to read and comment on the MD&A section.

Ms. Chepel discussed required communications and potential fraud risk. Specifically, KPMG will test internal controls related to journal entries to understand what factors might potentially impact the financial statements. KPMG will ensure through their audit process that the required controls are in place and communicate that to management. In addition, as part of the two-way communications, the Audit Committee should communicate any other concerns to KPMG. This year there is concern over the TAACCT grant and the exposure the College faces as a result of being the lead institution for the other 13 community colleges. Specifically, if one of the other 13 colleges has a finding in their A-133 audit, CCP will automatically now have a finding as well. Mr. Murphy explained that the College goes through a thorough procedural review process with the other colleges before any funds are disbursed. The College has taken the necessary steps to ensure procedures are in place that will meet the audit requirements for the grant. If the College encounters issues from one or more other colleges, the College can engage KPMG to do an "agreed upon procedures audit," if it is deemed necessary. Ms. Chepel pointed out that the other 13 colleges are subject to their own A-133 audits. As part of the monitoring procedures, CCP will obtain copies of those audits and follow up with any corrective action items. Dr. Hawk explained that the grant's financial controls appear to be in good shape; however, where he is most concerned is in the programmatic controls, where a college might not complete their program objectives in time or not serve the planned number of students. This is a much more difficult issue for the College to manage.

Ms. Chepel asked if there was anything not covered in the handout of potential areas of audit that the Committee would like to see added to this year's audit. Ms. Fernandez stated that she was comfortable that the scope of the audit addressed current Board areas of concern.

2. GASB 45 Assessment (Information Item):

Mr. Murphy noted that this issue was also discussed at the Business Affairs Committee on June 20, 2012. Attachment B contains a thirty-year schedule of projected costs. The GASB 45 accounting standard requires that the accrued liability for post-retirement healthcare benefits receive a new actuarial reassessment every two years. For the past two fiscal years, the annual value of this accrual was approximately \$6.0 million. The actuarial estimate for the 2012 fiscal year expense accrual has been increased to \$7.6 million. Several factors contributed to the increase in the estimate for this future expense: updated mortality tables which increased the

life expectancy assumption; recent increases in national healthcare cost trends that were greater than previously assumed by the actuaries; and an aging staff increasing the probability of post-retirement benefit expenses for the current employee cohort.

3. Raising Threshold for Assets from \$1,500 to \$5,000 to be Capitalized (Information Item):

Staff discussed the planned change to the College's threshold for capitalization of fixed assets from \$1,500 to \$5,000 per item. This will make the College in line with most grant and the IRS thresholds. Ms. Fernandez raised a concern on how the College's net assets would be affected. Mr. Murphy explained that the change will take place on July 1, 2012, and that any previously recorded capital assets at the lower value would continue to be depreciated at their current useful life. Only new assets acquisition will use the new threshold. Mr. Murphy noted that this change will greatly ease current capital asset management procedures. There is a large amount of institutional effort in maintaining assets at the \$1,500 level. No other Pennsylvania community college has a threshold as low as \$1,500. This change has been recommended by KPMG for several years.

4. Internal Audit Plan 2012-2013 Year (Information Item):

Ms. Kosieracki provided an update on the 2011-2012 internal audit process. Specifically, she discussed the review of the President's contingency fund, several grants, and the procurement card program. No exceptions were noted.

Ms. Kosieracki presented the 2012-2013 Audit Plan (Attachment C) and discussed 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 by meeting with the College's Vice Presidents for suggestions and using standard risk indicators to identify areas which should receive attention in the internal audit process. Planned 2012-13 internal audits include: new billing procedures in the Bursar's area, purchasing procedures, and the Study Abroad Program. Procurement cards and site visits to off-campus programs will continue to be part of each year's audit plan. Under operational reviews, the new Colonial One Card and Center on Disability will be reviewed. Financial aid procedures regarding IRS documents and Academic Progress for Pell Grants will be reviewed to ensure compliance with the new Title IV regulations.

5. Audit Committee Self-Assessment (Information Item):

Mr. Downs stated that he would like the Committee and staff to complete the questionnaire and for the results presented at the next Audit Committee meeting. Mr. Downs noted that answering question five may be difficult for Committee members.

In addition, Mr. Downs asked the Committee to review the questionnaire in order to suggest additional questions that should be added. All completed questionnaires were to be sent to Mr. Murphy in the Controller's Office.

6. September Meeting Date (Information Item):

The next Audit Committee meeting is scheduled for Tuesday, September 25, 2012 at 9:00 A.M. in the Isadore A. Shrager Boardroom, M2-1.

