Reference: COCC Audit and Finance Committee Meeting
Date: August, 1, 2024
Time: 1:30 p.m.
Location: Remotely via Zoom

Committee Members:	Auditors: Price/Fronk & Co.	Administration:
• Alan Unger (Chair) • Joe Krenowicz • Jim Porter • Rebekah Lambert • Debi Harr	• Heather McMeekin, Partner • Audit Team Members	• Dr. Laurie Chesley, President • Michael LaLonde, Vice President of Finance and Operations • Cathleen Knutson, Controller

Agenda

1. Introductions and Opening Remarks – Alan Unger
2. Auditors 2023-24 Fiscal Year Audit Planning – Heather McMeekin
    a. Overview
    b. Areas of Focus
    c. Audit Timeline
3. Next Meeting Date – January 2025

Reference: COCC Audit and Finance Committee Meeting
Date: January 3, 2024 – 4:00 p.m.
Location: Zoom Meeting

Committee Members:	Auditors: Price/Fronk & Co.	Administration:
• Alan Unger, Chair • Joe Krenowicz • Jim Porter (absent) • Roger Detweiler • Richard Hurd	• Heather McMeekin, Partner	• Dr. Laurie Chesley, President • Michael LaLonde, Vice President of Finance and Operations (VPFO) • Cathleen Knutson, Controller • Kyle Matthews, Executive Assistant to the President and the VPFO

Meeting Minutes

1. Introductions and Opening Remarks – Alan Unger
    a. Unger favored Krenowicz' opening remarks in the minutes from the previous meeting and said that the Audit and Finance Committee (AFC) would figure out talking points to support McMeekin, LaLonde and Knutson in their presentation to the Board during their meeting on January 10. He added that he enjoys going through the audit because it helps him learn a lot about what is happening at COCC.
2. Approval of July 6, 2023 Meeting Minutes – Alan Unger – Items 2.1-6
    a. Unger asked LaLonde to update Detweiler and Hurd on any items they might not have heard about during any Board meetings since the AFC last met.
    b. LaLonde said he included those updates in the agenda, with the exception of the update on Fiscal Services staffing because it was discussed at their last meeting. He asked Knutson to explain further.
    c. Knutson said that Jenna Flanary was promoted from Accounts Receivable Technician to Accountant. Flanary's former position was filled by Keven Vivanco, who previously worked in Admissions and Records. Jan Fisher retired from her position as Accounts Payable Technician in October 2023 after working in various positions at COCC for 38 years. The position was promoted to Accounts Payable Manager and Matt Clingan was hired in October for some overlap training and implementing new programs. Chesley and LaLonde also approved recruitment for an Assistant Controller position and it was posted in Fall 2023. Not many people applied and the only applicant that was interviewed lived in Kenya. An offer was sent to the candidate and Knutson was working with HR to get things finalized to see if the candidate could start within the next two months. To summarize, Fiscal Services was fully staffed and adding one FTE position.

        i. Detweiler asked if the candidate would be working from Kenya.
            - Knutson said that HR made it clear that this position would be in Bend, OR and could not be compromised. It was their hope that the candidate would be able to relocate. Otherwise, COCC would need to continue recruiting for the position.
        ii. Chesley asked if the candidate had accepted COCC's offer.
            - Knutson said the candidate had accepted an informal offer and they were waiting for HR to provide her with a formal offer letter. The candidate said she could start on February 6, 2024, which seemed too soon to move from Kenya in Knutson's opinion.
            - LaLonde added that the candidate has a PhD in Accounting and Finance and had been working in higher education for several years. He also pointed out that there had been a severe reduction in graduates with accounting degrees in recent years, so recruiting has been difficult for the entire industry.
    d. Motion to approve the minutes.
        i. 1st: Roger Detweiler
        ii. 2nd: Alan Unger
        iii. Motion approved by all members present.
3. 2022-23 Fiscal Year Audit Results – Heather McMeekin
    a. Overview
        i. McMeekin said that she would explain the auditing process as it is always helpful for knowledgeable people to be reminded. She showed a letter that would be mailed to the AFC members along with a printed copy of the full audit report. (The other Board members would only receive a printed copy of the audit report.)
            - The letter reminded the AFC of the responsibilities of the auditors. In order to reduce a threat to independence, the auditors have a separate audit manager or partner do an independent review of the financials and the single audit. This adds an additional perspective of someone who was not involved in the auding process.
            - Sensitive accounting, uncollectable accounts calculation, depreciation, net pensions liabilities and Other Post-Employment Benefits (OPEB) were all estimated by the auditors. The latter two were based on actuarial studies.
                - Krenowicz asked why depreciation was estimated when every institution should have a depreciation schedule or suggested scheduling.
                - McMeekin explained that depreciation is always estimated for the useful life of an item. An item could last longer than estimated, but it is almost never precise, and a user will most likely not dispose of an item that is still useful after its estimated depreciation date.
    b. Areas of Focus
        i. The largest part of the testing was controls over payroll disbursements, bank reconciliations and cash receipts.
            - For payroll, the auditors randomly selected a certain number of employees. The selected employees' HR files were checked to

