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# AUDIT AND BUDGET COMMITTEE MINUTES

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Coast Community College District  
Special Meeting of the Audit and Budget Committee  
April 4, 2019  
Board Conference Room  
1370 Adams Avenue, Costa Mesa, CA 92626

## Procedural Matters

### 1. Call to Order

The meeting was called to order at 2:00 p.m.

### 2. Roll Call

Trustees Present: Trustee Jim Moreno and Trustee Mary Hornbuckle  
Trustees Absent: None

**In Attendance** – Dr. John Weispenning, Chancellor; Dr. Andrew Dunn, Vice Chancellor of Finance and Administrative Services; Dr. Andreea Serban, Vice Chancellor of Educational Services and Technology; Kevin Ballinger, OCC Interim President; Rich Pagel, OCC Vice President of Administrative Services; Dr. Miles Nevin, Director of Chancellor’s Office Operations and Projects; Rachel Snell, District Director of Internal Audit; Derek Bui, CCC Director of Business Services; Paul Wisner, GWC Director of Business Services; Tanya Tran, District Budget and Grants Manager; Connie Marten, CFCE President; and Jane Burton, Manager/Board Secretary.

### 3. Opportunity for Public Comment

There were no requests to address the Audit and Budget Committee during Public Comment.

### 4. Approval of Minutes: Meeting of February 19, 2019

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to approve the minutes of the Special Meeting of February 19, 2019.

Motion carried with the following vote:

Aye: Trustee Moreno and Trustee Hornbuckle  
No: None  
Absent: None

## 5. Review, Discuss, and Possible Action regarding Budget Update

Vice Chancellor of Finance and Administrative Services, Dr. Andy Dunn, provided the following budget updates:

- This was the first year of the three year hold-harmless under the SCFF (Student Centered Funding Formula).
- Revenue was calculated using the traditional formula, which totaled approximately \$185 million; calculated with COLA was approximately \$189 million.
- At the time of adopted budget, it was \$200 million; this figure governed our budget.
- Sources of revenue such as property tax and state general apportionment: at the P-1 (2018-19 First Principle Apportionment) there was a deficit factor, which Coast had not seen in quite a while. Essentially, the deficit factor was due to the state being unable to keep promises it made early in the budget process. At the time of this meeting, the state was able to give Coast approximately \$0.95 on the dollar; with the \$200 million total revenue under the adopted budget, 5% of that would be approximately \$10 million, which would total available revenue at \$190 million. This would likely adjust to 2-3%, which would still be meaningful for a deficit factor.
- The state over estimated revenues and underestimated expenses.
- Base Allocations: \$16 million higher than anticipated.
- Success Allocations: \$76 million higher than anticipated.
- Supplemental Allocations: overestimated by approximately \$25 million.
- Hold-Harmless Calculation: understated by approximately \$76 million.
- Property Taxes: overstated by approximately \$227 million.
- Changes and adjustments in these numbers were likely. After the April 10<sup>th</sup> date for property taxes and the second property tax installment date, the \$227 million shortage would hopefully correct itself. Based on the P-1, the state was approximately \$324 million short in terms of providing revenue to fund the SCFF.
- In a report that showed a series of deficits going back a decade, there was only one time that Coast saw a deficit factor close to this magnitude, which was the 2012-13 FY that started at 5.85%.
- The state, alongside every college district, was learning about the SCFF and all the moving parts associated with it, which explained some of the miscalculations.
- A deficit factor, at least by definition, was one time in nature.
- In order for Coast to close this gap, we would draw from fund balance and hope the state would have a better sense of estimates next year with sufficient revenue to match those estimates. The fund balance was approximately 16%.
- Basic Allocation was funding that Coast received for each site, which historically had been two mid-sized colleges and one small college. Several years ago when Coast was last in stabilization, it was suspected that when the FTES reset with stabilization it would also reset the measure on the basic allocation. GWC was in question with approximately \$600 thousand in operating revenue.
- Dr. Dunn quoted section 58776 – Budget Stability in the Title V Regulation: “Declines in college FTES that result in a reduction of calculated basic allocation will not cause a reduction in basic allocation base revenue until the third year after the year of the FTES decline, and the basic allocation will not be reduced if the FTES is restored back to or above the pre-decline base.” Enrollments district wide

have slipped significantly; most recent estimates showed Coast approximately 11.5% below base. This was not uncommon as districts statewide continued to struggle with enrollments. Buying time through this process would be a very important step for Coast.