ATTACHMENT A

**KPMG's PRESENTATION
TO THE AUDIT COMMITTEE
JUNE 26, 2012**



cutting through complexity

Discussion with the Audit Committee

Community College of
Philadelphia

June 26, 2012

Agenda – 2012 Audit Plan

Client Service Team

Objective of an Audit

Responsibilities

Audit Plan

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

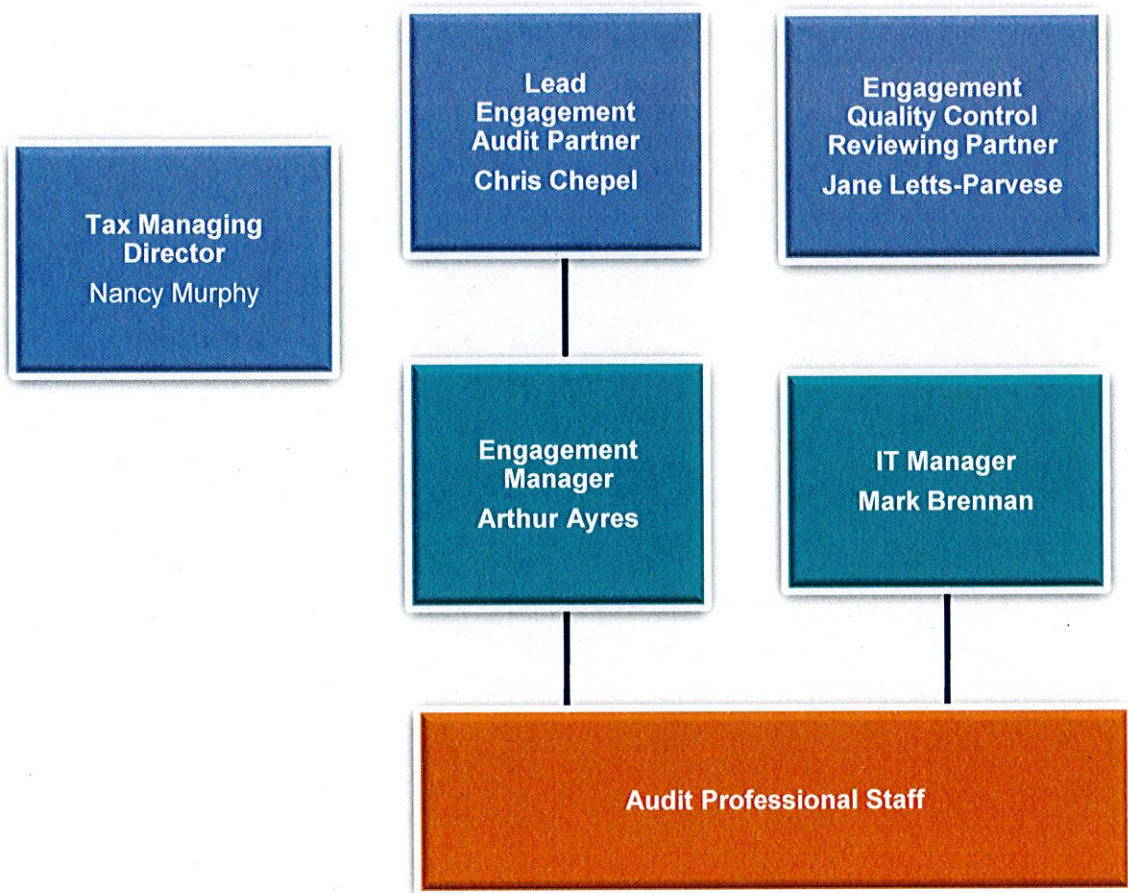
New Pronouncements

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 opinions 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 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 opinions 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	<ul style="list-style-type: none"> ■ Opinions 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	<ul style="list-style-type: none"> ■ Tax Services (Form 990 for the Foundation) ■ PA Department of Community and Economic Development (DCED) audit report(s) (if required)

Audit Plan – Timing

Interim Phase (June-July 2012)

- Planning meeting with management
- Audit Committee Meeting to discuss the 2012 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 2012)

- 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 2012
- 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 (if applicable)

- Due 120 days after grant end date

Audit Plan – Current Year Considerations

Ongoing and recently completed construction projects

Foundation capital campaign (including Challenge Grant)

TAACCCT grant

GASB projects

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 15, 2011

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Effective for periods beginning after December 15, 2011

Statement No. 65, *Items Previously Reported as Assets and Liabilities*

- Effective for periods beginning after December 15, 2012
- Includes debt issuance costs and deferred gain/loss from refunding of debt, which will now be considered deferred inflows/outflows of resources instead of assets and liabilities

