

## AUDIT & FINANCE COMMITTEE MEETING MINUTES FEBRUARY 4, 2008

### Present

*Betsy Bechtel, Marge Bruno, Laura Casas Frier, Lester Ezrati, Robert Grimm, Kent Peterson*

### Absent

*none*

### Others

*Charles Allen, Tom Armstrong, Shirley Barker, Tom Brewer, Steve Carleton, Patti Conens, Lescher Dowling, Andy Dunn, Christina Espinosa-Pieb, Bill Euphrat, Rich Hansen, Jeanine Hawk, Art Heinrich, Martha Kanter, Jeff Kischuk, Eric Millar, Pat Millar, Judy Miner, Brian Murphy, Jon O'Bergh, Anne Paye, Hector Quinonez, Bernata Slater, Tonette Torres, Chris Vo, Laureen Wong*

### 1. SEATING OF NEW MEMBERS

Audit & Finance Committee chair Bechtel welcomed new members Bruno and Ezrati who were appointed by the Board of Trustees on January 22, 2008. She suggested that the Chancellor schedule an orientation meeting for the new members. She brought to the Committee's attention Board Policy 9123, which governs Committee operational matters, and the schedule of meetings for 2008. In accordance with Board Policy 9123, Bechtel asked the four community members to establish their terms. Grimm volunteered for a two-year term. The remaining three drew lots and terms were established as follows:

Marge Bruno	four-year term expiring 12/31/11
Lester Ezrati	four-year term expiring 12/31/11
Bob Grimm	two-year term expiring 12/31/09
Kent Peterson	two-year term expiring 12/31/09

Each of the members will be eligible to reapply for a four-year term at the end of their current term in accordance with Board Policy 9123.

### 2. PUBLIC HEARING

Bechtel thanked former Audit & Finance Committee member Pat Millar for her many years of service on the committee, and Millar made some comments. Bechtel and Kanter introduced those in attendance for the benefit of the new members.

### 3. APPROVAL OF MINUTES

It was M/S/C (Peterson/Grimm) to approve the minutes of the November 5, 2007 meeting with one correction. Bruno and Ezrati abstained since they had not been present.

#### 4. RETIREE HEALTH BENEFITS

**Actuarial Study for Post-Employment Benefits.** Jeff Kischuk of Total Compensation Systems presented the actuarial study, which he characterized as representing a snapshot as of December 2007. Dunn asked about “smoothing techniques” to help address fluctuations in the amount that must be funded, and Kischuk shared an approach used at other districts. He explained that utilizing a closed amortization period would result in paying off the liability in 30 years; however, the Board must officially make that decision.

**Portfolio Investment.** Bechtel pointed out that the Board must also decide what “smoothing technique” should be used and whether the funds should be invested in PERS, which would require “unwinding” the investment from the CCLC Consortium and may result in penalties. Kischuk noted that it would be possible to invest funds in both the CCLC Consortium and PERS, but there are some technical details that must be addressed. He will re-do the actuarial study and prepare a list of items requiring action. Bechtel requested that future reports be provided prior to the meeting.

#### 5. MEASURE C UNREALIZED LOSS ON INVESTMENT

Bill Euphrat, the District’s financial advisor on Measure C bonds, addressed the question raised at the last meeting regarding an unrealized loss on investment of Measure C Series A and B bonds that was reported in the audit. He provided information on the investment objectives, which were to provide security, minimize price risk and maximize yield. He explained that the funds could not be invested with the County because a fiscal agent is required. He further explained that a securities investment was chosen that would allow a certain draw schedule ending in April 2008 when the Measure C litigation was expected to be resolved. He expects that there will be an unrealized gain at the time of the investment’s maturity.

#### 6. OPERATIONAL REVIEWS

**Report on Measure C Overhead.** Tom Brewer of VTD presented the operational review on Measure C Overhead. Quinonez stated that all 16 findings will be corrected by June 30. Grimm asked whether the number of findings suggests that there were similar issues with Measure E overhead. Kanter recommended that the District look at those overhead aspects that are comparable between Measure E and Measure C and determine if there is consistency. Hawk pointed out the different reporting requirements for the two bonds and said that Measure E was audited according to the standards appropriate for that type of bond. Brewer stressed that the findings were not material, and the purpose was to make recommendations to ensure that policies are being implemented correctly.

**Update on Operational Reviews Proposed for 2007-08.** Quinonez noted that all operational audits are shared with the external auditor. He described the operational reviews selected for this year: cash controls in the issuance of parking permits by the police department; ETS security; and, time permitting, facilities rents and leases. Responding to a question from Bechtel, Dunn confirmed that spot checks on Pro-card (credit card) usage is continuing.

## **7. MANAGEMENT RESPONSE TO 2006-07 AUDIT FINDINGS AND RECOMMENDATIONS**

Quinonez reviewed the District's responses to the audit findings and recommendations, focusing on compliance with the 50% law. Espinosa-Pieb and Barker explained how changes were being implemented to the tracking procedure: since data from the Human Resources System is used to demonstrate the District's compliance with the 50% law, the colleges will perform checks on a more frequent basis to ensure that the system is up-to-date.

## **8. CONSTRUCTION PROJECTS UPDATE**

**Measure E.** Allen provided an update on Measure E construction projects. He noted that \$1.4 million remains unspent at Foothill, although the Lower Campus Complex is not yet finished and the District is still negotiating potential issues. At De Anza, \$2.3 million remains unspent, with the Performing Arts Center project underway. The District estimates a year-and-a-half in which to complete Measure E projects, with the exception of \$6 million earmarked for a new District office building, which will be combined with funds from Measure C and continued as part of Measure C.

**Measure C.** Allen provided an update on Measure C construction projects. At Grimm's request, he will break out information by campus in future reports.

## **9. MEASURE C LITIGATION UPDATE**

Dunn provided an update. The District expects to know the outcome of the appeal to the California Supreme Court by the end of March and hopes to be able to move ahead full speed on Measure C projects at that time.

## **10. GOVERNOR'S BUDGET PROPOSAL**

Dunn briefly reviewed the Governor's proposed state budget and its possible impact on the District in both the current and next fiscal year. He emphasized that much may change between now and the time of the Governor's May Revise. Foothill-De Anza represents about 3% of the systemwide community college budget. The District expects to be able to absorb any state cuts in the current fiscal year without disruption. Dunn reviewed multiple-year projections for the District budget, noting a growing deficit if the state financial conditions remain bleak.

## **NEXT MEETING**

Bechtel pointed out that the next meeting is scheduled for June 2, 2008 at 3:00 p.m. She suggested that staff schedule an orientation for new members Bruno and Ezrati prior to the next meeting.

***CALENDAR OF PENDING ITEMS***

Measure E Progress Report (Allen) .....	June 2, 2008
Measure C Progress Report (Allen) .....	June 2, 2008
Operational Review: Parking Permits Cash Handling .....	June 2, 2008
Operational Review: ETS Security .....	June 2, 2008
Revised Actuarial Study for Retiree Health Benefits .....	June 2, 2008
Inventorying and Tracking Capital Assets (Dunn) .....	June 2, 2008
Financial Self-Assessment Tool for State Chancellor's Office .....	June 2, 2008
District Reserves .....	June 2, 2008
Implementation of Bookstore Returns Recommendation (Quinonez).....	June 2, 2008
<del>Discussion of How to Use New Revenue Streams removed 3/26/08 .....</del>	
<del>Small and Local Business Procurement 2005 item, removed 3/26/08.....</del>	

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Approved 6/2/08