

Presentation to the Audit Committee

October 4, 2011



 Dallas County
Community College District

 **McCONNELL & JONES LLP**
CERTIFIED PUBLIC ACCOUNTANTS

Engagement Team Leadership

- Wayne McConnell, Concurring Partner
- Jonathan Ellis, Engagement Partner, Governmental and Nonprofit Sectors
- Godwin Okoye, Director, Governmental and Nonprofit Sectors
- Usman Ilyas, Manager, Governmental and Nonprofit Sectors
- Olaniyi Oyedele, Audit Supervisor
- Nicole Huang, Audit Supervisor
 - Each member of the team has significant experience in auditing governmental organizations, including community colleges, local governments, charter schools, and Federal and State grant awards.
 - All are CPAs, and professionally and ethically sound individuals who are also independent of the District.
 - The engagement team leadership will be actively involved in all phases of the audit process, including planning, field work, quality review, and reporting.



America Counts on CPAs™



Engagement Objectives



- To express an opinion on the District's basic financial statements.
- To express an opinion on the supplemental schedules in relation to the basic financial statements taken as a whole.
- To report on our considerations of internal control for financial reporting, compliance with laws and regulations and other matters as required by *Government Auditing Standards*.
- To report on internal control related to Federal and State major programs, and express an opinion (disclaimer of opinion) on compliance in accordance with the Single Audit Amendment Acts of 1996, OMB Circular A-133, and State of Texas Single Audit Circular.
- Make observations regarding opportunities for improvements in internal controls and operational matters.
- Issue an accountant's report on the District's *Schedule of Current Fund Expenses by Individual Campus and Central Administrative Function*.

Engagement Milestones & Timelines



- Audit planning & risk assessment: July 6 – August 19
- Interim audit fieldwork: July 18 – August 19
- Meetings with certain college presidents: September 21 – October 4
- Presentation of audit plan to the Audit Committee: October 4
- Final audit fieldwork: October 17 – November 18
- Quality control review of workpapers and reports: November 7 – 18
- Preliminary drafts of financial statements and reports: November 23
- Exit conference with management: November 29
- Presentation of draft reports for audit committee and Board of Trustees: December 6
- Delivery of the AFR to the State: December 20
- Issuance and submission of CAFR to regulatory agencies: December 2011

Planning & Risk Assessment



Planning & risk assessment procedures include:

- Meetings/inquiries with management and the Audit Committee
- Signing of the engagement letter
- Updating our understanding of the District's internal control environment, and processes and procedures
- Preliminary analytical procedures on account balances
- Updating the list of major programs based on the final schedules of Federal and State grant expenditures prepared by the District
- Assessing the risks of material misstatement of financial statements and material noncompliance
- Finalizing the overall audit plan
- Third-party direct confirmation activities

Risks of Material Misstatement



- Control and inherent risks presently assessed at a low level:
 - Cash and cash equivalents
 - Accounts, grants and taxes receivable
 - Classification of net assets
 - Presentation of financial statements in the required format
- Control and inherent risks assessed at a medium level:
 - Valuation and classification of investments
 - Classification of capital expenditures
 - Disclosures of bonds payable and compliance with related covenants
 - Revenue recognition
 - Functional classification of operating expenses
 - Deferred revenue and deferred charges
 - Identification and tracking of Federal and State grant expenditures
 - Compliance with Federal and State grant provisions and requirements
 - Payroll system controls and cost allocations

Audit Fieldwork

Fieldwork major activities include:

- Tests of the consistency and reliability of controls
- Tests of the accounting records supporting transactions and balances
- Examination of other internal documents
- Analysis of account balances
- Performance of analytical & other substantive procedures
- Review of account reconciliations
- Evaluation of significant estimates
- Tests of compliance with applicable requirements
- Inquiries of management
- Corroboration of audit evidence from different audit procedures
- Documentation of audit conclusions
- Progress reporting and on-going communications with management



Review and Quality Control Activities



- Review of audit work papers;
- Evaluation of audit results and conclusions, and re-evaluation of risks of misstatement and noncompliance;
- Ensuring that prescribed procedures were properly performed and documented;
- Discussions by senior members of the audit team to ensure compliance with current standards and compliance requirements;
- Use of checklists to ensure that all required audit procedures, documentation and reviews are completed;
- Consideration of adequacy of documentation to support overall audit conclusions and reports; and
- Discussion/resolution of relevant matters with management.

