

AUDIT & FINANCE COMMITTEE MEETING MINUTES NOVEMBER 5, 2007

Present

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

Absent

none

Others

Charles Allen, Tom Armstrong, Shirley Barker, Becky Bartindale, Steve Carleton, Andy Dunn, Marie Fox Ellison, Jeanine Hawk, Jeff Jensen/Perry-Smith LLP, Martha Kanter, Judy Miner, Jon O'Bergh, Hector Quinonez, Bernata Slater, Tonette Torres

1. PUBLIC HEARING

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

2. APPROVAL OF MINUTES

It was M/S/C (Bechtel/Grimm) to approve the minutes of the August 27, 2007 meeting.

3. AUDIT REPORTS FOR FISCAL YEAR 2006-07

Jeff Jensen of Perry-Smith LLP presented the draft audit, noting that there were no audit adjustments or federal compliance issues. New auditing standards that take effect next year will not require the District to change any accounting practices, but the process of conducting the audit will take longer since the auditors will need to perform a deeper analysis of internal controls.

Jensen reviewed some of the findings and recommendations, starting with the incorrect tracking and reallocation of faculty time to comply with the 50% law, which was also a previous year finding thought not a major one. There was a discussion of shortcomings with the District's current manual tracking process and how it might be improved. Dunn and Quinonez will give an update at the next meeting. Another finding involved bookstore returns being handled without sufficient oversight, which was also a repeat finding. Quinonez explained that a supervisor was hired to perform the reviews, which addressed part of the concern in last year's finding, and the District will take the next step to require that more than one person reviews returns. He will check on the procedure mid-year to ensure that it has been implemented and will report back to the Committee.

Responding to a question from Ybarra, Dunn explained that non-resident students pay the full cost of education which exceeds \$5,000 annually.

Measure C. Jensen distributed and reviewed the draft Independent Accountant's Report on Applying Agreed-Upon Procedures. He reported that all expenditures were valid, although four of the expenditures did not receive all of the required approval signatures. Responding to a question from Grimm, Dunn explained that the Citizens' Bond Oversight Committee is responsible for the financial audit of Measure C expenditures as well as the performance audit. He noted that there is no legal description of what a performance audit should entail and that the Report on Applying Agreed-Upon Procedures suffices for the financial audit. Bechtel asked about the unrealized loss on investment, and Dunn explained that it represents funds sitting in the bank that have decreased in value. Quinonez added that it represents a "snapshot in time" and that, although the value of the funds fluctuate, the District feels the investment is sound. He will ask the District's investment advisor Bill Euphrat to provide more information at the next meeting.

Foundation. Jensen distributed the audit of the Foundation for the Committee's information, reporting that there were no findings.

California History Center. Kanter explained that this audit has not been presented to the Committee in the past since the California History Center is a separate entity, and was scheduled on the agenda by mistake. Nonetheless, Dunn will look into whether such audits should be reviewed by the Committee.

4. OPERATIONAL REVIEWS

Report on Foothill Cash Handling. Quinonez clarified that "cash" represents all money collected for fees, including by credit card and check. He reported that a surveillance camera will be added to the area where the safe is located. Once he determines when this will be implemented, he will let the Committee know.

Report on Measure C Overhead. Quinonez said that this review is not ready. The purpose of the review is to verify that the District is charging overhead costs appropriately and accurately. He will provide a report at the next meeting.

Proposed Operational Reviews for 2007-08. Dunn distributed a list of proposed operational reviews, recommending two primary reviews — cash handling as it impacts the Police Department (e.g., parking meter fees), and ETS security measures — and, if resources are available, four additional reviews: facilities rentals and leases, associated student body accounts, credit card accounts, and further inquiry into cash handling throughout the District. At the next meeting, he will offer his estimate of the likelihood of completing more than the first two reviews.

5. CONSTRUCTION PROJECTS UPDATE

Measure E. Allen provided an update on Measure E projects. Responding to a question from Swenson, he said there are no particular concerns, and the District simply needs to ensure that the level of contingency remains appropriate for project commitments. Although issues regarding change orders are not all resolved, there is no change to the known exposure.

Measure C. Grimm distributed a spreadsheet summarizing budget and allocations by category. It was clarified that desktop computer costs are spread out over several years. Series A and B have two different timelines, so the District will track cost by each series. The list does not include all

projects, only projects that are active. The Committee will be provided a report on the timeline for spending Measure C funds following a presentation to the Board in January.

