
AUDIT AND BUDGET COMMITTEE MINUTES

Coast Community College District
Special Meeting of the Audit and Budget Committee
November 13, 2018 at 3:00 p.m.
Board Conference Room
1370 Adams Avenue, Costa Mesa, CA 92626

Procedural Matters

1. Call to Order

The meeting was called to order at 3:01 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; Christine Nguyen, CCC Vice President of Administrative Services; Daniela Thompson, District Director of Fiscal Services; Dwayne Thompson, District Director of Institutional Research and Planning; Dr. Miles Nevin, District Director of Chancellor’s Office and Operations; Rachel Snell, District Director of Internal Audit; Derek Bui, CCC Director of Business Services; Paul Wisner, GWC Director of Business Services; Renee Graves, CLA Principle Auditor; Arayawna Moore, CLA In-Charge Auditor; Cyndee Ely, OCC part-time Instructor; Connie Marten, President of CFCE; 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 August 23, 2018

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to approve the minutes of the Special Meeting of August 23, 2018.

Motion carried with the following vote:

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

5. Review, Discuss, and Possible Action regarding External Audit Status

Ms. Graves provided copies of the Required Communications Letter and Draft External Audit Report. She provided the following updates:

- No financial statement, state compliance, or federal compliance findings were reported.
- The two findings from the previous year had been resolved.
- Required Communications Letter:
 - Contained issues that were not drastic enough to be found in the audit report itself.
 - GASB No. 89 would not be effective for a few years, but management opted to implement the standard early.
 - The PERS and STERS employee plans as well as the internal Post Employment Healthcare Benefits plan created some of the larger liabilities on the financial statements.
 - Uncorrected misstatements regarding a timing difference for the Orange County Treasurer account where the total was understated by \$1,775,185 was not material, so management did not need to book the amount in order for a clean opinion on the Financial Statements as it would self-correct in the 2018-19 Fiscal Year.
 - The following observations were not significant enough to be included in the report as a finding:
 - Related to state compliance findings, such as three regular students that were classified as concurrent students when they were not high school students.
 - One that dealt with an allowance for student accounts receivables
 - One related to 50% law - there was information from the campus that was not provided to the district office timely enough for the calculation to be done properly.
 - Mismatch of what the system showed and what was being reported to the Chancellor's Office within their DataMart as far as services not being performed.
 - Noted a dormant bank account that was not officially closed with the bank; this was resolved immediately.
 - Two accounts holding fiduciary funds had no activity other than interest earnings; it was recommended to move those funds to a LAIF in order to maximize interest earnings - Dr. Dunn would look into this; Trustee Moreno requested a report from Dr. Dunn at the next committee meeting.
 - Related to accrued vacation: 17 employees exceeded the maximum amount of vacation hours that could be carried over; to avoid large vacation pay outs when employees terminate and to follow best practices, it was recommended to ensure employees use their vacation as earned rather than carry it over to subsequent years.

- Three journal entries were found that did not have documentation of review by an individual other than the person preparing and posting the entry.
 - It was recommended that multi-funded positions maintain a time record as evidence of the percentages to each of the programs.
 - Required Supplementary Information was audited and received an opinion.
 - Supplementary Information was not audited and would not receive an opinion; it would be reviewed for consistency with the financial statements.
- Draft Audit Report:

Independent Auditors' Report

- Opinion: financial statements were fairly stated and in accordance with all applicable accounting principles.
- Emphasis of a Matter stated GASB Standard No. 89 was implemented this year.
- Other Matters: similar to what was stated in the Required Communications Letter.
- The report would be dated the day of this meeting: November 13, 2018.

Management's Discussion and Analysis

- Required document written by management that explained changes and why those changes occurred; details on funding model, FTES, long-term debt, assets, etc.

Basic Financial Statements

- Statement of Net Position: Assets and deferred outflows were discussed as well as liabilities, deferred inflows, and net position; numbers did not change significantly from the prior year.
 - Cash and cash equivalents stayed consistent
 - Investments increased about \$17 million (part of Measure M endowments)
 - Cash and bond fund decreased (related to spending in Bond proceeds)
 - Capital assets increased
 - Deferred outflows with pensions increased
 - Significant changes in liabilities: unearned or deferred revenue increased about \$5 million and would continue to fluctuate in the following year
 - Deferred inflows now included postemployment healthcare at \$305 thousand (due to second year of GASB Statement No. 74)
 - Net position/net investment in capital assets increased
- Statement of Revenues, Expenses, and Changes in Net Position:

- Operating Revenues were similar to previous years in tuition, federal/state grants, and total operating revenues.
- Operating Expenses: the largest increases were seen in salaries and employee benefits; other expenses such as supplies, materials, and other operating expenses/services, financial aid, utilities, and depreciation were consistent with the previous year.
- Non-Operating Revenues: local property taxes increased approximately \$9 million; interest expense was higher than last year due to implementation of GASB Standard No. 89 (interest would no longer be capitalized and would now be seen as an expense); actual cash paid for interest was approximately \$27 million, seen in the net position from negative \$47 million last year to negative \$75 million.
- Statement of Cash Flows: No specific observations; larger cash expenses went to employees and with the increase in total fixed assets, the net change in cash and cash equivalents decreased by \$93 million.
- Statement of Fiduciary Net Position: Ancillary and Associated Student Body Funds were audited separately and no issues were reported.
- Statement of Other Postemployment Benefits Plan Net Position: Retiree (OPEB) Trust was in compliance with government code and internal policy; the market value was determined to be sound and reliable.

