

THE POWER OF BEING UNDERSTOOD

CITY COLLEGES OF CHICAGO

Presentation of the June 30, 2018 Audit with
RSM US LLP

November 14, 2018

Today's Agenda

- I. Audit Process
 - Audit Engagement Team
 - Scope of Services, Timeline and Status
- II. Required Communications
 - Auditor Responsibility
 - GASB Pronouncement Implementation
 - Significant or One-time Nonrecurring Transactions
 - Management's Judgment and Accounting Estimates
 - Other Required Communications
 - Summary of Recorded Audit Adjustments
- III. Internal Audit
- IV. Other Items Discussed With Management – Student Accounts Receivable Allowance
- V. Internal Control Matters
- VI. Single Audit Findings

Audit Engagement Team

- Joe Evans, Partner
- Kelly Kirkman, Senior Manager
- Jeff Slade, Manager
- Ronnie Christopher, Senior In-Charge
- Michelle Horaney, Concurring Review Partner
- Subcontractors
 - MBE: Prado & Renteria (25%)
 - WBE: Benford Brown and Associates, LLC (7%)
- City Colleges' internal audit staff

Scope of Services, Timeline and Status

Scope of Services and Completion Dates

Area	Completion Dates
Comprehensive Annual Financial Report (CAFR)	October 15, 2018
Examination of ICCB Schedule of Enrollment	October 15, 2018
Illinois Community College Board (ICCB) Grant Financial and Compliance Audits	October 15, 2018
Treasury Agreed-Upon Procedures	October 15, 2018
Two Program Specific Grant Audits	October 15, 2018
Youth Connections Charter School In Relation To Opinion	October 15, 2018
Single Audit Report	October 15, 2018
Single Audit Reporting Package (Data Collection Form Submission)	October 15, 2018

Auditor's Responsibility

- Our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated March 26, 2018
 - To express an opinion on financial statements prepared by management,
 - To obtain evidence about amounts and disclosures in the financial statements,
 - To plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- We have issued an unmodified opinion on City Colleges' June 30, 2018 financial statements

Table option with text

- City Colleges adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018
- This standard replaces the requirements of GASB Statement No. 45 and established new accounting and financial reporting requirements for OPEB plans.
- Implementation of this standard enhanced the College's transparency over financial reporting by requiring recognition of the entire OPEB liability and a comprehensive measure of OPEB expense.
 - The following has been disclosed in this year's financial statements:
 - The College restated its opening net position in the amount of \$75,547,361, due to implementation of this standard.
 - The College recorded Deferred Inflows of Resources in the amount of \$25,626,422, due to implementation of this standard.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. You may wish to monitor throughout the year the process used by management to compute and record the following accounting estimates reflected in City Colleges' financial statements:

- Property tax allowance
- Accrued property tax refunds
- Allowance for uncollectible student tuition
- Actuarially determined liabilities: other postretirement benefit obligations (OPEB)
- Fair value of investment securities
- Defined benefit pension liability (cost-sharing plan)

Other Communications Required by Generally Accepted Auditing Standards

Area	Comments
Adoption of, or Changes in, Accounting Policies	During the year ended June 30, 2018, City Colleges implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other than Pensions</i> , which required a restatement of opening net position.
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to being our audit.
Passed Adjustments	<p>We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial. The following items were determined by management to be immaterial and were omitted from the financial statements:</p> <p>Based on our internal review of City Colleges' OPEB actuarial valuation, we determined the opening net position is overstated by \$3,300,000. This overstatement is due to changes in the actuarial assumptions, resulting in an understatement of current year income by \$800,000. The remaining deferred inflow of \$2,500,000 will be amortized over 4.13 years.</p>

Other Communications Required by Generally Accepted Auditing Standards, cont.

Area	Comments
Preferability of Accounting Policies and Practices	Under GAAP, in certain circumstances, management may elect among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.
Alternative Treatments Discussed With Management	We noted no alternative treatments within GAAP for accounting policies and practices related to material items that were discussed with management during the current period.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Other Communications Required by Generally Accepted Auditing Standards, cont.

