
AUDIT AND BUDGET COMMITTEE MINUTES

Coast Community College District
Special Meeting of the Audit and Budget Committee
February 19, 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 Weispfenning, 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; Christine Nguyen, CCC Vice President of Administrative Services; Daniela Thompson, District Director of Fiscal Services; Rachel Snell, District Director of Internal Audit; Derek Bui, CCC Director of Business Services; Paul Wisner, GWC Director of Business Services; Rachel Kubik, OCC Director of Business Services; Renee Graves, CLA Principle Auditor; Arayawna Moore, CLA In-Charge Auditor; George Walters, Cambridge West; 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. Selection of Chair and Vice Chair of the Audit and Budget Committee

On a motion by Trustee Moreno, seconded by Trustee Hornbuckle, the Committee voted to select Trustee Hornbuckle as the Chair of the Audit and Budget Committee.

Motion carried with the following vote:

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

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to select Trustee Moreno as the Vice Chair of the Audit and Budget Committee.

Motion carried with the following vote:

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

5. Approval of Minutes: Meeting of November 13, 2018

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to approve the minutes of the Special Meeting of November 13, 2018.

Motion carried with the following vote:

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

6. Review, Discuss, and Possible Action regarding Budget Update

Vice Chancellor of Finance and Administrative Services, Dr. Andy Dunn, provided a budget update:

- Final recalculation for prior year ending June 13, 2018 along with the first principle apportionment report, a function of the P1 Enrollment Report would be ready for the Board Study Session in March.
- Fund Balance - Coast 16.45%, with statewide average at 21.25%. Coast's fund balance declining for several years now.
- Trend Analysis of ARC and AAL/TOL – long term liability for health care increased from \$103 million in 2017 to \$107 million last year. Health care costs continue to climb. We have \$80 million in an irrevocable trust fund, however, we are chasing a moving target.
- Status of Audit Findings: the two findings from the 2016-17 external audit report were resolved, and there were no new findings associated with the 2017-18 report.
- Audit Exit Meeting – November 14, 2019 at 2 p.m.
- P1 Enrollment – we reported about 1800 FTES below base, after assuming we can borrow 2,000 from summer; we are approximately 3,800 below base (about 11.5% below). Many districts struggling with enrollment. The State is only funding a quarter point of growth this year.
- FTES Trends - in alternate years we borrowed for stability which allowed us to maintain the 32,625 base even though we hadn't earned that number of FTES for approximately 7 years. We have a rolling 3-year average for purposes of determining funded enrollments. We are 1,800 below base; would expect based on the preliminary report to be about 600 below. We are still borrowing 2,000 from summer so are more than 10% below our base. The stability, the

one year hold harmless protection, has gone away under Student Centered Funding Formula.

- Salaries and Benefits as a percentage of our unrestricted General Fund. increased in part because of a Comp Class Study; expenditures for personnel purposes therefore increased.
- 2019-20 assumptions based on Coast receiving a COLA at 3.46% to be confirmed later in the spring.
- Statewide growth less than 1.0%.
- Non Resident Tuition would be recommended at next Board Meeting to be set at \$276.
- Capital Budget – continued funding for both OCC Language Arts and Social Sciences Building and GWC's Language Arts Complex Replacement.
- On the downside, no funding proposed for scheduled maintenance or instructional equipment block grant. The last few years the State used one time funds to support those critical programs. A point of advocacy would be consistent funding for instructional equipment and scheduled maintenance. We set up an endowment under Measure M; this past year was the first year we began to see revenue coming out of that but that is only a small portion of what is needed. We have a large deferred maintenance backlog. A large portion of the Measure M bond program involved taking care of small capital needs and as we move through the Vision 2030 process we will add to the deferred maintenance backlog. There could be some meaningful changes between now and the May revise. Not sure whether the Scheduled Maintenance or Instructional Equipment Block Grant will gain additional visibility and support from our new Governor; there is no lobbying for funding.
- Two building projects are on the list, the State will fund a portion, approx. half of the construction but there is no promise of on-going support other than what we get from our operational money and those instances where the Block Grant is funded.
- Trustee Moreno requested information from Dr. Dunn to share with his CCCT colleagues regarding the Block Grant and deferred maintenance schedule, and the needed funding.
- Former Apportionment Model compared to Current Model: Mr. Walters of Cambridge West addressed our ability to reconcile certain datasets we had received from the State.
- Looking at revenue expense for current year, and projected revenue expense for budget year, 2018-19 was first year for the Student Centered Funding Formula and we did well. COLA worked out to approximately \$5 million and base augmentation, as we transitioned to the new model, was an additional \$10 million; we saw approximately \$15 million with our adopted budget for this year.
- We identified new major expenses, so for the 2018-19 year against \$15 million in new revenue we have approximately \$10 million in new expenses. We had a balance of approximately \$5.3 million and are carrying forward a \$4.5 million structural budget deficit; we are structurally balanced into the good at about \$750,000 at the time of adopted budget.

