

## AUDIT & FINANCE COMMITTEE MEETING MINUTES NOVEMBER 3, 2008

Present

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

Absent

*none*

Others

*Charles Allen, Tom Armstrong, Shirley Barker, Andy Dunn, Lee Epstein, Bill Euphrat, Jeanine Hawk, Art Heinrich, Jeff Jensen, 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 speak to items not on the agenda.

### 2. APPROVAL OF MINUTES

The minutes of the August 25, 2008 meeting were approved (M/S/C Grimm/Bruno) with two minor corrections made by Bechtel.

### 3. DRAFT AUDIT REPORTS FOR FISCAL YEAR 2007-08

**Foothill-De Anza Community College District.** Jeff Jensen from Perry-Smith & Company presented the draft audit of the District for the period ending June 30, 2008. He noted that the District's financial statements in all material aspects are presented fairly. He pointed out one audit adjustment in which the accreted interest on Measure E general obligation bonds was not recorded in the prior period, which resulted in an understatement of long-term liabilities. He added that the issue had not been discovered in previous audits. Bechtel asked if this would also be the case for Measure C bond issuances. Jensen clarified that it has not been an issue yet since Measure C is relatively new, so the District will be able to record it correctly from the start.

Jensen reported that the District is ahead of schedule in contributing funds toward the retiree benefits liability as required by GASB 45. He noted one audit finding in which the procedures to complete the annual inventory count of the De Anza Bookstore were not properly conducted. There were no significant deficiencies or material weaknesses in terms of federal compliance standards, but one state compliance issue in which the District did not assess enrollment fees for concurrently enrolled full-time students who exceeded 15 quarter units.

Ezrati asked if it is standard for community college boards to receive audit reports in December for a fiscal year ending on June 30. Jensen replied that it is standard, explaining that the reports are not due in the State Chancellor's Office until the end of December. He added that the audit

report for Foothill-De Anza is consistently submitted by the deadline each year, but many community college districts submit late.

Jensen presented the draft auditor's letter that will accompany the audit report. He noted that the letter mentions a small correction regarding the overstatement of deferred revenue at the Flint Center in the amount of \$15,250. He reported that there were no disagreements with management or difficulties in conducting the audit. Responding to a question from Bechtel, he confirmed that Sarbanes Oxley compliance is now being audited. Trustee Bechtel also asked if there was anything he was uncomfortable discussing in the presence of management, and he replied that there was not.

**Foothill-De Anza Colleges Foundation.** Jensen presented the draft audit of the Foundation for the year ending June 30, 2008. He reported that the financial statements presented fairly in all material aspects the financial position of the Foundation, and there were no significant items or audit exceptions.

**Measure C Agreed Upon Procedures.** Jensen presented the draft "Independent Accountant's Report on Applying Agreed-Upon Procedures." He explained that the auditors tested 50 Measure C expenditures to ensure that funds were spent appropriately and verified that all represented valid expenditures. The auditors also verified that the bid process was correctly followed. Responding to a question from Bechtel, he said that no coding problems were discovered this year.

The Audit & Finance Committee voted to accept the three draft audit reports (M/S/C Grimm/Peterson).

#### **4. CCLC IRREVOCABLE TRUST INVESTMENT ANALYSIS**

On behalf of the Community College League of California (CCLC) Joint Powers Authority (JPA), Lee Epstein presented an analysis of funds invested in the JPA as of September 30, 2008. He reported that, during the three years in which the JPA has operated, investments outperformed the benchmark for two years but underperformed during the past year. He reviewed the JPA's investment strategy, which is focused on long-term measurements over ten years through a balanced (50/50) allocation.

#### **5. GASB 45 RFP PROCESS**

Dunn reported that a Request for Proposal (RFP) has been issued seeking proposals by November 7 to oversee trust, investment management and administrative services of the funds set aside to address the District's unfunded retiree benefits liability. He explained that the District will submit a letter to the JPA by December 3 notifying the JPA of the intent to withdraw funds. The letter can be retracted later if the Board ultimately decides to keep the funds with the JPA. Interviews with firms responding to the RFP will be held with the Audit & Finance Committee at its first meeting in 2009, and the Committee's recommendation will then be forwarded to the Board for action.

#### **6. SANTA CLARA COUNTY INVESTMENT POOL STATUS**

Bill Euphrat presented information on the types of investments that comprised the Santa Clara County Commingled Investment Pool as of June 30, 2008, in which the District's Measure C general obligation funds are being invested as they mature. He explained that the County has not

yet completed its report for the period ending September 30. He suggested that the District might want to request the County to release its most recent monthly audit of its investments in light of the stock market's troubled performance this fall. Bechtel emphasized that definitive information is needed on how the investments performed in October. Dunn reported that staff did ask the County and were assured there was no exposure as a result of the Lehman Brothers bankruptcy. Dunn agreed to send an analysis to the Audit & Finance Committee based on the County's September 30 investments report and information obtained from the County for October. Bechtel reported hearing that one County agency had set up an interest rate swap, and she wondered who participates in the Commingled Pool. Dunn said that Foothill-De Anza represents about 10% of the County's invested funds. He explained that the vast majority of the Measure C funds are sequestered until maturity, at which time they move into the Commingled Pool.