Area	Comments
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Significant Written Communication Between Management and Our Firm	A copy of a significant written communication between our firm and the management of City Colleges, the representation letter provided to us by management was attached as Exhibit A to the SAS 114 Report.

Internal Audit

- Great working relationship with Internal Audit
 - Internal audit staff provided assistance in the following areas
 - Campus visits
 - Testing of expenditures over the campus agency accounts
 - Program specific grant expenditure testing
 - Adult education state grant expenditure testing

Other Items Discussed with Management– Allowance for Student Accounts Receivable

- For any outstanding receivable balances less than 365 days, City Colleges records an allowance for uncollectible student accounts. Balances in excess of 365 days past due are written off.
- City Colleges calculates the allowance for student accounts receivable as follows:
 - For the past 5 fiscal years, City Colleges calculates its actual write-offs as a percentage of total student accounts receivable balances
 - This rate is applied against City College's ending student accounts receivable balance

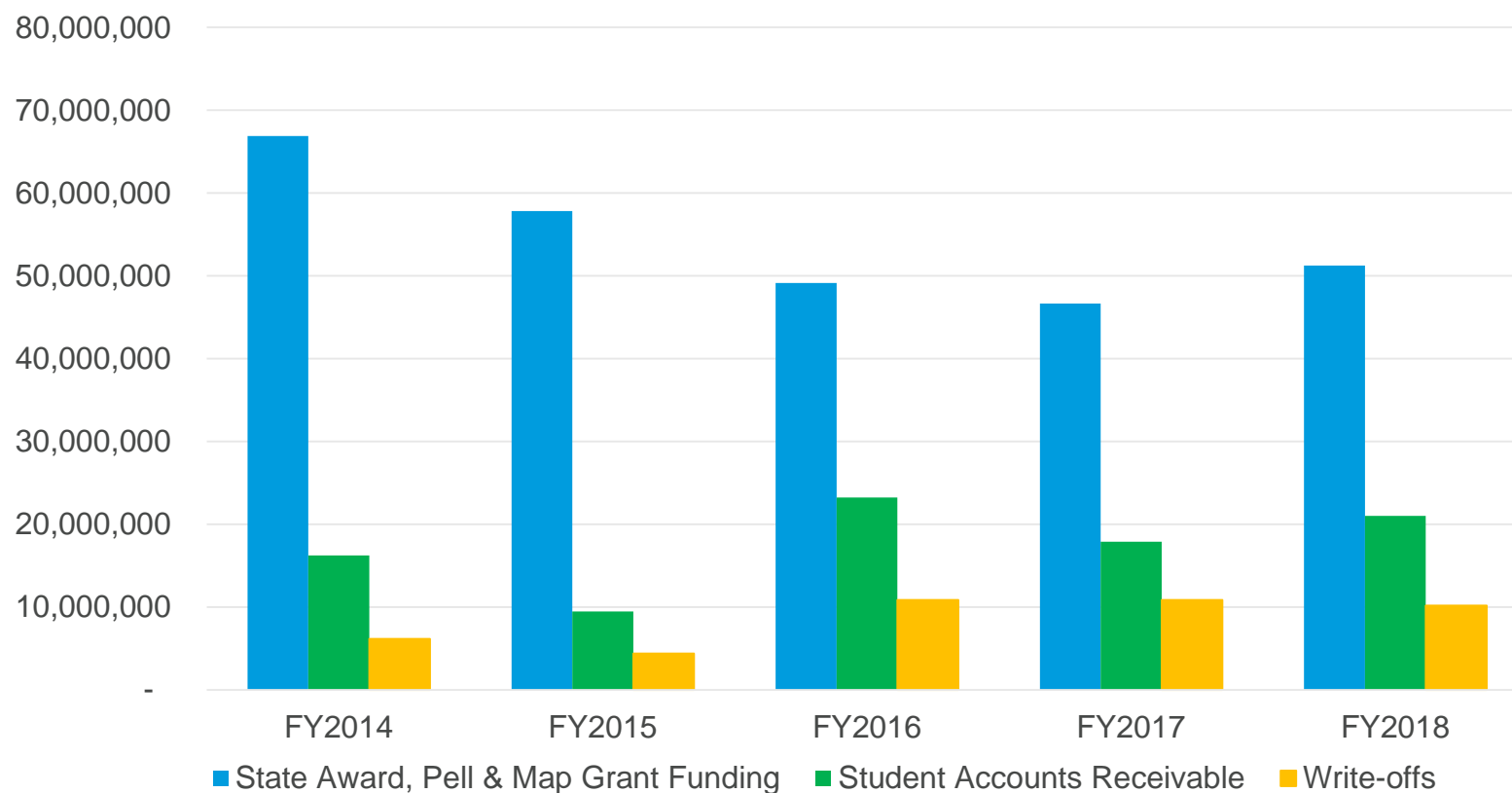
Other Items Discussed with Management– Allowance for Student Accounts Receivable (Continued)