- Looking ahead to 2019-20 year the 3.46% COLA works out to about \$6.9 million. The effect of enrollment decline expected to be approximately \$1.8 million.
- Expenses: COLA equates to \$6 million and health benefits about \$750,000 plus pension costs, step and column costs, and the last year for class/comp, therefore, approximately \$10 million in new expenses against \$5 million in new revenues, plus carrying forward the \$770,000 imbalance, looking to deficit spend to the tune of about \$5 million this year.
- Healthy budget year but there is no base augmentation so the only new revenue we expect is COLA.
- Governor proposed to buy down 1% of the increase for STRS. Also talk of a buy-down on PERS but that is expected to have no effect on employer contributions.
- Looking at multi-year outlook – it is early in the year and subject to change. For 2018-19 we are expecting to end at approximately 16% of fund balance and over next few years we have projections of COLA at 2.5 to 3 points each year. But again we assume that COLA will be passed through to the expense side of budget in the form of salaries. We are not anticipating in this model any new undesignated base augmentation and we are expecting the same thing to occur in the 2019-20, 2020-21, and 2021-22 years meaning our fund balance would go from 16% to just below 13%, then just below 10% in 2020-21, and then to around 6% in 2021-22.
- Board policy states we shouldn't move below 10% and we've already had several successive years of declining fund balance. If we are unable to grow, we must look more closely at expense side of our ledger and begin to trim meaningfully.
- There are 3 components to the student centered funding formula – a base which is looking at enrollments, a supplemental or equity component and a success component. We are again absent stability; our funded enrollments are a function of a three year rolling average. Funded for 2018-19 we are looking at 31,026 using the P1 figure of 30,815. As we roll forward, the 2016-17 year falls off the equation and we are making an assumption for purposes of this exercise that enrollment will not shift, that we'll be 30,815 going forward for the next couple of years.
- In statute, the SCFF was proposed to be put into place over a 3-year period. This year, the base is 70% proposed to move to 65% next year and 60% the following year. According to January budget proposal these percentages would be held constant at current year level.
- What is considered hold harmless is our total computational revenue under the old model vs total computational revenue under the new model. Coast is coming out far ahead under the new model unlike 22 other districts across the state.
- The second component looks at 3 elements – Pell, Promise student counts (what we used to call BOG Fee Waiver) and AB 540 student counts.
- The third component looks at success allocations.
- Historically we have had allocations under which we have sent funds out to the three colleges: 30.51% GWC, 52.11% OCC, and 17.38% CCC.

- First look at Student Centered Funding Formula production indicates CCC is at about 23, GWC at 28 and OCC at 49. This year we are focused on fully implementing the SCFF and next year will look more closely at our local allocation model, and whether what we used for the last four or five years is still working or if it needs fine tuning. This is a first look at what revenues might look like going out to each college.

