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AUDIT | TAX | CONSULTING



# CITY COLLEGES OF CHICAGO

Presentation of the June 30, 2019 Audit with  
RSM US LLP



**November 2019**



# 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
- Mike O'Brien, Internal Report 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 17, 2019
Examination of ICCB Schedule of Enrollment	October 17, 2019
Illinois Community College Board (ICCB) Grant Financial and Compliance Audits	October 17, 2019
Treasury Agreed-Upon Procedures	October 17, 2019
Two Program Specific Grant Audits	October 17, 2019
Youth Connections Charter School In Relation To Opinion	October 17, 2019
Single Audit Report	October 17, 2019
Single Audit Reporting Package (Data Collection Form Submission)	October 17, 2019

# 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 April 23, 2019
  - 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, 2019 financial statements

# 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
<b>Adoption of, or Changes in, Accounting Policies</b>	During the year ended June 30, 2019, City Colleges did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.
<b>Audit Adjustments</b>	Audit adjustments, other than those that are clearly immaterial, proposed by RSM and recorded by City Colleges are shown below. <ul style="list-style-type: none"><li data-bbox="716 724 1906 753">• Year-end accounts payable adjustment: decrease in expense of \$430,310</li><li data-bbox="716 764 1787 837">• Adjust grant revenue to correct error in recording of cash receipts: decrease in revenue of \$632,814</li></ul>



# Other Communications Required by Generally Accepted Auditing Standards, cont.

Area	Comments
<b>Passed Adjustments</b>	<p>We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial. The following disclosures were determined by management to be immaterial and were omitted from the financial statements:</p> <ol style="list-style-type: none"><li data-bbox="716 630 1906 829">1) GASB Statement No. 68 requires the disclosure of a sensitivity analysis of the net pension liability, as well as deferred inflows and outflows of the plan. City Colleges omitted these disclosures in the notes to the financial statements for the State University Retirement System pension plan. Since the plan is a special funding situation, City Colleges' liability is \$0.</li><li data-bbox="716 837 1906 992">2) The worker's compensation liability at year end is classified as a current liability, when a portion should be a long-term liability. Additionally, the accrued property tax refund liability is classified as a long-term liability when a portion should be a current liability.</li><li data-bbox="716 1000 1906 1122">3. City Colleges uses the National Association of College and University Business Officers (NACUBO) guidance for calculating scholarship allowance and financial aid expenses, which is not authoritative in nature.</li><li data-bbox="716 1130 1906 1240">4. The OPEB actuarial valuation performed as of the beginning of the year contained an error of approximately \$2.5 million that was corrected during the current fiscal year. Beginning balances were not restated.</li></ol>

## Other Communications Required by Generally Accepted Auditing Standards, cont.

Area	Comments
<b>Preferability of Accounting Policies and Practices</b>	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.
<b>Alternative Treatments Discussed With Management</b>	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.
<b>Disagreements With Management</b>	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.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

## Other Communications Required by Generally Accepted Auditing Standards, cont.

Area	Comments
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.  Due to turnover in the Student Financial Aid Office, we encountered delays in the completion of the Student Financial Aid Audit.
<b>Significant Written Communication Between Management and Our Firm</b>	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 – Truman, Olive Harvey, Harold Washington, and Wilbur Wright
    - Innovative Bridge state grant expenditure testing
    - Program Specific grant expenditure testing
      - Re Enrolled Student Program Grant
      - Youth Scholar Skills & Service Grant

## 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 2018	FY 2019
Student Receivable Balance	\$21 million	\$19.3 million
Allowance	\$9.2 million	\$8.7 million
Percentage	43.57%	45.12%
<b>Bad Debt Expense</b>	<b>\$10.4 million</b>	<b>\$5.9 million</b>
<b>Write-Offs During the Year</b>	<b>\$10.2 million</b>	<b>\$8.1 million</b>

Reason for the decrease in bad debt expense:

- Payment deadline implemented for students to pay or demonstrate a way to pay tuition
- No show withdrawal policy implemented (students charged flat fee of \$200)

