



Governing Board's Finance and Audit Committee

Thursday, August 26, 2021

9:00am

Virtual Meeting - Zoom Webinar

Meeting Minutes

In Attendance:

Tracy Nuckolls (Chair), David Bea (Ex-Officio), Scott Odom, Ken Marcus, Jesus Manzanedo, Ben Tuchi, Daniel Soza (Ex-Officio), Agnes Maina (Ex-Officio), Maria Garcia, Keri Hill (Recorder)

Not in Attendance:

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Guests:

Jeff Silvyn, General Counsel; Jose Saldamando, Internal Auditor; David Parker, Director of Enterprise Risk Management

General Matters

1. Call to Order

Chair Tracy Nuckolls called the meeting to order at 9:03am, noting a quorum was met.

Action Items

2. Approval of Minutes from June 24, 2021

Chair Nuckolls asked if the Committee had any changes to the minutes. With no changes, a motion was made to approve the minutes.

Motion No. 202108-01: Approve Minutes from June 24, 2021

First: Scott Odom

Second: Ken Marcus

Vote: Motion passed unanimously (Nuckolls, Odom, Marcus, Manzanedo, Tuchi voting in favor)

Motion Carried.

3. Vote to Recommend Kathleen Witt for Membership on the Governing Board's Finance and Audit Committee

Chair Nuckolls opened the discussion on membership for the Committee. He stated that Mr. Ben Tuchi nominated Kathleen Witt to join this Committee as a community member, and she would bring expertise in investing and advising. A motion was made to recommend her for membership, and if approved, the nomination will be presented to the Governing Board for approval.

Mr. Tuchi has previously served with Ms. Witt on other Boards and knew of her interest in the College from previous experience.

Motion No. 202108-02: Recommend Kathleen Witt for Membership

First: Ben Tuchi

Second: Ken Marcus

Vote: Motion passed unanimously (Nuckolls, Odom, Marcus, Manzanedo, Tuchi voting in favor)

Motion Carried.

Dr. Bea has also spoken with a nominee, Laura Ward, whose name was provided independently by both Mr. Jesus Manzanedo and Mr. Jose Saldamando. Ms. Ward is interested in joining the Committee and has a background in audit and risk management; upon confirmation that she remains a Pima County resident, it is also recommended that she join this Committee. A motion was made to recommend Laura Ward for membership on this Committee, provided confirmation of her Pima County residency.

Motion No. 202108-03: Recommend Laura Ward for Membership

First: Jesus Manzanedo

Second: Ken Marcus

Vote: Motion passed unanimously (Nuckolls, Odom, Marcus, Manzanedo, Tuchi voting in favor)

Motion Carried.

4. Vote to Elect Committee Chair & Chair-Elect

Chair Nuckolls will be stepping down after today's meeting, and Mr. Odom currently serves as the Chair-Elect. A formal motion was made to elect Mr. Odom as the Committee Chair.

Motion No. 202108-04: Elect Scott Odom as Committee Chair

First: Jesus Manzanedo

Second: Ken Marcus

Vote: Motion passed unanimously (Nuckolls, Odom, Marcus, Manzanedo, Tuchi voting in favor)

Motion Carried.

Chair Odom previously spoke with Mr. Ken Marcus, who has agreed to serve as the Chair-Elect of this Committee. A motion was made to elect Ken Marcus as the Chair-Elect.

Motion No. 202108-05: Elect Ken Marcus as Chair-Elect

First: Scott Odom

Second: Jesus Manzanedo

Vote: Motion passed unanimously (Nuckolls, Odom, Marcus, Manzanedo, Tuchi voting in favor)

Motion Carried.

Chair Odom thanked Mr. Nuckolls for his leadership on the Finance and Audit Committee.

Reports and Feedback

5. Internal Audit Update (Jose Saldamando)

Mr. Saldamando started with the General Department Update, providing an overview of activities since the last meeting with this Committee. He continued with the open audit items, providing additional details about Automotive, Center for International Education and Global Engagement, Health Insurance Portability and Accountability Act (HIPAA), Information Technology, Key Controls, Procurement & Payment Services, and Clery Act Compliance. There are ten total items open in these areas.

The Audit Plan and timeline were reviewed, and Mr. Manzanedo asked if the focus areas have been determined for some of the larger areas (such as Facilities, Grants, and Enrollment Management). Mr. Saldamando clarified that these areas were determined by the Risk Assessment, and the scope will be determined through discussions with each of the areas. Focus areas in which Mr. Saldamando will need specialized expertise, such as Information Technology, will be co-sourced, and additional budget has been allocated for contractual services in Internal Audit. Mr. Saldamando will monitor the budget and request additional resources if needed during the next budget cycle.

Dr. Bea provided an update on the College organization structure; departures in Information Technology and Facilities will lead to a review of the organization. It is also anticipated that an external firm will be brought in to evaluate the Facilities organization.

Chair Odom thanked Mr. Saldamando for his report and efficiency in completing audits and clearing open audit items.

