

RESPONSE TO RECOMMENDATION THREE

Ad Hoc Report Submitted by Spokane Falls Community College
September 2, 2014



EXTERNAL AUDITS

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INSTITUTIONAL EFFECTIVENESS COMMITTEE MEMBERS

Jim Minkler, Vice President of Learning, Accreditation Liaison Officer and Chair

Jared Anthony, English Instructor, ITALIC member

Steve Bays, Associate Dean of Enrollment Services

Jim Brady, Dean for Computing Math & Science Division, Social Science, Accounting, Economics, and Human Services Division, Core Theme 1 Chair

Bonnie Brunt, Dean for Visual and Performing Arts, Core Theme 4 Chair

Connie Carlson, Student Achievement Manager

Mary Carr, CCS District Director of Library Services

Kari Collen, Assistant to the Vice President of Learning, Curriculum Coordinator

Ken Commers, Business Management instructor, Faculty Development Committee Coordinator

Glen Cosby, Dean for Humanities Division, Business, Professional Studies, and Workforce Education Division, Core Theme 5 Lead

Chrissy Davis Jones, Associate Dean for Student Success, Counseling & Advising

Ira Gardner, Photography Program Lead, instructor, Curriculum and Graduations Requirement Committee Chair

Mary Ann Goodwin, CCS District Dean for e-Learning

Janet Gullickson, SFCC President

Sally Jackson, Director of Planning, Institutional Effectiveness, and Research

Joe Jozwiak, Assistant Dean of Social Science, Accounting, Economics, and Human Services

Heather Keast, English Instructor, ITALIC Coordinator

Heather McKenzie, Director of Student Funded Programs, Core Team 3 Co-Chair

Darren Pitcher, Vice President of Student Services, Core Theme 2 Chair

Lora Senf, Assistant Dean for Humanities, Business, Professional Studies, and Workforce Education, Core Theme 3 Co-chair

Barbara Simmons, English instructor, ITALIC member

Carolyn Stephens, Visual Fine Arts Department Chair, instructor, ITALIC member

Nancy Szofran, CCS District Provost

AD HOC REPORT ON RECOMMENDATION 3 OF THE NWCCU YEAR SEVEN PEER-EVALUATION 2013 REPORT

Recommendation 3

“The evaluation committee recommends that for each year of operation, the College undergo an external financial audit and that the results from such audits, including findings and management letter recommendations, be considered in a timely, appropriate and comprehensive manner by the Board of Trustees (Eligibility Requirement 19 and Standard 2.F.7).”

NWCCU President Sandra Elman, in her letter reaffirming accreditation to Spokane Falls Community College President Janet Gullickson, dated January 31, 2014, wrote that of the five recommendations which Spokane Falls Community College (SFCC) received, all were in compliance but needed improvement except for Recommendation 3. She wrote, “However, the Commission determined that Recommendation 3 of the Fall 2013 Year Seven Peer-Evaluation Report is an area where Spokane Falls Community College does not meet the Commission’s criteria for accreditation.” President Elman went on to explain, “According to U.S. Department of Education Regulation 34 CFR 602.20 and Commission Policy, *Commission Action Regarding Institutional Compliance Within Specified Period* (enclosed), the Commission requires that Spokane Falls Community College take appropriate action to ensure that Recommendation 3 of the Fall 2013 Year Seven Peer-Evaluation Report is addressed and resolved within the prescribed two-year period.”

In the same aforementioned letter President Elman, on behalf of the Commission, requested that SFCC submit an Ad Hoc Report in Fall 2014 to address Recommendation 3. This Ad Hoc Report is in response to that request and will address the improvements made to fulfill the expectations as stated in Eligibility Requirement 19 and Standard 2.F.7.

Executive Summary of Eligibility Requirement 19

19. Financial Accountability

“For each year of operation, the institution undergoes an external financial audit, in a reasonable timeframe, by professionally qualified personnel in accordance with generally accepted auditing standards. Results from the audit, including findings and management letter recommendations, are considered in a timely, appropriate, and comprehensive manner by the administration and governing board.”

Spokane Falls Community College has centralized financial planning in the Community Colleges of Spokane (CCS) District Business Office, shared by the two separately accredited institutions, SFCC and Spokane Community College, of Washington State Community College District 17. The CCS Board of Trustees reviews and approves the summary operating budget, although each of the separate colleges is left to prioritize and allocate funds within its own operations once given its base allocations.

