



Governing Board's Finance and Audit Committee

Friday, February 14, 2020

9:00am

District Office, D225

Meeting Minutes

In Attendance:

Tracy Nuckolls (Chair), Demion Clinco, Ken Marcus, Daniel Soza (Ex-Officio), Agnes Maina (Ex-Officio), Jesus Manzanedo, Clarence Vatne, Adrianne Regrutto (Chair-Elect)

Unable to Attend:

David Bea (Ex-Officio), Ben Tuchi, Scott Odom, Maria Garcia

Guests:

General Counsel Jeff Silvyn, Internal Auditor Jose Saldamando

General Matters

1. Call to Order

Chair Tracy Nuckolls called the meeting to order at 9:02am, noting a quorum was met. He introduced Mr. Ken Marcus, the newest community representative of the Finance and Audit Committee.

Action Items

2. Approval of Minutes from December 13, 2019

Chair Nuckolls asked if the Committee had any changes to the minutes. With one change to the members in attendance at the December 13, 2019 meeting, a motion was made to approve the minutes.

Motion No. 202002-01: Approve Minutes from December 13, 2019

First: Jesus Manzanedo

Second: Adrianne Regrutto

Vote: Motion passed unanimously (Nuckolls, Clinco, Marcus, Manzanedo, Vatne, Regrutto voting in favor)

Motion Carried.

Reports and Feedback

3. Office of the Auditor General (Katherine Edwards Decker, John Faulk)

After introductions, a summary of the Fiscal Year 2019 (FY19) audits was provided, beginning with the FY19 Comprehensive Annual Financial Report. This report was completed in time for submission

to the Government Finance Officers Association for consideration for the Certificate of Achievement for Excellence in Financial Reporting.

Next, the FY19 Single Audit and Report on Internal Controls and Compliance was discussed. There was one finding related to Information Technology (IT) controls - configuration and change management. This finding is a continuation from two years ago, and it will likely be resolved by next year as the College implements TeamDynamix and creates procedures to document the change management process. Mr. Jesus Manzanedo inquired about the commonality of this issue at other Arizona colleges, and Mr. John Faulk noted it was consistent across the state. In FY19, the Audit General revised its approach, placing an emphasis on documented procedures rather than implementing policy, resulting in a decline in IT findings statewide.

Ms. Katherine Edwards Decker confirmed the College has implemented a more robust risk assessment across the District, and also described some of the security awareness training that has been implemented. Additional testing by the College is planned in FY20. Mr. Faulk there were no findings related to compliance.

Related to Uniform Guidance, the Financial Aid, TRIO, HPOG, and Adult Education programs were tested. There were no major issues with federal compliance related to these programs as well as no weaknesses in internal controls to federal programs. For FY18, the TRIO program had a finding related to eligibility, which was corrected. The second issue from the prior year was related to financial aid reporting, which was also corrected as the College reallocated resources to resolve this long-standing issue. The final component of this report was the schedule of expenditures of federal awards, which were accurately accounted for.

Mr. Nuckolls inquired about the College's participation in the audit process and if there is any feedback. Mr. Faulk identified the Foundation as a challenge; the District itself was quite cooperative this year. Mr. Nuckolls congratulated the College on its successes.

4. Internal Audit Update (Jeff Silvyn, Jose Saldamando)

Mr. Jeff Silvyn described the recent changes in the Office of the Internal Auditor, with the recruitment of Internal Auditor Jose Saldamando and departure of Mr. Kurt Weirich. Mr. Saldamando described his background and experience, leading into the Executive Summary provided for today's meeting. Mr. Saldamando continued with a summary of the changes implemented, utilizing feedback previously provided by this Committee; the Committee expressed their appreciation for these changes.

Mr. Clinco asked for this Committee to regularly meet with Mr. Saldamando to review draft reports prior to completion. Mr. Saldamando spoke to some of the projects he will be working on, and Mr. Silvyn suggested quarterly updates, with an annual Governing Board Study Session.

Mr. Clarence Vatne inquired about the staffing of the Office of the Internal Auditor, and Mr. Silvyn stated that the College will move to a model in which temporary or contracted auditors are engaged as needed. Internal Audit will work with Purchasing to develop a pool of auditors.

Mr. Saldamando is finalizing the FY19 risk assessment and will send to this Committee draft audit reports. Mr. Manzanedo asked Mr. Saldamando to share any issues related to the completion of the audits and development of the audit plan. He continued with some strategies he uses in his own office and in helping to determine the scope of an audit.

The College is working with the Arizona School Risk Retention Trust to create a framework of Enterprise Risk Management (ERM) and Compliance to complement Internal Audit. Mr. Vatne asked about a target date to complete the development of the new structure, and Mr. Silvyn will present the final framework for ERM, Compliance, and Audit to this Committee.

