

Palomar College

2023 Follow-Up

Submitted by:
Palomar College
1140 W. Mission Road
San Marcos, CA 92069

Submitted to:
Accrediting Commission for Community and Junior Colleges,
Western Association of Schools and Colleges

Date Submitted:
[date]

DRAFT

Certification Page

To: Accrediting Commission for Community and Junior Colleges,
Western Association of Schools and Colleges

From: Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069

I certify there was broad participation/review by the campus community and believe this report accurately reflects the nature and substance of this institution.

Signatures:

President, Governing Board Roberto Rodriguez	
Superintendent/President Dr. Star Rivera-Lacey	
Sr. Director Institutional Research, Planning, Effectiveness, and Grants/Accreditation Liaison Officer (ALO) Michelle Barton	
Faculty Senate President Wendy Nelson	
Accreditation Tri-Chair/Faculty Adam Meehan	
Accreditation Tri-Chair AA and CAST Justin Smiley	
Accreditation Tri-Chair/CCE Jeannette Garceau	
ASG President Christopher Garcia Mendez	

Table of Contents

Certification Page	2
Table of Contents.....	3
Report Preparation	4
Response to the Commission Action Letter	5
Compliance Requirement	5
Introduction and Context	5
Response to Compliance Requirement.....	6
Implement an Annual Fiscal Review and Reporting Process.....	7
Integrate the Finance and Human Capital Management Applications within PeopleSoft.	8
Take Additional Action to Ensure the College Consistently Meets Accreditation Standards	10
Appendices	11
Evidence	11

DRAFT

Report Preparation

Upon receiving the Commission’s action letter dated June 14, 2022, the College developed a timeline and action plan to address the identified compliance recommendation. Executive leadership reviewed the timeline and established project leads to ensure implementation.

The Accreditation Writing Leadership Team (AWLT) consisting of the accreditation tri-chairs, accreditation liaison officer, and the accreditation coordinator led the development of the follow-up report. To prepare the report, implementation team members provided summaries of the work completed and necessary evidence documents. AWLT crafted the report utilizing the summaries and follow-up interviews.

The Accreditation Steering Committee (ASC) received progress reports throughout the development of the document. The ASC, Institutional Effectiveness Council, and the College Council (the College’s primary participatory governance body) reviewed and approved the report prior to submission to the College’s Board of Trustees. Table 1 presents the timeline and activities completed to prepare the report.

Table. 1. Follow-up Report Timeline and Activities.

Task	Timeline
Monitor/Track Progress on Major Activities	07/01/22-03/01/23
the Follow-up Report	04/1/23
Review Draft with the Accreditation Steering Committee and Institutional Effectiveness Council	04/28/23
Updated draft with additional data and evidence as needed	07/1/23
Accreditation Steering Committee/Institutional Effectiveness Council recommendation to approve	09/1/23
College Council recommendation to approve	10/13/2023
Board First Reading and Report	10/24/2023
Final Minor Edits and Clean-up	10/25/2023
Final Report to the Board	11/14/2023
Report to ACCJC	11/10/23

Response to the Commission Action Letter

Compliance Requirement

In order to meet the Standards, the Commission requires the College to fully institutionalize processes and practices for integrated fiscal reporting, internal controls, and financial planning to ensure long-term financial stability and effective oversight for sound financial decision-making and budget management. (III.D.1, III.D.5)

Introduction and Context

The College manages and distributes its financial resources responsibly, in alignment with institutional needs and priorities, to support its programs and services, and to ensure ongoing financial stability. Its fiscal affairs are governed by its Board Policies (BPs) and Administrative Procedures (APs), namely BP/AP 6200 Budget Preparation, BP/AP 6250 Budget Management, and BP/AP 6300 Fiscal Management ([BP 6200 Budget Preparation](#); [AP 6200 Budget Preparation](#); [BP 6250 Budget Management](#); [AP 6250 Budget Management](#); [BP 6300 Fiscal Management](#); [AP 6300 Fiscal Management](#)).

Through the development of annual fiscal plans, the Budget Committee recommends budgeting parameters that align the College's priorities to budgets and institutional planning. The Committee reviews major revenue and expenditure assumptions, including projections of Full-Time Equivalent Student (FTES), staff compensation, and contractual obligations for the upcoming fiscal year. In addition, it oversees an informal subcommittee that meets prior to each meeting to review agendas, communication goals, and assumptions in multi-year planning ([Budget Committee Minutes May 23, 2023](#)).