Like all of the thirty-four community and technical colleges in the State of Washington, SFCC benefits from other efficiencies in belonging to the State Board of Community and Technical Colleges (SBCTC). One of the efficiencies has been a statewide auditing system, whereby individual colleges have not hired outside auditing firms. Auditors have been provided by the state through the Washington State Auditor's Office. The State of Washington Auditor's Office has provided accountability and financial statement audits as part of a statewide audit. Individual college's financial information has been consolidated at the State Board level and is included as part of the State of Washington audit. The State of Washington Auditor's Office has conducted local testing of financial transactions in material funds each year for inclusion in the State of Washington audit, and has performed accountability audits on specific areas of interest each year. This statewide approach to auditing has been recently called into question regarding compliance with Eligibility Requirement 19 and Standard 2.F.7, both of which are stated in the same exact language.

Since receiving Recommendation 3, SFCC has worked closely with the CCS District Business Office to address this issue. Spokane Community College also received a similar recommendation in their 2013 Year Seven Peer-Evaluation Report. CCS Board of Trustees, the Chancellor, and the two college presidents have been involved in conversations at the state level to address this issue. They have collaborated in making improvements on a statewide basis to allow the colleges individually to comply with the expectations set forth in Eligibility Requirement 19 and Standard 2.F.7.

Adjustments have been made in statewide auditing practices for the community and technical college system. CCS Chief Financial Officer, Lisa Hjaltalin, received notification on March 25th, 2014, in a communication from SBCTC Interim Accounting Services Director, Joann Wiszmann, that NWCCU President Elman affirmed that the use of the State Auditor's Office met the "by professionally qualified personnel" element of the standard and was deemed appropriate to perform "an external audit" as stipulated in Standard 2.F.7. This was an important clarification. In Washington State, the State Auditor is a state-wide elected position and meets the independence requirements of *Generally Accepted Government Auditing Standards* as published by the U.S. Government Accountability Office.

Since statewide systems are not accredited, however, whether individually accredited colleges abide by statewide policies and procedures is another issue. In this ad hoc report the focus will be on how Spokane Falls Community College abides by these policies and procedures and in so doing meets the expectations as stipulated in the aforementioned eligibility requirement and standard. It will also be demonstrated that evaluations from an auditor this last academic year show SFCC and CCS have done exceptionally well in the specific areas audited.

Improvements Made in Meeting the Standard 2.F.7

The peer-evaluators wrote the following in their report:

"The college uses the Financial Management System to track and monitor all financial data. The college does not prepare audited financial statements to generally accepted accounting practice (GAAP) since they are not required as part of the Washington State Community and Technical College System. There are no reports that show the financial results of Spokane Falls Community

College, its reserves, or short term solvency. The college therefore does not have a regular system of reporting the financial condition of Spokane Falls Community College to the Board of Trustees. The district conditions are reported to the board in consolidated statements. The evaluation team recommends that Spokane Falls Community College prepare accurate and timely financial information through its use of an appropriate accounting system that follows generally-accepted accounting principles and that for each year of operation the institution undergoes an external audit in a reasonable timeframe by professionally-qualified personnel in accordance with generally-accepted auditing standards.”

In response to these observations and recommendation, a number of improvements have been made. Perhaps the most significant is the move to annual audits in adherence to the annual requirement found in Eligibility Requirement 19 and Standard 2.F.7. On March 26th, 2014, SBCTC Interim Accounting Services Director JoAnn Wiszmann reported to chancellors and presidents that the system was moving to annual audits. Training sessions are scheduled for Fall 2014 with the Governmental Accounting Standards Board for members of the Business Affairs Commission and its subordinate Budget, Accounting, and Reporting Council who are authorized by the Washington Association of Community and Technical Colleges (executive group).

In a document entitled *Framework for Ad Hoc Responses Addressing Financial State Requirement*, prepared by the Financial Statement Workgroup, Joann Wiszmann provided an account of the revision undergone at the state level for the community college system, specifically written in response to the recommendation addressed in this ad hoc report. The following wording is exactly as suggested by Wiszmann with the exception that “Spokane Falls Community” has been added to the word “college.”

Developing financial statements in accordance with generally accepted accounting principles

Washington community and technical colleges historically have been included in the State of Washington’s financial statements. The state follows the Governmental Accounting Standards Board’s (GASB) pronouncement number 34 (GASB 34) *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. General purpose governments, such as the State of Washington, engage in both governmental and business-type activities and must prepare statements that reflect both. As a result of reporting to the state, the college’s financial information and financial systems are configured to meet the reporting standards applicable to the state, where some activity is reported as governmental while other activity is reported as business-type activity. Roughly ninety-two percent of Washington community and technical colleges’ spending in FY13 was reported using the accounting standards applicable to governmental type activities with only eight percent being reported as business-type activities.