confirm they were real employees with the required documentation and whether they were being paid the appropriate rates. These pay rates were traced to their payroll reports to ensure the reported payments were correct. The auditors also checked to make sure the reported payments matched the amounts for direct deposits or checks written for employees. The auditors were satisfied with their findings in this area. Payroll testing was the most time-consuming portion of the entire audit since COCC has so many employees. It was important to ensure that the testing was thorough as the auditing industry has seen several cases of fictious employees in recent years.

- Disbursements refers to checks sent from accounts payable. A selection of these checks was sampled by the auditors to check for proper approval from the appropriate departments, correct names for the payees, clearing from the banks with proper signatures, and dual signatures for checks of a certain amount. These controls were examined to reduce the need for testing expenses. The auditors were satisfied with their findings in this area.
- For this year's cash receipts walkthrough, the auditors chose to examine COCC's Bend campus. The cash handling process had not changed since last year. The auditors had some suggestions on segregation of duties between employees working in this area.
- For bank reconciliations, McMeekin was pleased to hear about Fiscal Services' increased staffing and capacities, which would make this part of the audit easier. She noted that Knutson was the only person signing off on reconciliations as there was no one else available at the time. The auditors were otherwise satisfied with their findings in this area.

ii. Other Areas of Testing

- Bank statements with third parties.
- Cutoffs with accounts payable, accounts receivable and accrued expenses.
- Fixed assets. Were there any additions?
- Capital outlay, repairs and maintenance. The auditors made sure everything that should be included was included.
- Prepaid expenses were included in the report.
    - When Price/Fronk started working with COCC, before Knutson was hired, the college never booked prepaid expenses in its financials. The idea was that the expenses were the same each year, so the total impact on the income statement made no difference. However, COCC's total assets had been understated. After discussing this over the past couple of years, the auditors implemented a prior period adjustment, which added prepaid expenses from the previous year. In the past, the auditors would find this entry and include it in their summary adjustments passed, rather than in the financial statements.
- Payroll reconciliations, ensuring wages were reasonable.
- Analytics and expectation testing for revenue. This included tuition

recalculation to ensure the reported numbers were correct.

iii. Single Audit (or Compliance Audit).
   - This was a testing of COCC's federal funding, including student financial aid and the education stabilization fund or Higher Education Emergency Relief Fund (HEERF). The auditor looked at controls, eligibility, and whether any special reporting or testing was needed.
   - The auditors were satisfied with their findings in this area.

c. Audit Findings
   i. A new standard for IT subscriptions required them to be booked as a right-to-use asset along with a liability and an amortization. After reviewing all of COCC's IT user agreements, it was found that many of these agreements did not qualify as they allowed for both parties to cancel within the first year, which was unusual in the auditors' experience.
   ii. There were no difficulties in performing the audits.
   iii. Overall, the auditors gave a clean opinion.
   iv. Financials
   - Management discussion and analysis is COCC's statement of net position. It is the difference between two years, including COCC's current assets, capital assets, and everything else that is included in the college's total assets.
     - The largest change in current assets was a decrease in cash. This was offset by a large increase in accounts receivable.
     - Capital assets had a decrease of $3 million, primarily due to depreciation. Some additions offset the depreciation.
     - Non-depreciable assets included COCC's land, artwork, CIP, and anything else that was in process but not placed in service yet. The increase was $125,000, primarily from CIP.
     - Leases receivable was decreased by payments the college made while other non-credit assets decreased slightly.
   - Net pension assets decreased by $690,000, while net pension liability increased by $8 million. However, deferred inflows of resources decreased by $10 million. COCC's net for liability related to pension decreased slightly.
   - COCC's total net position increased by $4.3 million.
   - Total operating revenues increased by $1.3 million.
   - The largest change to non-operating revenues was federal appropriations, which saw a decrease of $1.2 million. This was to be expected, as COCC was scheduled to receive payments every other year during a five-year period, so this past year had been an off-year.
   - COCC's investments saw a dramatic increase with the increase in interest rates.
   - Operating expenses
     - Instructional support increased $1.5 million
     - Student services decreased $4.9 million
     - Income and expenses saw a significant decrease during the COVID-19 pandemic, but both saw an increase this past year and COCC was returning to numbers seen prior.

