

## AUDIT & FINANCE COMMITTEE MEETING MINUTES AUGUST 25, 2008

### Present

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

### Absent

*Lester Ezrati*

### Others

*Charles Allen, Tom Armstrong, Shirley Barker, Tom Brewer, Andy Dunn, Rich Hansen, Jeanine Hawk, Art Heinrich, Martha Kanter, Ron Levine, Brian Murphy, Jon O'Bergh, Hector Quinonez, Fred Sherman, Bernata Slater, 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 June 2, 2008 meeting were approved. Peterson asked when the operational review of ETS security would be ready. Quinonez explained the process, noting that he is still working on the best approach for conducting the review. He said that he plans to have a proposal ready for the next meeting in November.

### 3. OPERATIONAL REVIEWS

**Management Response to Parking Collections Operational Review.** Bechtel asked whether any of the recommendations could not be implemented due to cost or other factors. Levine responded that the level of staffing does not permit more than one person to control access to keys and logs. He clarified that keys are kept in a locked cabinet and the access key for the cabinet is kept at the dispatcher's desk. In response to the recommendation, a sign-out log will be kept. Other recommended changes are in the process of being implemented. Responding to a question from Grimm, Levine estimated the annual total collected for daily permits to be \$558,000.

**Rental and Leased Space.** Tom Brewer of VTD discussed the operational review and recommendation for segregation of duties by utilizing the District and college business offices. Responding to a question from Bechtel, Hawk estimated the annual proceeds for De Anza to be \$150,000. Brewer noted that the risk of exposure might be for a comparatively small amount of money, but he pointed out a case at another community college district where the embezzlement of facilities rental revenues was damaging to the institution's reputation. Bechtel asked if there was a reason why Flint Center, De Anza Food Services and the Foothill Theater were not included in the review. Quinonez responded that staff wanted a specific focus. At the next meeting, the colleges will respond to Brewer's recommendations.

#### **4. BOND PROGRAM REVIEWS**

Dunn discussed Grimm's proposal for a bond review similar to one conducted at El Camino Hospital. He reviewed what oversight is currently practiced as required by law, what additional scrutiny the District is performing in terms of regular operational reviews, and an array of best practices. Quinonez discussed plans for VTD to perform one operational review related to cash handling and another yet to be assigned.

Bechtel distributed Board Policy 9123 and reviewed the role and purpose of the Audit & Finance Committee. There was a discussion of the narrow scope of the Citizens' Bond Oversight Committee, which is to ensure that funds are spent only on the projects authorized by the bond in accordance with the kinds of expenditures that are legally allowed.

Grimm expressed concern that the existing Measure C report format does not give the Audit & Finance Committee adequate information to focus on how the bond funds are being expended, given that Measure C is a particularly large bond. He described a project management technique wherein checkpoints provide the opportunity to see if a project is under control in terms of budget and timeline. He suggested that the Committee spend its time not on areas that are under control but on areas where projects are not under control, in order to make recommendations that assist the Board's decisions and project management. He also suggested that operational reviews should focus on areas where the District can improve efficiency. Bechtel and Peterson expressed support for his views and emphasized the importance of safeguarding the District's credibility. Bruno also agreed, noting that the current reports do not show how much of the project has been completed, so there is no indication of whether a problem might exist.

Bechtel asked if VTD is the right firm for the particular operational reviews that are needed. Dunn and Quinonez responded that any reviews beyond the scope of expertise for VTD or the available budget would be handed to a different firm. Allen spoke about the importance of hiring a firm that has experience with construction program management and is familiar with industry best practices. Responding to a question from Casas Frier, Dunn explained that any operational review of Measure C would be funded by the District's general fund.

Bechtel asked who sets the priorities for where and how projects are cut. Murphy responded that the college makes decisions based on instructional needs as determined by professionals who are knowledgeable in the field, and are made within a participatory governance structure. He added that the Board is welcome to question the decisions and ask for justification. Grimm recommended setting up contingencies for each college and Central Services as well as an overall Measure C contingency, similar to what was done for Measure E.

It was agreed that Allen will work with Bruno and Grimm to develop a better Measure C report format. It was also agreed that the District will explore the idea of a construction program operational review or audit, letting the Gilbane/Maas construction management team know that this is an area that will receive scrutiny.