In contrast, GASB requires that special purpose governments, such as public colleges, that are engaged in only business-type activities should present the financial statements required for enterprise funds. As a result, Washington’s Community and Technical Colleges are faced with reviewing and restating approximately ninety-two percent of their activity from one accounting standard to another. Since our accounting systems

were not designed to do this, it requires a painstaking review and adjustment process for each college. While much of the accounting information that is prepared for state reporting can be repurposed for the college's statements, the restatement process is manual, meticulous and time-consuming.

In order to share knowledge about the restatement process across colleges, the State Board for Community and Technical Colleges (the SBCTC) convened a pilot group consisting of nine colleges. 'Spokane Falls Community' College was not a member of the pilot group. A variety of tools were developed to assist colleges with the process of restating their financial information to business-type activity reporting. Starting in December 2013, these colleges began the process of preparing an inaugural set of financial statements for FY2012-13. Throughout the process, as additional challenges were identified, additional tools were developed and pilot colleges shared the knowledge gained with one another. The first colleges completed their statements in May 2014.

As a non-pilot college, "Spokane Falls Community" College will complete an inaugural set of financial statements for FY 2013-14. College financial staff attended a financial statement preparation workshop hosted by the SBCTC on August 13, 2014. Although the pilot resulted in improvements to the tools used to prepare the financial statements, each college is expected to experience a significant learning curve when preparing its inaugural financial statements. As a result, "Spokane Falls Community College" estimates its statements will be completed sometime around January 2015.

Contracting with professionally qualified personnel to audit the financial statements

Pilot colleges contracted with the Washington's State Auditor's Office (SAO) to audit their financial statements. SAO conducts financial statement audits using generally accepted governmental auditing standards as promulgated in the U.S. Government Accountability Office's Government Auditing Standards (the "Yellow Book"). Washington state law establishes SAO as the auditor of public accounts. SAO employees are experienced in auditing public universities' business-type activity financial statements, having audited five of Washington's six public four-year colleges since GASB 34 became effective in 2002.

SAO began the audit of the first two pilot colleges in May 2014. Pilot colleges continue to share knowledge with one another concerning any further adjustments the auditors have recommended or may recommend in the future.

As a non-pilot college, "Spokane Falls Community" College expects to contract with SAO for audit services. As stated above, 'Spokane Falls Community' College estimates its statements will be completed sometime around January 2015. Depending on SAO availability, this will allow audits to begin sometime between January and April 2015, with the auditors' field work taking approximately one month to complete. We anticipate receiving the auditor's report, including an opinion and any management letter or findings approximately one month after field work is completed.

Review and consideration of financial audit results by the college's administration and board

Upon completion of the financial statements, financial managers from each college will review the statements with college administration. In addition, auditing standards require the auditor to present their report to college management and the governing board. This is usually accomplished by having the President and at least one Board member attend the audit exit conference, along with the college's financial managers. Each college will separately coordinate how and when its board as a whole will review and consider the financial statements and audit results.

Also, the community and technical college presidents (convening as the Washington Associations of Community and Technical Colleges, or WACTC) recognized that they and their board members have not previously seen financial information in business-type activity format. As a result, they asked SBCTC to present an initial overview of what they can expect the financial statements to look like – and how to read them.

This overview was presented to pilot college presidents in May 2014. It will be presented to non-pilot college presidents in September 2014. It will also be made available for interested college trustees during their Fall 2014 Conference in November 2014.”

Stated in the findings and conclusions for the Standard 2.F Finances category, in the Year Seven Peer-Evaluation Report, “The College does not produce financial reports which identify the fund balance or reserves of Spokane Falls Community College as a stand-alone entity.” The CCS Business Office is making a concerted effort to clearly separate the financial accounts for both Spokane Community College and Spokane Falls Community College from the consolidated CCS District financial accounts, making it easier at any point in the fiscal year to determine just where each college is in regards to fund balance.

As a result of the changes to the SBCTC statewide annual audit policy, the CCS District Business Office and its two community colleges will have its financial statements for the fiscal year, which ended June 30, 2014, audited by independent auditors. The auditors will perform the on-site audit in January and February of 2015. SFCC, as part of CCS, will undergo “an external financial audit, in a reasonable timeframe, by professionally qualified personnel in accordance with generally accepted auditing standards. Results from the audit, including findings and management letter recommendations,” will be “considered in a timely, appropriate, and comprehensive manner by the administration and governing board.”