- Knutson explained that all of the financial information that McMeekin had shared thus far was all of COCC's funds consolidated. Later in the meeting, the focus would be on the general fund and how they could be interpreted from an operational standpoint. This is why there were some dramatic changes in the funds that had been discussed thus far. Financial aid, for example, is not funds that go directly to the college. Rather, it comes in and goes directly to students.
- Budget to actual from the general fund
    - Total resources were under budget by $760,000. This was primarily due to transfers.
    - Total expenditures were under budget by $5 million.
- The college's debt as of June 30 totaled at $48.1 million
- Management's discussion and analysis (MDNA)
    - LaLonde credited Knutson for doing the majority of COCC's work for the MD&A portion of the audit report.
    - Property tax receivables was $503,000.
    - Accounts receivable was $7.7 million.
    - Prepaid expenses and advances were new items added this past year.
- Cash flows
    - COCC saw a net decrease of $2 million.
- Subsequent events
    - COCC sold the property on Awbrey Butte and net proceeds were $1.8 million.
- The pension liability discount rate was sensitive and could change the final amount dramatically. It was currently set to $33 million. If the actuary declared the discount to be 7.9%, the liability would be $11 million. If the discount was 5.9%, the liability would be $59 million.
    - LaLonde clarified that the "discount rate" was actually an expectation of future earnings. If PERS did not earn 6.9%, the unfunded liability would be higher.
    - McMeekin confirmed this, adding that COCC would have to make up for the lost amount.
- An independent auditors' report was included per Oregon state budget law. Two expenditures were found to have exceeded the budget, one from local grants and one from contracts. McMeekin said it is very easy for something like this to happen in a budget as large as COCC's.
    - Knutson added that, in June 2023 during their annual appropriation analysis, they sought additional budget authority in grants, primarily state and federal. COCC did not request additional appropriation for local grants or contracts and ended up going over. There was a lot of budget authority, but by line item, they were over budget on those two areas. It is normally good news when COCC spends more in grants because the college has been awarded additional grants, so the revenue and expenditure

would typically match. However, this year they did not seek additional appropriation to cover $38,000 in local grants and $15,000 in contracts.

v. **In summary, the auditors gave an overall clean opinion on the college. There were no findings of deficiencies in internal controls, no instances of non-compliance, and no material weaknesses.**

vi. Looking forward, LaLonde suggested that COCC has healthy fund balances and cash on hand to address some of its future needs. McMeekin concurred.

vii. McMeekin asked the AFC what specific talking points they would like her to focus on at the upcoming Board meeting.
   - Unger suggested highlighting the clean opinion and meeting with LaLonde and Knutson to discuss how to present this report in a way that the Board could understand.

viii. LaLonde asked Unger if it would be a good idea to do the reserve balance calculations based on the audit, recalling how it was estimated during the budget process. He also suggested highlighting the capital fund balance as it had been a recent point of discussion for the Board.
   - Unger concurred, adding that LaLonde's suggestions would support his proposed reserve policy.
   - Krenowicz suggested that any recommendations from LaLonde and Knutson would be favored by the Board.
   - McMeekin concurred and thanked LaLonde, Knutson and everyone from COCC who helped the auditors complete this report on time.

4. Audit Request for Proposal – Michael LaLonde/Cathleen Knutson
   a. McMeekin explained that, due to the shortage in staffing that the accounting industry was facing at that time, Price/Fronk merged with KDP & Co., LLC on January 1, 2024. There would be no changes to the Bend office, except more staff would be joining in order to help meet capacity needs. Hopefully, this would enable Price/Fronk to continue working with COCC in the future.
   b. LaLonde said he asked McMeekin, along with COCC's Director of Risk Management Sharla Andresen, if Price/Fronk could be the college's auditor again. They both agreed that it was possible to continue this partnership for another four years, suggesting that it would be a lot of work for a new auditing firm to get to know a large client like COCC. It would be easier for an auditor that was familiar with COCC, at least until the college is required to start bidding again. LaLonde reminded the AFC that the most recent bid failed, which is why COCC could continue working with Price/Fronk.
   c. McMeekin was dismissed from the meeting, noting that she would resubmit this report to the State after fixing two errors.
   d. With McMeekin no longer on the Zoom call, LaLonde offered for the AFC to express any concerns they may have about retaining Price/Fronk as COCC's auditor.
      i. Knutson said that Price/Fronk had been COCC's auditor since 2017. They have been easy to work with, despite challenges they had faces getting the report submitted by December 31 in the past few years. They have also worked well with the COCC Foundation. While their rates have increased, the only firm that placed a bid was out-of-state and had higher rates. It would be more cost effective to retain Price/Fronk as auditor.
         - Unger had experience working with Price/Fronk through Deschutes County and concurred that they were easy to work with. He did not

