

## AUDIT & FINANCE COMMITTEE MEETING MINUTES FEBRUARY 5, 2007

Present

*Betsy Bechtel, Robert Grimm, Pat Millar, Kent Peterson, Bruce Swenson, Delia Ybarra*

Absent

*None*

Others

*Charles Allen, Mike Brandy, Claudette Brero-Gow, Debbie Budd, Jane Enright, Laura Casas Frier, Jeanine Hawk, Martha Kanter, Jon O'Bergh, Tom Perry-Smith, Hector Quinonez, Bernata Slater, Tonette Torres*

### 1. PUBLIC HEARING

Swenson noted that he and Bechtel had been appointed as the two members of the Board of Trustees to serve on the Audit & Finance Committee for 2007. No one else wished to address items not on the agenda.

### 2. APPROVAL OF MINUTES

It was M/S/C (Grimm/Peterson) to approve the minutes of the November 6, 2006 meeting, and M/S/C (Ybarra/Grimm) to approve the minutes of the November 15, 2006 meeting.

Brandy requested that Items 4C and 6 be advanced on the agenda. Swenson asked Committee members if they were agreeable to the request, and hearing their consent, he advanced Items 4C and 6.

### 4. MEASURE C

#### **C. Recommendation for Auditor; Approval of Scope for Financial and Performance Audit**

Brandy noted that the law requires an annual financial and performance audit for Proposition 39 bonds such as Measure C. The audit will be presented to the Citizens' Bond Oversight Committee, which has the responsibility to review the audit, but since that committee does not have the authority to contract for services, the Board of Trustees will engage the services of an auditor. Tom Perry-Smith provided background on the experience of his firm, Perry-Smith LLP, with such audits. He recommended a focused audit in which samples would be selected for auditing. At a cost of approximately \$10,000, a focused audit would be less expensive than a full audit of all Measure C activity while still meeting the legal requirements of the audit. He noted that the Board could expand the audit if many exceptions are found. He further noted that many of his clients use their existing external auditor to conduct the audit as that is more cost-effective.

It was M/S/C (Bechtel/Peterson) to recommend to the Board of Trustees to set the scope of the financial and performance audit to be a focused audit as discussed. It was also M/S/C

(Grimm/Millar) to recommend to the Board of Trustees to engage the services of Perry-Smith LLP to conduct the financial and performance audit for the quoted price.

**6. RECOMMENDATION OF PERRY-SMITH LLP AS INDEPENDENT AUDITOR FOR 2006-07**

Brandy explained that the Board of Trustees approved a contract with Perry-Smith LLP for independent audit services for a series of one-year contracts for a period of five years. Scheduled on the Board agenda for later that evening was approval of year two of the five-year contract at a total cost not to exceed \$152,000. It was M/S/C (Millar/Grimm) to recommend to the Board of Trustees to continue utilizing the services of Perry-Smith LLP.

**3. MEASURE E CONSTRUCTION PROJECTS UPDATE**

Brero-Gow provided an update on construction projects. Brandy pointed out that data in the Measure E reports regarding total anticipated costs could be misleading; at Allen's suggestion, future reports will include a "known exposure" column to provide better estimates when it is known that claims are looming but have not yet been received.

**4. MEASURE C**

**A. Review of Bond Financing Plan for Series A**

Brandy reviewed aspects of the bond financing in light of the filing of an appeal in the Measure C lawsuit. He discussed timing of the bond to maximize interest rates. It is expected that the Series A issuance will go to the Board for approval on March 5.

**B. Review of Bylaws for Citizens' Bond Oversight Committee**

Brandy reviewed the role of the Citizen's Bond Oversight Committee in relation to the Audit & Finance Committee and reviewed the bylaws and membership.

**5. UPDATE ON IMPLEMENTATION OF AUDIT RECOMMENDATIONS FROM AUDIT OF YEAR ENDING 6/30/06**

Quinonez reviewed the implementation of the recommendations for all eight findings, and noted that implementation of each recommendation has been completed or is underway.