In planning for that audit, the auditors will perform an entity overview and internal control evaluation. They will review CCS Board minutes, perform analytical procedures and a risk assessment. In order to identify material account balances they will use qualitative and quantitative indicators and determine materiality. The auditors will perform testing of material balances and transactions to obtain reasonable assurance that the financial statements are free of material misstatement. The objective of the audit is to gain sufficient and appropriate audit evidence in support of the audit report issued. The auditors will provide CCS with an Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in accordance with Government Auditing Standards and an Independent Auditor's Report on Financial Statements. The Independent Auditor's Report will be shared and discussed with the CCS

Board of Trustees, District Cabinet, which includes the executive leadership from SFCC, and will be shared by President Gullickson in detail with the SFCC Administrative Team. A summary of the report will be shared with various college groups, including the SFCC All-Faculty Meeting, Adjunct Faculty Meeting, and Community Meeting, where all employee workgroups are invited to attend. President Gullickson will also share findings of the report in her weekly newsletter to the college.

Internal Audits of Specific Programs

As mentioned previously, each year the SBCTC performs the fiscal reviews of specific programs through their internal audit department. Whereas this practice alone does not provide the comprehensive annual reporting required by the requirement and standard in question, it does and likely will continue to inform the college regarding specific programs. In June 2014, the SBCTC sent their internal auditor, David Bishop, to CCS in an on-site visit to perform traditional fiscal reviews of the federal programs where SBCTC allocates funds through to the colleges. These on-site reviews assess the consistency in record keeping and reporting, adherence to State Board policies and guidelines, and compliance with federal laws, regulations and grant provisions. The following programs were reviewed in the June audit:

- WorkFirst
- Perkins
- Basic Food Employment and Training (BFET).

The review tested student eligibility and participation as tied to the following: billings; travel, time and effort across all three programs; testing of billings and BFET 50/50 funds for administrative and participant reimbursements. In addition, sub-recipient monitoring for BFET was also conducted. The auditor reported no areas of concern and there were no recommendations.

Conclusions to the Ad Hoc Report on Recommendation 3

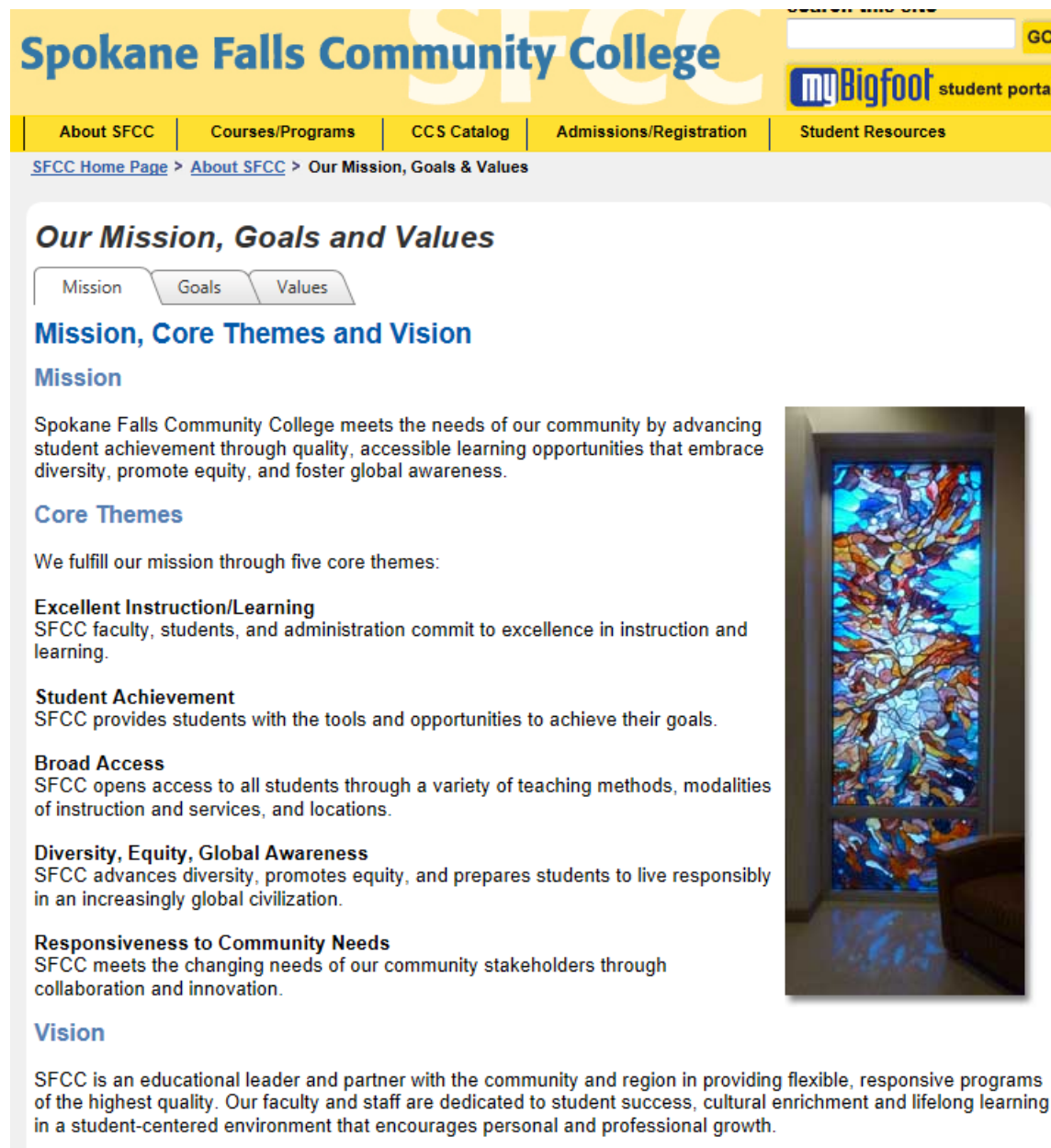
Upon hearing the five recommendations during the Exit Interview from Dr. Patrick Lanning, the Chair of the Year Seven Peer-Evaluation Team, there was only one recommendation which caused a significant amount of anxiety, and that was Recommendation 3. The reason for the anxiety was clear, the Washington State Board of Community and Technical College system of auditing was definitely not within the college's control, yet it was clear that SFCC was being held accountable and no excuse would change that. President Gullickson expressed this concern with NWCCU commissioners during the college's scheduled January 9th, 2014 Year Seven Comprehensive Evaluation meeting.