Postemployment Benefit Accounting and Financial Reporting

- Final Pension Standards expected in June 2012 (with likely phased effective date over the next two years)
- OPEB deliberations expected to begin in June 2012
- Currently, a liability is reported in the event that a government funds less than its actuarially-determined annual required contribution
- Under the proposed approach:
 - Pension liability will be reported as employees earn their pension benefits by providing services
 - Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on nature of the change

Audit Plan – Significant Audit Areas

Routine balances and transactions	Significant management estimates and nonroutine items
<ul style="list-style-type: none"> ■ 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) 	<ul style="list-style-type: none"> ■ Fair value of investments in investment companies (e.g., Common Fund) ■ Postretirement benefit obligations ■ Discount and allowance for pledges receivable (Foundation capital campaign) ■ New/ongoing construction (expenditure of bond proceeds, grants, and gifts) ■ Commitments and contingencies

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

Areas that may warrant particular attention during the audit:

- Fraud risks?
 - Misappropriation of assets?
 - Financial reporting?
- Risks of misstatement due to error?
- Changes in institutional strategy?
- Changes in key personnel?
- Changes in technology?
- Significant legal or regulatory matters?
- Significant or unusual transactions?

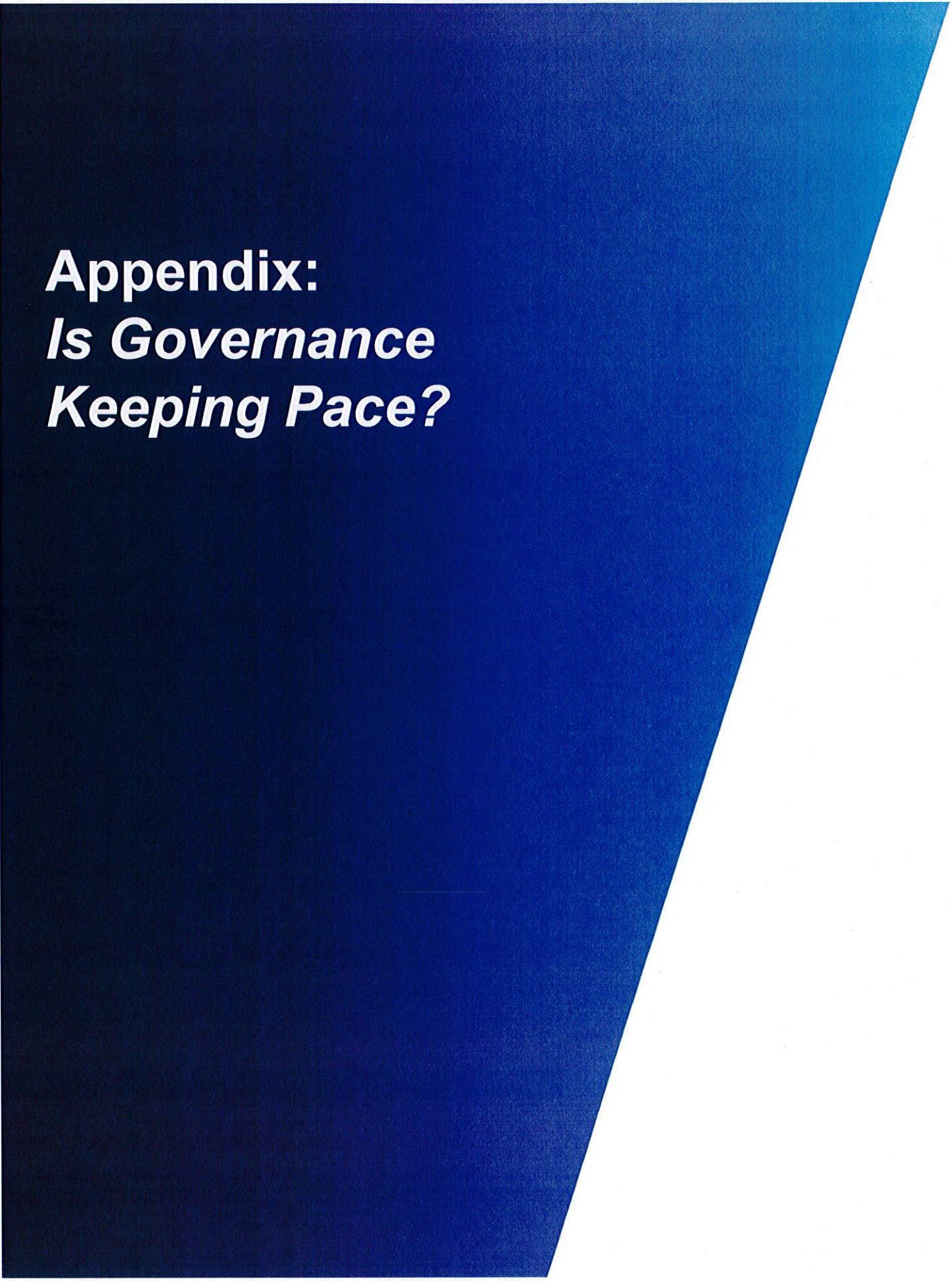
KPMG's Audit Committee Institute (ACI)

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 ACI recent publication.