## Internal Control Observations

- No material weaknesses over financial reporting or major programs were reported in FY 2019
- No significant deficiencies over financial reporting were reported in FY2019
- A significant deficiency over major programs was reported in FY 2019
- Written internal control deficiencies reported for the Foundation in FY2019

## Internal Control Observations (continued)

- Management letter - Foundation Internal Control Deficiencies
  - Scholarships: process of student scholarships awarded by the Foundation needs to be more timely
  - Donor restrictions: we noted that donor restrictions are tracked manually on a worksheet with over 370 lines representing donors and over 1,000 restrictions. We recommend the Foundation explore options to automate this process



# Single Audit Findings

- Summary of prior year audit findings
  - Student Financial Aid
    - 2018-001 Eligibility
      - Corrected
    - 2018-002 Federal Work Study Funds
      - Corrected
    - 2018-003 Enrollment Reporting
      - Uncorrected – additional instances of non-compliance identified in FY 2019. See repeat finding 2019-003
  - Career and Technical Education (CTE)
    - 2018-004 Reporting
      - Corrected

## Single Audit Findings (continued)

- RSM identified the following findings for fiscal year 2019 which were required to be reported in accordance with 2 CFR 200.516(a):
- **2019-001** Short Term Programs at Postsecondary Vocational Institutions (Internal Control Significant Deficiency and Compliance Finding)
  - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
    - City Colleges did not track placement information and document its calculation for placement rates for each student enrolled in a short-term program at a post-secondary vocational institution

## Single Audit Findings (Continued)

- **2019-002** Return of Title IV Funds - Post-withdrawal disbursements (Compliance Finding)
  - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
    - City Colleges did complete a post-withdrawal disbursement within 45 days from the student's withdrawal date of determination
    - Prevalence: 3 out of 60 students selected
    - Campus: Malcolm X and Wilbur Wright
    - Cause: oversight at the campus level

## Single Audit Findings (Continued)

- **2019-003** Return of Title IV Funds - Enrollment Reporting (Compliance Finding and Internal Control Deficiency)
  - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
    - City Colleges did not report status changes to the National Student Loan Data System (NSLDS)
    - Prevalence: 4 out of 60 students selected
    - Campus: Malcolm X, Kennedy King, Harold Washington, and Wilbur Wright
    - Cause: the financial aid office does not have an effective system in place to ensure all official student status changes are reported to the lender in a timely manner.

## Single Audit Findings (Continued)

- **2019-004** Return of Title IV Funds - Reporting Disbursement to COD (Compliance Finding)
  - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
    - City Colleges did not report timely the student's post-withdrawal disbursement to the Common Origination and Disbursement (COD) system within 15 days after making the disbursement to the student
    - Prevalence: 2 out of 60 students selected
    - Campus: Kennedy King and Truman
    - Cause: oversight at the campus level

## Single Audit Findings (Continued)

- **2019-005** Return of Title IV Funds - Return of Funds (Compliance Finding)
  - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
    - City Colleges did not return federal funds to the Department of Education within 45 days from the student's withdrawal date of determination
    - Prevalence: 1 out of 60 students selected
    - Campus: Wilbur Wright
    - Cause: oversight at the campus level
- **2019-006** Direct Loan Quality Assurance System (Compliance Finding)
  - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
    - City Colleges does not have a formally documented direct loan quality assurance process

## Single Audit Findings (Continued)

- **2019-007 Exit Counseling (Compliance Finding)**
  - During review of City Colleges' Federal Student Financial Aid program, RSM identified the following:
    - City Colleges did not provide exit counseling materials to students within required 30 day timeframe
    - Prevalence: 4 out of 20 students selected
    - Campus: Kennedy King, Olive Harvey, and Malcolm X
    - Cause: the financial aid office does not have an effective system in place to ensure exit counseling materials are provided to students in a timely manner.
- City Colleges has provided RSM with corrective action plans for findings 2019-001 through 2019-007

## 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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