Development of Reports



This phase of the audit includes:

- Preparation of required reports, in accordance with applicable current standards, on the financial statements prepared by management;
- Preparation of reports required by *Government Auditing Standards* and OMB;
- Discussion of draft reports with management;
- Presentation of draft reports to the Audit Committee;
- Presentation of draft reports to the Board of Trustees;
- Issuance of final reports; and
- Submission of reports and Data Collection Form to regulatory agencies.

**OMB Circular
A-133 Audit:
Major
Programs**



- Federal Programs:
 - Student financial assistance programs – PELL, FSEOG, ACG, FWS, and FFEL programs
 - Higher education institutional aid cluster
 - State fiscal stabilization fund
 - Career and technical education
 - Workforce Investment Act (WIA) cluster programs
 - Veterans’ administration
 - Small business development center
 - Health information technology professionals in health care
 - Community services block grant
 - Child care and development block grant
- State Programs:
 - Texas Workforce Commission: Skills development fund
 - Texas Higher Education Coordinating Board: Texas grant fund
- Basis for Determining Major Programs
 - 3-year rotation rule
 - ARRA regulations
 - Safe Harbor Rules

Recent Pronouncements & Guidelines



GASB Recent Pronouncements

- **Statement No. 61**, *The Financial Reporting Entity: Omnibus— an Amendment of GASB Statements No. 14 and No. 34:*
 - The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and to better meet user needs and to address reporting entity issues. This statement becomes effective for periods beginning after June 15, 2012.
- **Statement No. 62**, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements:*
 - GASB issued this Statement with an objective to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board's (FASB) pronouncements that were issued on or before November 30, 1989. This Statement will apply to financial statements for periods beginning after December 15, 2011.



GASB Recent Pronouncements, *Continued*

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

- Statement No. 63 provides guidance for reporting deferred outflows of resources and deferred inflows of resources within the financial statements of governmental entities. Additionally, Statement No. 63 renames the statement of net assets as the statement of net position. Governments are encouraged to present the statement of net position in a format that displays:

$$\text{Assets} + \text{Deferred outflows} - \text{Liabilities} - \text{Deferred inflows} = \text{Net position}$$

The statement is effective for financial statements for periods beginning after December 15, 2011; however, earlier application is permissible.

- **Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions:***

- Statement No. 64 designates specific circumstances where hedge accounting may continue after the termination of the hedging derivative instrument. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2011.

New Pronouncements & Guidelines



Statement on Auditing Standards (SAS) No. 121, Required Supplementary Information.

- This pronouncement:
 - Defines required supplementary information.
 - Establishes the auditor's objectives when a designated accounting standard setter requires information to accompany an entity's basic financial statements.
 - Establishes presumptively mandatory performance requirements for required supplementary information.
 - Establishes presumptively mandatory reporting requirements for required supplementary information.
 - Provides an illustrative written communication to management and those charged with governance of material weaknesses and significant deficiencies.
- Became effective for periods ended on or after 12/15/2010.

Current GASB Projects



- **Conceptual Framework – Recognition and Measurement Attributes**
 - This project’s objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement.
- **Economic Condition Reporting – Financial Projections:**
 - The overall, long-term objectives of this research project are to identify the information that users require to assess a governmental entity's economic condition, to compare these needs with the information users receive under current standards, and to consider whether guidance should be considered for the remaining information.
- **Government Combinations:**
 - The primary objective of this project is to consider the financial reporting requirements for government combinations that are accomplished through annexation, consolidation, acquisition, shared service arrangements, or by other means.



**Communications
With Those
Charged With
Governance**



We will provide the following required communications to the Audit Committee at the conclusion of the audit:

- Audit matters that are significant and relevant, in accordance with SAS No. 114, *Communication with Those Charged with Governance*, during planning as well as near the conclusion of the audit.
- Written representations made to us by management.

Engagement Fees



- Financial Statement and Compliance Audit:
 - Fees and out-of-pocket costs, not to exceed: \$147,935.
- Review of Individual Campus' Schedule of Current Funds and Central Administrative Function Report:
 - Fees and out-of-pocket costs, not to exceed: \$4,790.
- Fees are based on:
 - Anticipated cooperation of the District's personnel; and
 - Unexpected circumstances will not be encountered during the audit.

**Our
Commitment**



“To provide the highest level of service quality that our clients expect and deserve.”