



cutting through complexity

The City University of New York

2015 Audit Plan
June 30, 2015

With You Today:

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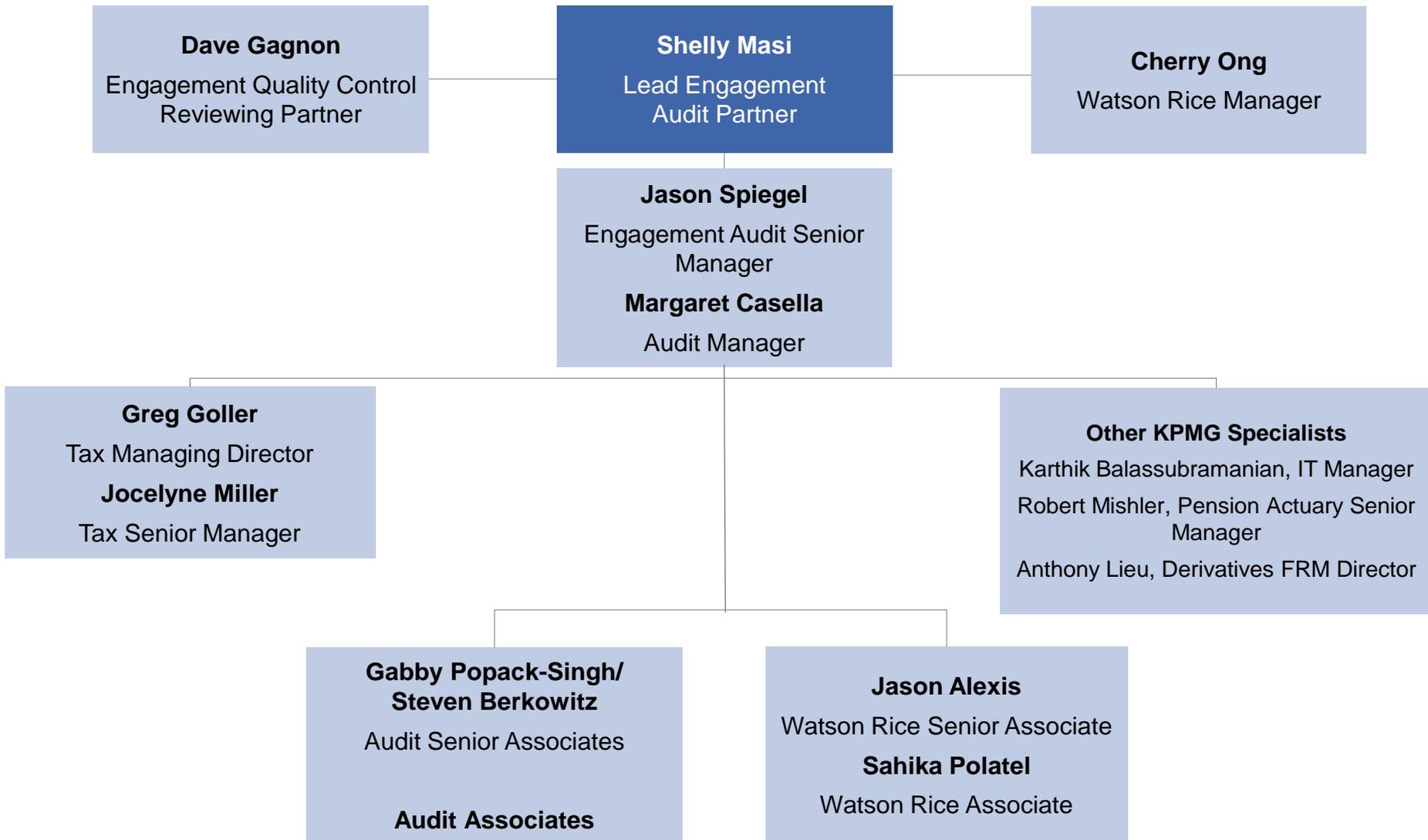
June 1, 2015

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Client Service Team



Client Service Team (continued)