Fortunately for SFCC, the college was not alone. CCS Board of Trustees was not the only governing board to take this recommendation very seriously. The leadership at the SBCTC and the Washington Association of Community and Technical Colleges took assertive and expedient action to address and revise its auditing practices to comply with Eligibility Requirement 19 and Standard 2.F.7. With these statewide changes in auditing practices, Spokane Falls Community College is prepared to fully participate in the annual audit scheduled for January and February of 2015. CCS and SFCC leadership will use the results to help the college improve its fiscal planning practices. Given the two-year timeframe stipulated in the letter from NWCCU President Elman to resolve the issues addressed in

Recommendation 3, SFCC will have the results of its comprehensive audit and whatever actions steps taken towards improvement to offer as evidence in this timeframe.

SFCC leadership is committed to its fiduciary responsibilities and the need for accountability by being as efficient as it can be in offering the programs that best meet the needs of its community, an important part of mission fulfillment as expressed in SFCC's Core Theme 5, Responsiveness to Community Needs.

Mission and Core Themes



Spokane Falls Community College

Search and Site GO

myBigfoot student portal

About SFCC | Courses/Programs | CCS Catalog | Admissions/Registration | Student Resources

[SFCC Home Page](#) > [About SFCC](#) > [Our Mission, Goals & Values](#)

Our Mission, Goals and Values

Mission | Goals | Values

Mission, Core Themes and Vision

Mission

Spokane Falls Community College meets the needs of our community by advancing student achievement through quality, accessible learning opportunities that embrace diversity, promote equity, and foster global awareness.

Core Themes

We fulfill our mission through five core themes:

- Excellent Instruction/Learning**
SFCC faculty, students, and administration commit to excellence in instruction and learning.
- Student Achievement**
SFCC provides students with the tools and opportunities to achieve their goals.
- Broad Access**
SFCC opens access to all students through a variety of teaching methods, modalities of instruction and services, and locations.
- Diversity, Equity, Global Awareness**
SFCC advances diversity, promotes equity, and prepares students to live responsibly in an increasingly global civilization.
- Responsiveness to Community Needs**
SFCC meets the changing needs of our community stakeholders through collaboration and innovation.

Vision

SFCC is an educational leader and partner with the community and region in providing flexible, responsive programs of the highest quality. Our faculty and staff are dedicated to student success, cultural enrichment and lifelong learning in a student-centered environment that encourages personal and professional growth.

Figure 1.1: Mission and Core Themes on SFCC's website

Exhibits

Exhibits 1-1	SBCTC Email to Business Affairs Commission (BAC) on Annual Audit
Exhibits 1-2	Washington State Auditor’s Office – Community College Audit Update Presented to the Community College Budget Accounting & Reporting Council