Prior to the peer review visit in March 2022, the College made significant progress toward improving its fiscal management and financial stability. As part of its focus on continued advancement in this area, the College identified the following two improvement plans related to Standard III.D in its 2022 ISER:

- 1. By the end of academic year 2023-24, the Assistant Superintendent/Vice President, Finance and Administrative Services will lead an effort to fully integrate PeopleSoft's Human Capital Management and Financial applications. This will provide for an automated position control system and improved reporting, managing, and projecting of salaries and benefits. (Standard III.A.9; Standard III.A.10; Standard III.D.4)*
- 2. By the end of academic year 2023-24, the Assistant Superintendent/Vice President, Finance and Administrative Services will develop and implement an integrated annual reporting and review process that tracks and monitors a set of fiscal performance metrics, including those analyzed as part of ACCJC's Composite Financial Index, with targets for improvement where necessary. This will ensure that the College maintains a strong fiscal position into the future. (Standard III.D.1)*

Following their site visit, the Peer Review Team wrote the following recognition of the College's work in these areas:

“There is ample evidence that there have been effective College-wide efforts to improve fiscal management and financial stability leading to fiscally healthy and sufficient finances to operate.” (Peer Review Team Report, 36).

Since the site visit and the Commission’s action, the College has continued its work to institutionalize processes and practices for integrated fiscal reporting, internal controls, and financial planning, and has made progress in addressing the two aforementioned improvement plans. Of particular note is the College’s new Fiscal Metrics Dashboard ([Fiscal Metrics Dashboard](#)), which includes the metrics reported annually to ACCJC, and provides a retrospective look at historical trends, and current year fiscal health.

The California Community Colleges Chancellor’s Office (CCCCO) has recognized the College’s progress in improving its fiscal health and the steps it has taken to institutionalize fiscal processes by concluding its fiscal monitor assignment, and the Commission has taken the College off enhanced fiscal monitoring ([ACCJC Communication – Enhanced Monitoring Removal](#)). The College has maintained budget surpluses for the past two years, and it fully repaid its Other Post-Employment Benefits (OPEB) loan at the end of FY 2022-23, one year ahead of schedule ([Interfund Transfer Since FY 2018](#)). The College’s fiscal stability was externally evaluated by Moody’s Investors Service, which affirmed its Aa2 bond rating and upgraded its outlook to stable ([2022 Moody’s Credit Opinion](#); [Moody’s Rating Action](#)). Its most recent FY 2021-22 external audit also confirmed that the College maintains effective oversight to ensure a strong financial position, and its audit reports have been clean and unmodified ([Palomar College Annual Financial Reports](#)).

The FY 2023-24 Adopted Budget was approved on September 15, 2023, as required by *Title 5* and the CCCC’s regulatory timeline. However, the College subsequently determined that the spending plan did not align with historical trends and wanted to ensure that it fully accounted for upcoming changes that will affect its forward-looking fiscal planning. As a result, the Superintendent/President appointed an external fiscal consultant to review the FY 2023-24 Adopted Budget and associated multi-year projections. After a collaborative review process, the College opted to remove its plan to establish a designated fund to pursue one-time expenditures by using projected ending funds in excess of the Governing Board’s required reserve. Leaving these funds undesignated will maximize flexibility as the College plans for the Student-Centered Funding Formula (SCFF) funding floor implementation in FY 2025-26 and its future. The College also examined and refined revenue and expense projections based on current trends in FY 2023-24 and ongoing long-term planning.

This work resulted in an amended budget, which the Governing Board approved on October 10, 2023. The amended FY 2023-24 budget includes a balanced spending plan, and projects a small surplus in FY 2024-25. While revising an adopted budget is not ideal, it was the integration of the College’s new fiscal metrics Dashboard and multi-year projections that provided the impetus for doing so, which is a testament to the work the College has done to improve its budgeting and planning processes ([FY 2023-24 Amended Adopted Budget](#)).

Response to Compliance Requirement

The remainder of this report presents the work the College has completed to address its compliance requirement. It has implemented the following processes, all of which support financial decision-making and budget management to ensure long-term financial stability:

- Implement an annual fiscal review and reporting process (Self-Improvement Plan #2)
- Integrate the Human Capital Management and Finance applications within PeopleSoft (Self-Improvement Plan #1)
- Take additional action to ensure that the College consistently meets Standard III.D Financial Resources

Implement an Annual Fiscal Review and Reporting Process

The College has addressed this improvement plan by implementing a process that tracks and monitors a set of fiscal performance metrics and supports integrated fiscal reporting and financial planning efforts. Specifically, to better inform budget development and planning, it has institutionalized ongoing assessment and discussion of its current fiscal health based on analysis of current and historical fiscal metrics. In addition, during the budget development process the College utilizes multi-year projections that are updated annually, at minimum, to account for changing budget assumptions, to evaluate the impact of budget decisions on outyears, and to plan for the future.

