



Governing Board's Finance and Audit Committee

Friday, June 17, 2022

9:00am

Virtual Meeting - Zoom Webinar

### Meeting Minutes

#### In Attendance:

Scott Odom (Chair), David Bea (Ex-Officio), Ben Tuchi, Ken Marcus, Daniel Soza (Ex-Officio), Kathleen Witt, Laura Ward, Jesus Manzanedo, Demion Clinco, Maria Garcia, Keri Hill (Recorder)

#### Not in Attendance:

Agnes Maina (Ex-Officio)

#### Guests:

Jose Saldamando, Internal Auditor; David Parker, Director of Enterprise Risk Management

#### General Matters

##### 1. Call to Order

Chair Odom called the meeting to order at 9:04am, noting a quorum was met.

#### Action Items

##### 2. Approval of Minutes from April 15, 2022

Chair Odom asked if the Committee had any changes to the minutes. With one change to update the attendance and a clarification on page five, a motion was made to approve the minutes.

##### *Motion No. 202206-01: Approve Minutes from April 15, 2022*

First: Ken Marcus

Second: Laura Ward

Vote: Motion passed unanimously (Odom, Tuchi, Ward, Witt, Marcus, Clinco, Manzanedo voting in favor)

Motion Carried.

#### Reports and Feedback

##### 3. Internal Audit (Jose Saldamando)

###### a. 2022 Second Quarterly Report

Mr. Saldamando introduced the most recent quarterly report, noting the co-sourced Information Technology (IT) Audit status. The Construction Projects Business Process Report is being finalized and will be reviewed with management.

Mr. Saldamando continued with the Internal Audit Investigation Report for the Facilities Management Concerns on the Energy Management RFP and Contract Process, which was recently sent to this Committee. The report reviews concerns related to the Comprehensive Integrated Energy Management Program, and there were no findings.

Dr. Bea joined the meeting in progress.

Moving to the recap, the Center for International Education and Global Engagement audit is progressing, with a new Memorandum of Understanding clarifying the roles of the Consulate of Mexico and the College. The Disaster Recovery Plan (DRP) Policy has been implemented for Information Technology. DRP testing is continuing on critical applications, with full testing to be completed by June 30, 2022.

Ms. Garcia joined the meeting in progress.

Mr. Saldamando continued with summaries of the Key Controls, Clery Act Compliance, and Procurement and Contracts Audits. The latter has one recommendation to strengthen internal controls related to vendor maintenance, and remediation is in process with an implementation date of August 31, 2022.

A chart depicting the full summary of audit statuses was reviewed, as well as an overview of the activities by the Arizona Auditor General.

Mr. Tuchi inquired about the process for completing an audit. Mr. Saldamando described the process. First, he will issue the report with the findings, recommendations, management response, and proposed timeline. The report is sent to the management and staff associated with the remediation, the Chancellor, the Governing Board, and the Finance and Audit Committee. Internal Audit quarterly follows up with management to ensure implementation is in process and to verify and confirm that the remediation has occurred and is documented. Then the finding is closed.

The quarterly report concluded with the Detailed Audit Plan and compliance and guidance items.

**b. 2022 PCC Risk Assessment & Audit Plan Report**

Mr. Saldamando introduced the 2022 PCC Risk Assessment & Audit Plan Report. He described the purpose of the Risk Assessment, and a summary of the top five highest risks identified: Governance, Human Resources, Advising and Academic Support, Enrollment Management, and Information Technology. Internal Audit analyzes the actual risks associated with each of these areas and the perceptions that led to their identification in this assessment.

Mr. Saldamando consulted with Enterprise Risk Management during the development of the assessment. It was sent to 90 Directors and above, with an 80% response rate. Responses were reviewed against previous risk assessments at the College and external risk trends at other organizations and industries.