6. Enterprise Risk Management (ERM) Update (David Parker)

Mr. David Parker presented an overview of his department's mission and the strategic goal statements. He will be assembling an ERM working group, and he is also drafting a Board Policy and an Administrative Procedure for Enterprise Risk Management. Mr. Parker continued with the framework for effective compliance and ethics, describing the resources in the ERM program, the organizational commitment and culture, communication strategies, and effective coordination with Internal Audit and General Counsel. He plans to provide quarterly updates to this Committee.

Ms. Maria Garcia joined the meeting in progress.

The ERM Department has also taken over responsibility for College insurance renewals. Mr. Parker worked on the insurance renewals for Fiscal Year 2022, and he is monitoring the volatility in the market in preparation for the Fiscal Year 2023 renewal. For example, the College previously

participated in a Master Property Program, which dissolved this last year; all coverage is now with the Arizona School Risk Retention Trust.

The update concluded with the next steps for the ERM Department, including compliance program scoping, resource needs development, and strengthening risk financing options. Chair Odom asked about the organizational structure for ERM, and Mr. Parker explained that he was recruited for ERM but the need for compliance has been significant, as well as the traditional risk management function that was previously housed in Finance. Chair Odom shared some of his experiences with risk management and the potential for overlap with compliance.

With no other questions or comments, Chair Odom thanked Mr. Parker for his report.

7. CFO Update (David Bea)

Dr. Bea began with a status report on the projects funded by the revenue bonds. The Automotive Center is complete, and a link to a live view of the Advanced Manufacturing Building was shared with this Committee.

Moody's Investors Service in August changed its methodology for rating actions for higher education, reaffirming the College's Aa3 bond rating and adding an Aa2 Issuer Rating. Mr. Tuchi asked if there is any concern in maintaining the ratings due to enrollment declines, and Dr. Bea stated that while the decline in enrollment leads to decreasing tuition revenue, the College did not overly leverage during the bond issuance. The ratings methodology changes from Moody's affected a large number of institutions at the same time.

Ms. Agnes Maina stated the College hired BLX Group to complete an Interim Arbitrage Analysis for the Revenue Bonds, Series 2019. The report confirmed the College is in compliance with EMMA, and there are no rebates needed. The College has committed the funds for the projects, which will maintain compliance with the requirement to expend or commit 85% of the revenue within three years from issuance. Since the College is exempt from taxes, there are provisions to how debt can be issued and there are mechanisms in place to ensure there is no profit gained due to the low interest rates with the debt issuance.

Chair Odom asked about the calculations, and Ms. Maina stated that the analysis is completed based on each CUSIP, and the actual gross earnings are compared with the allowable gross earnings. This report confirms the College has not exceeded the allowable gross earnings, and therefore an arbitrage rebate is not necessary at this time. Mr. Tuchi inquired as to whether or not the College has ever had a rebate, and Dr. Bea stated that there has not been one to his knowledge.

The Fiscal Year 2023 budget development process is beginning earlier than usual, partially driven by the declining enrollments. The College is in a strong financial position due to Prop 481, Prop 207, and the federal Higher Education Emergency Relief Funds (HEERF). The federal funds allow the

College to recover lost revenue, as well as seek reimbursement for lost revenue due to the institutional decision to discharge student debt incurred during the pandemic.

The federal free college conversations are still being discussed, and there are a few different scenarios. Since the College is not funded by the State of Arizona, if there is a 75% federal/25% state funding requirement, PCC may not be able to participate. If there is a federal funding calculation based on FTSE, PCC will do well as tuition is low and the numbers discussed would cover tuition.

Enrollment is approximately 12,000 full time student equivalents (FTSE), with more students moving into Dual Enrollment (which does not generate revenue) and online. Given the need to build spaces that are functional for the programs the College needs to offer, the College is oversized and overstaffed for the size of the student population. The Executive Leadership Team is meeting next week to review these elements and kick off the budget discussions.

Dr. Bea asked if this Committee has particular items they are interested in learning more about; those items can be sent to the Office of the EVC for Finance and Administration.

Mr. Tuchi inquired about a recent article he read related to the accumulation of student debt from tuition and fees. Dr. Bea noted that the College did have an increase in accumulated debt versus the prior year, partially related to the College's decision to not drop students for non-payment during the pandemic. It is estimated that the institutional decision to discharge this debt will amount to approximately \$2.7M, and the College will seek reimbursement through HEERF for these lost revenues.

Ms. Garcia inquired as to how debt is accumulated. Dr. Bea described a few scenarios related to payment plans and recalculation of Title IV financial aid. Ms. Garcia also asked about leveraging property taxes in case the funds are not provided by the state for free college.

Chair Odom thanked Mr. Manzanedo, who will continue on this Committee until new community representatives are approved by the Governing Board.

Information Items

8. Future Agenda Items

- a. Workforce Update
- b. Marketing
- c. Quarterly Update on Capital Projects

Adjournment

The meeting adjourned at 10:39am.

Next Meeting:

October 29, 2021

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