

AGENDA
REGULAR MEETING
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Tuesday, February 16, 2010

C. BUSINESS BEFORE THE BOARD

5. BOARD COMMITTEE REPORTS

- c. Finance Committee Minutes and Recommended Actions from the January 26, 2010 Meeting (Severin)

Attendees

Board: Director Carol Severin (Chair), Ayn Wieskamp, John Sutter

Staff: General Manager Pat O'Brien, Staff Dave Collins, Cinde Rubaloff, David Sumner, Pam Burnor, Deborah Spaulding, Bill Louie, Carol Victor

Public: MBIA Asset Mgt. representatives Neil Waud, CFA, Vice President/Portfolio Manager and Gay Eichhoff, Regional Director.

Committee Chair, Director Carol Severin began the meeting with introductions of the Finance Committee members and requested that all in attendance introduce themselves and their association with the District.

I. District's 2010 Investment Policy.

CFO Cinde Rubaloff reviewed the District's investment policy and informed the Finance Committee that each year Finance staff reviews and updates the policy. Investment managers at Public Financial Management (PFM) Asset Management also reviewed the policy to ensure its compliance with all legal requirements.

CFO Rubaloff informed the Finance Committee that the only modification from last year's policy is a minor change to clarify which assets the policy covers: That this policy only covers District assets that are managed by the District's CFO/Controller, and does not cover investments of either the OPEB trust or the EBRPD Retirement Plans. It does not cover bond proceeds and related funds, which are invested in compliance with bond fiscal agent agreements.

CFO Rubaloff also informed the Committee that the Investment Policy is in compliance with state law and requested that the Committee recommend approval of the 2010 Investment Policy for District funds to the full Board.

By motion of Director Wieskamp and seconded by Director Sutter, the Finance Committee recommended approval of the 2010 Investment Policy for District funds to the full Board.

2. MBIA Investment Portfolio Performance and 2009 Market Review.

CFO Rubaloff introduced Neil Waud, CFA, Vice President, Portfolio Manager and Gay Eichhoff, Regional Director of MBIA Asset Management, one of the investment managers used for the District's investments managed by the CFO/Controller.

CFO Rubaloff discussed the fact that the District entered a new agreement with MBIA which will allow discretionary management of our investments, allowing MBIA to reinvest proceeds without consulting with the District each time an investment matures. This type of management approach enhances the ability of the investment manager to invest against a bench mark. CFO Rubaloff informed the Committee that the assets managed by PFM Asset Management, our other investment manager, are also managed in this fashion.

Director Sutter wanted to know if there was a difference in what we invest in MBIA and PFM. CFO Rubaloff responded that when she came to the District, the entire portfolio was invested through MBIA, and the approach was to buy and hold investments until maturity. Her experience indicated a more accountable approach was to actively manage the portfolio, and invest it against a bench mark. Thus, during 2009 as investments in MBIA portfolio matured, they were invested through PFM, which actively manages against a benchmark. Additionally, PFM fees were lower than MBIA fees. MBIA has included lower fees in the new discretionary contract, which was effective at the beginning of 2010. Both investment managers will be using Merrill Lynch 1-3 year Treasury as the benchmark for the District's portfolio, because the duration and risk are congruent with the District's investment policy.

Director Sutter asked if the bond proceeds are invested with MBIA and PFM. CFO Rubaloff responded that the bond proceeds are held by Union Bank as trustee. In the case of the Measure WW \$80 million bond proceeds, Union Bank was instructed to distribute the funds to CAMP. When CAMP holds bond proceeds, they will complete annual arbitrage calculation as a free service. (The District currently pays an outside entity to complete arbitrage calculations on the other debt issues.) A portion of \$80 million has been invested, in compliance with District cash flow needs, in US Treasuries and Agencies, in the effort of maximizing investment earnings on idle funds.

AGM Dave Collins clarified that Director Sutter's question may have been relative to the source of funds. The District has bond funds, pension funds and "general funds" (those managed by the CFO/Controller). CFO Rubaloff concurred that MBIA holds only "general fund" monies.

CFO Rubaloff then introduced Neil Waud and Gay Eichhoff with MBIA Asset Management.

Neil Waud gave a review of current economic conditions and their effect upon investment performance. Key points were as follows:

- Economic activity continues to pick up.
- Household spending appears to be increasing at a moderate rate.
- We expect tight credit conditions.
- Unemployment rate continues to rise slightly.
- It is expected that the federal funds target rate will stay near zero for the remainder of the year.

- Short term rates are very low.
- CPI continues to remain at a low rate.
- Oil prices are down.
- Gross domestic product for the fourth quarter is expected to be 2.6% and it is positive going forward.
- The Fed believes that the recession is now officially over.
- National unemployment rate is at 10% and the California the rate is at 12%.
- Interest rates will remain low as long as we continue to have high unemployment rates.
- Existing home sales for December plunged 17%.
- For all of 2009, existing home sales rose 4.9%.
- Median home prices are down by 12% from 2008.
- Retail sales are two-thirds of the economy; sales have plummeted and the forecast is 2.4% of GTD growth. Expect moderate growth for 2010.

