



Governing Board's Finance and Audit Committee

Friday, December 9, 2022

9:00am

Virtual Meeting - Zoom Webinar

Meeting Minutes

In Attendance:

Scott Odom (Chair), Ken Marcus (Chair-Elect), David Bea (Ex-Officio), Jesus Manzanedo, Laura Ward, Maria Garcia, Keri Hill (Recorder)

Not in Attendance:

Kathleen Witt, Ben Tuchi, Demion Clinco

Guests:

Jose Saldamando, Internal Auditor

General Matters

1. Call to Order

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

Action Items

2. Approval of Minutes from October 21, 2022

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

Motion No. 202212-01: Approve Minutes from October 21, 2022

First: Ken Marcus

Second: Jesus Manzanedo

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

Motion Carried.

Reports and Feedback

3. Internal Audit Report (Jose Saldamando)

Mr. Saldamando introduced his report, beginning with an overview of the current audits. He provided an update on Grants Management, Human Resources, and Safety and Security activities.

Ms. Garcia joined the meeting in progress.

Internal Audit has completed a review of an appeal of an investigation conducted by the Office of Dispute Resolution (ODR). Mr. Manzanedo asked about the structure for ODR and Internal Audit.

Mr. Saldamando described the operating procedures for appeals of ODR decisions, which state that Internal Audit will review. Ms. Ward inquired about reporting lines; ODR reports to General Counsel. Internal Audit also reports to General Counsel with administrative support from the Chancellor's Office. Ms. Garcia asked if there was a conflict of interest with this structure. Ms. Ward stated that it was appropriate from her perspective and that the recommended reporting lines for Internal Audit, including reporting to the Finance and Audit Committee, fit within the guidelines.

Mr. Saldamando discussed other projects, including Students IDs, work with Strategy, Analytics and Research (STAR), the Fall 2022 Newsletter, and recent attendance at webinars.

The Audit Recap and the number of open and closed audit items were reviewed. Ongoing audits include:

- Automotive
- Key Controls Review
- Clery Act Compliance
- Construction Projects Business Process Review - Facilities and Finance are working on remediation
- Information Technology Risk Assessment Review

Closed audits include:

- 2020 Center for International Education and Global Engagement
- Information Technology - Data Security, Cybersecurity Training, & Business Continuity Planning - remediation will be monitored by Internal Audit
- Procurement and Contracts

Mr. Saldamando continued with the Detail Audit Plan, which describes the engagements, timing, status, and risk level. The report concluded with Important Compliance and Guidance Items. Chair Odom commended Mr. Saldamando on the progress of Internal Audit, and Mr. Saldamando spoke about the efforts of management to work collaboratively to remediate items.

One item not included in the written report is a student registration scam currently being mitigated. Ms. Garcia asked if any details could be shared about the number of fraud cases and if this issue is related to the one from a few years ago. Mr. Saldamando will defer to the Chief Information Officer/Assistant Vice Chancellor for IT, who is leading the mitigation efforts and will meet with the Board and this Committee at a future date. Dr. Bea provided some background related to the issue. The purpose of this fraud appears to be access to financial aid, which has been limited in scope due to internal controls, and to gain access to .edu accounts for email scamming purposes. The issue several years ago was related to students registering at multiple institutions to collect financial aid.

The College has met with an Inspector General from the Department of Education to discuss the mitigation efforts being put into place, some of which are currently manual to minimize risk. These sophisticated networks of individuals are also targeting other institutions.

Chair Odom thanked Mr. Saldamando for his report.

4. Three-Year Budget Plan (David Bea)

Dr. Bea began with an update on the pending changes in the Governing Board, as there were two seats up for election and one additional vacancy. The new Board members will receive training on the College's budget and finances as part of their orientation. They will also be brought up to date on the current discussions, including the budget forecast and the development of the three-year budget plan.

He continued with the ongoing challenges, which include struggling enrollment, the end of federal COVID-19 relief, balancing priorities, and the need to address inefficiencies and reallocate resources to changing needs and realities. Dr. Bea continued with the projected revenue summary for fiscal years 2024 to 2026, noting the actions the Board may take related to property taxes. Tuition, Prop 207, and investment revenues were also discussed. Many of the Arizona community colleges are seeking to balance expenditure limitation challenges and may seek significant tuition increases.