6. RECOMMENDATION FOR PORFOLIO INVESTMENT FOR RETIREE HEALTH BENEFITS JPA

Dunn clarified that the current investment in the Community College League of California JPA is a diversified investment. He reported that the District would be able to participate in a trust managed by PERS, and he has asked for an actuarial comparison between that trust and the League's JPA. He expects to have a recommendation at the next meeting. Grimm noted that the comparison of the investment mix needs to be equitable in order to accurately evaluate the options. He also requested information regarding the performance of the different funds. There will be an in-depth discussion at the next meeting.

7. BUDGET UPDATE

Dunn reviewed the First Quarter Report, noting that the District has recovered from its enrollment decline and enrollment is growing. Responding to a question from Swenson, Slater said that Fall enrollment figures are a rather good prediction of enrollment trends. Dunn reviewed how revenue resulting from enrollment growth must typically be used to fund personnel and staffing costs, leaving very little discretionary dollars. The projected unrestricted fund balance is \$6.2 million, but salary settlements with the employee groups have not yet been completed.

Dunn warned that, if the Measure C lawsuit is not resolved by next June or is not resolved in the District's favor, the District would need to issue a Certificate of Participation for the amount expended on Measure C projects. There was a discussion of the District's 5% operating reserve, and the Committee's consensus was that the percentage is too low. Swenson said he would like the Committee to discuss this issue at a future meeting.

Quinonez presented the CCFS 311 Financial Report. There were no questions.

8. REVISED BOARD POLICY 9123, AUDIT & FINANCE COMMITTEE

Dunn distributed a revised draft of the policy based on comments from the meeting he held with Kanter, Millar and Peterson. Trustee Bechtel asked when the transition to the new policy would occur. Kanter explained that a second reading and approval of the policy will be scheduled for the Board's January 7, 2008 meeting. In the meantime, ads will need to be placed to solicit interest from the community and, by early January, current members will need to inform the District how long they wish to continue serving (i.e., 0, 2 or 4 years). Applications from current members and interested candidates will need to be received by early January to provide sufficient time for the application review subcommittee to review the applications and make a recommendation for appointments to the Committee at the Board's January 22 meeting. Appointed members will then take their seats at the February 4, 2008 Audit & Finance Committee meeting. Kanter said that details regarding member qualifications and the application procedure do not need to be specified in the policy but could be presented to the Audit & Finance Committee for feedback. She plans to update the policy based on the discussion and email it to Committee members for any final comments.

9. INVENTORYING AND TRACKING CAPITAL ASSETS

This item was postponed due to insufficient time on the agenda.

10. AUDIT & FINANCE COMMITTEE SCHEDULE OF MEETINGS

The proposed calendar of quarterly meetings for 2008 was presented, with the caveat that bi-monthly meetings might be needed if the number of agenda items continues to be large. Another possibility might be to start the meetings earlier. The chair will discuss this with Dunn. The next meeting was scheduled for February 4, 2008, with meetings also scheduled for June 2, August 25 and November 3.

CALENDAR OF PENDING ITEMS

Measure E Progress Report (Allen)	February 4, 2008
Measure C Progress Report (Allen)	February 4, 2008
Final Board Policy 9123 (presented for information)	February 4, 2008
Measure C Unrealized Loss on Investment (Euphrat)	February 4, 2008
Report on Measure C Overhead (Quinonez)	February 4, 2008
Timeline for Spending Measure C Funds.....	February 4, 2008
Update on Operational Reviews Proposed for 2007-08 (Dunn).....	February 4, 2008
Portfolio Investment for Retiree Health Benefits (Quinonez/Euphrat).....	February 4, 2008
Inventorying and Tracking Capital Assets (Dunn)	February 4, 2008
Financial Self-Assessment Tool for State Chancellor's Office	February 4, 2008
District Reserves	Spring 2008
Implementation of Bookstore Returns Recommendation (Quinonez).....	Spring 2008
Thirty-Year Projection for Funding Retiree Medical Benefits Liability.....	Winter 2008
Discussion of How to Use New Revenue Streams	TBA
Small and Local Business Procurement	TBA

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Approved 2/4/08