Exhibit 1-1: SBCTC Email to Business Affairs Commission (BAC) on Annual Audit

From: bac-bounces@lists.ctc.edu on behalf of Joann Wiszmann <jwiszmann@sbctc.edu>
Sent: Wednesday, March 26, 2014 3:56 PM
To: 'bac@lists.ctc.edu'; Alison Grazzini-Smith; Amy Morrison Goings (amy.goings@lwtech.edu); Birmingham, Jack (jbermingham@highline.edu); Beth Gordon; Bob Knight (rknight@clark.edu); Chris Bailey (cbailey@lowercolumbia.edu); Johnson, Christine; Daryl Campbell (dcampbell@shoreline.edu); Dave Rule (dave.rule@bellevuecollege.edu); David Beyer (dbeyer@everettcc.edu); David Mitchell (dmitchell@olympic.edu); Denise Graham; Denise Yochum (dyochum@pierce.ctc.edu); Ed Brewster (brewster@ghc.edu); Eileen Ely (eely@greenriver.edu); Eric Murray (emurray@cascadia.edu); Gary Oertli (gary.oertli@seattlecolleges.edu); Jan Yoshiwara; Gullickson, Janet; Jean Hernandez (jean.hernandez@email.edcc.edu); Jill Wakefield; Jim Richardson (jrichardson@wvc.edu); Jim Walton (jwalton@centralia.edu); John Boesenberg; Julie Walter; Kathi Hiyane-Brown (khiyane-brown@whatcom.ctc.edu); Laura McDowell; Linda Kaminski; Lonnie Howard (lonnie.howard@cptc.edu); Luke Robins (lrobins@pencol.edu); Marty Brown; Marty Cavalluzzi (mcavalluzzi@pierce.ctc.edu); Mary Ellen Okeeffe (maryellen.okeeffe@seattlecolleges.edu); Michael Scroggins; Michele Johnson; Pamela Transue (ptransue@tacomacc.edu); Patricia McKeown (pmckeown@btc.ctc.edu); Paul Tracy Killpatrick (paul.killpatrick@seattlecolleges.edu); Rich Cummins (rcummins@columbiabasin.edu); Ron Langrell (rlangrell@bates.ctc.edu); Morgan, Scott; Morgan, Scott; Steve Hanson (shanson@rtc.edu); Steven VanAusdle (steven.vanausdle@wwcc.edu); Terry Leas (terryl@bigbend.edu); Tim Stokes (tstokes@spssc.edu); Tom Keegan (thomas.keegan@skagit.edu)
Subject: [BAC] Financial Statement Pilot Project Update - March 2014
Attachments: ATT00001.txt

Dear Presidents,

This message is also being sent to Business Officers.

I will be attending the BAR meeting and therefore am unable to attend WACTC. Nonetheless, I wanted to share a few key updates regarding the financial statement pilot project.

Move to Annual Audits

After discussions with WACTC OBC, the full WACTC, BAC members from the pilot colleges, BAC Operations Committee, and the full BAC, the consensus is to move to annual preparation and financial statements (rather than every other year). You may recall that the pilot group identified that the learning curve involved in preparing financial statements is considerable – and felt that preparing financial statements annually will make this much more manageable, especially as colleges begin to transition to ctclink.

Workload Impacts

In part due to the learning curve mentioned above, but also due to the technical demands of the project, the pilot group has experienced very significant workload impacts. Several of the pilot colleges are struggling to complete this work. Not only are these impacts more than we originally expected, we now realize that much of the impact will be ongoing. For most colleges, completing the statements is best overseen by existing employees with broad knowledge of the college's operations and finances. However, there is a considerable need for either additional hands to help prepare

the statements or for additional staff to backfill work that would otherwise be done by employees now engaged in preparing financial statements.

Your BAC members are in best position to determine the gap between their current staffing and future needs. For non-pilot colleges who are looking at their future needs, here are some dates to be aware of:

- Now – July 2014 – College personnel are reviewing SBCTC-provided list of things they can do to get ready – and incorporating as much as they can as they enter year-end closing
- August 2014 – State Board workshops: training on financial statement preparation tools
- September 2014 – BAR/BAC training session with GASB
- October – December 2014 – College personnel heavily involved in financial statements
- January 2015 - March 2015 – State Auditor’s Office most readily available to conduct audits

Independence of State Auditor

I periodically get questions about whether the State Auditor’s Office is sufficiently independent for their opinion on college financial statements to be acceptable under accreditation standards. The confusion may be the result of the different construction, roles and mission of auditor offices in various states. In Washington, the State Auditor is a state-wide elected position and meets the independence requirements of *Generally Accepted Government Auditing Standards* as published by the U.S. Government Accountability Office. I also contacted Sandra Elman, the Executive Director of NWCCU and verbally verified her understanding Washington SAO audits meet the “by professionally qualified personnel” element of the standard.

Audits of Foundations

I continue to get questions about why and how College Foundations are included in the college’s financial statements. As to why, there are two possible criteria that lead to including Foundations.

