

# AUDIT & FINANCE COMMITTEE MEETING MINUTES FEBRUARY 7, 2005

## Present

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

## Absent

*Kent Peterson*

## Others

*Mike Brandy, Claudette Brero-Gow, Jane Enright, Alan Harvey, Jeanine Hawk, Martha Kanter, Jim Klingensmith, Faith Milonas, Jon O'Bergh, Paul Peterson, Steve Pond, Hector Quinonez, John Schulze, Bernata Slater, Arnold Teten, Cathy Thomas, Tonette Torres*

## **1. PUBLIC HEARING**

There were no members of the public who wished to address the Committee regarding items not on the agenda. Plotkin and Fong introduced themselves as the 2005 Board representatives on the Committee.

## **2. APPROVAL OF MINUTES**

The minutes of the November 15, 2004 meeting were approved (M/S/C Ybarra/Millar; Fong abstained since he was not a member of the Committee at that time).

## **3. OPERATIONAL REVIEW SERVICES RECOMMENDATION; PRESENTATION BY ARMANINO McKENNA LLP**

Brandy reviewed the decision, following the elimination of the internal auditor position, to use an external firm to conduct operational reviews. Quinonez reviewed the Request for Proposal process and introduced Paul Peterson and Cathy Thomas of Armanino McKenna LLP, the firm that was selected as a result of the public bid procedure. Peterson and Thomas discussed their firm's credentials. Brandy explained that the District would lay out the scope for each proposed review, for which Armanino McKenna would provide a quote; the budgeted amount is currently \$40,000 annually. Brandy noted that two areas of interest are 1) cash procedures, and 2) Measure E bond charges, especially relating to labor costs. Armanino McKenna would report the findings directly to the Audit & Finance Committee.

Grimm asked to what extent the firm's tasks would be related to the work performed during the annual audit, and Brandy responded. Ybarra asked about the time frame for conducting the first operational review, and Brandy explained that, since cash procedures encompass such a large area, the first phase would concentrate only on certain areas, with a report expected by June 30; the second phase would be completed in the following year. Plotkin asked about the firm's staffing flexibility to accommodate unexpected reviews on short notice. Paul Peterson responded, assuring him that Armanino McKenna would be able to respond quickly to the District's needs.

#### **4. MEASURE E CONSTRUCTION PROJECTS UPDATE**

Brero-Gow reviewed the Measure E Report. She noted that bids for both the Foothill Campus Center and Lower Campus Complex came in significantly over budget, and she reviewed the adjustments which the college made in other projects to accommodate the additional expense. Klingensmith provided an update regarding De Anza projects.

Schulze discussed issues relating to the De Anza Science Center, including claims totaling an estimated \$2.2 million. He explained that he would be meeting with the Board to discuss strategies to address the issues, but explained that the District should not shoulder the entire cost. He is working to convince the design teams and their legal counsels to work with the District to resolve the issues. If he is not successful, however, the District will initiate legal claims against all parties. Plotkin asked about documenting these matters, and Schulze responded.

Grimm distributed a Measure E Progress Update. Millar asked about the estimated increase in costs due to increases in lumber and steel, and Brero-Gow responded. Kanter added that, due to increased construction costs, there are some projects that have been postponed. These postponed projects, in the amount of approximately \$50 million, would be listed as unmet needs from Measure E if the District pursues a new bond measure. She noted that the Measure E Report is available on the District's Measure E website.

#### **5. BUDGET UPDATE**

Brandy provided a budget update. He reported that enrollment declined in the fall due to several factors such as visa complications for foreign students and the state-imposed fee increase, resulting in \$3 million less in revenue. The unfunded liability for retiree health benefits continues to be a concern. A deficit of \$9 million is estimated for the 2004-05 ending balance, which the District will be closely monitoring. Millar asked about benefits changes, and Brandy responded that several adjustments were made for 2004-05, including a higher co-payment and cost sharing for the PPO+ plan.

Brandy reviewed revenue and expense projections for 2005-06. He currently estimates an \$8.5 million deficit, but this could change up or down by \$2 million due to a variety of factors. There will not be a positive ending balance from the prior year, however, to help balance the budget as there was going into 2004-05.

#### **6. ANNUAL EXTERNAL AUDIT; PROPOSED *REQUEST FOR PROPOSAL* PLANNING CALENDAR**

Plotkin noted that Perry-Smith & Company has served as the District's external audit firm for ten years, and it is prudent to periodically change firms. Millar expressed support for a change. Quinonez reviewed the proposed timeline. Grimm noted that the firm prior to Perry-Smith & Company, while nationally prominent, did not provide a good level of service, and expressed hope that the District can weed out firms that put on a good front but are not able to deliver. Brandy noted that Perry-Smith & Company is contracted to perform one last audit, which will be this year for the 2004-05 fiscal year.

**7. NEXT MEETING**

The next meeting was scheduled for April 4 at 3:30 p.m. An optional tour of construction projects will precede the meeting.

***CALENDAR OF PENDING ITEMS***

Measure E Progress Report (Schulze).....	April 4, 2005
Cash Procedures Operational Review (Phase 1).....	Summer 2005

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Approved 4/4/05