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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

May 31, 2018 at 10:00 a.m.

Board Conference Room

1370 Adams Avenue, Costa Mesa, CA 92626

## Procedural Matters

### 1. Call to Order

The meeting was called to order at 10:04 a.m.

### 2. Roll Call

Trustees Present: Trustee Mary Hornbuckle and Trustee Jim Moreno

Trustees Absent: None

**In Attendance** – Dr. John Weispfenning, Chancellor; Dr. Andrew Dunn, Vice Chancellor of Finance and Administrative Services; Dr. Dennis Harkins, OCC President; Dr. Miles Nevin, Director Chancellor's Office Operations and Projects; Khanh Tran, Acting Executive Assistant to the Vice Chancellor; Dana Swart, Controller; Rachel Snell, District Director of Internal Audit; Dr. Rich Pagel, OCC Vice President of Administrative Services; Rachel Kubik, OCC Director of Fiscal Services; Paul Wisner, GWC Director of Fiscal Services; Derek Bui, Payroll Systems Manager; Cynthia Ely, Faculty; Rene Graves, CLA Representative; Arayawna Moore, CLA Representative; and Jennifer Daniels, Executive Office Services Coordinator.

### 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 22, 2018

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to approve the minutes of the Special Meeting of February 22, 2018.

Motion carried with the following vote:

Aye: Trustee Moreno and Trustee Hornbuckle

No: None

Absent: None

## **5. Review, Discuss and Possible Action regarding Proposed Funding Formula**

The Chancellor provided an overview on the Proposed Funding Formula:

- System-wide growth was decelerating.
- 20% of districts met enrollment targets last year resulting in lower apportionments forth coming.
- Under current funding formula 44% of districts were in stability with 25% not fully restored.
- In the current and prior year reports nine districts were in stability, 14 districts were not in stability and 58 districts were in stability one of two years.
- Governor's May Revise adjusted the funding formula from January's proposed formula from 50% to 60% based on enrollment, from 25% to 20% based on equity, and from 25% to 20% based on success (how many students were moving toward transfer and degrees, how many were getting their degrees and what their wages were)
- The hold harmless provision was adjusted from a one year to a two year hold harmless.
- Under this funding proposal the District would receive \$208.3 million, an increase of more than \$23 million from the previous year.
- Important factors: building institutional capacity through base funding, two years of hold harmless funding, allocated \$104 million in one-time funds, opportunity to refine the proposed funding formula over the next two years.
- Legislature had to act by June 15, 2018 and the Governor had to act by June 30, 2018.
- Trustee Hornbuckle recommended letters of support on the newly proposed Funding Formula be sent to the Conference Committee (the letter was drafted and would be approved at the June 1, 2018 Board of Trustees' Special Meeting).

## **6. Review, Discuss and Possible Action regarding External Audit**

Dr. Dunn informed the Committee that the External Audit Report in agenda item #6 was embedded into the Budget Update in agenda item #7.

## **7. Review, Discuss, and Possible Action regarding Tentative Budget Framework**

Dr. Dunn provided an overview on the Tentative Budget Framework:

- Final Recalculation: Base apportionment went from \$176.9 to \$177 million due to a rounding error; 35 districts were in stabilization; statewide fund balance averaged 21.2% and had been declining as the third year of deficit spending was approaching, the District closed last year at 18.6%.
- Changes Since Adoption: Largely driven by nonresident FTES; not all of the class and compensation study was initially captured; enrollment report was in mid-April and indicated the need to borrow about 1,200 FTES to return to base.
- Audit Status: Dr. Dunn addressed the following two findings made last year with reconciliation and closing procedures and internal controls. Staff reconciled auxiliary charges, established a monthly closing process and would be reviewing and adjusting prepaid and accrual accounts, which resolved the

reconciliation and closing procedures. Staff also implemented the electronic Personnel Action Form, which largely resolved the segregation of duties that caused concern with internal controls.

- Ms. Graves provided an update regarding the External Audit. Due to a conflict with a Board of Trustees meeting, the proposed November 7, 2018 Audit and Budget Committee meeting was moved to November 9<sup>th</sup>. Presentation of the final report to the Board of Trustees was scheduled for the November 20, 2018 Board meeting.
- Student financial aid and federal and state compliance would be worked on throughout June and July. Trustee Moreno requested updates regarding student financial aid from the Chancellor and Ms. Snell.
- Year-end close dates for each of the campuses were reported as scheduled and confirmed.
- District site visit was scheduled for August 15, 2018.
- Preliminary visits at each campus were mostly completed; a few open items from OCC were still being worked on.
- Ms. Graves met with the management team on February 14, 2018 to communicate management's responsibility and auditor's responsibility. The annual required communication from auditors outlining the responsibilities were distributed at the meeting; Trustee Moreno requested an extra copy for Board Office records.
- Also included in the handout were new GASB standards. Many would not be implemented until FY 2018-19 or subsequent to that. There were minor changes to previous standards that have been implemented. Only significant GASB was related to leases: in the past an operating lease was only a disclosure item but now it would go on a financial statement as an asset and liability; would be implemented FY 2020-21.