Team member	Role
Shelly Masi	Lead Engagement Audit Partner with overall authority and responsibility for the audit engagement and key conclusions reached by the engagement team on all accounting and auditing matters
Dave Gagnon	Engagement Quality Control Review Partner, reviews all reports and other information on which KPMG will opine or attest, to help ensure that the form, content, and disclosures meet the latest firm and professional standards
Jason Spiegel and Margaret Casella	Engagement Audit Senior Manager and Engagement Audit Manager, serve as the day-to-day audit liaisons between the University and KPMG and are responsible for supervising the personnel performing the audit and reviewing all work performed by the senior associate and associates
Cherry Ong	Engagement Manager from Watson Rice, will be the Watson Rice contact and will work with Shelly to ensure the engagement is appropriately staffed
Gabby Popack-Singh and Steven Berkowitz	Engagement Senior Associates, responsible for the day-to-day operations of the engagement
Greg Goller and Jocelyne Miller	Tax Managing Director and Senior Manager, review CUNY's tax status and responsible for the coordination and delivery of all tax services

Client Service Team (continued)

Team member	Role
Karthik Balassubramanian	Engagement Information Technology and Advisory Services Manager, supports the core engagement team in the testing of the information technology general controls
Robert Mishler	Engagement Actuarial Senior Manager, assists engagement team in reviewing actuarial assumptions underlying the University's postretirement plan for reasonableness
Anthony Lleu	Engagement Financial Risk Management Director, reviews the valuations of CUNY's interest rate swap agreements

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 Subcommittee 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), including programs and controls to prevent, deter, and detect fraud
- Identifying and ensuring that CUNY complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- 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
- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit.

Responsibilities (continued)

The Audit Subcommittee 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, deter, and detect fraud

Management and the Audit Subcommittee are responsible for:

- 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 Subcommittee of their responsibilities.

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 Subcommittee 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 rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant Certified Public Accountant 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 Subcommittee all required information, including significant matters
- Communicating to management and the Audit Subcommittee 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

Technology Enables Audit Workflow

Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access higher education knowledge
- Team selection and timetable

Completion

- Perform overall evaluation of results and the financial statements
- Form and issue audit opinion on the financial statements
- Obtain written representations from management
- Required Audit Subcommittee communications
- Debrief audit process



Risk Assessment

- Understand your business and financial processes
- Identify significant risks
- Plan involvement of specialists and others including experts, internal auditors, and service organizations
- Determine audit approach
- Evaluate design and implementation of your internal controls

Testing

- Test effectiveness of internal controls, as applicable
- 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, 2015
- Auditors' report on the financial statements of the Senior Colleges as of and for the year ending June 30, 2015
- 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, 2015
- 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 misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
- 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 1, 2015	Interim 6/1/15 – 8/14/15	Final for Financial Statements 9/8/15 – 10/31/15	November 2015	December 2015/ January 2016
<p>Review and approval of audit plan by Audit Subcommittee</p>	<p>Perform campus visits and begin testing OMB Federal A-133 (see slides 14 and 15)</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>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 Subcommittee meeting and perform required communications in accordance with SAS 114, <i>Communications with Those Charged with Governance</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 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 2015 audit are as follows:

- Baruch College
- Lehman College
- Queens College
- York College
- School of Law
- Borough of Manhattan Community College
- Bronx Community College
- Kingsborough Community College

Audit Plan – College Visits (continued)

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

Student continuum– this process includes registration, billing and collections of tuition and fees revenue, and application of financial aid to a student’s account (financial statement audit), as well as compliance with such financial aid with federal rules and regulations (A-133 audit).

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

Facilities 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.

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

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.

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 Subcommittee 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 Subcommittee

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">■ Risk of misstatement relating to revenue recognition■ Risk of management override of controls<ul style="list-style-type: none">– Journal entries and adjustments– Significant accounting estimates– Significant unusual transactions	<ul style="list-style-type: none">■ Existence and accuracy of revenue■ Pervasive risks at the financial statement level	<ul style="list-style-type: none">■ Revenue cut-off test work■ Journal entry test work