On the expenditure side, the new classification and compensation structure will need to be sustained, and these obligations will be folded into the budget. Given the current workforce, it is estimated to cost \$3.0M per year as employees gain an additional year of experience. Other factors may increase personnel costs, as well as the potential for merit increases. Work is underway to ensure the College plans and budgets for deferred maintenance.

Dr. Bea continued with metrics the College continues to refine to analyze the size of the personnel compared with Full Time Student Equivalents (FTSE). Ms. Garcia asked for clarification on the staffing ratios, and Dr. Bea described how the IPEDS data also includes faculty and part-time employees. The measures are meant to demonstrate that the College is overstaffed, either historically at the College or when compared to peers; it is not intended to determine precise staffing levels. Ms. Garcia recommended identifying the areas where the College is overstaffed so they can be addressed.

The College established a 50 FTSE to 1 full-time instructional faculty ratio in 2016 to develop a mechanism to grow or shrink regular faculty positions through natural attrition. Maintaining an appropriate balance between full-time and adjunct faculty is also essential. During COVID-19, the College decided not to reduce full-time faculty. Structural inefficiencies in scheduling, program offerings, and other activities are currently under review on the Academic side.

Capital planning considerations include continued alignment with strategic planning processes, implementation capacity, and revenue projections. The College utilized the federal COVID-19 relief dollars to invest in Information Technology equipment and infrastructure.

Example budget scenarios were shared, including taking no action, right-sizing, and aggressive changes. Discussion this Spring with the Board will be vital to developing the budget plan.

Ms. Garcia asked about the College's financial reserves. Dr. Bea spoke about the current balance, ongoing commitments, and the College's Board Policy on Financial Stability. The February meeting will include a discussion on the annual financial report and the College's reserves.

5. CFO Update (David Bea)

a. Revenue Bonds

The inception-to-date report for the revenue bonds was provided as information. The Advanced Manufacturing facility is close to completion and will serve high technology programs.

b. Annual Audit Cycle

The Arizona Auditor General is finalizing the Annual Comprehensive Financial Report (ACFR).

The General Accounting Standards Board issued a new standard, GASB 87, related to leases. While the College is fully compliant with significant long-term property leases, there are a small number of lease-financed capital assets with one-dollar buyout provisions that have been listed as Financed Purchase Obligations (FPO). The Auditor General determined that these obligations should be capitalized according to GASB 87, which would entail re-capitalizing and depreciating numerous specific pieces of equipment within the FPOs.

The College has opted not to follow GASB 87 for the FPOs, continuing to account for them according to pre-GASB 87 standards. This will not have a material impact on the financial statements, will not affect the unmodified (clean) opinion, and will not be listed as a finding in the internal controls and compliance report but will be considered a non-material uncorrected error by the Auditor General. The value of showing the information according to GASB 87 is minimal, while the time required and risk of potential errors in recalculations is significant.

To mitigate this for next year, the College will seek to negotiate the lease-purchase agreements to remove the one-dollar buyout. If that is not possible, the College will explore other options, including recalculation according to the GASB standards. Mr. Marcus stated that accounting rules are regularly changing, and he concurred that this is immaterial.

c. Fiscal Year 2023-2024 Budget Development Calendar

The Fiscal Year 2023-2024 Budget Development Calendar was provided as information.

d. Fiscal Year 2023 Capital Projects Plan Update, First Quarterly Report

The Fiscal Year 2023 Capital Projects Plan Update, First Quarterly Report was provided as information.

Information Items

6. Future Agenda Items

- a. Marketing and Enrollment
- b. Workforce Update

- c. Adult Education
- d. Office of Dispute Resolution
- e. Space Usage
- f. College Credit Ratings
- g. Annual Comprehensive Financial Report (February)
- h. Arizona Auditor General (February)

Adjournment

Mr. Odom inquired if there were any additional agenda items to include in the future. With no further discussion, the meeting adjourned at 10:20am.

Next Meeting:

February 17, 2023

Virtual Meeting - Zoom Webinar