The engagement plan and risk matrix were reviewed, focusing on the impact and the likelihood. Mr. Saldamando also described the resource allocation for the proposed Audit Plan, including time, administrative activities, and co-sourcing.

The Engagement Plan described the audits/projects for 2022-2023 and the preliminary timeline based on current priorities. Mr. Saldamando noted there is flexibility with this plan, as new priorities may arise. Chair Odom inquired about Human Resources and Enrollment Management audits, which have shifted from the current fiscal year to the next. As an example, Mr. Saldamando stated the Facilities Management Audit was reprioritized based on alignment with the Chancellor's Goals. Since the classification and compensation study was underway, Internal Audit opted to focus on the HR audit in the next fiscal year.

The Appendices of the report included the number of responses to specific internal controls questions. Mr. Saldamando will follow up with respondents to get more insights and clarifications. For instance, the fraud question yielded three responses to instances of "known" fraud, and Mr. Saldamando spoke to two of the respondents. The first respondent misunderstood the question, and the second identified concerns related to the student-device lending program, for which new controls have already been implemented. Ms. Ward thanked Mr. Saldamando for the clarification.

With no further discussion, Mr. Saldamando concluded his reports. A motion was made to approve the 2022 PCC Risk Assessment & Audit Plan Report.

***Motion No. 202206-02: Approve 2022 PCC Risk Assessment & Audit Plan Report***

First: Ken Marcus

Second: Ben Tuchi

Vote: Motion passed unanimously (Odom, Tuchi, Ward, Witt, Marcus, Clinco, Manzanedo, Garcia voting in favor)

Motion Carried.

#### **4. Enterprise Risk Management (David Parker)**

##### **a. June 2022 Report**

Mr. Parker and the Enterprise Risk Management (ERM) Workgroup held a two-hour summit in May to develop tools and resources and identify models. The following are tentatively complete: Strategy Guides, Risk Assessment Tools, Risk Evaluation Tools, and ERM Maturity Models. The ERM Workgroup reviewed five maturity models for best practice and fit with the

College. Mr. Parker is part of a state-wide ERM group, and other Arizona community colleges are reaching out to PCC.

He continued with an update on the College's insurance program, starting with a review of coverage by the Arizona School Risk Retention Trust, including coverage changes and loyalty credits. Workers' compensation insurance was reviewed, and Mr. Parker expressed gratitude for the safety culture at the College to keep employees from getting injured.

With the departure of Dr. Bruce Moses from the College, the ERM department will be reporting to General Counsel effective July 1, 2022. Mr. Parker was recently awarded the Compliance Certification Board with the Certified Compliance and Ethics Professional designation.

**b. Board Policy 4.03, Enterprise Risk Management**

Mr. Parker stated that the Governing Board approved revisions to Board Policy 4.03 at their June 8, 2022, meeting.

Chair Odom asked about the tools developed and the College's risk appetite. Mr. Parker described the College's risk appetite statement and the development of risk tolerance, which is more challenging. Chair Odom inquired about risk tolerance and how it will be built into policy or other frameworks. Mr. Parker stated the risk assessment tools would include risk tolerance and an associated Administrative Procedure.

Ms. Ward asked about the College's cyber insurance and the definition of the total insured value. Mr. Parker explained it is driven by the risk of cyber rather than the property's actual value. With no further questions, Mr. Parker concluded his report.

**5. Proposed 2022-2023 Annual Meeting Calendar (Scott Odom)**

Chair Odom introduced the tentative schedule for next year. He will be unavailable for the August meeting, and Mr. Marcus will lead the session.

**6. CFO Update (David Bea)**

**a. Revenue Bonds**

The College is continuing to experience issues with the supply chain, as previously discussed with this Committee.

**b. Fiscal Year 2023 Adopted Budget**

The Governing Board set the property tax rates and levies and adopted the budget for Fiscal Year 2023. Property taxes increased by 4%, as previously discussed with this Committee. The College received one written public comment about costs per enrollment, and Dr. Bea stated that metrics like cost per full time student equivalent (FTSE) are monitored.