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Appendix: ***Is Governance Keeping Pace?***



cutting through complexity

Audit Committee Institute

Is Governance Keeping Pace?

Challenges and Priorities Shaping
the Audit Committee Agenda

2012 Audit Committee Issues
Conference Highlights

auditcommitteeinstitute.com



About the Audit Committee Issues Conference

Now in its eighth year, the Annual Audit Committee Issues Conference brings together audit committee members from around the country to discuss the challenges, practices, and priorities shaping audit committee and board agendas. The conference is hosted by KPMG's Audit Committee Institute (ACI), and cosponsored by the National Association of Corporate Directors (NACD) and Weil, Gotshal & Manges LLP. To learn more, visit auditcommitteeinstitute.com or contact KPMG's ACI at 1-877-KPMG-ACI (576-4224).

Is Governance Keeping Pace?

"My biggest concern comes down to this: Is our business – and our board – keeping pace with all the changes taking place? Are we managing the risks and opportunities?" Indeed – from risks posed by emerging technologies, cyber terrorism, and globalization, to leveraging social media and data to shape customer strategy and support real-time business decisions – the speed and complexity of the business environment has pushed "governance processes, controls, and risk management" to the forefront as a top concern for many audit committees in 2012.

Top Concerns for Audit Committees in 2012

Aside from financial communications, disclosures, and related controls, what three issues will pose the greatest concern for your audit committee in 2012?

1. Governance Processes, Controls & Risk Management
2. IT Risk & Emerging Technologies
3. Uncertainty (Economic, Political, Social)
4. Information Privacy / Security and Cyber-security
5. Fostering Growth & Innovation
6. Board Composition / Skills / Expertise (e.g., IT)
7. Legal / Regulatory Compliance
8. Leadership / Culture / Tone at the Top
9. Tax Risk
10. Interactions with Auditors

At the same time, these challenges – along with expectations for greater transparency and insight into the company's performance and prospects going forward – are causing many audit committees to reassess whether they are keeping pace themselves: Does the committee (and board) have the resources, agenda time, expertise, and boardroom culture to effectively challenge and advise management? Is the audit committee at the top of its game?

As reflected in the dialogue and survey findings at KPMG's 8th Annual Audit Committee Issues Conference, concerns about keeping up with the changing business and risk landscape cut across a number of key oversight issues: Only 6 percent of conference attendees are satisfied that the company's governance processes and controls – including risk management – are keeping pace with technology change; uncertainty (economic, political, and social) is a top concern, as is fostering growth and innovation; and many attendees said their audit committee would be more effective with "additional expertise" (in IT, for example) and bringing "fresh thinking" onto the committee.

In the following pages, we highlight these and other key challenges and practices shaping audit committee agendas in 2012, as discussed by 140 audit committee members attending this year's "Issues Conference" in Miami, Florida, and San Francisco, California.

Is governance keeping pace with technology, globalization, and business change? Moving beyond 'the legacy approach' to managing risk.

Aside from financial communications, disclosures, and related controls, a majority of conference attendees cited the adequacy of "governance processes, controls, and risk management – particularly in light of emerging technologies, globalization, and changes to the business" – as posing the greatest concern for their audit committee in 2012.

This comes as little surprise, given the ongoing economic and political / regulatory uncertainty, the transformational impact of social media and emerging technologies, and the challenges of growth and innovation in a difficult economy and complex risk environment.

As one panelist noted, "With emerging technologies and globalization posing new challenges and risks almost daily, a 'legacy approach' to managing risk won't work." In this volatile and often opaque risk environment, a key challenge for the audit committee is to help mobilize the board (to keep the business on track), mobilize management (to rethink its strategy and risks, and stress test the business





model), and emphasize that making well-informed decisions may require a more sophisticated approach to manage an increasingly complex array of risks – the economy, technology, globalization, competition, regulatory risk, the speed of change, and more.

To this end, panelists highlighted a number of considerations for audit committees / boards, including:

- Insisting on ongoing, substantive involvement by the board in strategy and risk
- Understanding the company's significant operational risks – and whether "business controls" are keeping pace with technology and changes in the business
- Engaging in scenario planning, considering economic and political "what-ifs," and focusing on tail risks
- Assessing the company's crisis readiness
- Fostering the right risk culture – including seeking out dissenting views and ensuring that the compliance function has a prominent seat at the table
- Ensuring that internal audit is properly focused and resourced.

