

AUDIT & FINANCE COMMITTEE MEETING MINUTES AUGUST 29, 2005

Present

Paul Fong, Robert Grimm, Pat Millar, Kent Peterson, Hal Plotkin (chair), Delia Ybarra

Absent

none

Others

Mike Brandy, Claudette Brero-Gow, Debbie Budd, Jeanine Hawk, Martha Kanter, Jim Klingensmith, Jon O'Bergh, Paul Peterson (Armanino McKenna), Stephen Pond, Hector Quinonez, John Schulze, Bernata Slater, Tonette Torres

1. PUBLIC HEARING

There were no members of the public who wished to address items not on the agenda.

2. APPROVAL OF MINUTES

It was M/S/C (Peterson/Millar) to approve the minutes of the June 20, 2005 meeting.

3. MEASURE E CONSTRUCTION PROJECTS UPDATE

Klingensmith provided an update on construction projects. He reported that the Lower Campus Complex at Foothill was going well. The Foothill Campus Center project is 46 weeks behind schedule, and the contractor has been asked to be more aggressive in scheduling the work with subcontractors. Completed projects at Foothill include the P.E. project (except for the dance studio), the CTIS project, and the Stadium and Track. At De Anza, the Student and Community Services Building and P.E. Quad projects have been completed. The Kirsch Center for Environmental Studies is scheduled for occupancy this week. The S-Quad project should be finished by the start of school. The Athletic Fields project remains a challenge awaiting an approved installer of field turf. The Irrigation Mainline project is ahead of schedule, and the project to create a new configuration for the campus entries has been launched.

Grimm distributed a progress report which he said indicated a healthy status regarding the bond program. The report showed that 71% of construction projects are now underway at Foothill and 50% of De Anza projects have been completed. Overall, 33% of the bond program has been completed, with a 6% overall contingency still remaining. Plotkin announced that the Gilbane Building Company recently made a donation to the Foothill-De Anza Community Colleges Foundation.

7. REPORT ON OPERATIONAL AUDIT REVIEW BY ARMANINO MCKENNA

Plotkin advanced Item 7 since Paul Peterson from Armanino McKenna had arrived and was ready to present the two operational audit reviews regarding Measure E Overhead and De Anza Cash Handling.

Measure E Overhead — The report listed three recommendations: additional documentation to support salaries and benefit percentage allocations; additional allocations of salaries and benefit percentages that are not now being captured but qualify; and easier retrieval of records. Brandy explained that the District deliberately decided not to allocate all applicable salaries in order to minimize overhead costs. He will report back to the Committee on the District's responses and how each recommendation will be addressed. The full-time equivalent positions funded by Measure E that will need to be re-absorbed into the general fund budget at the completion of the bond program were discussed.

Cash Handling (Phase I) — Brandy explained that the purpose of the cash handling operational audit review is to isolate a few key areas initially for analysis, then expand the review to other cash collection areas later. In Phase I, Armanino McKenna examined De Anza Food Services, Bookstore and Cashier's Office, which resulted in a number of recommendations. Hawk noted that shortcomings in the area of external concessionaires will be addressed in the design of the new Food Services area. Grimm asked about inventory slippage at the Bookstore. Brandy responded that the review considered whether current procedures provide normal safeguards but did not actually audit inventory to determine if there is a problem. He explained that the amount of slippage experienced is within industry norms, and the District did uncover a theft situation through monitoring the inventory. Plotkin highlighted the need to provide customers with receipts to ensure that sales are rung up.

4. 2005-06 BUDGET

Brandy presented the 2005-06 Budget and reviewed the differences between the assumptions in the tentative budget and the adopted budget. He pointed out that the 2004-05 undesignated ending balance is \$3.6 million after removing encumbrances, carryover items and the 5% reserve. For 2005-06, expenses are estimated to be \$1.9 million less than revenues. The enrollment decrease in computer classes was discussed. Brandy highlighted that \$400,000 in additional revenue from the increase in facilities square footage will be able to fund additional maintenance and utility positions to service new buildings. Lastly, he reviewed the enterprise funds.

At 3:35 pm, Plotkin declared a brief recess, then reconvened the meeting at 3:50 p.m.

JOINT MEETING BOARD OF TRUSTEES and AUDIT & FINANCE COMMITTEE

The Audit & Finance Committee was joined by Foothill-De Anza trustees Betsy Bechtel and Sandy Hay. Also in attendance were Gina Bailey, Mike Brandy, Debbie Budd, David Casnogha, Jane Enright, Jeanine Hawk, Martha Kanter, Jon O'Bergh, Hector Quinonez, Eleanor Ramsay of Mason Tillman Associates LTD, Carmen Redmond, John Sheldon and Bernata Slater.

6. PRESENTATION ON SMALL AND LOCAL BUSINESS PROCUREMENT

Fong provided background regarding Mason Tillman Associates LTD and introduced Dr. Eleanor Ramsay, who presented information on innovative strategies to promote small and local business procurement, including small business partnerships and student employment. She reviewed changes in the law that allow goals to be set to award a percentage of public contract bids to small businesses even when they are not the lowest responsive bidder. Plotkin asked her to elaborate on how her firm assists with tracking change orders and comparing the actual cost at the end of a project with a bid that was originally higher than the bid that was awarded. Plotkin said the issue merits more discussion at a future Audit & Finance Committee meeting to allow more extensive discussion.

8. RECOMMENDATION TO ISSUE SERIES C (FINAL ISSUANCE) OF 1999 MEASURE E BONDS

Brandy provided background and reviewed the two recommendations that would be presented to the Board for approval. Grimm inquired about the refinancing bonds, interest rate and cost of refinancing. Brandy discussed how Santa Clara County does not allow any school district bond funds to be removed from the commingled investment fund to be invested elsewhere.

5. UPDATE ON AUDITOR SELECTION PROCESS

Quinonez distributed a draft process and timeline for the selection of the external auditing firm and reviewed the list of criteria, noting that input was welcomed from the Committee. The final Request for Proposal package will be sent to the Committee members for approval at the next meeting. Brandy clarified that contracts for professional services are not subject to low bid, so the Audit & Finance Committee will be able to interview firms and recommend the firm to which the contract should be awarded. The contract will be a year-to-year contract based on a five-year price.

9. NEXT MEETING DATE

Grimm distributed an analysis of District expenses per full-time equivalent student. He noted that estimated expenses are about \$12 million higher than his last analysis while the student population has declined. Brandy discussed how the District’s infrastructure was built to serve 36,000 students, and when enrollment shrank the District could not reduce overhead correspondingly, resulting in a higher cost of doing business.

The next meeting was scheduled for Monday, November 7.

CALENDAR OF PENDING ITEMS

Measure E Progress Report (Schulze).....	November 7, 2005
Measure E Overhead Costs — Response to Findings (Brandy).....	November 7, 2005
Final RFP for Annual External Audit Services (Quinonez).....	November 7, 2005
Interview External Audit Firms	February 2006
Small and Local Business Procurement	TBA