



OFFICE OF INSPECTOR GENERAL

March 17, 2015

2015-FMIC-B-004

Federal Financial Institutions Examination Council  
Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013,  
and Independent Auditors' Reports



OFFICE OF INSPECTOR GENERAL  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
CONSUMER FINANCIAL PROTECTION BUREAU  
WASHINGTON, DC 20551

March 17, 2015

Federal Financial Institutions Examination Council  
3501 Fairfax Drive, B-7081a  
Arlington, VA 22226-3550

Dear Federal Financial Institutions Examination Council Members:

This letter transmits the Independent Auditors' Report prepared by Deloitte & Touche LLP on the Federal Financial Institutions Examination Council's (FFIEC) financial statements. The Office of Inspector General contracted with Deloitte & Touche LLP to audit the financial statements of the FFIEC as of and for the years ended December 31, 2014 and 2013.

The contract requires the audits to be performed in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Office of Inspector General reviews and monitors the work of Deloitte & Touche LLP to ensure compliance with *Government Auditing Standards* and the contract. Deloitte & Touche LLP is responsible for the accompanying Independent Auditors' Report, dated March 17, 2015.

We do not express an opinion on the FFIEC's financial statements. In addition, we do not draw conclusions on the FFIEC's compliance with laws and regulations.

Sincerely,

Mark Bialek  
Inspector General

cc: Judith Dupre, Executive Secretary, FFIEC  
Amy Friend, Chairman, FFIEC Legal Advisory Group and Member, Office of the  
Comptroller of the Currency  
William Mitchell, Chief Financial Officer and Director, Division of Financial Management,  
Board of Governors of the Federal Reserve System

# Federal Financial Institutions Examination Council

Financial Statements as of and for the Years  
Ended December 31, 2014 and 2013, and  
Independent Auditors' Reports

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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## **INDEPENDENT AUDITORS' REPORT**

To the Federal Financial Institutions Examination Council:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Federal Financial Institutions Examination Council (the "Council") which are comprised of the balance sheets as of December 31, 2014 and 2013, and the related statements of operations and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of December 31, 2014 and 2013, and the results of its operations and

its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2015 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

*Deloitte + Touche LLP*

March 17, 2015

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013

	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 701,084	\$ 626,147
Accounts receivable from member organizations	705,340	1,090,147
Accounts receivable from non-members — net	<u>116,907</u>	<u>129,855</u>
Total current assets	<u>1,523,331</u>	<u>1,846,149</u>
NONCURRENT ASSETS:		
Equipment leased — net	195,007	58,231
Central Data Repository software — net	997,178	1,131,321
Home Mortgage Disclosure Act software — net	<u>603,172</u>	<u>1,159,945</u>
Total noncurrent assets	<u>1,795,357</u>	<u>2,349,497</u>
TOTAL ASSETS	<u>\$ 3,318,688</u>	<u>\$ 4,195,646</u>
<b>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities payable to member organizations	\$ 564,199	\$ 703,116
Other accounts payable and accrued liabilities	438,056	700,295
Accrued annual leave	56,415	43,103
Capital lease payable	47,348	42,830
Deferred revenue	<u>764,868</u>	<u>1,688,095</u>
Total current liabilities	<u>1,870,886</u>	<u>3,177,439</u>
LONG-TERM LIABILITIES:		
Capital lease payable	156,288	18,956
Deferred revenue	835,480	603,171
Deferred rent	<u>-</u>	<u>6,783</u>
Total long-term liabilities	<u>991,768</u>	<u>628,910</u>
Total liabilities	<u>2,862,654</u>	<u>3,806,349</u>
CUMULATIVE RESULTS OF OPERATIONS	<u>456,034</u>	<u>389,297</u>
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	<u>\$ 3,318,688</u>	<u>\$ 4,195,646</u>

See notes to financial statements.