5. Comprehensive Annual Financial Report (CAFR) for the Year Ended June 30, 2019 (Agnes Maina)

Ms. Agnes Maina introduced the CAFR. New financial metrics were added this year, and Chair Nuckolls asked if there are any additional metrics that can be added for FY20 related to covenants of the bond issuance; Ms. Maina will make the addition for FY20. Ms. Maina continued with a summary of revenues by source, highlighting contracts, property taxes, and investment revenues from strong cash management. Expenses are also down over FY18, primarily due to position reductions and vacancies in personnel lines. The College concluded the year with a strong financial position due to the bond issuance and investment revenues, and it is anticipated that FY20 will show similar results. Grant revenue may decrease this year as the Health Profession Opportunity Grant will be concluding; new grants may potentially offset this loss in revenue.

Mr. Vatne asked about the decrease in employee compensation and benefits, which Ms. Maina explained is due to closures of vacant positions and a decrease in contributions to state retirement systems. Mr. Vatne noted there is still room to reduce staff and reprioritize needs, and Mr. Soza stated that providing the same services across distributed locations is a contributor. Program viability, classroom inefficiencies, and other factors play a role; the Provost will meet with this Committee at a future meeting to further discuss these topics. Ms. Maina's department is meeting with the Deans this year as part of the budget development process to help with understanding the business model related to course scheduling.

6. CFO Update (Daniel Soza)

Mr. Soza provided the CFO update on behalf of Dr. David Bea.

Revenue bond expenses have been about a million dollars a month; major expenses will occur as the contractors begin their work at Downtown Campus. This Committee discussed the status of the Aviation project, as well as the College's reserves in relation to property tax revenues. The concrete foundations and underground utilities are in the works at the Transportation Building, which is on schedule to open in December.

Mr. Clinco inquired about the possibility of cash funding the Allied Health Building and allocating funds for an additional bond issuance. Ms. Maina stated that an action will be presented to the Governing Board to restrict the funds for the Allied Health Building, which will also keep the expenses outside of the Expenditure Limitation (EL). Mr. Clinco expressed interest in locking in the project financing as the Board's leadership begins to change, and this Committee supports this notion.

Revenues generated by property taxes and state appropriations are bound by EL. Prop 301 dollars, which are not tied to EL, will be operationalized to fund personnel costs as opposed to capital equipment. Additional positions will be closed this year to narrow the gap between projected expenditures and the FY21 EL.

Mr. Soza described the priorities of the Governing Board, including those with a direct impact on students. Salary scenarios were described in relation to a lift to salary schedules, a pool for merit pay, and tiered scales for adjunct faculty. Ms. Adrienne Regrutto inquired about the potential for use of space (either leasing or for sale), and Mr. Clinco stated that a firm will be reviewing this on behalf of the College. Leases would generate revenue outside of EL, but the largest expense with operating a location is related to personnel.

The College met with the County to discuss the use of Certificates of Participation (COPs), which are being considered as a strategy to shift expenses away from EL. The interest rate associated with this is low but would require work similar to the revenue bond issuance for the College to engage in this process. After the upfront work is completed, the issuance of COPs can be completed quickly.

Mr. Soza discussed the cost of attendance related to maximum Pell awards for full-time students in both Fall and Spring semesters. Open Educational Resources are being utilized at the College to reduce the cost of textbooks and supplies, and digital literacy through a personal technology device provided to students is also being considered. A Study Session will be held on February 24 to obtain feedback from the Board prior to the tuition decision in March. The tuition proposals will be based on feedback from the Student Senate.

Proposed changes to Expenditure Limitation were discussed. Mr. Silvyn noted that relief to EL will make it challenge to continue to reallocate resources and Mr. Soza concurred, as additional EL capacity will allow the College to fund strategic priorities and building projects without utilizing debt mechanisms.

The College is interested in feedback from this Committee related to tuition scenarios and the use of COPs. Chair Nuckolls requested more information related to COPs as they impact the covenants of the revenue bonds and the plan to have potential debt. Ms. Adrienne Regrutto asked about including inflation factors over time as a measure for proposed tuition increases and cost of living adjustments.

The College has contracted with a firm to inquire about the possibility of an EL override or a General Obligation bond issuance. Mr. Clinco is supportive, as there is a need to identify the direct value of the institution.

Information Items

7. Future Agenda Items

- a. Financial Aid Update (April)
- b. Competency-Based Education
- c. Marketing
- d. Enrollment Management
- e. Program Viability, Use of Space, and Revenue Bonds
- f. BP 4.07, Cash Reserves
- g. Enterprise Risk Management
- h. Internal Audit

Adjournment

The meeting concluded at 11:22am.

Next Meeting:

April 17, 2020

Zoom Meeting