Devoting more time to judgments and estimates, and the quality of disclosures. Does the MD&A tell the company's story?

In light of ongoing economic volatility and uncertainty, audit committees are sharpening their focus on the related impact on financial reporting and disclosures. "We're probing much more deeply on [accounting] judgments and estimates," noted one panelist, including asking more-detailed questions to understand whether the company's accounting is aggressive, conservative, or down the middle. "Remember that judgments are made by people. What was the diligence behind their process? Does the estimate make sense – particularly in this volatile business environment?"

Other areas of continued focus include goodwill and asset impairments, pension assets and obligations, and valuations generally. "Establishing the value of *anything* right now is difficult."

Earnings quality also remains front and center, particularly in light of cost-reductions and ongoing pressures to grow the business in a low-growth economy. "In the current environment, you have to be particularly vigilant on

New and Emerging IT Risks

Which two areas of IT risk and emerging technologies give you the most angst? (select two)

Information data privacy and security

58%

Failure to capitalize on opportunities presented by emerging technology

36%

Social media (impact on reputation, customer strategy...)

28%

Cyber terrorism

26%

Disruption of IT systems by natural disaster

20%

Blurring of lines between enterprise technology and personal technology

18%

Compliance risk posed by consumer privacy laws (federal and state)

12%

Impact of Technology on Customer Strategy

How satisfied are you with your discussions with management about the impact of social media and emerging technologies on your company's customer strategy?

Satisfied

18%

Somewhat satisfied

38%

Not satisfied

44%

Governance and Controls Keeping Pace with Technology

How satisfied are you that your governance processes and controls – including risk management – are keeping pace with changing technology?

Satisfied

6%

Somewhat satisfied

51%

Not satisfied

43%

Social Media Governance Policies

Does your company have in place policies and guidelines to govern the use of social media by employees?

Yes

50%

No

23%

Not sure

27%



this," said one audit committee chair, noting that his audit committee regularly discusses earnings quality with the external auditor in executive session.

Audit committee chairs also said they are spending more time considering the "completeness and depth" of the MD&A. Does it tell the company's story?

Noted one participant from the investor community: "Boilerplate information is not very helpful. We're looking for more insight into where the company is headed and the risks it faces going forward." More than 80 percent of conference attendees said their company's disclosures – including the MD&A – are "overly complex and voluminous, and could be improved to better tell the company's story."

Recent guidance and comments from SEC staff highlight other financial reporting and disclosure issues that should be on the audit committee's radar, including:

- European debt exposure
- Foreign operations (e.g., liquidity, foreign currency, tax issues)
- Use of non-GAAP information
- Loss contingency disclosures
- Cyber security disclosures.

Audit committees were also reminded to continue to monitor regulatory progress on IFRS (the SEC expects to consider staff recommendations in 2012); various ongoing FASB convergence projects

(particularly on lease accounting, financial instruments, revenue recognition, and insurance contracts) and the implications of these and other accounting changes on the company's accounting processes and IT systems; SEC Dodd-Frank rulemaking on conflict minerals and compensation clawbacks (final rules are anticipated by mid-2012); and ongoing PCAOB¹ initiatives to enhance auditor independence and transparency. "These PCAOB projects could have a major impact on auditing and the audit committee's role – and every audit committee ought to be weighing-in with their views – in writing."²

Social media and emerging technologies are driving revolutions in information and customer engagement.

"It's important to recognize that this is an information revolution more than a technology revolution," noted one panelist, adding that, "The best technology discussions are business discussions. What do social media and emerging technologies – and the information they're generating – mean for our customer strategy and how we do business?"

¹ Public Company Accounting Oversight Board

² The PCAOB has encouraged audit committee members to share their comments (in writing) on these and related proposals, which are available at www.pcaobus.org.

Indeed, emerging technologies and social media are enabling companies to capture and analyze huge volumes of data – to “slice and dice” the information and extract value for real-time (even predictive) insight, and to build brand loyalty. These technologies are also reshaping customer strategy, changing the way employees work and collaborate, and improving supply chain efficiency. “When a technology changes behavior [of employees, customers, suppliers], you need to pay attention to it.”

Only 18 percent of conference attendees said they are satisfied with their discussions with management about the impact of social media and emerging technologies on the company’s strategy. And many said they are only “somewhat satisfied” (51 percent) or “not satisfied” (43 percent) that the company’s governance process and controls – including risk management – are keeping pace with technology change.

To help ensure the company is keeping pace with emerging technologies – from both a strategic and a defensive risk perspective – one audit committee chair said their CIO attends every audit committee meeting, “and we expect the CIO to be in touch with what’s happening in Silicon Valley. With technology changing so fast, the risk of not doing something – like adopting a particular technology – can be as devastating as active risk-taking.”

