KPMG

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Report to the audit committee

Fiscal Year 2013 Audit Results

April 7, 2014

Agenda

- Introductions
- Summary of 2013 audit results
- Required communications to the committee
- Audit observations and recommendations

Summary of 2013 audit results

Scope of services	Results
Financial Statement Audit – Independent Auditors' Report	Unmodified opinion issued
Report on Internal Control over Financial Reporting	Three (3) materials weaknesses noted: ▪ Ineffective Banner General Information Technology Controls – Lack of controls over financial reporting ▪ Lack of controls over financial reporting ▪ Lack of controls over Compliance with Investment Policy
Report on Compliance and Other Matters	One material weakness noted: ▪ Lack of controls over Compliance with Investment Policy

Key accounting and disclosure matters

Disclosure	Reference in financial statements
Cash and cash equivalents	Note 3
Investments	Note 5
Capital assets	Note 6
Commitments and Contingencies	Note 8

Findings (excluding Information Technology)

Severity of Finding	Issue	Description
Material weakness	Litigation contingency	■ Thorough analysis of litigation contingencies was not performed. Case in arbitration was initially classified as reasonably possible with range of loss of \$2.3M to \$4.5M and later reclassified to probable with range of loss of \$2.6M to \$7.6M. ■ Litigation liability not determined in accordance with GAAP.
	Inaccurate Accrued Leave	■ Accrued leave balance incorrectly included leave for 52 teaching faculty ineligible for accruing leave.
	Unsupported Restricted Cash and Net Position Balances	■ No documentation provided to support: – \$650,000 in restricted cash in footnote 3. – \$187,000 in nonexpendable net position.
	Unsupported Revenue Balance	■ Over-accrual of prior year (FY2012) expense is recorded as revenue in fiscal year 2013.
	Classification of deferred revenue and grant receivable	■ Balances pertaining to certain grants and contract receivable amounts should have been recorded as deferred revenue.

Findings (excluding Information Technology) (continued)

Severity of Finding	Issue	Description
Material weakness	Lack of controls over compliance with investment policy	■ The University invested $3.3 million in corporate bonds and $600,000 in international bonds. These are not authorized per investment policy. ■ The University has $5.2 million, or 59.03%, of its fixed income investment portfolio invested in investments with a rating below an 'A' from a nationally recognized rating agency. Of this amount, $2.5 million in investments were not rated. The amount exceeds the Investment Policy's 25% limit, or $2.2 million, for fixed income investments rated below an 'A' by 34.03% or approximately $3 million. ■ The University had $2.7 million, or 6.96%, of its total investment portfolio invested in the alternative assets class within a single fund manager. The amount exceeds the Investment Policy's 5% limit for alternative investments held within a single fund manager, by 1.96% or $753,000. ■ The University has $12.5 million, or 29.38%, of its total investment and endowment funds invested in alternative trading strategies (limited partnerships). The amount exceeds the Investment Policy's 26% limit for alternative trading strategy asset class, by 3.38% or $1.44 million.

Information technology findings

Prior year Banner findings remediation testing

Severity of Finding	Issue	FY2013 Update
Material weakness	Generic accounts not properly monitored / controlled.	■ Procedures defined and implemented to approve, log, and track the use of one of the accounts (BANSECR) with administrative access at the application and database levels; Documented approval for use of this account not consistently evidenced. ■ For other generic accounts, controls still not in place to either (a) log and monitor the activities taken under these accounts or (b) rotate the passwords on a periodic basis.
	Segregation of duties: Two University developers held access to production database. No procedures in place to monitor or document developers access.	■ Issues consistent to those identified in prior year testing.
	Banner access review process not consistently performed or documented and not comprehensive of the entire Banner community.	■ Stakeholders for each of the Banner systems were defined and access granted to the application objects under the stakeholder's purview was communicated in March 2013. ■ The review was not performed in a timely manner for certain Banner entities.

Non-GAAP policies

Non-GAAP policy identified	Impact on financial statements in 2013
Cash basis recognition for parking fees and other operating revenues	Immaterial impact on financial statements
Accruing 50% of maximum range of cases classified as probable and reasonable possible	Audit difference identified - $2,956K
Over accrual of prior year costs recognized as revenue in current year	Audit difference identified - $439K

Required communications to the University of the District of Columbia audit committee

Note: This information is intended for the information and use of the Audit Committee and management of the University of the District of Columbia and should not be relied upon by other parties.