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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	2014	2013
REVENUES:		
Assessments on member organizations	\$ 773,165	\$ 705,555
Central Data Repository	3,842,296	5,443,813
Home Mortgage Disclosure Act	4,063,765	3,820,734
Tuition	4,037,830	3,983,198
Community Reinvestment Act	1,104,290	969,328
Uniform Bank Performance Report	<u>674,391</u>	<u>359,196</u>
Total revenues	<u>14,495,737</u>	<u>15,281,824</u>
EXPENSES:		
Data processing	4,611,282	4,233,290
Professional fees	4,836,412	5,109,779
Salaries and related benefits	2,282,907	2,065,455
Depreciation, amortization, and net gains or losses on disposals	1,499,745	2,859,113
Rental of office space	264,989	270,489
Administration fees	245,000	223,000
Travel	512,824	310,138
Other seminar expenses	55,455	46,525
Rental and maintenance of office equipment	34,840	34,097
Office and other supplies	46,217	43,695
Printing	15,405	22,416
Miscellaneous	<u>23,924</u>	<u>8,762</u>
Total expenses	<u>14,429,000</u>	<u>15,226,759</u>
RESULTS OF OPERATIONS	66,737	55,065
CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	<u>389,297</u>	<u>334,232</u>
CUMULATIVE RESULTS OF OPERATIONS — End of year	<u>\$ 456,034</u>	<u>\$ 389,297</u>

See notes to financial statements.



# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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	2014	2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Results of operations	\$ 66,737	\$ 55,065
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	1,502,906	2,859,113
Net loss (gain) on disposal of property and equipment	(3,161)	-
(Increase) decrease in assets:		
Accounts receivable from member organizations	384,807	(204,947)
Other accounts receivable	12,948	60,075
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member organizations	(138,917)	(137,603)
Other accounts payable and accrued liabilities	(339,704)	306,176
Accrued annual leave	13,312	4,223
Deferred revenue (current and non-current)	(690,917)	(2,819,416)
Deferred rent	<u>(6,783)</u>	<u>(3,302)</u>
Net cash provided by operating activities	801,228	119,384
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Capital expenditures	<u>(688,280)</u>	<u>(88,604)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Capital lease payments	<u>(38,011)</u>	<u>(43,183)</u>
NET INCREASE (DECREASE) IN CASH	74,937	(12,403)
CASH BALANCE — Beginning of year	<u>626,147</u>	<u>638,550</u>
CASH BALANCE — End of year	<u>\$ 701,084</u>	<u>\$ 626,147</u>

See notes to financial statements.

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 1. ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the Council) was established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies represented on the Council during 2014, referred to collectively as member organizations, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Consumer Financial Protection Bureau (CFPB)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency (OCC)

In accordance with the Financial Services Regulatory Relief Act of 2006, a representative state regulator was added as a full voting member of the Council in October 2006.

The Council was given additional statutory responsibilities by Section 340 of the Housing and Community Development Act of 1980, Public Law 96-399. Among these responsibilities is the implementation of a system to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.

The Council's financial statements do not include financial data for the Council's Appraisal Subcommittee (the Subcommittee). The Subcommittee was created pursuant to Public Law 101-73, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council is not responsible for any debts incurred by the Appraisal Subcommittee, nor are Appraisal Subcommittee funds available for use by the Council.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The Council prepares its financial statements in accordance with accounting principles generally accepted in the United States (GAAP).

**Revenues** — Assessments are made on member organizations to fund the Council's operations based on expected cash needs. Amounts over- or under- assessed due to differences between assessments and actual expenses are presented in the "Cumulative Results of Operations" line item during the year and then may be used to offset or increase the next year's assessment. Deficits in "Cumulative Results of Operations" can be recouped in the following year's assessments.

The Council provides training seminars in the Washington, D.C. area and at locations throughout the country for member organizations and other agencies. The Council also coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the FDIC. Tuition and UBPR revenue are adjusted at year-end to match expenses incurred as a result of providing education classes and UBPR services. For differences between revenues and expenses, member agencies are assessed an additional amount or credited a refund based on each member's proportional cost for the Examiner Education and UBPR budget. The Council recognizes revenue from member agencies for expenses incurred related to the Community Reinvestment Act (CRA) processing system and the HMDA processing system. The Council also recognizes revenue from other agencies related to the Home Mortgage Disclosure Act when appropriate, and did such in 2013.