Understanding major risks posed by social media and rapid technology changes – the “defensive lens.”

From a “defensive” perspective, social media and rapid technology change brings with it a host of critical risks – each, as noted by conference participants, with significant implications for the business:

- Information privacy and security – “This is not just about compliance; it also goes to the heart of customer trust and loyalty.”
- Cyber security – “The volume and ferocity of efforts around the world to break into IT systems is astonishing.”

- Protection of IP and “all things digital” – “Safeguarding IP requires a corporate culture that recognizes the sanctity of IP and all digital assets of the company.”
- Reputation risk, particularly with the viral speed of social media – “You can’t afford to ignore what’s being said on Facebook or Twitter. Every company should have a full-time function monitoring social media to hear what customers and others are saying about the company and its products – positive or negative.”

Indeed, cyber crime has quickly evolved to become an “advanced, persistent threat” – from cyber criminals, nation-states, and hacktivists. And as value continues to migrate online,³ the protection of data assets and IP is a growing challenge: “If your CIO isn’t having sleepless nights about cyber threats, then you probably don’t have the right CIO.” Only 36 percent of conference attendees characterized their company’s data as “well-protected” – though even with “state-of-the art security, the company still may be vulnerable to hacking.”

Given the host of risks posed by emerging technologies, it is critical that companies reassess the adequacy of their governance policies and controls – particularly around the use of social media, data security, and access to IP and “all things digital.” “Digital risk needs to be embedded into the company’s risk and governance processes,” noted one participant.

Staying vigilant (or intensifying the focus) on compliance risk: Whistleblower, FCPA, and corporate culture are front and center.

Compliance continues to be high on audit committee agendas, particularly in light of stepped-up enforcement of FCPA, the UK Bribery Act, and other anti-bribery initiatives around the world, and with the SEC’s whistleblower bounty program now in place.

Cyber Attack Incidents

To the audit committee’s knowledge, has your company suffered a cyber attack?

Yes, a disruptive one that the company publicly disclosed

0%

Yes, but dealt with without significant disruption or cost

21%

Yes, but inconsequential

27%

Not to our knowledge

52%

Vulnerability to Cyber Attack

From an audit committee perspective, what best characterizes the company’s vulnerability to cyber attack?

Company data is well-protected – “state of the art” – but still may be vulnerable to hacking

36%

Protection may not be “state of the art” – and vulnerability is a concern

40%

Protection is clearly not “state of the art” – and cyber security is a serious concern

8%

Not sure

16%

³ McKinsey on Business Technology, Number 23, Summer 2011

Volume and Complexity of Disclosures

Do you believe that your company's disclosures – including the MD&A – are overly complex and voluminous, and could be improved to better "tell the company's story"?

Yes

83%

No

17%

Expanded Audit Committee Report

In your view, would an expanded audit committee report – describing in more detail what the committee does – be beneficial to investors and other users of the company's financial reporting information?

Yes

33%

No

67%

Board's Interaction with Management

How has your board's interaction with management changed over the past several years?

Much more robust and collaborative

54%

Somewhat more robust

39%

No significant change

3%

No change needed – has always been robust

4%



"Compliance training and awareness – particularly on whistleblower – is not a one-time exercise, it has to be an ongoing effort," noted one panelist. "Don't underestimate the impact of employee turnover."

Visibility and ease-of-use are also keys to an effective whistleblower process. "It needs to be very easy for employees to use – and social media is a natural fit." Also, "it's important to communicate that your whistleblower system is in place and that it's working. Escalation of complaints outside of the company happens when employees feel like they're being ignored – so keep the program visible, even when the news is negative."

Noting that rogue behavior is "by definition, hard to prevent," panelists emphasized the importance of understanding the corporate culture: "What are the values of the organization? Are performance incentives driving the right behaviors? What's the tone in the middle?" Noting that "in many cases of major fraud, someone, somewhere knew it was happening," panelists emphasized the importance of promoting a culture that "surfaces what's happening – that rewards people for coming forward or raising a red flag."

Does the audit committee / board have the skills, expertise, and boardroom culture to test management's thinking (and their own)?

Keeping pace with the increasing complexity of the business, risk, and regulatory environments will require boards to be at the top of their game. The audit committee's efficiency and effectiveness is particularly critical – and challenging – given the evolving nature of its oversight role and the ongoing pressures on financial reporting systems and the control environment.

"With all the regulatory requirements today, it's hard to find time for good, robust discussions about substantive issues like strategy and risk," noted one panelist. "But you need to make the time. Being an effective audit committee and board is not just about defense – it's about advising and guiding management."

A majority of conference attendees said their interaction with management has become "much more robust and collaborative" over the past few years; yet, only 50 percent said they are satisfied that their board's involvement in corporate strategy is both "ongoing and substantive."

