

Northwest Commission on Colleges and Universities

8060 165th Avenue N.E., Suite 100

Redmond, WA 98052

## Special Report

March 11, 2016

Submitted by:



## TABLE OF CONTENTS

Introduction.....	
Recommendation #4.....	2
Background.....	2
Action.....	3
Conclusion.....	5

## INTRODUCTION

Peninsula College is one of 34 community and technical colleges in the state of Washington. Located on the North Olympic Peninsula, the College enrolls over 5,000 students each year, awarding certificates, the associate of arts, associate of science, associate of applied science and the bachelor of applied science degree.

The College's accreditation was reaffirmed by the Northwest Commission on Colleges and Universities following a Year Three *Resources and Capacity* review in the spring of 2013. The College was commended for its:

- commitment to addressing the needs and characteristics of its diverse student population aimed toward student satisfaction, accomplishment, retention, and completion goals;
- integrated financial planning process that effectively links unit plans with resource allocation decisions; and
- visionary planning and acquisition of capital dollars necessary to accomplish growth, replacement, and renovation projects.

Of the four recommendations the College received, the Commission requested that the College address only one (*Recommendation 4*) in this ad hoc report. The following is the College's response to this recommendation.

## **RECOMMENDATION #4**

The evaluation committee recommends that for each year of operation, the College undergo an external financial audit and that the results from such audits, including findings and management letter recommendations be considered in a timely, appropriate and comprehensive manner by the Board of Trustees (*Eligibility Requirement 19 and Standard 2.F.7*).

---

For each year of operation, the institution undergoes an external financial audit, in a reasonable timeframe, by professionally qualified personnel in accordance with generally accepted auditing standards. Results from the audit, including findings and management letter recommendations, are considered in a timely, appropriate, and comprehensive manner by the administration and governing board.

-- *Eligibility Requirement 19*

For each year of operation, the institution undergoes an external financial audit, in a reasonable timeframe, by professionally qualified personnel in accordance with generally accepted auditing standards. Results from the audit, including findings and management letter recommendations, are considered in a timely, appropriate, and comprehensive manner by the administration and the governing board.

-- *Standard 2.F.7*

## **BACKGROUND**

As one of 34 community and technical colleges in the state of Washington, the financial activities of Peninsula College have been audited in conjunction with the Comprehensive Annual Financial Report for the State of Washington. The Washington State Auditor's Office (SAO) performs the audit of state entity financial statements for each fiscal year. The most recent Independent Auditor's report on the State of Washington's financial statements is available on the [Office of Fiscal Management website](#).

In addition, the SAO has traditionally conducted a biennial accountability audit of Peninsula College for each year of operation. A member of the College's Board of Trustees was present at both the audit-entrance and the audit-exit meetings, and all members of the Board of Trustees received the final audit report as well as a formal presentation at a regularly scheduled Board meeting.

The College's internal review produced a historical record of audit management documentation and/or audit findings and the College's response. As a result of the auditor's visit, the College has taken appropriate action to address items discussed during the audit process. The College has always been committed to making the necessary adjustments whenever required and has a strong track record of successful audit reports, with no findings since the 1998-2000 review.

## **ACTION TAKEN**

In order to comply with Eligibility Requirement 19 and Standard 2.F.7, it was determined that the College accomplish the following:

1. Develop financial statements in accordance with generally accepted accounting principles;
2. Contract with professionally qualified personnel to audit the financial statements; and
3. Review the results of the financial statement audit with the College's Board of Trustees in a timely, appropriate and comprehensive manner.

### **1. Develop financial statements in accordance with generally accepted accounting principles.**

The state of Washington follows the Governmental Accounting Standards Board's (GASB) pronouncement number 34 (GASB 34) *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. General purpose governments, such as the State of Washington, engage in both governmental and business-type activities and must prepare statements that reflect both. Thus, the College's financial information and financial systems are configured to meet the reporting standards applicable to the state. While financial activity may be reported as either a business-type activity or governmental, approximately ninety-two percent of Washington community and technical colleges' spending in FY13 was reported using the accounting standards applicable to governmental type activities.