- First Principle Apportionment: Dr. Dunn and Vice Chancellor of Educational Services and Technology, Dr. Andreea Serban, hosted a meeting of all the Vice Presidents and Research Directors (“the BIG VP meeting”) on April 3<sup>rd</sup> and would continue these meetings on a monthly basis as Coast moved through an interpretation and understanding of the SCFF.
- Summary of “the BIG VP meeting”: the SCFF was in play, however, Coast still used the long standing allocation framework this year and would use it again the following year. It was likely the tentative budget for the 2020-21 FY would be built under a revised model, which would give Coast ten months to take a closer look at all the moving parts in the allocation formula, how it would and would not work, what might work better, and what might need to be changed.
- The DCC Budget Subcommittee would also continue to meet once a month for the first half of the year and less frequently as the year progressed.
- The May Revise would be released around May 10<sup>th</sup>.
- Coast’s tentative budget would be presented to the full Board at the June 19<sup>th</sup> Board of Trustees’ meeting.
- At the time of adopted budget, Coast was \$15 million between hold-harmless and funding under the SCFF, so it was pretty clear where we were going to land. Now, with the deficit factor, Coast was within approximately one million of that hold-harmless number. By statute there was a three-year transition for the SCFF, so this year’s success factors were 10% and may remain at 10% for one more year. By year three it would be 60% enrollment, 20% equity and 20% success.
- When this model was put into play five years ago, it was phased in over a four-year period, so even though Coast would adopt a new allocation model in roughly fifteen months, it would still be phased in over multiple years.
- Summary of Key Interests in Resource Allocation: the model would need to reflect long term strategic interests, encourage collaboration, allow the campuses to advocate for their own programs and interests, be sustainable, and work during growth, declines and workload reductions.
- The next steps were to establish a regular schedule of “the BIG VP meeting”, complete a model in early Spring 2020, and develop the 2020-21 FY Tentative Budget using the new model.

## **6. Review, Discuss and Possible Action regarding Steps Being Taken to Prevent Incidents such as Large Vacation Payouts/Part Time Employees Exceeding Hours**

Dr. Dunn provided copies of a memo addressed to Chancellor Weispfenning and dated March 20<sup>th</sup> in regard to steps being taken to prevent large vacation payouts.

Dr. Dunn provided the following summary of his memo:

- Managers were not able to accrue more than 352 hours/44 days of vacation; once this limit was met, the manager would simply stop earning vacation.

- In general, managers have been aware of the parameters and have encouraged their employees to use the vacation allotted to them.
- The second page of the memo showed an accrual summary based on our year-end financial statement, broken down by vacation accrued by year.

Ms. Connie Marten, CFCE President, provided the following clarifications in regard to accrual of vacation as stated in the union contract:

- The only time an employee would receive a payout for unused vacation was if the employee's balance exceeded the amount written in the contract for their years of service and they were not able to take it due to some adverse action by management.
- The contract also stated that an employee should sit down with their manager at that time and try to schedule some vacation.
- If the managers received a total balance of their employees' vacation and were encouraged to sit down and schedule vacation time, Coast could address the problem of large vacation payouts.

Mr. Dana Swart, District Controller, provided the following information:

- Payroll already sent out a listing of the employees that had the potential to exceed their maximum balances, and supervisors were asked to sit down with their employees to schedule vacation in order to avoid a payout situation.
- From an audit perspective, it was also good to have employees take their vacation because it could create a fraud risk for employees who don't, especially in a department that does not have segregated duties.

Trustee Hornbuckle agreed that managers encouraging their employees to take their leave time was the best solution. She also clarified that the committee was concerned that if employees didn't take their vacation, there could potentially be a large payout at some point, and of course the reason for having vacation leave time was because all employees need a chance to refresh and relax and then come back to work ready to go again.

