



*cutting through complexity*

# The City University of New York

2014 Audit Plan  
June 30, 2014

With You Today:

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June 2, 2014

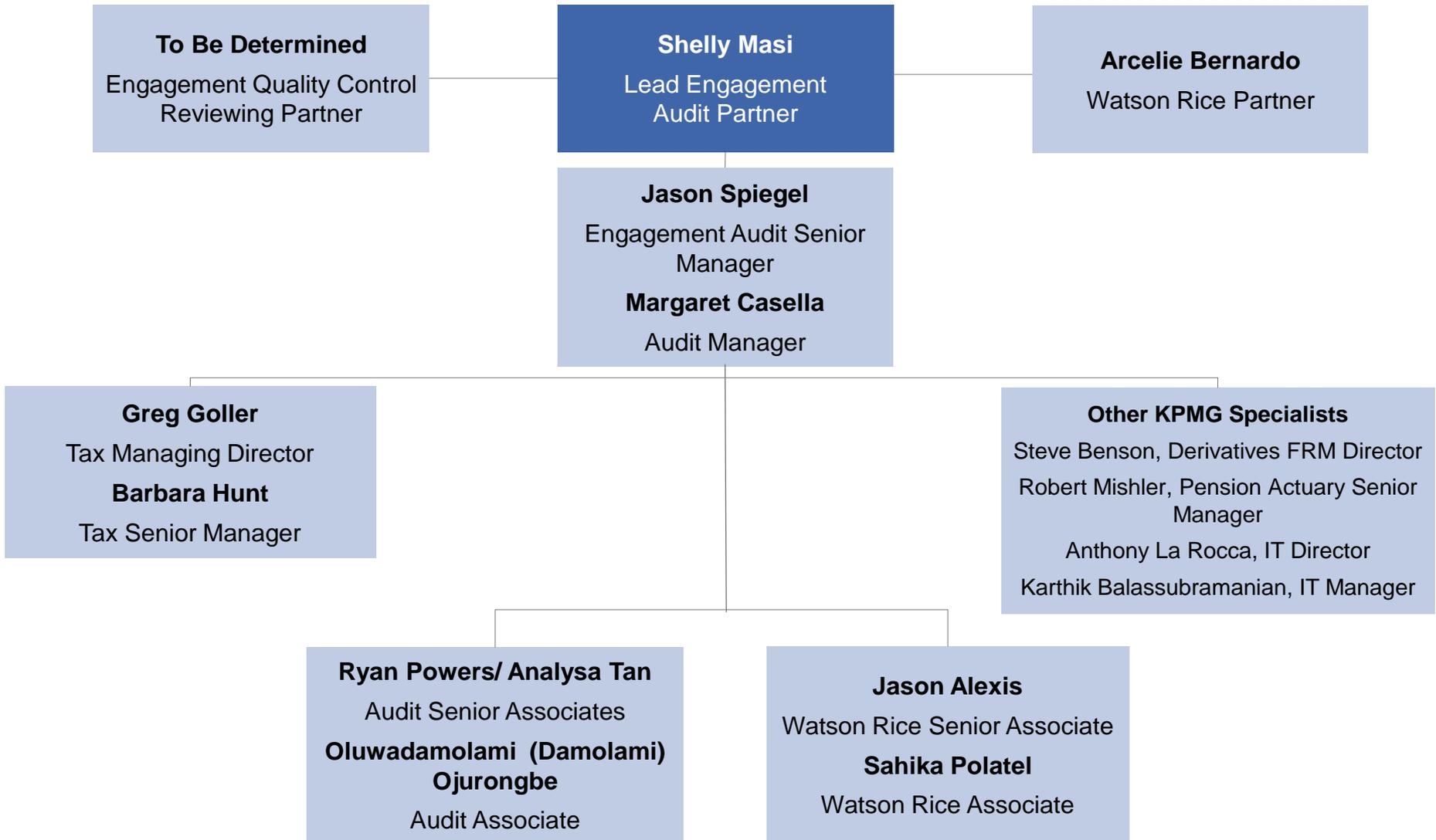
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# Client Service Team



# Objective of an audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion 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 (GAAP).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether from error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance.
- Our audit includes:
  - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement to provide a reasonable basis for our opinion.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall financial statement presentation.