The budget prioritizes employee compensation, including a new classification and compensation structure, an adjunct faculty tier system, and a minimum salary adjustment for regular employees. Approximately \$9.0M was allocated for compensation for regular employees. To date, approximately \$7.0M has been committed to salary and wages, with \$2.0M remaining for benefits and additional adjustments that may arise during implementation.

Dr. Bea informed the Board that a three-year plan will be developed for Fiscal Years 2024-2026; a significant component will be the sustainability of personnel costs given revenues and enrollment. If enrollment for Fall is flat compared to the prior year, recommendations will be made to start reducing operations.

**c. Classification and Compensation Structure**

The College contracted with Segal to conduct a comprehensive classification and compensation study, which included employee surveys and matching to market data. A new structure will be essential to recruiting and retaining talent, as the prior system is over 20 years old and has significant compression problems. Resource limitations in the past have left many regular employees clustered at Step 1 for staff and administrators and Step 6 for faculty. Further, there were challenges with recruitment in areas like Information Technology because the compensation was misaligned with the market.

Dr. Bea reviewed the highlights of classification and compensation for staff and administrators, which includes moving to 12 grades and setting a minimum wage of \$16.15 for regular staff. Initial placement in the new bands will be based on years of experience in the position. Placement for staff and administrators with 12 years or more of experience will be capped at the  $\frac{3}{4}$  point of the grade for this implementation.

Segal proposed two structures for faculty, one like the staff/administrator bands and a second that closely resembles the previous structure with additional steps. The latter option was selected by the Faculty Steering Committee, with the new system including 20 steps to provide the ability for movement given the seniority of many faculty members. As a result, the faculty pay scales have more individuals paid above the market due to their years of experience.

Mr. Marcus departed the meeting.

Given the pressures of inflation, a minimum increase of \$2,000 will be provided to all regular employees. There will be an appeal process since there is limited time for implementation and more than 1,000 positions to be adjusted. Next steps on class/comp were discussed, including educational attainment and an executive compensation review. Further, the development of a performance-based pay adjustment will be included in the Chancellor's goals. Dr. Bea noted this is a work in progress and that there is still much to be done.

Mr. Tuchi asked about the number of days of accountability for faculty, and Dr. Bea described how faculty contracts are structured (example: 30 load hours, 169 days of accountability for nine-month faculty). Mr. Tuchi also inquired about the implementation timeline and how the placement is determined. Dr. Bea said this would be implemented effective July 2, 2022, and placement is based on the new criteria and the market data.

Ms. Ward stated that this is a phenomenal job. Dr. Bea noted the importance of completing this study when the College has the resources to implement and place employees appropriately to market in the first year.

**d. Three-Year Budget Plan**

In the Fall, Dr. Bea will begin conversations on the three-year plan and include feedback from the Governing Board and this Committee. An update on enrollment and class/comp will be provided to this Committee in August.

**e. Health Plan Trust**

The College maintains a self-insured health care plan and is reviewing whether to develop a trust to oversee the program. Mr. Parker is working on the project, and this Committee will be engaged in advance of possible action by the Governing Board.

**f. Finance and Audit Committee 2021-2022 Report**

The Committee's annual report to the Governing Board was provided as information.

**g. Fiscal Year 2022 Capital Project Plan Update, Third Quarterly Report**

The most recent update on capital projects was provided as information.

Ms. Ward announced that she had accepted a new position, and her new supervisor is a former member of this Committee.

## Information Items

### 7. Future Agenda Items

- a. Workforce Update
- b. Marketing
- c. Adult Education
- d. Office of Dispute Resolution
- e. Space Usage
- f. Three-Year Budget Plan

## Adjournment

The meeting adjourned at 10:49am.

**Next Meeting:**

August 26, 2022

Virtual Meeting - Zoom Webinar