As part of this process, the College has developed a Fiscal Metrics Dashboard that utilizes performance indicators in a five-year trend format to extract key metrics, including those provided in its annual fiscal report to ACCJC. The metrics reflected in the Dashboard are the Primary Reserve Ratio, or Reserve Percentage; Net Operating Revenue Ratio; Surplus or Deficit; Compensation Percentage (i.e., Total Compensation Percentage); Funded Ratio of the Retiree Health JPA; Change in Cash as a Percentage of Expenditures; and the three-year average of Full-Time Equivalent Students (FTES) ([Fiscal Metrics Dashboard](#)). The Dashboard therefore accurately reflects the current and historical patterns of the College's fiscal health.

Fiscal metrics, such as those included on the Dashboard, are discussed in governance groups, like the Institutional Effectiveness, Planning, and Fiscal Stewardship Council ([IEPFSC Council Meeting Minutes 2/3/2023](#)). The metrics for current year projections are updated on a quarterly basis and are used in discussions at Budget Committee and Executive Cabinet meetings, and elsewhere, as needed, to inform and develop upcoming budgets, to compare actual revenue and expenses against the current budget, and to provide context for discussions on savings, inflation, spending patterns, and the affordability of proposed projects. While the Dashboard provides a holistic view of the College's fiscal health across multiple metrics, the College may further research and examine a specific metric, as needed, to better inform its budget and fiscal planning processes, like when the Budget Committee discusses compensation percentage levels as part of ongoing budget deliberations ([Budget Committee Minutes 4/11/2023](#); [Budget Committee Minutes 12/13/2022](#); [Budget Committee Minutes May 9, 2023](#)).

The College's current FY 2023-24 budget is balanced. The prior year's fiscal metrics also portray a strong financial position. For example, the College spent within its means in the prior two years, and is expected to do so in the next two years as well. Reserve levels exceed the minimum requirement established by BP 6250. The College has limited operational debt and

maintains significant cash balances, and has also worked hard to achieve sustainable compensation expenditures levels.

To anticipate and address future challenges and ensure its continued fiscal health, the College utilizes conservative multi-year budget projections that are presented as part of the annual budget development process and reported to constituency groups ([FY 2023-24 Multi-year Projections](#)). The College uses the School Services Dashboard; assumptions provided by the State Chancellor's Office through joint analysis of the state's proposed and final budget; and other federal, state, and local sources to inform its projections, and assumptions are updated as new information becomes available. For example, Assembly Bill 634, which was signed into law by the California Governor in October 2023, will change student attendance accounting practices for many of the College's noncredit courses. This information will be integrated into the next round of projections, as the change will positively impact the College's FTES ([Assembly Bill 634](#)). These multi-year projections help the College navigate the budget development process, identify outyear implications based on the impact of ongoing budget decisions, and proactively plan for its financial future.

The College is using its most recent-multi-year projections, as presented in the FY 2023-24 Amended Budget, to plan for the impact of the Student Centered Funding Formula (SCFF) funding floor that will be implemented in FY 2025-26 ([FY 2023-24 Amended Adopted Budget](#)). Through the College's continued efforts, the FY 2023-24 spending plan is balanced across revenues and expenditures and the FY 2024-2025 projections show a small surplus. With the implementation of the SCFF funding floor in FY 2025-26, conservative projections show expenditures exceeding revenue in the outyears. Outyear apportionment revenues may further be impacted by the state's financial condition, as higher education funding is closely tied to California's economy.

Ongoing discussions of multi-year projections at the Executive level and within the College's participatory governance structure are focused on identifying options and strategies for addressing and resolving the anticipated outyear deficits ([Executive Cabinet Agenda 9/11/2023](#); [Draft VP Agenda 10/11/2023](#); [Budget Committee Agenda 10/10/2023](#)). The College will employ multiple strategies to both increase projected future revenues and reduce projected future expenditures. For instance, to increase revenue the College is intentionally implementing strategic enrollment management strategies to grow FTES, increase financial aid, and increase student success, which are all funding metrics under the SCFF ([Enrollment Strategies - ECA](#)). Currently, the College is projecting an increase in FTES, both resident and nonresident, over FY 2023-24 ([FTES Projection - Fall 2023](#)).

