

AUDIT & FINANCE COMMITTEE MEETING MINUTES JUNE 2, 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, Andy Dunn, Jeanine Hawk, Art Heinrich, Jeff Jensen, Martha Kanter, Ann Kennedy, Geoffrey Kischuk, Judy Miner, Brian Murphy, Jon O'Bergh, Hector Quinonez, Ben Rodriguez, 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 February 4, 2008 meeting were approved with one correction.

3. REVISED ACTUARIAL STUDY FOR RETIREE HEALTH BENEFITS

Geoffrey Kischuk of Total Compensation Systems presented the revised Actuarial Study. He discussed asset smoothing, which is used to smooth the typical ups and downs of the investment cycle in order to provide a more accurate projection of long-term results, and noted that the CalPERS asset smoothing model was used in the Actuarial Study. He explained that the District supports using a 3-4 year rolling average based on percentage of payroll, which is a more responsive calculation method. He discussed a variety of factors involved in evaluating different funding vehicles, cautioning that the investment return rate is not the best way to evaluate programs since there are many other variables. The District currently participates in the Community College League of California program but the program offered by CalPERS is now available.

The Audit & Finance Committee expressed its support for the investment and smoothing formula presented by Mr. Kischuk along with the recommendation to fully fund the amount of \$1,005,182 for 2008-09. Dunn said he would bring these recommendations to the Board for approval. Responding to a request from Grimm, Quinonez said he will investigate changing the investment mix of 50% stocks and 50% bonds. The Audit & Finance Committee expressed its support for a more aggressive mix of up to 75%/25%. Grimm added that it would be helpful to see a comparison of projections for different mixes.

Bruno asked how many years an agency can underfund its liability before being out of compliance with GASB. Kischuk responded that it's a matter of judgment on the part of the actuary.

4. NEW AUDITING STANDARDS

Jeff Jensen of Perry-Smith & Company presented information on new auditing standards which affect the scope of audits. The new standards, which are now in effect, require a longer, more in-depth and ultimately more costly audit.

5. OPERATIONAL REVIEWS

Parking Permits Cash Handling. Tom Brewer of VTD presented the operational review on Parking Collection Procedures. He summarized recommendations to strengthen internal controls and improve efficiency: officially adopt written procedures; adopt policies and procedures for reduced parking rates; establish a policy for reviewing, amending and adopting procedures; improve independent reconciliation in certain areas; institute deposit verifications; pre-number De Anza free and bulk parking permits; institute segregation of duties for parking lot rentals; institute key and log controls; review consistency between the campuses. He noted that the District must consider the cost/benefit when considering each of the recommendations. He emphasized that no significant problems were uncovered in the audit.

Responding to a question from Bechtel, Rodriguez explained that De Anza collects about \$275,000 in cash annually for permits and \$270,000 for special events. Quinonez added that the District did not have a particular concern in recommending a review of parking permits cash handling; rather, this is part of a systematic review of cash handling throughout the District.

Rental and Leased Space. Quinonez reported that this review is still in progress but will be completed by June 30. A report will be presented at the August 25 meeting.

ETS Security. Quinonez reported that this review will require engaging a special firm that specializes in such audits; thus, a report may not be ready by the next meeting.

6. BUDGET UPDATE

Third Quarter Report. Dunn presented the Third Quarter Report. Bruno asked if the property tax shortfall is likely to continue into future years. Dunn responded that the Governor has proposed one-time backfill dollars for the current fiscal year and for the next fiscal year, but there is no certainty that community college districts will receive it.

2008-09 Budget. Dunn distributed an overview of the budget. He discussed the Governor's proposal to use lottery revenues, which would require voter approval and may have other associated risks. He emphasized that there may be significant changes between the District's Tentative Budget, which is based on the Governor's May Revise, and the Final Budget, which is based on what the legislature ultimately approves. He pointed out a projected \$7.6 million deficit for 2008-09 and reviewed plans to close the deficit with one-time funds. A structural imbalance exists, however, and will need to be addressed for 2009-10. Bechtel asked about the choice to use one-time dollars to address the shortfall rather than a permanent solution. Dunn responded that the District can use the months ahead to intelligently plan how to address the structural imbalance.

Principles and Strategies for Budget Reductions. Dunn noted the approved Principles and Strategies for the Committee's information.

7. FINANCIAL SELF-ASSESSMENT TOOL FOR STATE CHANCELLOR'S OFFICE

There were no questions regarding the report. The Committee thanked Dunn for providing this useful information about the District's fiscal condition.

8. INVENTORYING AND TRACKING CAPITAL ASSETS

This was postponed until the next meeting.

9. CONSTRUCTION PROJECTS UPDATE

Measure E. Allen presented the "Measure E Management Reporting Statement of Consolidated Revenues as of March 31, 2008." There were no questions.

Measure C. Allen presented the Measure C "Capital Projects Update as of March 31, 2008." There were no questions. Bechtel noted that the District has developed a plan for the distribution of Measure C interest earnings. Dunn elaborated that the plan addresses construction and renovation projects, which are the areas of greatest need due to the greatest escalation in costs.

Measure C Litigation Update. Dunn reported that the lawsuit was resolved in the District's favor.

NEXT MEETING

There was a discussion of how much time is needed for future meetings and whether any dates should be added or changed. It was decided that the August 25 meeting should start at 2:30 p.m.

CALENDAR OF PENDING ITEMS

Measure E Progress Report (Allen)	June 2, 2008
Measure C Progress Report (Allen)	June 2, 2008
Operational Review: Rental and Leased Space	August 25, 2008
Operational Review: ETS Security	Fall 2008
Inventorying and Tracking Capital Assets (Dunn)	August 25, 2008
District Reserves	TBA
Implementation of Bookstore Returns Recommendation (Quinonez).....	August 25, 2008

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Approved 8/25/08