The board's involvement in strategy should be pivotal, noted another panelist: "Strategy is about choices. The board should be involved early on, well before a strategy is fully baked. The board should be testing management's thinking and drawing analogies based on their own experience. Is it the right strategy? Do we have the talent to execute on that strategy? If the strategy turns out to be wrong, what is Plan B?"

Robust discussions about strategy and risk depend not only on having sufficient time, but also on having the right culture in the boardroom – i.e., one that welcomes give-and-take, and even contrarian views. On challenging the thinking in the boardroom and avoiding "groupthink," one audit committee chair suggested that, "responsibility is a much more important word than collegiality. Directors need to remember that they work for the company's shareholders – and they need to know how to argue with each other" in the interest of those shareholders.

Asked what would most improve their audit committee's effectiveness, nearly 70 percent of conference attendees said "additional expertise" – e.g., IT, risk, M&A, or industry knowledge. "Bringing fresh thinking onto the committee" and a "greater willingness and ability to challenge management" were also high on the list.

Fresh thinking is important, "but it's a matter of balance," noted one panelist. "Don't discount the value of institutional knowledge." And if the audit committee or board feels under-resourced, "seek out the additional expertise, but recognize that [such expertise] needs to complement the boardroom dialogue, not narrow it."

Audit committee members shared a number of suggestions for enhancing the audit committee's "operating efficiency" and overall effectiveness, including:

- Removing certain responsibilities from the audit committee's plate, if needed: "We simply could not do it all."
- "We asked for better executive summaries of meeting materials – and if we need to dig deeper, we do."
- "Our audit committee chair delegates much of the work to the other individual members of the committee – including visits to business locations."
- "Having a non-financial person on the audit committee is very beneficial – she asks great questions that others typically wouldn't think of asking."
- "Interaction between formal meetings is critical – particularly spending informal time with the external auditor and key members of management."

Board's Involvement in Strategy

How satisfied are you that your board's involvement in corporate strategy is both "ongoing and substantive"?

Satisfied

50%

Somewhat satisfied

33%

Not satisfied

17%

Audit Committee Composition

In terms of composition, what would most improve your audit committee's effectiveness? (select two)

Additional expertise (e.g., IT, risk, M&A, industry knowledge)

68%

Bringing "fresh thinkers" onto the committee

58%

Greater willingness and ability to challenge management

42%

More-engaged directors

28%

Better chemistry

4%

Addressing Social Challenges

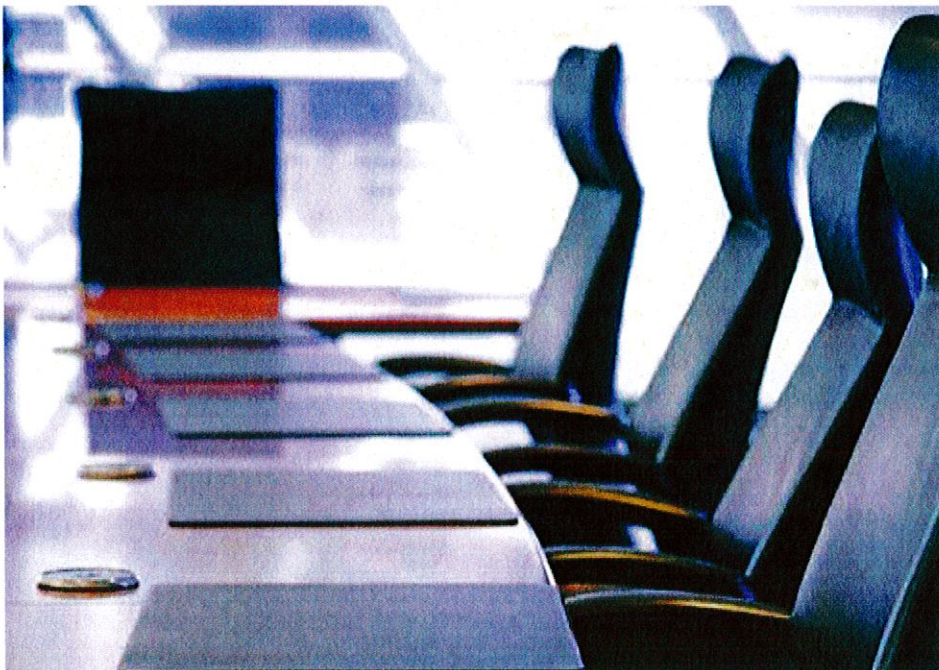
In your opinion, do corporations have a major role to play in helping to solve important social issues and challenges – e.g., sustainability, conflict minerals, environment, energy, unemployment, etc.?