Required disclosures to audit committee

Items to be communicated	KPMG response
■ *KPMG's Responsibility Under Professional Standards*. The auditor should communicate the level of responsibility assumed for the financial statements and internal control as part of the audit.	■ To express an opinion on the financial statements as to their conformance with generally accepted accounting principles. ■ To provide reasonable, not absolute, assurance of detecting material misstatements, whether caused by error or fraud. ■ To gain a basic understanding of the internal control over financial reporting to the extent necessary to render our opinion on the financial statements. ■ To advise the Committee of any illegal acts or fraud, unless clearly inconsequential, of which we become aware (none to report).
■ *Accounting Practices and Alternative Treatments*. The auditor should ensure that the Committee is informed about the selection of and changes in significant accounting policies, as well as the methods used to account for any significant and unusual transactions, or transactions for which there may be lack of authoritative guidance or consensus.	■ The more significant accounting policies are described in note 2 to the financial statements.

Required disclosures to audit committee (continued)

Items to be communicated	KPMG response
Management Judgments and Accounting Estimates. The Committee should be informed about particularly sensitive accounting estimates and about the basis for the auditors' conclusions regarding the reasonableness of those estimates.	We evaluated the key factors and assumptions used by management in making the following accounting estimates and judgments that were significant to the financial statements, and concluded that each appeared reasonable: – Allowances for doubtful accounts – Useful lives of capital assets – Litigation and contingencies allowance – Fair value of investments
Audit Adjustments. Adjustments arising from the audit that could have a significant effect on the financial reporting process should be communicated to the Committee.	The audit team did not identified any audit adjustments to be recorded by management in the financial statements.

Required disclosures to audit committee (continued)

Items to be communicated	KPMG response
■ *Uncorrected Audit Differences.* The Committee should be informed about proposed audit adjustments not recorded that were determined by management to be immaterial.	The audit team identified ten audit differences which were not recorded by management in the financial statements as they were determined by management to be immaterial: ■ To correct grants receivable balance for negative accounts receivable included in accounts receivable - $334K ■ To correct inaccurate accounts receivable balance due to inter-department balances incorrectly included in accounts receivable - $880K ■ To record the impact of alternative investments assets being reported on a1 month lag as of September 30, 2013 - $175K ■ To correct accrued leave balances which included ineligible employees in the yearend accrued leave balance- $177K ■ Non-GAAP policy: To evaluate impact of not recording the contingent litigation liabilities balance in accordance with GASB 62 - $2,956K ■ Non-GAAP policy: To evaluate impact of prior year over-accrual of expenses recorded as revenue in the current year - $439K ■ To remove unsupported restricted cash to unrestricted cash (footnote only) - $650K ■ To remove unsupported restricted nonexpendable balances from net position - $187K ■ To correct grant expenses which were not recorded in the correct fiscal year - $511K ■ To record impact of incorrect allowance for doubtful accounts balance - $889K

Required disclosures to audit committee (continued)

Items to be communicated	KPMG response
■ *Our Responsibility for Other Information in Documents Incorporating the KPMG Opinion on the Financial Statements*. Our responsibility is to read other public documents containing the audited financial statements and evaluate whether the additional information presented is materially consistent with the audited financial statements, prior to consenting to the use of our opinion in such public documents.	■ We have read the other information included in the University's financial statements (MD&A) and no matters came to our attention that cause us to believe that such information, of its manner of presentation, is materially inconsistent with the information, or manner of presentation, appearing in the financial statements.
■ *Management's Consultation with Other Accountants*. The Committee should be informed if management sought opinions on accounting or auditing matters from other independent accountants.	■ To the best of our knowledge, there has been no consultation with other independent accountants subject to professional disclosure requirements.

Observations and recommendations

Observation	Recommendation
Applicability of Filing Form 990T	Determine the need to file 990T
Filing of Forms 8865 or 926	Determine the need to file delinquent tax forms with IRS

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