

AUDIT & FINANCE COMMITTEE MEETING

DRAFT MINUTES

MARCH 2, 2009

Present

Betsy Bechtel, Marge Bruno, Lester Ezrati, Robert Grimm, Kent Peterson, Hal Plotkin

Absent

none

Others

Charles Allen, Shirley Barker, Gail Beal, Luis Buhler, Andy Dunn, Bill Euphrat, Art Heinrich, Letha Jeanpierre, Jeff Johnson, Donna Jones-Dulin, Martha Kanter, Scott Lay, Judy Miner, Brian Murphy, Jon O'Bergh, Anne Paye, Hector Quinonez, Bernata Slater, Chris Stoddard, Chuck Thompson, Tonette Torres

1. PUBLIC HEARING

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

2. APPROVAL OF MINUTES

The minutes of the November 3, 2008 meeting were approved (M/S/C Grimm/Bruno).

3. STATUS OF SANTA CLARA COUNTY INVESTMENT POOL

Dunn noted that the incorrect backup material was included with the agenda and distributed a report from Bill Euphrat on the District's investment in the County Investment Pool as of December 31, 2008. Mr. Euphrat reviewed the report and stated that he did not see any investment that stood out as questionable, but he cautioned that the current economic climate can change quickly. He recommended regular conversations with the County and emphasized questioning any investment that appears to be weak or risky. Dunn confirmed for Ezrati that the District is having regular conversations with the County. Responding to questions from Peterson and Bruno, it was clarified that the District's investments in the County currently total \$143 million, and such funds by law can only be invested with the County. Plotkin asked that Dunn provide an update at each regular Audit & Finance Committee meeting.

4. GASB 45 CONSULTANT INTERVIEWS AND SELECTION

Consultant Chuck Thompson reviewed the data from each agency's proposal and general terminology. Dunn explained that the Audit & Finance Committee is requested to make a recommendation to the Board to hire one of the agencies; the Board must make a decision by June 30, 2009. The total retiree benefits liability currently estimated by the actuary is \$143 million, \$3 million of which has been funded so far. It was decided that Mr. Thompson would conduct the interviews, with the opportunity for Audit & Finance Committee members to ask additional questions as needed. Mr. Thompson explained that the District should seek a contract for a period

of at least three years with good opt-out clauses. He confirmed that the risk ratios can be changed at any time with each of the agencies except CalPERS.

Mr. Thompson interviewed representatives from CalPERS, the Community College League of California, Keenan Associates and Wells Fargo, focusing on how long each agency has offered investment management for GASB 43 and 45 compliant funds, whether investment is discretionary or directed, whether there is mitigation of fiduciary responsibility, the description of the investment platform, the terms of the contract, and the number of community colleges and educational institutions participating.

Dunn and Thompson agreed to summarize the results of the interviews to send to the Audit & Finance Committee members within the next week. A special meeting was scheduled for April 6 at 3:30 p.m. at which the Audit & Finance Committee will meet to discuss the results of the interviews and make a recommendation. Bechtel emphasized the need to consider not just the lowest fee but investment expertise. She added that the District does not need full service for its investment. Peterson urged Dunn and Thompson not to be reluctant in making a recommendation or ranking the firms.

5/6. CONSTRUCTION PROJECTS UPDATE

Measure E. Allen provided an overview, noting that the contingencies are in good shape as the Measure E program winds down.

Measure C. Committee members expressed appreciation for the new reporting format. Allen clarified that “end date” means the date when the facility will be ready for use. He reviewed the project status designations, noting that the guidelines for determining whether a project is given a “caution” or “problem” status is included on the last page of the report along with the reason for the designation. Ezrati asked whether any construction costs were decreasing due to the economy. Allen responded that costs are not decreasing, but neither are they increasing.

7. OPERATIONAL REVIEWS

Quinonez distributed a list of past operational reviews and three reviews proposed for this year:

- Follow-up on Police Parking Fees (Cash Handling)
- Follow-up on Facilities Rental (Cash Handling)
- IT Information Security Audit

If funds remain after performing these three operational reviews, a fourth will be performed:

- Celebrity Forum, Foothill College

He expects to have the results of the reviews for the fall meeting, at which time he will also bring suggestions for operational reviews in 2010. The Committee reiterated that a Pro-Card operational review is a high priority for next year.

8. BUDGET

Dunn briefly reviewed significant changes in the Second Quarter Report. Due to lack of time, it was decided that a Budget Update will be scheduled as the first item at the next regular meeting on June 1. Grimm requested to see a 2-3 year projection, and Dunn distributed a budget presentation for the Board which addresses this.

9. FISCAL SELF-ASSESSMENT

Dunn noted that this self-assessment document developed by the State Chancellor's Office is voluntary. He shared the District's "January 2009 Sound Fiscal Management Self-Assessment Checklist" for the Committee's information.

10. NEW BOARD POLICY 3115, RESERVES

Dunn explained that the proposed policy codifies long-standing practice. He also explained that, if a district's reserves fall below 5%, it is flagged on a watch list of the State Chancellor's Office; falling below 3% warrants a take-over of fiscal administration by the state. Ezrati asked what qualifies as an emergency; Kanter gave the example of an earthquake, and Plotkin added the example of the state's inability to pass a budget. It was M/S/C (Peterson/Bruno) to approve the proposed policy for recommendation to the Board.

11. MANAGEMENT RESPONSE TO PRIOR YEAR AUDIT FINDINGS

Quinonez distributed the Management Response to Prior Year Audit Findings, noting that the two findings — Bookstore and State Compliance (concurrent enrollment) — have both been resolved so they are not expected to show up in the next audit.

CALENDAR OF PENDING ITEMS

Selection of Investment Firm for Retiree Benefit Liability.....	April 6, 2009
Status of Santa Clara County Investment Pool (standing item)	June 1, 2009
Budget Discussion.....	June 1, 2009
Measure E Progress Report (Allen)	June 1, 2009
Measure C Progress Report (Allen)	June 1, 2009
Police Parking Fees Operational Review (Quinonez).....	December 7, 2009
Facilities Rental Operational Review (Quinonez)	December 7, 2009
IT Information Security Audit (Quinonez).....	December 7, 2009
Proposals for 2009-10 Operational Reviews (Quinonez).....	December 7, 2009
Pro-Card Operational Review (Quinonez)	2010

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