**Capital Assets** — Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed and any gain or loss is recognized. The Central Data Repository (CDR) and the HMDA processing system, internally developed software projects, are recorded at cost less accumulated depreciation.

**Deferred Revenue** — Deferred revenue includes cash collected and accounts receivable from member organizations to fund the development of CDR and the HMDA processing system. Revenue is recognized over the useful life of the system.

**Deferred Rent** — The lease for office and classroom space contains scheduled rent increases over the term of the lease. Scheduled rent increases must be considered in determining the annual rent expense to be recognized. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

**Estimates** — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Allowance for Doubtful Accounts** — Accounts receivable for non-members are shown net of the allowance for doubtful accounts. Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance for doubtful accounts is adjusted monthly, based upon a review of outstanding receivables.

### 3. TRANSACTIONS WITH MEMBER ORGANIZATIONS

	2014	2013
Accounts receivable:		
Board of Governors of the Federal Reserve System	\$ 132,125	\$ 326,875
Consumer Financial Protection Bureau	12,364	31,371
Federal Deposit Insurance Corporation	330,290	364,244
National Credit Union Administration	16,278	33,624
Office of the Comptroller of the Currency	<u>214,283</u>	<u>334,033</u>
	<u>\$ 705,340</u>	<u>\$ 1,090,147</u>
Accounts payable and accrued liabilities:		
Board of Governors of the Federal Reserve System	\$ 221,749	\$ 442,749
Consumer Financial Protection Bureau	4,905	3,824
Federal Deposit Insurance Corporation	117,666	143,440
National Credit Union Administration	25,427	20,087
Office of the Comptroller of the Currency	<u>194,452</u>	<u>93,016</u>
	<u>\$ 564,199</u>	<u>\$ 703,116</u>
Operations:		
Council operating expenses reimbursed by members	\$ 773,165	\$ 705,555
FRB-provided administrative support	\$ 245,000	\$ 223,000
FRB-provided data processing	\$4,611,282	\$4,233,290

The Council does not directly employ personnel, but rather member organizations detail personnel to support Council operations. These personnel are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions, are reimbursed to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services is not included in the accompanying financial statements.

In 2014, the Council authorized the OCC to contract with a third party on behalf of the Council to perform a cyber risk assessment related to financial institutions, and other third parties and critical infrastructures upon which the financial services sector depends. The OCC collected the cost of the cyber risk assessment directly from the Council member agencies. The Council's financial statements do not reflect any activity related to the cyber risk assessment or contract.

#### 4. CENTRAL DATA REPOSITORY (CDR)

In 2003, the Council entered into an agreement with UNISYS to enhance the methods and systems used to collect, validate, process, and distribute Call Report information used by member organizations, and to store this information in CDR. CDR was placed into service in October 2005. At that time, the Council began depreciating CDR on the straight-line basis over its estimated useful life of 63 months. In 2009, the Council reevaluated the useful life of CDR and decided to extend the estimated useful life by an additional 36 months based on enhanced functionality of the software. In 2013, the Council again reevaluated the useful life of CDR and decided to extend the estimated useful life by an additional 12 months to December 31, 2014. In 2014, the Council added additional enhancements of \$688,281 and extended the useful life of the asset, including the enhancements, for an additional 56 months. The Council records depreciation expenses and recognizes the same amount of revenue. The Council also pays for hosting and maintenance expenses for CDR and recognizes the associated revenue from members. Software in process represents a year-end accrual for work performed and is therefore a non-cash activity excluded from the Statements of Cash Flows.