# Responsibilities

## Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with GAAP
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- Identifying and confirming that the University complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing unrestricted access to person's within the entity from whom the auditor determines it necessary to obtain audit evidence
- Providing the auditor with a letter confirming certain representations made during the audit.

# Responsibilities (continued)

## The Audit Committee is responsible for:

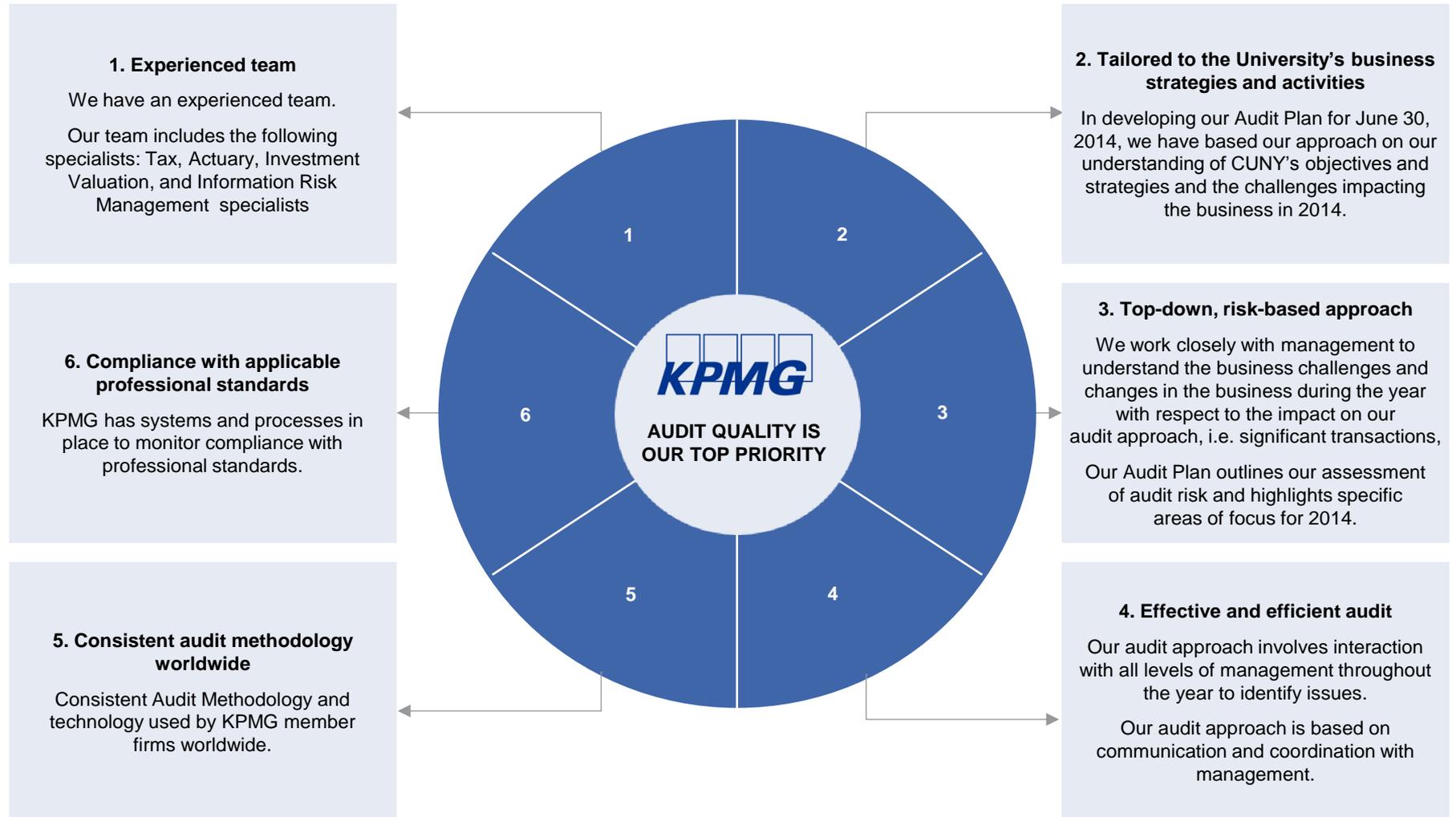
- Oversight of the financial reporting process and internal control over financial reporting (ICFR)
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