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"> ■ Student tuition, fees and auxiliary revenue and related receivables ■ Appropriations from NYS and NYC ■ Debt ■ Capital assets ■ Investments and related investment income ■ Payroll and fringe benefits and all payroll and fringe benefit accruals ■ Cash ■ Financial reporting 	<ul style="list-style-type: none"> ■ Classification of net position ■ Current vs. noncurrent classifications for assets and liabilities ■ Presentation of scholarship allowance vs. expense ■ Valuation of student accounts and student loans ■ Valuation of OPEB and pension liabilities ■ Valuation of investments ■ Valuation of swaps 	<ul style="list-style-type: none"> ■ Implementation of new GASB standards (see slide 22) 	<ul style="list-style-type: none"> ■ General information technology environment ■ New system implementations ■ Existing systems upgrade ■ Systems integration

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
- Jocelyne Miller, 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 CUNY and its affiliates, as that term is defined by the professional standards.

KPMG maintains a comprehensive system of quality controls designed to maintain our independence

- Pre-approval of all worldwide engagements by the audit engagement team through Sentinel, a KPMG independence verification system
- Monitoring employment relationships
- Tracking partner rotation requirements using PRS, the firm's automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs
- Compliance testing programs
- Annual reporting to the Audit Subcommittee

Accounting and Regulatory Update

Accounting and Regulatory Update – New Accounting Pronouncements

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

- The provisions of this Statement are effective for CUNY's fiscal year 2015 financial statements.
- Objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions as well as the information provided by the plans to participating local employers for cost-sharing plans.
- Establishes standards for measuring and recognizing elements for financial reporting purposes as well as methods and assumptions used for actuarial purposes and calculation of benefits.
- Management will record an adjustment to opening net position for their portion of the net pension liability for the NYCERS and NYCTRS pension plans.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68

- The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68 (CUNY's fiscal 2015 financial statements).
- Addresses an issue regarding the application of the transition provisions of GASB Statement No. 68, related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Accounting and Regulatory Update – Federal Awards

The Office of Management and Budget (OMB) Issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards in December 2013*

- The guidance is in effect for all Federal awards or funding increments provided after December 26, 2014.
- Makes significant administrative changes to:
 - Procurement: Five prescriptive procurement methods
 - Pass-through Entities: Clarifies Federal expectations, including sub-recipient monitoring
 - Internal Control: Clarifies Federal expectations about establishing and maintaining effective internal control over compliance. Recommends compliance with COSO and Green Book.
- Consolidates cost principles for higher education institutions, state and local governments, and other not-for-profits.

Accounting and Regulatory Update – 2015 Higher Education Audit Committee Focus Areas

In addition to the Audit Subcommittee's core responsibilities with respect to financial reporting and internal controls, including review of external and internal auditor reports and recommendations, several risk areas are receiving attention from higher education audit committees.

Indeed, a February 3, 2015 article in the Wall Street Journal entitled *Meet the Corporate Board's 'Kitchen Junk Drawer': Workload of the Audit Committee Has Expanded Well Beyond Oversight of Financial Reporting*, suggests the following list of higher education risk focus areas will only continue to expand:

- Risk management and ERM
- Technology: cyber-security, privacy, disaster recovery, systems, and social media, and related governance
- Regulatory compliance, including research, clinical, Title IX, NCAA, etc.
- Institutional data integrity amid more outcome-driven and transparent environment
- Control implications of business transformation activities
- Managing conflicts of interest and related party transactions
- International activities
- Form 990 disclosures and other tax matters
- Re-evaluation of internal audit function and focus
- Executive succession planning
- Updating committee charter, responsibilities, effectiveness assessments, orientation content

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 2016 Agenda*, is scheduled for February 1-2, 2016, in San Francisco, California

- 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 Spring 2015

- 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 26, 2015 (available on play back), *The Shifting Geopolitical Landscape – Business Challenges and Board Considerations*

The next webcast is taking place on June 25, 2015.

Resources

- *Audit Committee Insights* – U.S. and International editions (biweekly electronic publications):

www.kpmginsights.com

- ACI Web site: www.auditcommitteeinstitute.com

- ACI mailbox: auditcommittee@kpmg.com

- ACI hotline: 1-877-KPMG-ACI

Appendix 1 – Planned Audit Procedures

Appendix 1 – Planned Audit Procedures

Refer to fiscal 2015 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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