

**PERALTA COMMUNITY COLLEGE DISTRICT
AUDIT AND FINANCE COMMITTEE MEETING
MINUTES**

Date: November 13, 2008
Location: Chancellor's Conference Room, District Office
Start time: 5:05 p.m.
End time: 6:30 p.m.

PRESENT: Bill Withrow, Chair
Cy Gulassa, Trustee
Thomas Smith, Vice Chancellor Finance and Administration
Gail Waiters, Inspector General
Sadiq Ikharo, Vice Chancellor General Services
Joseph Bielanski, President, District Academic Senate
Karolyn Van Putten, Department Chair, Laney
Carlotta Campbell, President, COA Academic Senate
Diana Lara, President, SEIU Local 1021
Kaden Kratzer, Business Representative, SEIU Local 1021
Tae Soon Park, Faculty

AGENDA:

1. Review and approve the agenda.
2. Review and approve the minutes for prior meetings and register as a Memorandum of Record for all meetings where a quorum was not achieved.
3. Report by the Inspector General.
4. Review current status of California State Budget and prognosis for impact upon The Peralta Colleges.
5. Review the Budget for The Peralta Colleges that was submitted to the State in July 2008.
6. Discuss status of the External Audit for 2007-08 including the audit report of the Peralta Colleges Foundation.
7. Discuss the current status of all significant and material weaknesses that were documented in the External Audit Report for fiscal years 2005-06, 2006-07 and 2007-08.
8. Discuss the progress to date in developing and implementing Program Based Budgeting techniques for the FY 2008-09.
9. Review the status of the Retiree Healthcare Trust Investments and modification of Asset Allocation to ensure that we are adequately positioned for the future economy and financial market.
10. Review the status of the OPEB bond refunding actions.

Chair Withrow opened meeting at 5:05 p.m. with Items 1 and 2.

MOTION: Trustee Gulassa moved to approve agenda. Chair Withrow seconded. Motion passed.

MOTION: Trustee Gulassa moved to approve the minutes from previous meetings, except those meetings that did not have a quorum (February 7, 2008 and May 8, 2008). Chair Withrow seconded. Those meetings without

quorum will be sent to Chair Withrow for signature approval. Motion passed.

Item 3 – Report by Inspector General (Gail Waiters)

IG Waiters stated customer feedback survey went to 80 random vendors as part of contract administration project and she has only received 11 back. There were four returned because of bad addresses. Survey was 30 brief questions, asked to rate statements 1-5 with 5 being excellent. She is reviewing comments with more detail to get a sense of what is going on. Vendor history file is not updated and missing information.

The other part of the project is looking at vendor characteristics focusing on IT due to questions from board members. IG Waiters distributed a list of vendor payments to consultants on IT projects. There are questions on staffing and whether vendors are completing deliverables, etc. This piece subtotal is \$23 million, mainly for the PeopleSoft implementation, it also includes costs for computers, etc. The total for Jake Abrams Software Consulting is incorrect and will be updated.

Trying to look at vendor history file to ensure that the internal controls are working to look at vendors we are using more frequently and equality of vendors.

Item 4 – Review current status of the California State Budget (Tom Smith)

There is no adopted state budget and will probably go into January with no resolution. The District has already discussed cuts. VC Smith is also recommending general apportionment cuts of 5% out of general fund. Chair Withrow would like targeted cuts because of unfunded benefits. VC Smith says state is recommending cut COLA, increase credit fee to \$26 per unit January 1, 2009, and then \$30 in July 2009. Fee increase just came out today.

It is estimated that Peralta's cut will be \$6.1 million for one year which is line with VC Smith's estimates. Dr. Bielanski said they are looking at PE courses, drawing, dancing, etc. be paid at non-credit rate, which is about half of credit rate.

If budget is not passed in December, District is looking at February for the next legislature to pass anything. Cuts the District is including are travel, hiring freeze, cut back on 1351 fund and independent contracts. VC Smith will have more information next month based on \$6 million in cuts.

Item 5 – Review the Budget for Peralta that was submitted to State in July 2008 (Tom Smith)

There is no adopted budget and there is no requirement to submit a tentative budget.

Item 6 – Discuss status of the External Audit for 2007-08 (Tom Smith)

Auditors will be here next week. Colleges have been notified. The auditors' interim work finished. The final 311 report has been sent. Just for record, on the 50% calculation - 52.73% second highest since 1999. This means the District is spending a lot of money in the classroom. The District is on the right side of 50% law.

The Board of Governors has suspended the 75/25 (full time faculty obligation, the goal is to have 75 full time, 25 part time faculty) for this year. This means we revert back - it is a fall 2008 requirement and you need to comply by fall 2009, they have waived

that; this means there will be no hiring of full time faculty except in special needs. VC Smith suggested to committee that at Tuesday's Board meeting that President Gulassa do a short presentation on what is coming out of Sacramento.