It is unlikely that any of the college foundations meet the “financially accountable” criteria:

- College appoints voting majority, and
- Can impose its will on Foundation, or
- Foundation is fiscally dependent (e.g. college approves Foundation budget) and provides significant financial benefit or burden on college

However, it is likely the foundations meet the “would be misleading to exclude” criteria:

- Based on nature and significance of relationship
- Legally separate, tax-exempt organizations should be reported if all conditions are met:
 - Economic resources received or held are entirely or almost entirely for the direct benefit of college and its constituents (students, faculty, staff), and
 - College is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the Foundation. (GASB explains in a footnote that they intend this as a broad concept, not about control, giving the example that if a college “historically received a majority of economic resources” provided by the Foundation, it then meets this element), and
 - Foundation’s resources are significant to the College.

As a result, almost all of the colleges will include Foundation financial statement information in their financial statements. The included Foundation information should be audited annually, allowing the State Auditor to rely on the work of other auditors.

As to how, we have three options for discrete presentation of Foundation financial information in the college’s financial statements.

Separate column on the face of the college’s financial statements

Since Foundations report under FASB and colleges report under GASB, this is awkward and results in certain line descriptions only applying to one or the other. For this inaugural financial statement for the colleges, the pilot group

thought this might be too difficult to explain to the financial statement readers, along with everything else that will need to be explained.

Include face of Foundation's statements in the college's financial statements, along with a note describing the relationship and how reader can get a full copy of the Foundation financial statements.

This is the least impact on workload.

Include a condensed version of the Foundation's statements in the notes to the college's financial statements (GASB defines minimum elements that must be included in the condensed data).

We looked at common practice among Washington's six public four-year colleges. All include their foundations as a component unit. One college blends their Foundation, five report discretely. Of those who report discretely, two use the columnar format, while three include the face of their Foundation's financial statements in their own. None use the condensed statement approach.

The pilot group has chosen the second option.

Please don't hesitate to contact me if you have any questions about the pilot project.

Joann Wiszmann
Interim Accounting Services Director
Washington State Board for Community and Technical Colleges
1300 Quince Street | PO Box 42495 | Olympia, WA 98504-2495
P: (360) 704-4380

Exhibit 1-2: Washington State Auditor's Office – Community College Audit Update - Presented to the Community College Budget Accounting & Reporting Council, May 29, 2014



Washington State Auditor's Office

Troy Kelley

Independence • Respect • Integrity

Community College Audit Update

**Community College Budget Accounting & Reporting Council
May 29, 2014**

**Jennifer Myers, CPA
Assistant Audit Manager, Team Financial Audit
Higher Education Specialist – Community & Technical Colleges**

Topics for Discussion

- Vision for the future
- Organizational changes
- Types of audits
- Who performs the audits
- How to prepare for an audit
- Financial audit process overview
- Common issues

Troy Kelley, State Auditor



- Three term legislator
- Chaired Joint Legislative Audit and Review Committee
- Led audit teams at SEC
- Worked on white collar crime in federal prosecutor's office
- State Auditor since 2013

Vision for the Future

- Creating a culture of continuous improvement.
- Enhancing the value of audit.
- Clear, fair and effective communication of audit results.
- Extending the reach of the Local Government Performance Center.

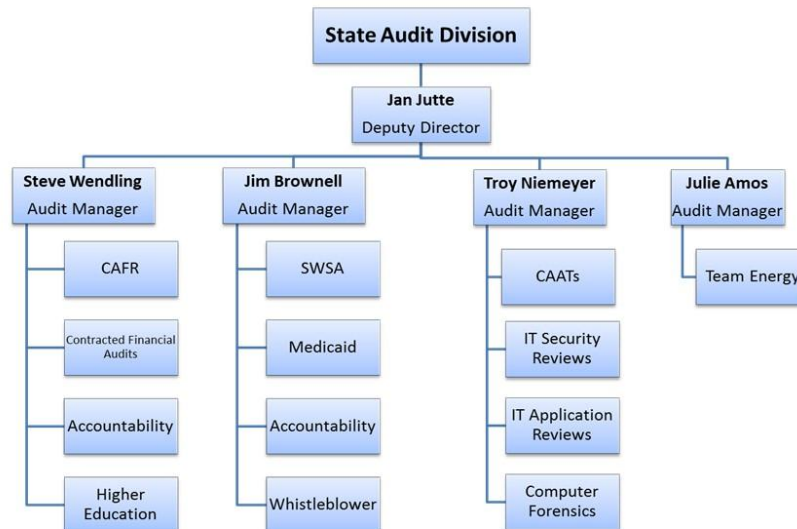


Organizational Changes

- Reorganization of State Audit Division.
- Beginning in fiscal year 2014, the State Auditor's Office began to shift back to the model of individual agency accountability audits.
- Reinstatement of multiple levels of audit issues (i.e. findings, management letters, exit items).