#### **5. BOND UNDERWRITER REVIEW**

In light of the decision of UBS to leave the bond underwriting business, Dunn discussed the factors to consider in determining whether to use one underwriter or two. Peterson recalled that two firms had been chosen for the initial Measure C issuance because both had strong proposals, not because

of a particular need to use more than one firm. The Audit & Finance Committee advised using one underwriter for subsequent Measure C bond issuances: Morgan Stanley.

## **6. INVENTORYING AND TRACKING CAPITAL ASSETS**

Dunn shared an email from Vice Chancellor of Technology Fred Sherman which outlined how the Educational Technology Services department tags, tracks and ultimately disposes of computers and other equipment that are below the District's threshold for capitalization (currently \$5,000 with a lifespan over one year). Sherman explained that an initial inventory of desktop computers is done at the time of purchase, but there is not sufficient staffing to perform an annual inventory. Grimm asked if there was a legal requirement for how often inventory must be taken. Quinonez explained that GASB only requires that assets must be tracked, but he offered to check with the District's external auditor whether there have been changes that requires an annual inventory. He noted that assets purchased with federal funds are more closely tracked as required by the federal government.

## **7. CONSTRUCTION PROJECTS UPDATE**

**One-Page Measure C Summary Discussion.** It was noted that this was already covered in the discussion under Item 4.

**Measure E.** Allen reported that Measure E is coming along well, with some normal issues but nothing of special concern. He noted that there is potential litigation involving the Foothill Campus Center, for which a contingency amount has been set aside, and the parties are currently in mediation. There are some comparatively minor issues involving the Foothill Lower Campus Complex that may involve litigation. Of the projects planned for completion, all are within budget.

**Measure C.** Allen reviewed changes from the previous report, noting that the first allocation of Measure C overhead has been made. He emphasized that considerable time has been spent identifying best practices, and more time has been spent on conditions assessment before projects start. Responding to a question from Bechtel, he explained that overhead consists of Gilbane/Maas fees, legal fees, specialty consultants, Project Stabilization Agreement costs, and some staff costs directly related to Measure C.

## **8. 2008-09 BUDGET**

Dunn presented the 2008-09 Budget, noting that a public hearing would be held at the Board meeting later that evening. He explained how the lack of a signed state budget places the District in a difficult situation trying to build a budget based on unknown state revenues. However, he explained that the District's cash flow would be in good shape through the end of October, at which time short-term borrowing could be arranged through a Tax and Revenue Anticipation Note. He pointed out that enrollment has increased slightly over cap, and reviewed other aspects of the budget. An operating deficit of \$7.9 million is projected, with one-time funds to be used to cover the deficit in 2008-09. A multi-year solution that includes structural changes will need to be addressed for 2009-10.

Dunn noted a \$280,000 augmentation for the International Student program, explaining that the program generates \$15 million in income for the District. He emphasized that the tuition paid by international students covers the cost of educating them. Furthermore, their enrollment does not

take away any spots from resident students, and their presence enhances the overall educational experience for all students.

## 9. OPEB FUNDING OPTIONS

The Audit & Finance Committee supported Quinonez' recommendation to work with a consultant, in coordination with the District's actuary and legal counsel, to prepare an analysis of the various investment program offerings in order to form a basis for comparison with the current program through the Community College League of California. Responding to a question from Grimm, Quinonez explained that he expects to be able to complete the analysis within six months, but a decision must be made by December or the District will need to wait two more years to make a change. Dunn added that, in any event, the District will change the investment ratio from 50/50 to 75/25 in accordance with the Audit & Finance Committee's recommendation from the June 2, 2008 meeting.

## NEXT MEETING

It was agreed that the next meeting on November 3 would start at 2:30 p.m.

### ***CALENDAR OF PENDING ITEMS***

|                                                                         |                  |
|-------------------------------------------------------------------------|------------------|
| Measure E Progress Report (Allen) .....                                 | November 3, 2008 |
| Measure C Progress Report (Allen) .....                                 | November 3, 2008 |
| Management Response to Rental and Leased Space Operational Review ..... | November 3, 2008 |
| Operational Review: ETS Security .....                                  | November 3, 2008 |
| Implementation of Bookstore Returns Recommendation (Quinonez).....      | November 3, 2008 |
| District Reserves .....                                                 | TBA              |

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