**7. REPORT ON FIRST QUARTER PROCARD AUDIT RESULTS**

Brandy noted that one of the recommendations from the operational audit of the District's procard program was to provide regular reports to the Audit & Finance Committee. He reviewed the results of the District's internal audit of procard usage for the months of September, October and November 2006. Bechtel requested that the District continue to be aggressive in auditing procard usage. She discussed the idea of a form that employees would use to provide justification for each expense. There was a discussion of how to regulate expenditures for meals. Grimm asked whether there was a definite problem that needed to be addressed, as he did not want to see an unnecessary level of bureaucracy created. Quinonez and Brandy agreed to research current practice and the extent of such expenditures and report back

at the next meeting. Bechtel asked if all weaknesses identified in the operational audit had been addressed. Brandy responded that they have been addressed and this was reflected in the minutes of the November 6, 2006 meeting.

#### **8. TASKS FOR VAVRINEK, TRINE AND DAY OPERATIONAL AUDITS FOR 2006-07**

Quinonez and Brandy noted that cash handling is a broad area and they envision further operational audits for the coming year. Bechtel expressed support for continued auditing of cash handling and procard usage. Swenson expressed interest in Fund 15 programs (self-supporting programs), and Brandy agreed to bring a list of all such programs to the next meeting. Responding to a question from Peterson, Quinonez said that none of the eight findings in the District's more recent audit of its financial records suggest the need for a particular operational audit. Grimm asked about the operation of the Bookstores and whether the Board had adopted a policy on the objective of the Bookstores. Brandy responded that no formal objective had been identified but the Bookstores operate as a break-even model.

#### **9. UNFUNDED RETIREE BENEFITS LIABILITY**

##### **A. Report on GASB 43/45 Unfunded Retiree Benefits Plan**

##### **B. Second Quarter Report on Earnings in Retiree Joint Powers Agenda**

Brandy distributed the District's "GASB 43/45 Unfunded Retiree Benefits Plan" which details the District's compliance with GASB 43/45. He reviewed the earnings of the trust in which the District has invested funds that are dedicated toward funding the retiree benefits liability. He clarified how the actuary calculated the annual amount of \$975,000 based on certain assumptions and how that amount, if contributed annually to the trust, will fully fund the liability after 30 years. Grimm expressed interest in seeing the 30-year projection. Brandy said the actuary could provide that as part of next year's actuary report.

#### **10. REVIEW OF GOVERNOR'S BUDGET FOR 2007-08**

Brandy reviewed the governor's proposed budget and its impact on the District, pointing out how it was essentially a "status quo" budget.

#### **11. PREPARATION OF FINANCIAL SELF-ASSESSMENT TOOL FROM STATE CHANCELLOR'S OFFICE**

Brandy explained that the State Chancellor's Office developed a financial self-assessment tool in the form of a questionnaire to help anticipate financial problems within community college districts. The questionnaire is optional, but districts are encouraged to complete it. Brandy presented the completed questionnaire for Foothill-De Anza and suggested that updated responses be provided to the Committee annually in January or February. The Committee expressed support for his suggestion. Responding to a question from Millar, Brandy said that there were no trouble spots for the District, although one area caught his attention, which was a question about examples of having entered into agreements that cannot be fulfilled. He explained that the District was in its fourth year of an agreement with the Faculty Association to fund part-time faculty equity; the amount, however, is relatively small at \$30,000.

## 12. REVIEW OF BOARD POLICY 9123, “AUDIT AND FINANCE COMMITTEE,” AND ADMINISTRATIVE PROCEDURES (BYLAWS)

Brandy noted that the policy could benefit from a revision to clarify how members are selected, how long they serve, etc. Millar and Peterson agreed to meet with Brandy and Kanter to look at how similar committees are organized in other institutions and develop a proposed revision to the policy.

## 13. NEXT MEETING DATE

The next meeting was scheduled for Monday, April 2 at 3:30 p.m. Swenson said he would like to consider at the next meeting the question of whether the Committee is discussing the right kinds of issues.

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

Measure E Progress Report (Allen) .....	April 2, 2007
Use of Procard for Meals (Brandy).....	April 2, 2007
List of Fund 15 (Self-Supporting) Programs (Brandy) .....	April 2, 2007
Is the Committee Discussing the Rights Kinds of Issues (Swenson) .....	April 2, 2007
Thirty-Year Projection for Funding Retiree Medical Benefits Liability.....	Winter 2008
Financial Self-Assessment Tool for State Chancellor’s Office .....	February 2008
Discussion of How to Use New Revenue Streams .....	TBA
Revised Board Policy 9123, Audit & Finance Committee.....	TBA
Small and Local Business Procurement .....	TBA

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Approved 6/4/07