Dr. Dunn continued with his overview on the Tentative Budget:

- Assumptions: Consistent with the 10% Reserve required through Board Policy 6200, COLA was built into the tentative budget as 2.51%, however, there were indications of it rising to 2.71%, 1 point of state growth funding, no anticipation for growth locally, budget would be framed on base FTES \$32,623, need to borrow \$1,224 FTES and would still not be in stability. Based on what the Governor would sign into law in June these changes would be reflected in the District's final budget and would be presented to the Board of Trustees in mid-September.
- Estimated Revenues: No growth in funding, COLA at 2.51% was worth about \$4.5 million, fair share of the \$175 million was worth about \$4.9 million - estimated \$9.5 million in new revenue.
- Estimated Expenses: \$3.8 million to COLA, \$740 thousand to health benefits, estimated increase for pension contributions for PERS and STERS, net effect of new step and column salary, 1% for bargaining and other units - estimated \$9.3 million in new expenses.
- Trends: Enrollment had been flat for six years; under new model, stability and the ability to borrow would go away. Revenue and expenditures were 22.7% for FY 2015-16, 18.6% for FY 2016-17, and were anticipating 16.5% FY 2017-18. Health benefits per employee per year had a slow trend upward leading towards FY 2017-18. Preliminary health benefit renewal data showed a more modest increase than earlier thought; 1.75% increase across all programs which would represent a \$700 thousand uptick. Data for employer pension

matches were projected through the year 2021; PERS had put forward projected increases going as high as 26%. Over \$34 million in new categorical revenue across major programs was anticipated.

- Preliminary Budget Model: Basic allocation totaled \$12.1 million in revenue received for approved sites (the three colleges; one small and two midsized), FTES funding was \$32,623, total apportionment revenue was \$194 million, various state figures, base increase numbers, full-time faculty numbers, other state revenue, lottery, enrollment fee administration, part-time faculty parity, and \$5.8 million in other state revenue totaled about \$200 million. District wide local revenue represented interest earned, joint used development (the lease to car dealership next door), La Habra Tower rentals and payments from KOCE, which totaled about \$1.5 million. Total revenue for distribution through the model was \$201.7 million.
- Assessments: Estimated increase in expenses for the District office; largely salaries and district wide expenses. The increase reflected the COLA plus 1% that was granted to employees, increases from the classification and compensation study, and increases associated with health and pension upticks. These expenses were not seen for the colleges because they showed as revenue going out to the campuses. Expenses were rising much faster than revenue and fund balance was trending downward due to deficit spending.
- Preliminary Capital Budget: Measure M Endowment was \$1.2 million for technology and \$0.8 million for scheduled maintenance. Prop 51 now included six projects with the GWC Language Arts building included; should be signed into law and funded this coming year.
- Budget Development Calendar: Regulatory and statutory dates were confirmed; the tentative budget would be presented to the full Board of Trustees during the regular Board of Trustees meeting on June 20, 2018.
- Under the current funding model, the District would receive basic allocation and FTES revenue. Under any variation of the new funding model, in addition to the basic allocation and FTES revenue received, there would also be need based revenue and success based revenue.
- If the proposed funding formula were to be rejected, there would be a modest amount of base allocation funding and a whole series of categorically driven proposals.
- Increase in expense, flat enrollment, and deficit spending were reported and would need to be tackled in the coming year.

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted for the Chancellor to distribute the CCCT Update and Budget Development presentations to the full Board of Trustees, District Budget Committee, Faculty Union, and Classified Union representatives.

Motion carried with the following vote:

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

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

Ms. Snell provided an overview on the Internal Audit Quarterly Update:

- Updated status report from the OCC Recycling Center: Ms. Snell reported good progress on implementing the recommendations from the initial audit review and investigation.
- Audit Universe: Audit standards recommended an audit universe be created for all entities as a whole in order for audit project planning to be performed on a more objective basis and would provide a better understanding of all the operations of the entity. Ms. Snell elected to break down this project into groups and started with the District site. Departments stated areas they thought were important to their business function overall, areas they felt were important to them, or potentially areas that they wanted reassurance in reinforcing those functions.
- Ms. Snell reported confusion from staff regarding the good standing with the Board Policy and Administrative Procedure 3600 related to auxiliary organizations. Recommended changes to the administrative procedure to clarify language would be brought to the Board during the June 20, 2018 Board meeting. At the Chancellor's request this would be a standing item and Ms. Snell would meet with auxiliary groups on an annual basis to make sure there's enough training, assistance, and resources available to them.

## 9. Future Meeting Dates

- a) August 23, 2018
- b) November 9, 2018

## 10. Future Agenda Items

The Committee added the following for future agenda items:

- a) Final Budget
- b) Internal Audit Quarterly Report
- c) External Audit Status

## 11. Adjourn

On a motion by Trustee Moreno, seconded by Trustee Hornbuckle, the Committee voted to adjourn the meeting at 11:25 a.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