In contrast, GASB requires that special purpose governments, such as public colleges, that are engaged in only business-type activities should present the financial statements required for enterprise funds. As a result, Washington's Community and Technical Colleges were faced with reviewing and restating approximately ninety-two percent of their activity from one accounting standard to another. Since our accounting systems were not designed to do this, it required a painstaking review and adjustment process for each college. While much of the accounting information that is prepared for state reporting could be re-purposed for the College's statements, the restatement process was manual, meticulous and time-consuming.

In order to share knowledge about the restatement process across colleges, the State Board for Community and Technical Colleges (SBCTC) convened a pilot group consisting of nine colleges. Peninsula College was a member of the pilot group. A variety of tools were developed to assist colleges with the process of restating their financial information to business-type activity reporting. Starting in December 2013, these colleges began the process of preparing an inaugural set of financial statements for FY2012-13. Peninsula completed its inaugural statements in May 2014.

## **2. Contract with professionally qualified personnel to audit financial statements.**

Pilot colleges contracted with the Washington's State Auditor's Office (SAO) to audit their financial statements. The SAO conducts financial statement audits using generally accepted governmental auditing standards as promulgated in the U.S. Government Accountability Office's *Government Auditing Standards* (the "Yellow Book"). Washington state law establishes SAO as the auditor of public accounts. SAO employees are experienced in auditing public universities' business-type activity financial statements, having audited five of Washington's six public four-year colleges since GASB 34 became effective in 2002.

The SAO began the audit of the first two pilot colleges in May 2014, completing its field work at Peninsula College in July 2014. The auditor's opinion was issued October 27, 2014 (attached).

## **3. Review financial audit results by the College's administration and Board of Trustees.**

Auditing standards require the auditor to present his/her report to the College administration and the College's governing board. This was accomplished for 2012-13 when the President and Board chair attended the audit exit conference, along with the College's Vice-President for Finance and Administration. The audit report and financial statements were presented to the full Board of Trustees at their regularly scheduled November 18, 2014 meeting. The President and Board of Trustee members received financial statement training September 25, 2014 and November 18, 2014, respectively.

The College's financial statements include the:

- Management Discussion and Analysis
- Statement of Revenues Expenses and Changes in Net Position
- Statement of Cash Flows
- Discrete Component Unit's Financial Statements
- Notes to the Financial Statement

These financial statements are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The Statement of Net Position provides information about the College at a moment in time, at year-end. The Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over a period of time. Together, these statements,

along with the accompanying notes, provide a comprehensive way to assess the College's financial health as a whole.

## **CONCLUSION**

Peninsula College, as part of a statewide effort by the SBCTC 34 Colleges, took a leadership role in responding to the recommendation of the NWCCU that the College commit to an annual, external financial audit and that the auditor's findings and recommendations be reviewed in a timely and comprehensive manner by the Board of Trustees.

The College marshalled additional personnel and fiscal resources to accomplish this. A new position was required as well as a redistribution of duties among existing positions, resulting in a new annual expense of over \$100,000, including the \$30,000 fee for the annual audit. Moreover, Peninsula College actively participated in a pilot group of nine community colleges who convened to develop a system-level prototype for complying with the NWCCU's new standard and to contract with the Washington State Auditor's Office (SAO) to audit their financial statements.

Peninsula College was among the first colleges to begin the process of preparing an inaugural set of financial statements for FY2012-13 and was the second college to have a completed audit. Again, the audit reported no findings.

The College administration formally presents financial information to the Board of Trustees each quarter, with an annual financial report as the final document for the fiscal year. Financial statements that have been developed as a result of the new audit process will be presented on the same schedule, and the final document for the fiscal year will be the audited financial statements. The Board chair will participate in the exit interview with the auditor to receive the auditor's oral report directly.

Peninsula College has fully implemented Recommendation #4 with success.