

# Presentation to the Audit Committee

October 2, 2012



Dallas County  
Community College District



McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

## Engagement Team Members



- Wayne McConnell, CPA, Concurring Partner
  - Jonathan Ellis, CPA, Engagement Partner
  - Godwin Okoye, CPA, Director
  - Olaniyi Oyedele, CPA, Audit Supervisor
  - Rebecca Posey, CPA, Senior Auditor
  - Jack Handy, MS, Experienced Staff Auditor
- The team members have significant experience in auditing community colleges, charter schools, and Federal and State grant awards.
  - All are professionally and ethically sound, and 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, reporting, and on-going communication with the District.

## Engagement Objectives



1. To express an opinion on the District's following financial statements:
  - Statements of Net Assets
  - Statements of Revenues, Expenses, and Changes in Net Assets
  - Statements of Activities
  - Statements of Cash Flows
  - Notes to the above Financial Statements
  - DCCCD Foundation's Financial Statements (Component Unit)
2. To express an opinion on the following supplemental schedules in relation to the basic financial statements taken as a whole:
  - Schedule of Operating Revenues
  - Schedule of Operating Expenses by Object
  - Schedule of Non-operating Revenues and Expenses
  - Schedule of Net Assets by Source and Availability
  - Schedules of Expenditures of Federal and State Awards
3. To report on internal control over financial reporting, and compliance with laws and regulations, required by *Government Auditing Standards*.
4. To report on internal control related to Federal and State major programs, and express an opinion on compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.
5. Make observations regarding opportunities for improvements in internal controls and operational matters.
6. Review of the District's *Summaries of Revenues and Expenses and Analysis of Unrestricted Net Asset Components and Other Financial Stability Indicators by Individual Campus and Central Administrative Function* – for SACS.

## Engagement Milestones & Timelines



- Completion of the Review of the District's Summaries of Revenues and Expenses and Analysis of Unrestricted Net Asset Components and Other Financial Stability Indicators by Individual Campus and Central Administrative Function for SACS, for 2011: August 1 – 3
- Discussions with management about current year reporting formats to meet the requirements of SACS: August 7 – 31
- Interim audit fieldwork (assisted by DCCCD Internal Audit): August 13 – September 5
- Audit Planning and Risk Assessments: September 11 – 30
- Presentation of audit plan to the Audit Committee: October 2
- Final audit fieldwork: October 22 – November 9
- Quality control review of workpapers and reports: November 5 – 14
- Final drafts of financial statements and reports: November 16
- Exit conference with management: November 20
- Presentation of draft reports to the Audit Committee and Board of Trustees: December 4
- Issuance/submission of CAFR to regulatory agencies: December 6

## Planning & Risk Assessment



Planning & risk assessment procedures include:

- ✓ Meetings/inquiries with management and the Audit Committee
- ✓ Determine other objectives that the District wants the audit to accomplish
- ✓ Signing of the engagement letter
- ✓ Updating our understanding of the District's internal control environment, and processes and procedures
- ✓ Reviewing minutes of Board of Trustees' meetings, Board Committees' meetings, and Internal Audit Reports
- ✓ Review of the implications of new accounting pronouncements and auditing standards
- ✓ Preliminary analytical procedures on account balances
- ✓ Updating the list of major Federal and State programs based on the final schedules of grant expenditures prepared by the District
- ✓ Assessing the risks of material misstatement of the 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
  - Classification of net assets
  - Disclosures of bonds payable and compliance with related covenants
  - Presentation of financial statements in the required format
- Control and inherent risks assessed at a medium level:
  - Valuation and classification of investments
  - Accounts, grants and taxes receivable
  - Classification of capital expenditures
  - Revenue recognition (cut-off procedures for tuition and grants)
  - Functional classification of operating expenses
  - Calculations of 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
  - IT general controls

## Audit Fieldwork



Fieldwork major activities include:

- Tests of the consistency and reliability of controls, and compliance with policies and regulations
- Tests of the accounting records supporting transactions and balances
- Examination of other internal documents
- Analysis of account balances
- Performance of analytical and other substantive procedures
- Review of account reconciliations
- Evaluation of significant estimates (depreciation, allowance for doubtful accounts and taxes receivable, functional allocations)
- Tests of compliance with applicable requirements
- Inquiries of management
- Assemblage of results of different audit procedures
- Documentation of audit conclusions
- Weekly progress reporting and on-going communication with management
- Review of SACS schedules of individual campuses and central administrative function

## 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
- Procedures to ensure compliance with current standards and compliance requirements
- Use of AICPA, OMB Circular A-133, GASB, GFOA and THECB checklists to ensure that all required audit procedures, considerations, documentation and reviews are completed
- Consideration of adequacy of evidence to support overall audit conclusions and reports
- Discussion/resolution of any findings and other relevant matters with management.



## Development of Reports



This phase of the audit includes:

- Preparation of required reports, in accordance with applicable current standards;
- Preparation of reports required by *Government Auditing Standards* and the OMB;
- Ensuring that supplemental schedules reconcile with the basic financial statements;
- 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 the 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 (cluster of programs)
  - TRIO (cluster of programs)
  - State energy program – ARRA
  - Career and technical education
  - Health information technology professionals in health care – ARRA
- State Programs:
  - Texas Workforce Commission: Skills development fund (cluster of 21 grants)
  - State college work study
  - Nursing shortage reduction program

**Basis for Determining Major Programs**

- a) 3-year rotation rule of OMB
- b) Safe Harbor Rules of OMB
- c) ARRA funds guidelines

## 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 the District’s fiscal year 2013.
- **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 the District’s financial statements for fiscal year 2013.

**Recent  
Pronouncements  
& Guidelines  
(Cont'd)**



**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 to 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 the District's financial statements for fiscal year 2013.

- **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. Furthermore, this Statement clarifies the circumstances in which hedge accounting should continue when swap counterparty, or swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for the District's financial statements for fiscal year 2013.

**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*, at 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: \$129,252.
- Review of the District’s Summaries of Revenues and Expenses and Analysis of Unrestricted Net Asset Components and Other Financial Stability Indicators by Individual Campus and Central Administrative Function:
  - Fees and out-of-pocket costs, not to exceed: \$9,476.
- 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 the District expects and deserves.”*