
AUDIT AND BUDGET COMMITTEE MINUTES

Coast Community College District
Special Meeting of the Audit and Budget Committee
November 9, 2017
Board Conference Room
1370 Adams Avenue, Costa Mesa, CA 92626

Procedural Matters

1. Call to Order

The meeting was called to order at 10:01 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. Andreea Serban, Vice Chancellor of Educational Services and Technology; Dana Swart, Controller, Accounting; Daniela Thompson, Administrative Director of Fiscal Affairs; Rachel Snell, District Director of Internal Audit; Dr. Rich Pagel, OCC Vice President of Administrative Services; Rachel Kubik, Director of Fiscal Services; Christine Nguyen, CCC Vice President of Administrative Services; Helen Rothgeb, CCC Director of Business Services and Entrepreneurship; Rene Graves, CLA Representative; Tina Henton, CLA Representative; and Jane Burton, Interim 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 24, 2017

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to approve the minutes of the Special Meeting of August 24, 2017.

Motion carried with the following vote:

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

Item #6 was moved forward.

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

- Ms. Snell provided a brief summary of Internal Audit's projects. She reported on new items, such as the welcome celebration for the new Federal Work Study Student at OCC's Captain's Table and the 3rd annual Department Holiday Team Recognition Event at Maggiano's. She also reported that the Internal Audit Department Navigator Website was complete.
- As requested by the Board of Trustees, Internal Audit completed the semiannual self-assessment of recommendations. Ms. Snell reported a follow-up on the recommendations that were made as a result of an investigation in Human Resources. That was completed and would be submitted to the Board in December.
- Ms. Snell provided an update on the projects in process: Internal Audit held the Fraud, Waste, and Abuse Training for the Chancellor's Cabinet, CCC Academic Senate, OCC Academic Senate and Classified Senate, and were on the schedule for confidential staff and the student

council. GWC Academic Senate declined the training and recommended the training for flex day. She offered to provide training to the Presidents' Cabinet where she could introduce the management and staff levels of their role in identifying fraud, waste, and abuse and how they could report it.

- Ms. Snell informed committees that the PowerPoint presentation used in the trainings was available on the Navigator website. She reviewed in her training things that could be encountered on the job in terms of fraud, waste, and abuse, so everyone knew what to look for. She provided an overview of the new online reporting form; where to find it and how to fill it out.
- The Committee requested that the Fraud, Waste, and Abuse Training PowerPoint be attached to Internal Audit's update at the next regular Board meeting.

5. Update regarding External Audit Report

Dr. Dunn reported changes from GASB, the Governmental Accounting Standards Board. He stated the District's actuary would provide an update at the November 15, 2017 regular Board meeting. In order to provide a more thorough and complete audit report, Dr. Dunn requested a special meeting for presentation to the full Board of the External Audit Report. The Committee agreed to hold this special meeting at 2:30 p.m. prior to the December 13, 2017 regular Board meeting.

Ms. Graves provided a handout on the Draft Report on Audit of Financial Statements and Supplementary Information Including Reports on Compliance. She reported on the following key points:

- Ms. Graves reviewed the following portions of the Independent Auditor's Report:
 - The Opinion would be the matters expected to render, after all critical and crucial areas were completed, a clean and modified opinion that financial statements were fairly stated and were following all accounting principles generally accepted in the United States would be issued.
 - The Emphasis of a Matter stated as a result of the implementations of the new GASB standards No. 74 and 75, the District reported a restatement for the change in accounting principle. Ms. Graves reiterated that the amount was unknown at that time and would depend on the actuary report.
- Trustee Hornbuckle requested a Management Discussion and Analysis Section (MDAS), a narrative piece that could be provided, similar to an Executive Summary.
- Pension Stabilization Trust became effective FY 2016-17 and provided an alternative trust account that would stabilize CalPERS and CalSTRS. Return on these funds was reported by Dr. Dunn at about 2.5%, rather than the 1% or less it earned in the county pool.
- Capital assets and depreciation schedule changes were completed.
- Ms. Graves provided an update on addition and reduction changes in the long-term debt schedule. The net pension liability was reported as a new issuance and had increased \$37 million in the last year.
- Regarding Employee Retirement Plans, a report was provided on total liability and how it was broken down.
- Interfund Transactions, Internal Services Funds, Joint Powers Agreements, and Functional Expenses were reported in similar formats with updated activity for the current year; no significant changes were reported.
- Ms. Graves reviewed new GASB standards that would be issued in the future. GASB Statement No. 87 on leases would treat operating leases like capital leases and would become effective for the FY 2020-21.
- Ms. Graves explained that GASB would not include the Required Supplementary Information section as part of the financial statement, but required the information be disclosed.
- The District met the 50 Percent Law Requirement.
- Ms. Graves provided an overview of the 2 findings in the External Audit Report:
 - The first finding was reported as recurring and was related to the closing process and reconciliation. The general concern was items not being reviewed in a timely manner. Ms. Graves reported many reconciliation processes were happening at end of year, which caused differences in numbers and errors. Dr. Dunn reported effort on improving working relationships with colleges in this regard. Stronger lines of communication and making sure expectations were understood by both parties. Ms. Thompson ran a report

which showed in approximately 4,500 processed expenditure transfers, half took place in the month of June. This caused delays in closing books, which caused a delay in the auditor's work. Ms. Graves recommended monthly closes on the campuses and quarterly closes at District. If cash, receivable accounts, payable accounts, and balance sheet accounts were reconciled regularly, the end of year process would be more simple and accurate. Trustee Hornbuckle asked if more training for campus employees would be helpful. Dr. Dunn would continue to attempt that. Dr. Pagel reported Orange Coast College was reconciling monthly and there was a disconnect between the campus and District, and improved coordination was needed. Trustee Moreno requested a report with recommendations from the Chancellor at the next scheduled Audit and Budget Committee meeting. Trustee Moreno stated his concern regarding this recurred finding, the need to identify what areas were having this problem, what caused the delays, and how to direct a better system of reporting.

- The second finding was reported as a new finding for this year, related to payroll and segregation of duties. Ms. Graves reported functions within the Payroll department that should happen outside the department. Payroll had access to input employees, made changes to payroll rates, processed checks and balances, and reviewed their own work without documentation. In return, External Audit could not rely on the compensating controls and it was highly recommended that the District split the duties. Dr. Dunn discussed reorganization with Human Resources, or the possibility of returning to a past structure where Internal Audit performed routine checks. Ms. Snell asked Ms. Graves if her concerns would be eliminated if Payroll began documenting their reviews. Ms. Graves explained the strongest internal controls structure would be a pure segregations of duties, so the first recommendation would be to segregate. The next tier down would be compensating control, which was the current process- someone was doing the work and that work would be audited in the same department. Ms. Graves also reported on the system of personnel files. They were not in a central location which made viewing payroll testing a cumbersome and lengthy process. External Audit recommended implementation of a filing structure that would be maintained in a central location, where they would remain complete with a trail that could be documented. Ms. Graves suggested that Human Resources performed HR functions such as onboarding, entering the employee, making pay rate changes, and maintaining all completed personnel documentation files while Payroll provided only payroll functions.
- Ms. Graves reviewed the status of the prior year findings: There was progress towards improvement, but she would like to see more. Remaining findings were related to Federal Programs.
- Trustee Moreno highlighted the points to be addressed in the next Audit and Budget Committee meeting: The Chancellor would report on concerns regarding the processes of Human Resources and Payroll and ways to improve the end-of-year reconciliation process.

7. Future Meeting Dates

- a) February 22, 2018 at 10:00 a.m.
- b) May 31, 2018 at 10:00 a.m.

8. Future Agenda Items

The Committee added the following for future agenda items:

- a) Report from Chancellor on Processes of Human Resources and Payroll and of the End-of-Year Reconciliation
- b) Internal Audit Quarterly Update

9. Adjourn

On a motion by Trustee Moreno, seconded by Trustee Hornbuckle, the Committee voted to adjourn the meeting at 11:10 a.m.

Motion carried with the following vote:

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



Jane Burton
Manager, Board Secretary