Notes to the Financial Statements

- Note 1 - Investments: primarily where Measure M endowment funds were being invested with U.S. Bank; totaled approximately \$60 million in investments.
- Note 5 - Fixed Assets and Depreciation: primarily construction and progress area as Measure M funds were being spent; the Recycling Center and Legacy Hall went online during the year so they moved out of the construction in progress into depreciable assets. Additions to capital assets from the Criminal Justice Training Center, the Math and Science Building, the Student Services Center, and the Planetarium were the majority of the \$84 million that was expended during the year.
- Note 9 - Perkins Loan Program: disclosed that the Perkins Loan Program would be closed out in the 2018-19 fiscal year.
- Note 18 – GASB Statements Issued, Not Yet Effective: stated new standards that management would have to implement; most of the standards were listed as informational items and would not affect the District, except for GASB Statement No. 87, which would require all leases to be reported as a liability.

Required Supplementary Information

- This information was primarily related to OPEB, PERs and STRs and was not audited, only observed for consistency within the report.

Supplementary Information

- History and Organization, Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance – Grants, Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance, Reconciliation of Annual Financial and Budget Report with Audited Financial Statements, Reconciliation of 50 Percent Law Calculation, Education Protection Account Expenditure Report, Schedule of Financial Trends and Analysis, Notes to the Supplemental Information.

Other Independent Auditors' Reports

- There were no findings; each of the following letters stated no instances of non-compliance or internal controls that were determined as significant deficiencies or material weaknesses:
 - Internal Controls and Compliance related to Over Financial Reporting
 - Internal Controls and Compliance related to Federal Programs
 - Internal Controls and Compliance for State Compliance

Findings and Questioned Costs

- Schedule of Findings/Questioned Costs - Summary of Auditor Results stated the rendered opinion and whether or not there were findings.
 - A risk assessment on federal programs was required every year.
 - At least 25% of total expenditures were tested annually.
 - Financial aid was the largest and riskiest program because the laws and regulations surrounding it were very complex and always changing, therefore it would also be tested annually.
 - Through a risk assessment, any programs with expenditures that exceeded a certain threshold would need to be tested at least every three years.
 - CTE program was an additional program tested this year.
 - The threshold would change every year because it was based on a percentage of total federal expenditures.
 - When federal expenditures would increase, the threshold would also increase and vice versa.
 - The District did not qualify as a low-risk auditee for federal program testing; was not an indication that the District was generally high risk.
 - In order to qualify as low-risk, there would need to be a clean opinion with no material internal control or federal findings for two consecutive years.
 - Due to the material internal control finding in the previous fiscal year's audit, the District did not qualify as low-risk this year.

- Low-risk auditees would require 25% of federal programs to be tested and not low-risk auditees would require 50% of federal programs to be tested.
- Due to financial aid being tested every year, the District was always tested at 50%.
- Schedule of Prior Year Findings and Questioned Costs:
 - The first finding from the prior fiscal year's audit regarding Reconciliation and Closing Procedures was rectified; the implementation of Banner 9 was not resolved, but Ms. Graves agreed with management's decision to wait until that was implemented in order to look at how the system worked and then determine what steps were necessary at that point; this would be revisited in the next year's audit to confirm its implementation.
 - The second finding related to Internal Controls: Payroll Segregation of Duties and Personnel Files: compensating controls were tested and proved to be in place and resolved.

Continuing Disclosure Information

- This information was not audited, but was included in order to aid continuing disclosure requirements.

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

Dr. Dunn provided the following overview regarding an update on the Budget:

- Halfway through the current budget year and less than 60 days until the Governor's proposal for the next budget year was out.
- January 10, 2019 budget proposal would largely be Governor Brown's, but it would become Governor Newsom's as well; there could be significant movement between the January 2019 proposal and the May 2019 revise as Governor Newsom would exert his influence on the budget process.
- Continued work and progress on the budget model; took a long time to receive necessary information from the state, but the goal was still to frame the tentative budget in Spring 2019 under a potentially new internal model.
- An updated report would be provided in February 2019 with a sense of what the proposal would look like.

7. Review, Discuss, and Possible Action regarding Measure M Update

Dr. Dunn provided an overview regarding updates on Measure M:

- Citizen's Oversight Committee would meet and tour on November 28, 2018 at the Golden West College Campus.
- A report would be presented to the Board in January 2019.

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

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

- Brown Act Compliance Survey: finalized and would be presented at the December 12, 2018 Board Meeting; OCC and CCC updated their information - the error was a misunderstanding on how to implement a certain practice related to the Brown Act and was no longer an issue.
- Self-Reported Status of Recommendations for Fixed Assets: Internal Audit did an initial engagement four years ago and a full follow up audit two years ago and found some recommendations from the original audit four years ago were not yet implemented; mostly due to Banner transitions. This self-reported follow up found those conditions still existed; since Banner 9 was still being implemented another 9 months was requested to iron out Banner 9 issues and then hopefully be able to implement those. An update related to fixed assets would be presented again in June 2019.

9. Future Meeting Dates

- a) Tuesday, February 19, 2019 at 2:00 p.m.

10. Future Agenda Items

The Committee added the following future agenda items:

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

11. Adjourn

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to adjourn the meeting at 4:10 p.m.

Motion carried with the following vote:

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



Jane Burton
Secretary of the Board