The College will also continue to closely monitor expenditures. At the Executive level, the College will reevaluate and monitor vacant positions monthly using the recently implemented commitment accounting process. Hiring will be targeted and focused on essential positions that support enrollment and student success. The College will continue seeking ways to optimize expenditure patterns and will work with its associations and employee groups to manage ongoing costs. Additionally, the administration has worked with the Governing Board to designate reserves over and above the required Board minimum level to address economic uncertainty. With its institutionalized practices for closely monitoring its fiscal metrics and projections, the College will continue to take action to ensure its ongoing fiscal health.

As described above, the historical trends and projected outcomes provided by these improved reports and the new Fiscal Metrics Dashboard have substantially strengthened the College's financial management procedures. The College continues to maintain a transparent process that tracks its financial health and enables data-informed discussions of current and upcoming budget development and resource allocation decisions.

Integrate the Finance and Human Capital Management Applications within PeopleSoft.

As described above, the College's first improvement plan was to integrate PeopleSoft's Human Capital Management (HCM) and Financials applications to ensure alignment between position management and control, and the budgeting process, development, and management. This work was underway at the time of the peer review team's site visit. The review team noted this work and recommended that the College continue to move forward with implementation ([Peer Review Report Excerpt Standard III.D](#)).

The fully integrated systems allow for increased transparency to assist in fiscal awareness, financial planning, and decision making with respect to positions, whether new or recently vacated. The College implemented technology improvements and revised business practices to complete this work, a significant resource enterprise undertaking referred to as the Commitment Accounting Project Phase I and Phase II ([Phase II Commitment Accounting Project Plan](#)).

The College implemented the Commitment Accounting Project Phase I in FY 2020-21. During Phase I, account codes between Human Capital Management (HCM) and PeopleSoft Financials were fully aligned and payroll actuals were pushed to the general ledger. As a result, actual payroll and benefit expenses are now pushed from HCM to Financials in an accurate and timely manner at the conclusion of every payroll period. This process ensures that data are aligned between the HR and fiscal pillars of the enterprise resource planning (ERP) system; allows for better transparency of salary budgets, budgeted positions, and vacancy savings; and provides the College a better view of its overall commitments in the current and future years ([Payroll Journals from HCM to FSCM](#) and [Payroll Journal Detail](#)). In preparation for Phase II, Phase I also included the mapping of data for positions and employees, as well as extensive data cleanup.

With the testing and closeout of the project in October 2023, the College will have completed Phase II of the Commitment Accounting Project to incorporate position management and budget control within the budget development process and to ensure transparency in reporting actuals against budget throughout the year. Phase II implemented delivered functionality within PeopleSoft's Position Management module to track and report positions within its HCM system, and integrated position-related budgets with Commitment Accounting. Commitment Accounting provides for the encumbrance of the budget as positions are filled or vacated, allowing for full visibility of positions housed within a budget, up to the minute reporting capabilities, and tracking and monitoring of budget status for all divisions.

Phase II also involved an audit of position data in HCM, and all positions not being funded were frozen or deactivated. Human Resources established a process whereby all new positions or changes to positions in HCM are entered immediately after Governing Board approval (position data is also regularly maintained for step progressions, incumbent data, and salary and benefit information) and created a PeopleSoft HCM report that allows the College to see every active position and the budget details associated with it ([Position Report – Filled and Unfilled](#)).

As a result of the work described above, the College can now produce more accurate and more timely estimates and reports projecting salary and benefits costs and can track expenditures against available budget throughout the fiscal year ([Evidence: Salary and Benefits Projections \(NVision report showing Encumbrance & Pre-Encumbrance; Expenditures/Available Budget\)](#)). This functionality and integration allows the College to seamlessly incorporate authorized positions into the budget development process, facilitate ongoing and continuous discussion regarding vacant positions and their associated budget funding status, and generate accurate projections based on active positions within the system.

The College will be using reports generated through the PeopleSoft Commitment Accounting System, with budget managers confirming their respective staffing positions, for the development of the FY 2024-25 budget. Additionally, the College is working on providing budget managers system access to allow queries of their area personnel costs and encumbrances in real time. Following the Phase I and Phase II functionality updates, the system now not only syncs the Payroll ledger to the General ledger, but facilitates current year estimates and subsequent year projections for personnel to inform all future budget development.