## **7. MEASURE C SUBCOMMITTEE REPORT**

Allen reported that he met with Bruno and Grimm to develop a new, simplified reporting format that meets the needs of the Audit & Finance Committee and shows whether each project is on schedule and on budget. Grimm distributed the proposed format, which included a display of any forecast budget variance. The Committee discussed the meaning of "problem" as a notation and decided not to have a defined criteria for what constitutes a problem but rather to leave it to Allen's judgment. The Committee expressed support for the new format, which will subsequently be used for future Measure C Project reports.

## **8. CONSTRUCTION PROJECTS UPDATE**

**Measure E.** Allen pointed out a donation in the amount of \$500,000 for the De Anza Visual and Performing Arts Center. He said that contingency amounts were in good shape. Three Measure C projects at De Anza are anticipated to use the remaining De Anza Measure E funds for their design component. Peterson asked about the District New Service Shops being over budget by \$23,553. Allen explained that the buildings were old and some unexpected issues may have been encountered during renovation.

**Measure C.** Bechtel asked if there were any "red flags" regarding any projects, and Allen responded that there were not. Responding to a question from Bruno, he explained that "interest earned" refers to funds that have been distributed and "interest unallocated" refers to interest earned but not yet distributed. He said that the next bond issuance is anticipated to be in a couple of years.

**Measure C Program Operational Review.** Allen discussed the proposed "phased" approach to the operational review, with two reviews over two years, starting with a review of construction management. The Committee members expressed support for this approach. By the end of the year, Allen anticipates completing the first review. He noted that the reviews can be funded by Measure C.

## **9. REVIEW OF CCFS-311 REPORT**

Quinonez reviewed the financial report that is prepared for the State Chancellor's Office. It was clarified that the report does not contain qualitative information about outcomes that provide evidence of how well the District is being managed, and is designed instead to indicate whether reserves are adequate and at least 50% of unrestricted general funds are spent on instructional

costs. Ezrati asked if any comparison is done with other districts. Quinonez responded that information is available but the state does not perform an analysis.

#### **10. SANTA CLARA COUNTY BANKING RELATIOINSHIP CHANGE**

Dunn distributed a memo explaining the proposed change in banks in tandem with the County's recent change to Bank of America. He reported that a Request for Proposals is not required, according to legal counsel, and noted that using the same bank as the County keeps accounting operations efficient and saves costs. The Committee expressed support for the recommendation.

#### **11. DE ANZA FACILITIES RENTALS OPERATIONAL REVIEW AND MANAGEMENT RESPONSE**

Quinonez distributed the management response to the operational review. Hawk noted that management accepts the findings and discussed how the recommendations are being implemented. Kanter explained that the colleges rent classrooms; an updated rental fee schedule will come to the Board for approval, and the Board may want to ensure that rates are comparable between the two colleges. Bechtel concurred with the objective of making rates comparable.

#### **12. OPERATIONAL REVIEWS**

Quinonez distributed a list of possible operational reviews for 2008-09. He noted that his office is funding one-sixth of the \$60,000 cost to perform an Information Security Audit since it has an accounting component. He explained that there is not enough funding to perform all of the operational reviews listed and sought advice on priorities from the Committee. Bechtel recommended a follow-up regarding use of Pro-Cards. Ezrati concurred, emphasizing the importance of addressing exposure not just in terms of dollars but in terms of the District's reputation. Following discussion, it was agreed that a Pro-Card operational review would be performed at the beginning of 2009-10. For the benefit of the Committee, Quinonez was asked to prepare a list of all previous operational reviews that have been performed. The Committee recommended the following priorities for 2008-09:

- Follow-Up on Parking Permits Cash Handling
- Follow-Up on Rental and Leased Space
- IT Information Security Audit
- Celebrity Forum, Foothill (if funds remain after performing the other three)

#### **13. QUARTERLY BUDGET REPORT**

Dunn distributed an overview of the First Quarter. He noted that the state will likely impose a mid-year budget correction. The District anticipates using one-time savings from a variety of sources to offset the deficit in 2008-09, currently estimated at \$7.5 million. Bechtel asked Committee members for their thoughts about the District budget's structural imbalance, which is projected to increase further during the next few years. Due to lack of time, Bechtel requested a longer discussion at the start of the next meeting. Peterson and Grimm recommended looking at three-year budget projections.

**14. AUDIT & FINANCE COMMITTEE MEETING SCHEDULE / NEXT MEETING DATE**

Dunn recommended a new schedule of dates to better align with reporting schedules. It was agreed that the 2009 meeting dates would be as follows:

March 2, 2:30 p.m.  
 June 1, 2:30 p.m.  
 August 31, 2:30 p.m.  
 December 7, 2:30 p.m.

***CALENDAR OF PENDING ITEMS***

Interviews with Investment Firms for Unfunded Retiree Benefit Liability .....	March 2, 2009
Budget Discussion.....	March 2, 2009
Measure E Progress Report (Allen) .....	March 2, 2009
Measure C Progress Report (Allen) .....	March 2, 2009
List of Previous Operational Reviews (Quinonez) .....	March 2, 2009
Pro-Card Operational Review (Quinonez) .....	Fall 2009
District Reserves .....	TBA

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 Approved 3/2/09