Chancellor Weispenning reported the second part of item #6 "Steps Being Taken to Prevent Part Time Employees Exceeding Hours" was being tracked by HR and the Vice Chancellor of Human Resources, Dr. Marco Baeza, would provide a report on this matter at the committee's next meeting.

## **7. Review, Discuss and Possible Action regarding Funding for Physical Plant and Instructional Support Block Grant**

Dr. Dunn provided a second memo addressed to Chancellor Weispenning and dated March 20<sup>th</sup> in regard to funding for the Physical Plant and Instructional Support Block Grant.

Dr. Dunn provided the following summary of the memo:

- The release of the Governor's Budget Proposal in January identified no funding (on-going or one-time) for the Scheduled Maintenance (SMP) Block Grant.

- The memo included a five-year history of Coast's allocations for the SMP Block Grant and how the district had allocated the resources between facility repair and maintenance and instructional materials.
- Most likely a mistake resulted from recent turnover in the state Chancellor's Office.
- Coast would hope to expect this error to be reconciled in the May Revise.
- These were meaningful dollars for all three Coast sites, and it would be wise to advocate for these funds.
- Chancellor Weispfenning told the committee that the need for those dollars had been mentioned at the Legislative Affairs Committee.
- Trustees Hornbuckle and Moreno expressed their concern for the lack of these funds.
- Trustee Moreno requested Coast's need for these funds be sent to Dr. Larry Galizio, CCLC President and CEO, to ensure the league was aware of this issue when they did their budget analysis. Trustee Hornbuckle agreed; steps needed to be taken to correct and advocate for this for all districts. She also suggested the Legislative Affairs Committee should be aware of this problem and if there was any legislation coming up to deal with it.

#### **8. Review, Discuss and Possible Action regarding Internal Audit Quarterly Update**

Director of Internal Audit Services, Ms. Rachel Snell, provided a quarterly update. She noted under *Other Projects – In Progress* that she began work with the Cosmetology department at GWC and a full Follow Up Audit for the Criminal Justice Training Center at GWC.

Ms. Snell also began work on the draft Strategic Audit Plan and would soon present it to Chancellor Weispfenning, potentially to Chancellor's Cabinet, and to the full Board at the June 19<sup>th</sup> Board meeting.

In coordination with Dr. Serban, Ms. Snell would analyze Board Policy and Administrative Procedure 3600 and assess whether or not there were things within our current policies and procedures that were not actually required under state regulations. Ms. Snell would provide this analysis at the next DCC Subcommittee.

#### **9. Review, Discuss, and Possible Action regarding External Auditor's Auxiliary Organizations Report**

- Ms. Snell provided an update on the External Auditor's Auxiliary Organizations Report. The final draft report was completed and feedback was provided from the stakeholders. It was anticipated in the next few weeks that the final report would be completed.
- Dr. Dunn reported that Coast was in the final year of our current external auditor contract and we would be publishing an RFP seeking a new external auditor team.
- Mr. Swart provided the following timeline:
  - The RFP would be published on April 24<sup>th</sup>, would remain open for one month and would close on May 17<sup>th</sup>,
  - The review process of received proposals would be in July with the campuses and Ms. Snell,

- Presentations by the selected auditors would happen in August,
- The award would be presented to the full Board or the Audit and Budget Committee in early September,
- Coast would be required to report to the state the name of our External Auditor by February 2020.

#### **10. Future Meeting Dates**

The next meetings of the Audit and Budget Committee were scheduled for Wednesday, May 29, 2019 at 2:00 p.m., Thursday, August 22, 2019 at 2:00 p.m. and November 14, 2019 at 2:00 p.m.

#### **11. Future Agenda Items**

The Committee added the following future agenda items:

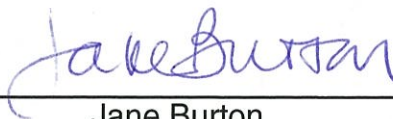
- a) Internal Audit Quarterly Report
- b) Report on steps being taken to prevent part-time employees exceeding hours
- c) Budget Update with May Revise

#### **12. Adjourn**

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to adjourn the meeting at 2:40 p.m.

Motion carried with the following vote:

Aye:	Trustee Moreno and Trustee Hornbuckle
No:	None
Absent:	None



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Jane Burton  
Secretary of the Board