Take Additional Action to Ensure the College Consistently Meets Accreditation Standards

Along with working to fully institutionalize processes and practices for fiscal reporting, internal controls, and financial planning, the College has also taken additional steps to ensure its long-term financial stability. In January 2023, the Governing Board approved an update to Board Policy (BP) 6250 Budget Management that increased the College's required unrestricted general reserves to no less than 16.67%, which translates to two months of expenditures. The updated policy aligns reserve balances to recommendations included in the Government Finance Officers Association Budgeting Best Practices ([California Community Colleges Fiscal Forward Portfolio; GFOA Best Practices; BP6250 Budget Management](#)).

While the College's audits have been clean and unmodified, it is committed to maintaining its internal audit function, and has thus updated and reclassified its internal auditor position to report directly to the Superintendent/President. This ensures that the occupant of the position is assigned full authority and autonomy to carry out their job duties and responsibilities ([Governing Board Personnel Report August 8, 2023; Internal Auditor Job Description](#)). This position is posted for hire in fall 2023. In the interim, the College has contracted with an external audit firm to conduct a risk assessment and develop an internal audit plan ([Internal Auditor Job Posting; Professional-Services-Agreement-Internal-Audit-23-24](#)).

Conclusion

Per its accreditation compliance requirement, the College has institutionalized and integrated processes and practices to ensure long-term financial stability and effective oversight via data-informed financial decision-making and budget management. To strengthen its current institutionalized processes and practices and ensure that its financial resources are sufficient and appropriately distributed to support and sustain student learning programs and services while guaranteeing financial stability, the College has implemented an annual fiscal reporting process and created a Dashboard that provides a transparent view of its historical and current fiscal

health. The College utilizes the Dashboard, along with multi-year projections, as part of its financial planning.

Additionally, it has implemented PeopleSoft’s Commitment Accounting module and will use this module to budget for payroll expenses and track actual payroll costs. As part of the implementation, the College has integrated and aligned position data and processes in its PeopleSoft Human Capital Management and Financial systems so that they are in sync moving forward. These actions ensure that financial information is timely, accurate, and used for sound decision making.

The College has a solid track record of clean annual audits performed by independent audit firms, as required by the Palomar College Governing Board under *California Code of Regulations, Title 5*. To bolster its ongoing review of internal controls, the College has reclassified its internal audit position, thus ensuring its occupant’s independence and ability to carry out their assigned job duties.

As part of the College’s ongoing efforts to ensure its fiscal health, the Governing Board has adjusted its policy on reserves, increasing its required reserve to no less than 16.67%. These actions, along with integrated reporting and resource allocation processes, and ongoing data-guided financial planning, have improved and continue to ensure the College’s fiscal health.

Appendices

Evidence

Name
BP 6200 Budget Preparation
AP 6200 Budget Preparation
BP 6250 Budget Management
AP 6250 Budget Management
BP 6300 Fiscal Management
AP 6300 Fiscal Management
Fiscal Metrics Dashboard
ACCJC Communication – Enhanced Monitoring Removal
Interfund Transfer Since FY 2018
2022 Moody’s Credit Opinion
Moody’s Rating Action
Palomar College Annual Financial Reports
FY 2023-24 Amended Adopted Budget
IEPFSC Council Meeting Minutes 2/3/2023

Budget Committee Minutes 4/11/2022
Budget Committee Minutes 12/13/2022
Budget Committee Minutes 5/9/2023
FY 2023-24 Multi-year Projections
Executive Cabinet Agenda 9/11/2023
Draft VP Agenda 10/11/2023
Budget Committee Agenda 10/10/2023
Enrollment Strategies - ECA
FTES Projection - Fall 2023
Peer Review Report Excerpt Standard III.D
Phase II Commitment Accounting Project Plan
Payroll Journals from HCM to FSCM
Payroll Journal Detail
Position Report – Filled and Unfilled
Salary and Benefits Projections (NVision report showing Encumbrance & Pre-Encumbrance;
Expenditures/Available Budget – SP's report that shows an individual position moving from encumbrance to actuals
California Community Colleges Fiscal Forward Portfolio
GFOA Best Practices
Governing Board Personnel Report August 8, 2023
Internal Auditor Job Description
Internal Auditor Job Posting
Professional-Services-Agreement-Internal-Audit-23-24