# Responsibilities (continued)

## KPMG is responsible for:

- Forming and expressing an opinion 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 with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards – auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*
- Complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and the relevant state boards of accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the audit committee all required information, including significant matters
- Communicating to the audit committee and management 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

# KPMG's audit approach and methodology



# KPMG's audit approach and methodology (continued)

## Technology Enables Audit Workflow

### Engagement Setup

- Tailor the eAudit workflow to your circumstances
- Access global knowledge specific to your industry

### Completion

- Form and issue audit opinion on financial statements
- Required communications to the audit committee
- Debrief audit process



### Risk Assessment

- Understand your business and financial processes
- Identify significant risks in your business
- Determine audit approach
- Evaluate design and implementation of your internal controls

### Testing

- Test effectiveness of your internal controls
- Perform substantive tests

# Audit plan – Scope

## Scope of work

- Auditors' report on the financial statements of the University as of and for the year ending June 30, 2014
- Auditors' report on the financial statements of the Senior Colleges as of and for the year ending June 30, 2014
- Auditors' report on the University's Federal awards in accordance with Government Auditing Standards issued by the Comptroller General of the United States and Federal OMB Circular A-133 for the year ending June 30, 2014
- Management letter summarizing our recommendations on improvements to internal accounting controls and operational efficiencies

# Audit plan – Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

# Audit plan – Timeline

June 2, 2014	Interim 6/2/14 – 8/14/14	Final for Financial Statements 9/8/14 – 10/31/14	November 2014	December 2014/ February 2015
<p>Review and approval of audit plan by Audit Subcommittee</p>	<p><u>Interim Fieldwork – June through August</u></p> <p>Perform campus visits and begin testing OMB Federal A-133 (see slide 12)</p> <p>Update understanding of accounting and reporting activities</p> <p>Evaluate design and implementation of selected controls, including IT general controls</p> <p>Test operating effectiveness of selected controls</p>	<p><u>Final Fieldwork</u></p> <p>Plan and perform substantive procedures</p> <p>Perform remaining audit procedures</p> <p>Form audit conclusions</p> <p>Discuss key issues with management</p>	<p>Attend Audit Committee meeting and perform required communications in accordance with SAS 114, <i>Communication with Audit Committees</i></p> <p>Debrief on audit process</p> <p>Issue report on financial statements for both the University and the Senior Colleges</p>	<p>Finalize procedures for the A-133 audit</p> <p>Issue management letter</p> <p>Issue A-133 report</p>

# Audit plan – College Visits

We plan to visit the Office of the University Controller as well as eight colleges. Each college is usually visited at least once every three years based on rotation requirements, changes in management, or results of previous visits.

The eight colleges identified to be visited during the 2014 audit are as follows:

- Hunter College
- John Jay College of Criminal Justice
- New York City College of Technology
- Graduate Center (including School of Journalism)
- College of Staten Island
- LaGuardia College
- Stella and Charles Guttman Community College
- School of Professional Studies

# Audit plan – College Visits

During the college visits, we review the following areas of operations:

**Tuition management** – this process includes registration, billing and collections of tuition and fees revenue, and application of financial aid to a student’s account.

**Cash management** – this process includes cash collection procedures and the process for preparing bank reconciliations.

**Procurement and property management** – this process includes procurement of capital assets and non-capital assets, tagging and disposal procedures, as well as general cash disbursement procedures for both unrestricted and restricted expenses.

**Information technology** – this process includes a description of the various college programs, access controls over these programs and interfaces between these programs, as well as with OUC programs.

**Human resources** – this process includes the approval of new hires and terminations and the recording of salaries and related benefits.