George Walters from Cambridge West:

- Experienced struggles getting answers from the State on some of these matters. Made some headway past couple weeks, getting clear definitions on how Chancellor's Office pulled the data that will come out on their P1 in the next 7-10 days; the number they will pay in terms of supplemental outcomes as well as success outcomes. Second component is the three elements under Supplemental Allocation. 20% of budget is tied to those three elements.
- Third component – Student Success Allocation; there are 8 metrics with bonuses for each metric. We have validated Associates Degrees, Baccalaureate Degrees, Associate Degrees for Transfer and Credit Certificates but there is still confusion even at State level regarding 9 or more CTE units. Still areas districts need to work on regarding Transfer to a 4-year university; should have transfer level math and English shortly. The living wage is another challenge at the State level. These are all 2017-18 numbers that we are now being able to validate.
- Rate count – is based on the 8 metrics and the numbers of awards in each of the 8 categories.

Dr. Serban:

- The numbers we get funded on are based on district-wide numbers, e.g. PELL count for district but somebody could have received a PELL in the fall from OCC and in spring from GWC so the person is counted once.

Dr. Dunn

- We need to implement and understand the SCFF and next year move into conversations about the metrics; attainment of living wage for example is another one – we will get District data but how do we come up with a fair equitable means of allocating counts and resources across the three colleges.
- Budget Development Calendar captures statutory reporting deadlines. Budget subcommittee will meet on monthly basis, and Board Study Session on March 7, 2019. Tentative budget to be presented in June.
- Looking ahead – at full employment in country, unratified agreement supposed to supercede NAFTA, effects of last year's federal tax policy changes have been captured, and growing risks of trade tensions between US and China.
- CA facing aging population and housing shortage; Coast declining enrollment which may impact success and equity funding.
- Recap – it is a solid budget but there are indicators that need to capture our attention – continued softening enrollment and growing expenditures in the face of insufficient revenues.

Chancellor Weispfenning:

- Looking to the May revise to hopefully have additional allocation beyond COLA.

7. Review, Discuss and Possible Action regarding Steps Being Taken to Prevent Incidents such as Large Vacation Payouts/Part Time Employees Exceeding Hours would be returned to the next meeting.

8. Review, Discuss and Possible Action regarding External Audit Report Update

Renee Graves and Arayawna Moore gave a presentation regarding the audit process, and distributed their letter of February 19, 2019. They provided an overview of management's and CLA's responsibilities, the scope of CLA engagements, and reviewed the engagement timeline. It was noted that the exit meeting with the Audit Committee was scheduled for November 14th and draft final report would be ready for the November 20th Board Meeting. Individual meetings would also be scheduled for March.

In response to a question from Trustee Moreno Ms. Graves clarified the HR processes that were reviewed - payroll, hiring process, interview process, background checks, onboarding, minimum qualifications for instructors, timekeeping etc.

9. 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 *Completed Projects* the WOAI Grant report would be presented in Closed Session in March. There would be additional information to share by that meeting.

She noted that the Board had ratified the Internal Audit plan but that additional projects and priorities had caused some of the planned projects to be postponed and added to the 2019-20 plan. These would be shared with the full Board at the March Board Meeting.

Ms. Snell reported that a report would be forthcoming on compliance with AB 3600 for foundations, ASBs and Enterprise as this was still being worked on by external auditor. Ms. Graves Indicated she would follow up on the status and that a report would be available at the next meeting.

10. Future Meeting Dates

The next meeting of the Audit and Budget Committee was scheduled for Thursday, April 4th at 2:00 p.m.

11. Future Agenda Items

The Committee added the following future agenda items:

- a) Internal Audit Quarterly Report
- b) Update on Auxiliary Organizations Report by External Auditor
- c) Report on steps being taken to prevent incidents such as large vacation payouts/part-time employees exceeding hours
- d) Budget Update

12. Adjourn

On a motion by Trustee Moreno, seconded by Trustee Hornbuckle, the Committee voted to adjourn the meeting at 3:28 p.m.

Motion carried with the following vote:

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



Jane Burton
Secretary of the Board