	<b>2014</b>	<b>2013</b>
<b>Capital Asset CDR</b>		
Beginning balance	\$ 21,151,575	\$ 21,151,575
Software placed in use during the year	688,281	-
Software in process	<u>78,091</u>	<u>-</u>
Total asset	<u>\$ 21,917,947</u>	<u>\$ 21,151,575</u>
Less accumulated depreciation	<u>(20,920,769)</u>	<u>(20,020,254)</u>
Central Data Repository software — net	<u>\$ 997,178</u>	<u>\$ 1,131,321</u>
<b>Depreciation</b>		
Depreciation for the CDR project	<u>\$ 900,515</u>	<u>\$ 2,262,642</u>

**CDR Financial Activity** —The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC). Activity for the years ended December 31, 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
<b>Deferred Revenue</b>		
Beginning balance	\$ 1,131,321	\$ 3,393,963
Additions	766,372	-
Less revenue recognized	<u>(900,515)</u>	<u>(2,262,642)</u>
Ending balance	<u>\$ 997,178</u>	<u>\$ 1,131,321</u>
Current portion deferred revenue	\$ 208,095	\$ 1,131,321
Long-term deferred revenue	<u>789,083</u>	<u>-</u>
Total Deferred Revenue	<u>\$ 997,178</u>	<u>\$ 1,131,321</u>
<b>Total CDR Revenue</b>		
Deferred revenue recognized	\$ 900,515	\$ 2,262,642
Hosting and maintenance revenue	<u>2,941,781</u>	<u>3,181,171</u>
Total CDR Revenue	<u>\$ 3,842,296</u>	<u>\$ 5,443,813</u>
Accounts payable and accrued liabilities related to CDR:		
Payable to UNISYS for the CDR	<u>\$ 346,284</u>	<u>\$ 601,173</u>

## 5. HOME MORTGAGE DISCLOSURE ACT (HMDA)

FRB provides maintenance and support for the HMDA processing system. In 2007, the Council began a rewrite of the entire HMDA processing system, which went into service in 2011. At that time, the Council began depreciating the system on the straight-line basis over its estimated useful life of 60 months.

	<b>2014</b>	<b>2013</b>
<b>Capital Asset HMDA</b>		
Beginning balance	<u>\$ 2,783,868</u>	<u>\$ 2,783,868</u>
Total asset	<u>\$ 2,783,868</u>	<u>\$ 2,783,868</u>
Less accumulated depreciation	<u>(2,180,696)</u>	<u>(1,623,923)</u>
HMDA software — net	<u>\$ 603,172</u>	<u>\$ 1,159,945</u>
<b>Depreciation</b>		
Depreciation for the HMDA Rewrite project	<u>\$ 556,773</u>	<u>\$ 556,773</u>

The Council records depreciation expenses and recognizes the same amount of revenue each year. The Council also pays for maintenance expenses for the HMDA processing system and recognizes the

associated revenue from the members and non-members. The financial activity associated with the processing system for the years ended December 31, 2014 and 2013 is as follows:

<b>Deferred Revenue</b>		
Beginning balance	\$ 1,159,945	\$ 1,716,718
Additions	-	-
Less revenue recognized	<u>(556,773)</u>	<u>(556,773)</u>
Ending balance	<u>603,172</u>	<u>1,159,945</u>
Current portion deferred revenue	556,774	556,774
Long-term deferred revenue	<u>46,398</u>	<u>603,171</u>
Total Deferred Revenue	<u>\$ 603,172</u>	<u>\$ 1,159,945</u>
<b>Total HMDA Revenue</b>		
The Council recognized the following revenue from:		
Member organizations for the production and distribution		
of reports under the HMDA (includes the deferred revenue		
recognized in 2014)		
	\$ 3,461,874	\$ 2,987,385
Department of Housing and Urban Development's		
participation in the HMDA project	601,891	514,104
Mortgage insurance companies for		
HMDA-related work	<u>-</u>	<u>319,245</u>
Total HMDA Revenue	<u>\$ 4,063,765</u>	<u>\$ 3,820,734</u>