# Audit plan – Risk assessment for fraud

## 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 University'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

# Audit plan – Risk assessment for fraud (continued)

Fraud risks identified in planning	Impact on financial statements	Planned audit approach
<ul style="list-style-type: none"> <li>■ Risk of misstatement relating to revenue recognition</li> <li>■ Risk of management override of controls                             <ul style="list-style-type: none"> <li>– Journal entries and adjustments</li> <li>– Significant accounting estimates</li> <li>– Significant unusual transactions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Existence and accuracy of revenue</li> <li>■ Pervasive risks at the financial statement level</li> </ul>	<ul style="list-style-type: none"> <li>■ Revenue cut-off test work</li> <li>■ Journal entry test work</li> </ul>
<p>University specific risks – none noted</p>	<p>Not applicable</p>	<p>Not applicable</p>

# Audit plan – Auditing and accounting matters

Significant audit areas	Significant estimates	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> <li>■ Student tuition, fees and auxiliary revenue and related receivables</li> <li>■ Debt</li> <li>■ Capital assets</li> <li>■ Investments and related investment income</li> <li>■ Payroll and fringe benefits and all payroll and fringe benefit accruals</li> <li>■ Cash</li> <li>■ Financial reporting</li> <li>■ Appropriations from NYS and NYC</li> </ul>	<ul style="list-style-type: none"> <li>■ Classification of net assets</li> <li>■ Current vs. noncurrent classifications for assets and liabilities</li> <li>■ Presentation of scholarship allowance vs. expense</li> <li>■ Valuation of student accounts and student loans</li> <li>■ Valuation of OPEB liability</li> <li>■ Valuation of investments</li> <li>■ Valuation of swaps</li> </ul>	<ul style="list-style-type: none"> <li>■ Implementation of new GASB standards (see slide 20)</li> </ul>	<ul style="list-style-type: none"> <li>■ General information technology environment</li> <li>■ New system implementations</li> <li>■ Existing systems upgrade</li> <li>■ Systems integration</li> </ul>

# Audit plan – Auditing and accounting matters (continued)

## Other Audit Procedures

- Analytically review the statement of net position and statement of revenues, expenses and changes in net position account balances
- Review closing and post-closing entries
- Review financial statement disclosures for appropriateness and completeness
- Barbara Hunt, Tax Senior Manager, will conduct interviews with the University's personnel and review audit workpapers to identify any tax issues, as well as the University's conclusions on uncertain tax positions.
- Perform test work on the University's information technology general controls
- Perform test work on the University's entity level controls
- Review minutes of Board and selected committees
- Send legal letters to in-house counsel to determine litigation exposure and assess financial statement impact
- Review developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Review significant communications with regulators, if any

# Independence

Non-audit services or other relationships that may reasonably be brought to bear on independence include:

- None

In our professional judgment, we are independent with respect to the University, as that term is defined by the professional standards.

# Accounting and Regulatory Update

# Accounting pronouncements effective for fiscal year 2014

## ***GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees***

- Improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.
- Requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.
- Requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. Also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor.
- Specifies and requires new information to be disclosed by governments that receive nonexchange financial guarantees.
- Management of the University will need to assess the impact of this Statement on the 2014 financial statements in relation to its nonexchange financial guarantees.

# KPMG's Audit Committee Institute (ACI)

*Communicating with audit committees since 1999*

## Upcoming Events

- Annual Audit Committee Issues Conference

This conference brings together Audit Committee members from around the country to discuss challenges, practices, and priorities shaping Audit Committees and Board agendas.

Next conference which is about, *Governance Challenges and Priorities Driving the 2015 Agenda*, is scheduled for February 2-3, 2015, in Miami, Florida

- Semi-Annual Roundtables

The Audit Committee Roundtable Series is hosted biannually in more than 20 cities every spring and winter. These are highly interactive and panel driven, the roundtables explore critical audit committee and governance challenges.

Next roundtable series is scheduled for May/June 2014

- Audit Committee Quarterly Webcast Series

A quarterly webcast providing updates and insights into issues affecting Audit Committee/Board oversight – from key accounting and regulatory changes to developments in risk oversight.

Most recent webcast was held on March 27, 2014 (available on play back), *Consideration of Cyber Insecurity: How Safe Can the Company's Data Assets Be?*

## Resources

- *Audit Committee Insights* – U.S. and International editions (biweekly electronic publications): [www.kpmginsights.com](http://www.kpmginsights.com)
- ACI Web site: [www.auditcommitteeinstitute.com](http://www.auditcommitteeinstitute.com)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: 1-877-KPMG-ACI

# **Appendix 1 – Planned audit procedures**

# Appendix 1 – Audit procedures

Refer to fiscal 2014 audit plan attachment

# Appendix 2 – Publications



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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