Description	FY 2017	FY 2018
Student Receivable Balance	\$17,910,791	\$21,038,532
Allowance	\$7,281,559	\$9,166,848
Percentage	40.65%	43.57%
Bad Debt Expense	\$9,539,751	\$10,431,521
Write-Offs During the Year	\$10,864,927	\$10,209,093

Reasons for the increase in bad debt expense:

- Students are allowed to enroll with prior accounts receivable balances
- No 3rd party collection activity during the year
- Students are allowed to register and attend classes without making tuition payment arrangements
- The College does not automatically drop students who are in default or have delinquent account balances

Impact of Grant Funding Over Student Receivables and Bad Debt Write-offs



Note: Writeoffs occur in the following reporting period, thus the amount written off in FY2018 is based on FY2017 student account balances that have not been collected.

Internal Control Observations

- No material weaknesses were reported in FY 2018
- No significant deficiencies were reported in FY2018

Single Audit Findings

- RSM identified the following findings which were required to be reported in accordance with 2 CFR 200.516(a):
- 2018-001, Eligibility–
 - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
 - City Colleges was unable to provide verification documents for one student who was selected for verification testing.
 - The finding related to one out of forty students selected for testing.

Single Audit Findings (Continued)

- 2018-002, Use of Federal Work Study Funds—
 - During review of the Federal Work Study (FWS) program during the Student Financial Aid audit, RSM noted the following:
 - City Colleges did not employ a reading tutor at one out of the seven campuses
 - This finding related to one out of seven campuses
- 2018-003, Enrollment Reporting—
 - During testing over Student Financial Aid enrollment reporting, RSM noted the following:
 - RSM identified three instances where status changes were not recorded to the National Student Loan Data System (NSLDS)
 - This finding related to three out of forty students tested

