

**MEETING OF THE
AUDIT COMMITTEE
OF THE BOARD OF TRUSTEES
HOUSTON COMMUNITY COLLEGE**

November 18, 2014

Minutes

The Audit Committee of the Board of Trustees of Houston Community College held a meeting on Tuesday, November 18, 2014, at the HCC Administration Building, 2nd Floor, 3100 Main in Seminar Room B, Houston, Texas.

MEMBERS PRESENT

Robert Glaser, *Committee Chair*
David B. Wilson, *Committee Member*
Carroll G. Robinson, *Alternate Committee Member*
Zeph Capo
Sandie Mullins

ADMINISTRATION

Cesar Maldonado, Chancellor
E. Ashley Smith, Acting General Counsel
Shantay Grays, Chief of Staff
William Carter, Vice Chancellor, Information Technology
Steve Levey for Zachary Hodges, Acting Vice Chancellor, Academic Affairs
Diana Pino, Vice Chancellor, Student Services
Teri Zamora, Vice Chancellor, Finance and Planning
Michael Edwards, Acting President, Coleman College
Margaret Ford Fisher, President, Northeast College
Fena Garza, President, Southwest College
Butch Herod, Acting President, Northwest College
Irene Porcarello, President, Southeast College
Janet May, Chief Human Resources Officer

OTHERS PRESENT

Derrick Mitchell, Board Counsel, Bracewell & Giuliani
Jorge Rodriguez, Coastal Securities
Susan Goll, President, Faculty Senate
Other administrators, citizens and representatives from the news media

CALL TO ORDER

Mr. Robert Glaser, Committee Chair, called the meeting to order at 3:08 p.m. and declared the Board convened to consider matters pertaining to Houston Community College as listed on the duly posted Meeting Notice.

(The following Trustees were present: Capo, Glaser, Robinson and Wilson)

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

Motion – Mr. Wilson motioned and Mr. Robinson seconded.

Dr. Cesar Maldonado informed that the item is regarding the annual financial audit prepared by the external auditors Grant Thornton LLP, external auditors.

Mrs. Teri Zamora introduced Ms. Angela Dunlap and Ms. Karmyn Jeffries to present the audit scope and results to include the following:

- Significant Risks
 - Capital assets
 - Revenues and related receivables

- Other Audit Areas
 - Fraud inquiries
 - Cash and investments
 - Operating expenses including employee compensation & related accruals
 - Debt
 - Net position (fund balance)
 - Adequacy of financial statements disclosures

- OMB Circular A-133 and State of Texas Single Audit Circular
 - Federal Program – Student Financial Aid Cluster
 - Federal Program – Career & Technical Education Basic Grants (Perkins)
 - Federal Program – Post 9/11 Veteran’s Educational Assistance
 - State Program – Adult Education
 - State Program – Skills Development

- Audit Results
 - Unqualified “clean” opinion
 - No scope limitations
 - No unresolved audit issues
 - Internal control comments
 - Open and effective communication with management

Mr. Capo requested clarification between notes, adjustments and exceptions. Ms. Dunlap noted that an adjustment is proposed to management who then determines significance and exceptions relating to compliance with federal guidelines.

Mr. Robinson inquired of the adjustments included in the audit report. Ms. Dunlap provided a summary of the adjustments to include:

- Recorded Adjustments
 - Reclassification between investments and cash equivalents
 - Allowance for doubtful accounts
 - Amortization of bond premium

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- Proper reflection of non-operating income/interest expense
- Reclassification of amortization of bond premium
- Unrecorded Adjustments
 - Record prior year retainage payable

Ms. Dunlap provided a summary of other required communication findings to include:

- No Disagreements with Management
- No Management Consultation with Other Accountants Findings
- No Significant Issues Discussed with Management Findings
- No Significant Difficulties Encountered During the Audit Findings
 - No significant delays in providing information
 - No unnecessarily brief time to complete the audit
 - No unavailability of expected information or personnel
 - No restrictions imposed by management
 - No management refusal to communicate significant matters
 - No extensive unexpected effort to obtain audit evidence
- No Related Parties and Related Party Transactions Findings
- No Other Information in Documents Containing Audited Financial Statements Findings

Ms. Jeffries presented the quality of accounting practices as follows:

- Accounting policies
- Accounting estimates
- Disclosures

Ms. Dunlap apprised that there is a capital interest adjustment being finalized, that is not reflected in the presentation, which has a \$7 million impact to 2013 and \$22 million to 2014.

Mr. Wilson inquired if the interest was due to the front-end load of the \$425 million bond. Ms. Dunlap informed that the interest expenses occur from limited tax bonds. Mrs. Zamora apprised that a limited tax bond example is the General Obligation Bonds.

Dr. Maldonado clarified that Ms. Dunlap is presenting from an accounting side not where the revenue occurred. He noted that the item was moved from expense to capitalized interest so it reduces expenses and increases assets on the balance sheet.

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Mr. Robinson inquired of the interest income generated by the bonds. Ms. Dunlap informed that this year it was \$2.6 million.

Ms. Dunlap presented the following technical standards updates:

- GASB Statement #68 – Accounting and Financial Reporting for Pensions and Amendment of GASB Statement #27
- GASB Statement #69 – Government Combinations and Disposals of Government Operations
- GASB Statement #70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees
- GASB Statement #71 – Pension Transition for Contributions Made Subsequent of the measurement Date (an amendment of GASB Statement #68)
- GASB Exposure Drafts
- Federal Grant Regulations

(Ms. Mullins joined the meeting at 3:22 p.m.)

Mr. Glaser inquired if the State would provide the number for unfunded liability. Ms. Dunlap noted that the standard has not required the unfunded liability to be reflected.

Mrs. Zamora informed that the Teacher Retirement System of Texas (TRS) is calculating the liability based on a pro-rata percentage. Mr. Robinson recommended calculating unfunded liability for future planning.

Mr. Glaser inquired of the formula for new hires and the impact. Dr. Maldonado informed that the calculation is not based on HCC, it is based on a pro-rata. Mrs. Zamora apprised that it is not a liability that HCC is expected to pay; the intent is to be on the books.

Mr. Robinson recommended working legislatively to develop a formula that is in the best interest of HCC.

Ms. Dunlap concluded the presentation with the following areas in the pipeline:

- Standard Post-Employment Benefits
- Fair Value Measurements (investments)
- Federal Grant Regulations