Mr. Waud reported that with current market conditions, the District is investing in the short term and is averaging a 1.40 year average maturity.

Mr. Waud then reviewed the District's current portfolio, which consists of 9% U.S. Treasuries, 85% U.S. Instrumentality and 6% Corporate. He reported that with current market conditions, the District may want to consider investing a higher percentage in Corporate securities and receive a higher rate of return. CFO Rubaloff noted that historically the District has focused on investing in U.S. Securities. A question was raised whether the Board would have concerns about investing in any particular sectors, such as gas and oil. Director Wieskamp expressed concern about the tobacco industry, but committee members agreed, that in general, as long as District assets are invested prudently and according to policy, that there are no sectors that should be unilaterally excluded from consideration, thus providing guidance to Mr. Waud as he places future District investments.

Mr. Waud then outlined a no-cost service that they provide for rating of banks (a peer-group ranking). This service can be used to watch for trends and can be useful if the District wants to invest funds in small local banks. There are factors to look at when doing a rating:

- Capital Adequacy
- Asset quality
- Earnings
- Liquidity

CFO Rubaloff reported that the District will be doing a request for proposal for banking services within the next two months, and when we receive the proposals we can use the bank credit rating service to help with our evaluation of the various banking proposals.

AGM Collins asked Mr. Waud to compare the District's rate of return to his other clients. Mr. Waud responded that the District's portfolio is above average in returns because of the preponderance of longer term, higher yielding securities. Additionally, as the current investments mature, they are not being reinvested through MBIA, but are being transferred to PFM, thus saving MBIA portfolio from including low yielding investments which are the only ones currently available. The District's portfolio return is "averaging in the fours", while other clients who have reinvested in currently available securities "are in the twos".

This was an informational item and no formal action was needed.

3. 2010 Finance Committee Work Plan, 2009 Finance Committee Work Plan Accomplishments.

CFO Rubaloff reviewed the 2009 list of recurring annual items that were submitted for Board consideration. In addition to these items, in 2009 the Committee considered and recommended for Board approval the following items:

1. Restructuring of the CalPERS Public Safety side fund loan, which will save the District approximately \$700,000 in annual interest expense.
2. Working with the City of Fremont Redevelopment Agency as well as amending the marketing contract between the City and the District.
3. Approval for Proposition 1A Securitization program.
4. Issued Measure WW series 2009 for \$80 million.
5. Refunded portions of outstanding Measure AA debt to keep our levy amounts less than the \$10.

CFO Rubaloff reviewed the tentative 2010 Finance Committee Work Plan that covers items we know will be coming up during the year. One additional item that needs to be added, as discussed above, is to do an RFP for advisory of investment of retirement plans. There was discussion about the Memorial Bench fund and conclusion that it is not an item for the Finance Committee consideration and should come under the Operations Division.

This was an informational item and no formal action was needed.

4. 2010 Finance Committee Meeting Schedule

CFO Rubaloff requested review of the 2010 Finance Committee meeting schedule. Normally the meetings are set for the fourth Wednesday of the month, but there is a conflict once a quarter with Director Sutter's schedule. There was discussion and consensus to change the following meeting days: April 28th to April 27th, July 28th to July 27th, and October 27th to October 26th. These meetings will now take place on Tuesdays as opposed to Wednesdays.

This was an informational item and no formal recommendation was needed.

5. 2010 Internal Audit Work Plan, 2009 Internal Audit Results, Financial Risk Assessment

CFO Rubaloff presented a general overview of the 2009 internal audit program and outlined the list of the proposed 2010 Internal Audit Plan for Finance Committee review and Board approval. The presentation also included a discussion of the process and results of the formal financial risk assessment, which was conducted by internal audit staff and will aid in the prioritization of internal audit projects.

Audit Manager David Sumner continued the presentation, informing the Committee that internal audit staff monitors the District's internal controls and assesses whether they are functioning as planned, and then reports any corrective recommendations to management if necessary. Mr. Sumner reported briefly on the seven internal audit projects completed during 2009.

Director Wieskamp inquired about the Ardenwood concessionaire audit, and whether they are in compliance with their contractual obligations. Mr. Sumner responded that the contract is in the renewal phase, and AGM John Escobar is working with the concessionaire to resolve the audit findings and recommendations. CFO Cinde Rubaloff informed the Committee that the current contract is complex and confusing, and the internal auditor has recommended that the District develop a clear, standard concessionaire agreement. Additionally, the contract has been amended numerous times, so it is complicated to administer and audit. Director Severin asked about the number of concessionaires at Ardenwood. Mr. Sumner noted that we have Joe Perry Farms, a blacksmith, a general store, and a railroad operation. AGM Collins added that Ardenwood was established 25 years ago with a completely different idea of how to operate a park. It was intended to be self supporting, using a business plan which included a number of concessions. Over the years it has evolved and developed in different ways. GM Pat O'Brien commented that the plan was to have a business concept and because of the variety of interests and political considerations, the operating agreements have become very complicated.