President Gulassa concerned about students, communications need to be coming from Chancellor's Office with a letter to constituency, students, this is what is going on with budget, financial aid, let everyone know he is concerned as well. VC Smith indicated BCC does not have enough staff to help with financial aid and need to have centralized, which it is now up at Merritt. Evans Consulting is doing 100% validation at BCC due to external audit. VC Smith said we should file by deadline, which is end of December 2008. The audit will be brought to the Board in January. The committee will be meeting with Heidi White on Monday, December 17th.

Item 7 – Review of current status of significant and material weaknesses in prior audit reports (Tom Smith)

There are a number of significant changes; position management control, budget, payroll and HR control. The biggest concern is Financial Aid; District does not want overfund Pell grants.

Asset management is up and running, CIBER and Yvonne Dorrrough are still reconciling beginning numbers and then we should be fine going forward.

At the request of the Department of Education (DOE), auditors had increased focus on Financial Aid in 2006-07 audit. Audit rules have changed – not Peralta specific issue. The DOE has requested that District do a universal audit for FY 2007-08. In process of reviewing files, universal means audit every single award, however, since we did it previous fiscal year, DOE may let us do a sample of 30%. Mickey Mathews, consultant for financial aid at BCC, said 2007-08 files much better than 06-07 probably because the individual there retired. If disparity, the DOE will kick up the sample.

BCC President Betty Inclan asked for an extension of two months. They are auditing award only – looking for over awards and under awards for any federal money given out. They do not audit the ineligible. BCC had 1,900 files they had to put in the system.

Item 8 – Discuss the progress to date in developing and implementing Program Based Budgeting techniques (Tom Smith, Joseph Bielanski)

VC Allen (Educational Services) could not be at the meeting tonight and asked for this item to be on the next meeting agenda. Both the Budget Allocation Model and Bylaws were passed at the last Budget Advisory Committee meeting. The next Budget Advisory Committee will be held at BCC in January 2009.

Item 9 – Review the status of the Retiree Healthcare Trust Investments and modification of Asset Allocation (Tom Smith)

Chancellor led a delegation to NY; three trustees (Withrow, Gulassa and Riley – Audit and Finance Committee members), VC Smith, VC Ikhara and consultant, Mark Harris. (Jennifer to get an all day agenda from Neuberger Berman). Discussions included asset allocation review, meeting with individual managers of asset classes, large cap value, fixed income, small cap growth, international, REITS. They received an analysis from each economic class. There was question of why so many trustees went; VC Smith said District has a complex solution to our retirement benefits and it is the Board's responsibility to oversee this, it is important they understand.

October was very difficult month for any investment. VC Smith reviewed the portfolio benchmarks. Peralta investments are down 13.06%. Total market value of investment trust is \$126, 536,223.00 as of 10/31/08.

VC Smith and Mark Harris had conference call regarding the investment in mortgage backed securities. Some have been liquefied; Chair Withrow asked to put in writing that these mortgage backed securities were not sold to us by Lehman Brothers because Lehman was a big seller of these types of securities which would be a conflict if they had sold us these securities.

Travel issue came from outside through Jeff Heyman, Communications and Marketing Director. Trustee Gulassa said they were doing due diligence and were able to confer and have open discussion about best strategies to this point.

These investments are for those employees with lifetime health benefits. This does not impact any employees hired after July 1, 2004. VC Smith has been working with unions to see if we can help people hired after 2004, we will have to address eventually. This makes it much more difficult. There will be an updated actuarial report, hopefully by the next meeting. The last report is from 2004.

Peralta healthcare is up 13.1%. The District is contra to trends naturally, but national trends have gone down, national increase 6 to 7%, California is substantially higher, bay area high in state of California. This is an area that needs to be monitored. Chair Withrow said the national increase is expected to drop to 5% in 2012.

PSW Benefits will be on Board agenda in December. Our model was 10% increase for first five years, and then gradually went down to 5%.

Item 10 – Review the status of the OPEB bond refunding actions (Tom Smith)

VC Smith distributed timeline for OPEB debt. There is a meeting tomorrow with Moody's and Standard and Poors to get rating for these bonds. Need approvals from Board relative to preliminary official statement. Refunding of auction rate securities hopefully will close prior to Christmas. We will not refund while the market conditions are not good. The resolution to sell will be on the next Board agenda, November 18th.

VC Smith said the reason bonds are "auction rate securities" is it allows us to pay interest only, and then at point at time, they flip to auction rate to reset. Because of credit crisis, there is no place for auction rate securities. Kind of fixed security and supposed to be safe. But now no one bidding, they would default if we wait until 2010. We are preemptively refunding with fixed rate taxable bond so we can pay off and not default. We will start paying principal in 2010; this comes out of the general fund.

Measure A and E are paid off through property taxes. Treasurer collects and remits to bond holders for us.

The meeting adjourned at 6:30 p.m.