Organizational Changes



Types of Audits

State of Washington Comprehensive Annual Financial Report (CAFR)

- Includes higher education
- Community college line items
 - Cash
 - Charges for Services
 - Depreciable Assets
 - Grants & Contributions
 - Higher Education Expenses
 - Federal Grants-in-aid
 - Education Expenses

Types of Audits

Statewide Single Audit (SWSA)

- Includes higher education
- Student Financial Aid - Federal program selected for testing at the Community Colleges for fiscal year 2014 is
 - Colleges have not been selected for on-site testing



Types of Audits

Community College Financial Statement Audits

Contract to perform the following fiscal year 2013 audits:

- ❑ Clover Park Technical College
- ❑ Everett Community College
- ❑ Green River Community College
- ❑ Peninsula College
- ❑ Seattle Community College
- ❑ Shoreline Community College
- ❑ Skagit Valley College
- ❑ Tacoma Community College
- ❑ Walla Walla College

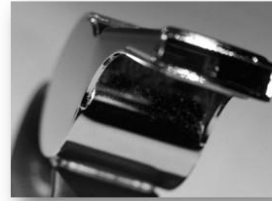
Types of Audits

Accountability Audits

- Risk based, agency specific
- During the 2014 Legislative session, we worked with OFM through the supplemental budget process to fund audit work at small state agencies.
- In the future, agency accountability audits will be cycled based on factors such as:
 - ❑ Prior audit issues.
 - ❑ Financial activity (revenues and expenditures).
 - ❑ Risk assessment through strategic audit planning.
- Audits will be conducted by Team Financial Audit and Local Audit teams.

Types of Audits

- **Fraud**
 - RCW 43.09.195 requires governments notify SAO of suspected or known loss.
- **Hotline**
 - Assertions of improper governmental action filed by citizens.
- **Whistleblower**
 - Assertions of improper governmental action filed by state employees.



Who Performs the Audits?

- **State CAFR**
 - Team Financial Audit – plan and lead the audit
 - Local audit teams - perform on-site testing
- **SWSA**
 - Team Single Audit & Whistleblower – plan and lead audit
- **Community College Financial Statement Audits**
 - Team Financial Audit – supervision, on-site testing
 - Local audit teams – perform on-site testing

Who Performs the Audits?

- **Accountability Audits**
- **Fraud**
- **Hotline**
 - Team Financial Audit and Local Audit teams
- **Whistleblower**
 - Team State Audit & Whistleblower



How to Prepare for a Financial Statement Audit

- **Plan for success**
- **Citizens expect that the Community College will:**
 - Safeguard funds
 - Spend funds wisely and for authorized purposes.
- **To meet these expectations consider:**
 - Tone at the top
 - Segregation of duties
 - Risk assessment
 - Monitoring, monitoring and more monitoring

Financial Statement Audit Overview

- Community College notifies SAO (Jennifer Myers) statements are ready.
 - Secured file transfer
- Coordinate when audit will start



Financial Statement Audit Overview: Planning Procedures

- Planning procedures to identify financial audit risks
 - Entity overview and COSO evaluation
 - Minutes review
 - Analytical procedures
 - Risk assessment inquiry
 - Financial audit planning conference
- Planning procedures to identify material account balances
 - Use qualitative and quantitative indicators
 - Financial statement assertion
 - Material system
 - Internal controls

Financial Statement Audit Overview

- Entrance conference
 - Invitation to Board members
 - Discuss scope and timing of audit

- Perform testing
 - Obtain reasonable assurance that the financial statements are free of material misstatement
 - Objective to plan the audit to gain sufficient appropriate audit evidence in support of the reports to be issued
 - Aggregation of errors/misstatements identified during audit

- Obtain attorney letter and management representation letter

Financial Statement Audit Overview

- Exit conference
 - Invitation to Board member
 - Discuss the results of the independent audit
 - Discuss significant difficulties, material misstatements or uncorrected misstatements

- Draft financial statement report and audit opinion
 - Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting in Accordance with Government Auditing Standards
 - Independent Auditor's Report on Financial Statements



Community College goal is to get an unqualified opinion on the financial statements. This means the auditor believes the financial statements are presented fairly, in all material respects.

Common Issues

The following issues were forwarded to me from the BAR group:

- Auditor space & equipment needs
- Access to FMS
- Reports to run in advance
- Who to invite to entrance and exit conferences
- Write-off policy approval, timing of writing off bad debts
- Service concession agreements

Common Issues

- Pension guidance
- Supporting documentation for financial statements
- Answering questions from auditors
- Additional financial statement notes
- Disclosure of leases held by the college as the lessor
- Scholarship discounts

Do you have any questions?



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