think an additional four years would be a problem, but any longer might be.
        - Hurd concurred, having similar experiences on both the auditor's and client's sides of such a partnership.
        - Krenowicz concurred, noting that Madras' population of CPA's was getting smaller as well. He recalled COCC had only used three or four auditors in his 15 years with the Board and Budget Committee. With the limited options available, he favored working with a local firm.
    - ii. Unger asked whether this should be a Board discussion or if the AFC could make a recommendation to the Board.
        - Krenowicz suggested they could make a recommendation to the Board and the Board could discuss it further. Members of the AFC could reiterate what had already been discussed in this meeting.
    - iii. Hearing no dissent, Unger moved that the AFC recommend retaining Price/ Fronk as COCC's auditor.
        - LaLonde asked Chesley if he should draft a resolution for the up-coming Board meeting.
        - Chesley did not recall what the proper procedure was and offered to ask COCC's legal counsel.
        - Unger did not recall, but suggested that the Board would want to discuss the price for the contract.
        - Krenowicz recalled taking the recommendation of COCC's then CFO the last time they had to hire an auditor about ten years ago. He was in favor of LaLonde making the recommendation to the Board and allowing them to discuss it at their meeting.
        - Chesley suggested a decision did not need to be made at the up-coming meeting, but at a later meeting. LaLonde concurred.
        - Krenowicz encouraged COCC's staff to have the audit report ready to present to the Board in the next month or two so Price/Fronk would still be interested in retaining their partnership. They may become too busy if COCC waited too long. Unger concurred.

5. Employee Retention Tax Credit – Michael LaLonde
    a. COCC qualified for this credit and submitted an application to the IRS for about $6 million. The firm that COCC hired to submit this application agreed to a contract for less than $10,000, which is not typical for community colleges. Some have paid as much as $600,000 for this service.
    b. The IRS placed a hold on approving any tax credits until 2024, so COCC should be seeing results soon. The tax credit program has seen a lot of fraud. It was originally designed to help for-profit employers keep their employees onboard, but colleges and universities were later allowed to apply as well.
    c. COCC would be eligible for two quarters. LaLonde anticipated receiving a $6 million tax credit within seven months.
6. Investment Policy – Michael LaLonde
    a. LaLonde said that this policy was outdated and referred to an Associate CFO–a position that has not been at COCC for many years–as the Investments Officer for the college. The Board modified the policy to appoint the VPFO to this role. At this time, LaLonde and the Board were looking at a sample investment policy that is recommended by the Oregon Short-Term Fund Board. LaLonde modified this sample policy to fit COCC's needs. This

policy incorporates all of Oregon's revised statutes, identifies permitted investments, names deadlines for reporting, and names benchmarks that are to be used. COCC's Board asked LaLonde to add internal controls for investing to the proposed policy. A second reading of the proposed policy would take place during the Board's January 10 meeting.

   b. This proposed policy would also allow the Board to form an investment committee. While the Board had discussed it, they had not yet decided whether they would like to move forward with this option.

7. Reserve Policy – Michael LaLonde
   a. This was discussed at the previous AFC meeting. It uses a calculation of working capital divided by annual general fund expenditures, which should come out to at least 10%. Typically, community colleges calculate their reserves as their general fund balance divided by their general fund expenditure. LaLonde recommended the Board modify COCC's reserve policy to resemble that of other community colleges and to increase the desired percentage to a higher number for higher reserves. 10% would be very limiting for colleges like COCC if there were a decrease in revenue, tuition, state funding, etc. The Board was considering LaLonde's recommendation and would discuss it further during a work session on January 10 prior to their regular meeting.
8. Next meeting: Thursday, August 1, 2024 at 1:30 p.m. via Zoom
9. Krenowicz moved to adjourn the meeting at 5:25 p.m.