Introduction

In a letter dated July 17, 2014 the Northwest Commission on College and Universities (NWCCU) reaffirmed the accreditation of Tacoma Community College (TCC) based on its spring 2014 Year Seven Mission Fulfillment and Sustainability Peer-Evaluation report. Also in the letter, the Commission requested the College address Recommendation 2 of the Peer Evaluation.

Recommendation 2:
“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)”

The Commission determined that Recommendation 2 is an area where Tacoma Community College does not meet the Commission’s criteria for accreditation according to U.S. Department of Education Regulation 34 CFR 602.20 and Commission Policy, Commission Action Regarding Institutional and Sustainability. The Commission has requested this recommendation be addressed and resolved within a two-year period.

Below is an update on actions that have been taken to address Recommendation 2 along with the upcoming plans to continue to address and resolve Recommendation 2.

Update on Recommendation 2

In a letter dated March 26, 2015 Interim Accounting Services Director Joann Wiszmann for the Washington State Board for Community and Technical Colleges (SBCTC) informed the College Presidents they would be moving to an annual preparation and submission of financial statements. Based on this decision, in May 2014, along with 8 other Washington state community colleges, TCC was scheduled for an audit of our 2013-2014 financial statements during the 2015 winter quarter. Due to staffing issues the State Auditor’s Office (SAO) was unable to conduct the audit.

Upcoming Plans to Address Recommendation 2

Since the 2013-2014 financial statement was not audited in winter quarter 2015 and the 2014-2015 financial statements are scheduled to be audited during the 2015-2016 year, the SAO requested that both the 2013-2014 and 2014-2015 financial statements be audited together.
Conclusion

Given the two-year timeframe prescribed in the NWCCU reaffirmation letter to address and resolve Recommendation 2, TCC will provide an update on the results both the 2013-2014 and 2014-2015 audits to ensure we remain in compliance with the Commission’s Standards and Eligibility Requirements.
Dear Presidents,

This message is also being sent to Business Officers.

I will be attending the BAR meeting and therefore am unable to attend WACTC. Nonetheless, I wanted to share a few key updates regarding the financial statement pilot project.

Move to Annual Audits
After discussions with WACTC OBC, the full WACTC, BAC members from the pilot colleges, BAC Operations Committee, and the full BAC, the consensus is to move to annual preparation and financial statements (rather than every other year). You may recall that the pilot group identified that the learning curve involved in preparing financial statements is considerable – and felt that preparing financial statements annually will make this much more manageable, especially as colleges begin to transition to ctcLink.

Workload Impacts
In part due to the learning curve mentioned above, but also due to the technical demands of the project, the pilot group has experienced very significant workload impacts. Several of the pilot colleges are struggling to complete this work. Not only are these impacts more than we originally expected, we now realize that much of the impact will be ongoing. For most colleges, completing the statements is best overseen by existing employees with broad knowledge of the college’s operations and finances. However, there is a considerable need for either additional hands to help prepare
the statements or for additional staff to backfill work that would otherwise be done by employees now engaged in preparing financial statements.

Your BAC members are in best position to determine the gap between their current staffing and future needs. For non-pilot colleges who are looking at their future needs, here are some dates to be aware of:

- **Now – July 2014** – College personnel are reviewing SBCTC-provided list of things they can do to get ready – and incorporating as much as they can as they enter year-end closing
- **August 2014** – State Board workshops: training on financial statement preparation tools
- **September 2014** – BAR/BAC training session with GASB
- **October – December 2014** – College personnel heavily involved in financial statements
- **January 2015 - March 2015** – State Auditor’s Office most readily available to conduct audits

**Independence of State Auditor**

I periodically get questions about whether the State Auditor’s Office is sufficiently independent for their opinion on college financial statements to be acceptable under accreditation standards. The confusion may be the result of the different construction, roles and mission of auditor offices in various states. In Washington, the State Auditor is a statewide elected position and meets the independence requirements of *Generally Accepted Government Auditing Standards* as published by the U.S. Government Accountability Office. I also contacted Sandra Elman, the Executive Director of NWCCU and verbally verified her understanding Washington SAO audits meet the “by professionally qualified personnel” element of the standard.

**Audits of Foundations**

I continue to get questions about why and how College Foundations are included in the college’s financial statements. As to why, there are two possible criteria that lead to including Foundations.

It is unlikely that any of the college foundations meet the “financially accountable” criteria:

- College appoints voting majority, and
- Can impose its will on Foundation, or
- Foundation is fiscally dependent (e.g. college approves Foundation budget) and provides significant financial benefit or burden on college

However, it is likely the foundations meet the “would be misleading to exclude” criteria:

- Based on nature and significance of relationship
- Legally separate, tax-exempt organizations should be reported if all conditions are met:
  - Economic resources received or held are entirely or almost entirely for the direct benefit of college and its constituents (students, faculty, staff), and
  - College is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the Foundation. (GASB explains in a footnote that they intend this as a broad concept, not about control, giving the example that if a college “historically received a majority of economic resources” provided by the Foundation, it then meets this element), and
  - Foundation’s resources are significant to the College.

As a result, almost all of the colleges will include Foundation financial statement information in their financial statements. The included Foundation information should be audited annually, allowing the State Auditor to rely on the work of other auditors.

As to how, we have three options for discrete presentation of Foundation financial information in the college’s financial statements.

**Separate column on the face of the college’s financial statements**

*Since Foundations report under FASB and colleges report under GASB, this is awkward and results in certain line descriptions only applying to one or the other. For this inaugural financial statement for the colleges, the pilot group*
thought this might be too difficult to explain to the financial statement readers, along with everything else that will need to be explained.

Include a condensed version of the Foundation’s statements in the notes to the college’s financial statements (GASB defines minimum elements that must be included in the condensed data). We looked at common practice among Washington’s six public four-year colleges. All include their foundations as a component unit. One college blends their Foundation, five report discretely. Of those who report discretely, two use the columnar format, while three include the face of their Foundation’s financial statements in their own. None use the condensed statement approach.

The pilot group has chosen the second option.

Please don’t hesitate to contact me if you have any questions about the pilot project.

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