## 6. LEASES

**Capital Leases** — The Council terminated existing capital leases for printing equipment in February 2014, which is a non-cash event of \$54,800 excluded from Statement of Cash Flows, and subsequently entered into new capital leases in March 2014. Equipment consists of \$234,000 and \$198,485 for the capital leases as of December 31, 2014 and 2013, respectively; the \$234,000 is a non-cash event excluded from the Statement of Cash Flows. Accumulated depreciation was \$39,000 and \$140,254 for 2014 and 2013, respectively. The depreciation expense for the printing equipment was \$46,000 and \$39,697 for 2014 and 2013, respectively. Contingent rentals for excess usage of the printing equipment amounted to \$14,000 and \$18,668 in 2014 and 2013, respectively.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2014 are as follows:

<b>Years Ending December 31,</b>	<b>Amount</b>
2015	\$ 72,821
2016	72,821
2017	72,821
2018	72,821
2019	<u>12,138</u>
Total minimum lease payments	303,422
Less amount representing maintenance	<u>(90,980)</u>
Net minimum lease payments	212,442
Less amount representing interest	<u>(8,806)</u>
Present value of net minimum lease payments	203,636
Less current maturities of capital lease payments	<u>(47,348)</u>
Long-term capital lease obligations	<u><u>\$ 156,288</u></u>

**Operating Leases** — The Council extended the operating lease with the FDIC in January 2015 for an additional twelve months to secure office and classroom space.

## 7. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2014. Subsequent events were evaluated through March 17, 2015, which is the date the financial statements were available to be issued.

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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Federal Financial Institutions Examination Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federal Financial Institutions Examination Council (the "Council"), as of and for the years ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated March 17, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the Council's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings to be a material weakness. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Council's Response to Findings**

The Council's response to the findings identified in our audit is described in the accompanying Schedule of Findings. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deloitte & Touche LLP*

March 17, 2015

## Schedule of Findings

### Material Weakness in Internal Control Over Financial Reporting

#### Useful life of Internal-Use Software

As part of our 2014 audit, a material weakness was identified related to the periodic determination and review of the useful life assigned to certain internal-use software. Specifically, the useful life assigned to a portion of the Central Data Repository (“CDR”) software was not appropriately reassessed in connection with enhancements to the software which extended the expected useful life of the CDR software in accordance with accounting principles generally accepted in the United States of America and the Council’s policy. Accounting Standards Codification 350-40, *Internal-Use Software*, requires the capitalized costs of internal-use software to be amortized over the useful life of the software, as determined and periodically reassessed by management. The appropriate determination, review and periodic reassessment of internal-use software useful life was not performed. The material weakness identified by us resulted in 2014 amortization expense being overstated by \$267,679. This misstatement was corrected by management in the 2014 financial statements.

#### **Recommendation:**

We recommend that the Council enhance its process to determine, review and periodically reassess the useful life assigned to internal-use software, including periods in which enhancements are made that extend the expected useful life of the internal-use software. The Council should implement the controls necessary to prevent, or detect and correct, misstatements that result from using improper useful life on a timely basis.

#### **Management’s Response:**

Management has routinely evaluated the CDR software’s useful life (including the associated enhancements) as evidenced by the useful life extensions in 2009 and 2013. When the most recent enhancement was placed in service in September 2014, management noted that there were only three months remaining in the life of the existing CDR software, that the book value represented approximately two percent of the total cost capitalized-to-date, and that the original asset had been depreciating for over nine years. Since the new enhancement did not significantly alter the existing asset, and given the unique circumstances surrounding the one-year extension made in 2013, management decided to allow the original asset to finish depreciating over the three months of its remaining useful life. Management agrees the internal controls over the process of evaluating internal-use software functionality and associated useful lives should be improved.

#### **Auditors’ Response:**

The Council’s controls failed to prevent or detect an error in amortization expense of \$267,679, which was material to the Council’s basic financial statements; accordingly, a material weakness exists related to the periodic determination and review of the useful life assigned to internal-use software.