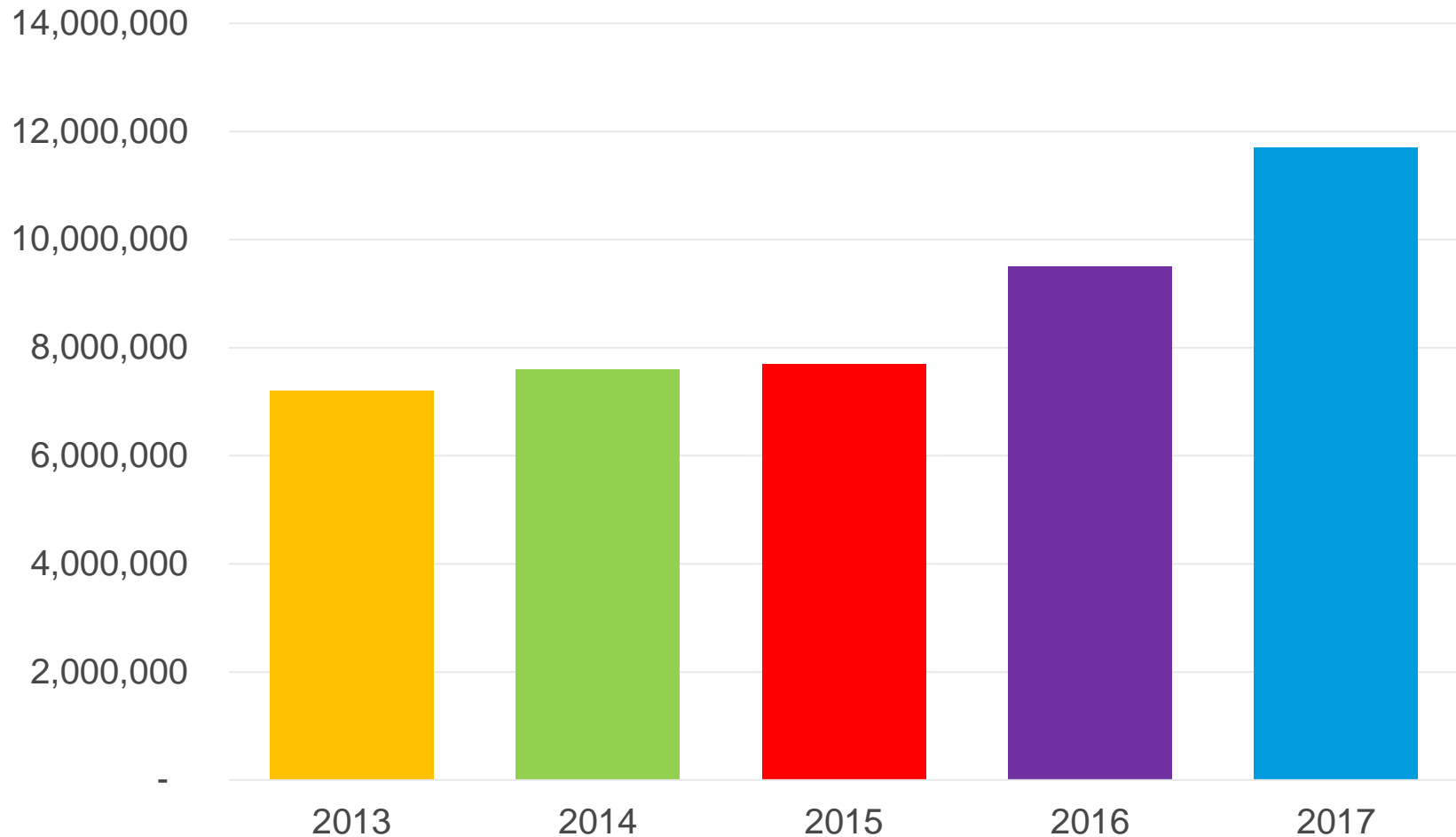
Single Audit Findings (Continued)

- 2018-004, Reporting -
 - During review of the Career and Technical Education- Perkins III and Perkins Leadership programs, RSM noted the following:
 - City Colleges was not in compliance with a reporting requirement that required City Colleges to submit quarterly reports (when applicable).
 - The Perkins Leadership program was applicable only for the first two quarters of the fiscal year. City Colleges did not submit either quarterly report by the ICCB deadline.
- City Colleges has provided RSM with corrective action plans for findings 2018-001 through 2018-004

Importance of Data Security

- In 2017, global cybercrime cost between \$445 to \$608 billion.
- In the United States, the number of data breaches & records exposed continues to grow annually with over 1,500 known data breaches resulting in the exposure of 179 million records in 2017.
- In 2017, the average cost of cybercrime was \$3.6 million for smaller organizations and \$16.8 million for larger organizations

Global Average Cost of Cybercrime by Year



Common IT Threats

- **Phishing:** Hackers produce phony web pages or emails trying to trick users into thinking they are a trusted site to obtain user names, passwords, credit card numbers and other sensitive information. Approximately 92% of malware is delivered through email
- **Spyware:** Software that is secretly installed without user's consent that monitors user activity or interferes with user control over a computer
- **Ransomware:** Prevents users from accessing their system or personal files and demands ransom payment in order to regain access

IT Data Security Measures to Take

- Uniform implementation of security measures and investment in defensive technologies
- Double your efforts over areas protecting critical and/or confidential information
- Develop a college-wide culture of IT security through regular training of personnel and staying up to date on recent threats
- 2-step password authentication

In Conclusion

- Smooth audit process overall
 - Worked closely with management and internal audit
- Reports filed timely
- Thanks to everyone for their hard work!



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