Yes

63%

No

37%



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KPMG's Audit Committee Institute

Established in 1999, KPMG's Audit Committee Institute (ACI) provides information, resources, and knowledge-sharing opportunities – both online and through a variety of forums – to help audit committee members, directors, and senior management enhance the effectiveness, integrity, and oversight of the financial reporting process. ACI forums include the Audit Committee Roundtable Series, the Annual Issues Conference, and Quarterly Audit Committee Webcasts.

www.auditcommitteeinstitute.com



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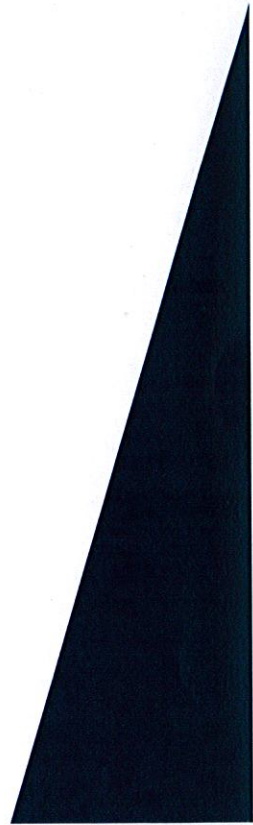
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ATTACHMENT B

GASB 45 ASSESSMENT

Community College of Philadelphia
30-Year Cost Projection as of July 1, 2011

	Annual Other Post Employment Benefit <u>Cost</u>	Cumulative Other Post Employment Benefit <u>Liability</u>
2011	6,038,635	22,614,326
2012	7,611,002	30,225,328
2013	7,346,416	37,571,744
2014	7,079,318	44,651,062
2015	6,825,361	51,476,423
2016	6,473,637	57,950,060
2017	6,134,319	64,084,379
2018	5,790,432	69,874,811
2019	5,310,244	75,185,055
2020	4,937,433	80,122,488
2021	4,508,016	84,630,504
2022	4,081,188	88,711,692
2023	3,689,765	92,401,457
2024	3,303,472	95,704,929
2025	2,945,622	98,650,551
2026	2,649,664	101,300,215
2027	2,319,867	103,620,082
2028	1,994,663	105,614,745
2029	1,735,734	107,350,479
2030	1,485,973	108,836,452
2031	1,303,641	110,140,093
2032	1,140,620	111,280,713
2033	1,034,364	112,315,077
2034	971,181	113,286,258
2035	936,789	114,223,047
2036	936,689	115,159,736
2037	971,061	116,130,797
2038	-3,490,237	112,640,560
2039	-3,968,787	108,671,773
2040	-3,840,166	104,831,607

ATTACHMENT C

**INTERNAL AUDIT PLAN
2012-2013**

Draft for Discussion Purposes Only

**Community College of Philadelphia
Audit Plan - July 1, 2012 to June 30, 2013 with Risk Explanations**

Functional Areas	Risk Rating	Risk Explanation	# of days allocated	% of Total
Carry Over Audits				
Bursar Billing Procedures	M	New billing procedures using payment groups	22	
Purchasing	M	Spot check over bidding procedures and document retention, new management over area.	13	
Study Abroad	M	Increased number of trips, prior audit noted a lack of comprehensive procedures.	15	
		Sub Total	50	23%
Financial Audits				
Procurement Cards	M	Untimely submission of supporting documentation, lack of appropriate documentation, risk of personal purchases.	5	
		Sub Total	5	2%
Operational Audits				
Site Visits, neighborhood ESL and GED sites	M	Routine spot check.	5	
Colonial One Card	M	New cashless program being rolled out for Fall 2012	18	
Financial Aid documents from IRS website	M	New Requirements for FAFSA.	10	
PELL Grant – Academic Progress Appeals Process	M	New process as a result of new Pell requirements	10	
Center on Disability	M	Director position vacant, compliance requirements	15	
Veteran's Benefits	L	Never reviewed, compliance requirements.	10	
Excused Withdrawals	L	Decentralized process.	10	
		Sub Total	78	35%
Construction Projects				
Main Campus Expansion and BMW renovation	M	Significant expense, multiple contractors involved.	30	
		Sub Total	30	14%
Compliance				
Grants: Trade Adjustment Act	H	Significant grant with 14 colleges, CCP is fiscal agent, staff is new to college.	40	
		Sub Total	40	18%

Draft for Discussion Purposes Only

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

Information Technology				
Server Security	M	Never audited, new server locations in new building.	5	
		Sub Total	5	2%
Continuous Risk Assessment	n/a	Time used to research new areas of concern.	5	
Professional Development	n/a		7	
		Sub Total	12	6%
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's is evaluated and utilized in preparation of audit plan.