Mr. Sumner then explained the financial risk assessment process conducted during 2009. The list of potential audit projects was prioritized based upon a number of predefined relevant risk factors, which include:

- Materiality and dollar amounts.
- Management concerns or requests for reviews.
- Laws and external regulation.
- Contracts.
- Bond requirements.
- External auditors concerns.
- Potential for fraud and abuse.
- Visibility or public perception.
- Change in staff, process or system.

In the future, internal audit priorities will be based upon areas with the highest risk factors.

Mr. Sumner concluded his presentation with the list of scheduled 2010 internal audit projects for Finance Committee consideration and recommendation to the Board of Directors. Director Sutter complimented staff on the new financial risk assessment process and sought clarification on what might be high risk revenue and expenditure areas. Mr. Sumner answered that payroll and benefits are high risk areas because they are about 86% of our expenditures. Director Sutter asked about the review of local grant audit projects, and Mr. Sumner responded that before the final reimbursement is paid to the local agency participating in the Measure AA local grant program, he reviews expenditure documentation for each project. For the Measure WW local grant program, the Grant Department submits the recipient's reimbursement requests for internal audit review prior to disbursement approval. He further clarified that everything is reviewed, not just a sampling of reimbursement requests.

Director Wieskamp questioned the number of redevelopment agency contracts in the District. CFO Rubaloff responded that there are 12 – 15 redevelopment agencies sending us pass-through payments, and that internal audit staff will be reviewing the agreements By comparing our receipts with agreement requirements. Director Sutter wanted to know if any agencies have come forward because they can't afford to make their pass-through payments to the District due to the

State taking their redevelopment money. CFO Rubaloff responded that the situation has not happened and legally they are required to pay the District.

GM O'Brien noted that it is the District's money and we want to account for all pass-through. AGM Collins emphasized that staff is systemically reviewing the different aspects of our financial agreements and targeting those items that are high risk or high value for internal audit attention. Redevelopment is one of those areas of high risk and will be reviewed.

Director Sutter referred to the 2010 Internal Audit Plan that is approved by the General Manager and reviewed with the Board Finance committee. He asked whether any items were deleted or added in the review process. Mr. Sumner responded that no items were deleted, but that Operations was required to make a choice between two projects to be audited - YMCA running Camp Arroyo or Shadow Cliffs Waterslide concession. It was decided that the Waterslide concession audit would be included on the 2010 list, because their contract is up for renewal this year. The Camp Arroyo audit will be postponed until 2011. CFO Rubaloff added that a review was made of the history of audit projects and a tentative schedule developed through 2014, which will include a systematic approach to the structure of the annual internal audit plan. Each year's plan is anticipated to include: audit of major revenue and major expenditure area, audit of 2 cash collection sites, audit of 2 concessionaire agreements, audit of outstanding legal or regulatory requirements, and monitoring of prior year audit recommendations for implementation and effectiveness.

Director Sutter asked if staff considered the flow of money for property purchases. He noted that the District is purchasing a lot of property and referred to an incident several years ago involving the embezzlement of acquisition funds. He wondered if this should be an area to audit. GM O'Brien responded that an audit was done immediately after the embezzlement incident and we made internal changes in the organization. Director Wieskamp questioned why two audits were planned at Del Valle during 2010. CFO Rubaloff responded that it was just the way the annual cycle worked out and there are no additional or unusual concerns that triggered the audits.

Director Sutter questioned one of the audit projects: Review of compliance with PCI regulations, asking for and receiving a definition of PCI: Payment Card Industry standards. Mr. Sumner added that whoever accepts credit cards for payment of services or fees must meet certain obligations covering processing and safekeeping of credit card information.

Director Sutter then wanted to know if we will be auditing our purchase card program. Mr. Sumner responded that an audit was performed about three years ago when this program was fully operational. Additionally, AP staff reviews each payment to ensure information is in compliance with procedures. CFO Rubaloff noted that the risk assessment list actually includes information on when areas were audited in the past. Purchase cards are on the list and will be audited again in the future.

By motion of Director Sutter and seconded by Director Wieskamp, the Finance Committee recommended approval of the 2010 Internal Audit Plan to the full Board.

6. 2010 Finance Department Projects/Priorities

CFO Rubaloff presented a general overview of the various special projects that are slated for the Finance Department during 2010. The list was compiled after meeting with managers and prioritizing what needed to be, and could be, accomplished this year in addition to the normal daily, monthly, quarterly and annual tasks of the Finance Department staff.

CFO Rubaloff stated that the special projects help us increase our use of technology and improve our efficiency. We also will continue the implementation of District wide performance measures within the budgeting process. Finalization of reconciliation of Measure AA accounting is a priority. She noted that Finance Department staff plan on visiting two parks during the year on “fieldtrips”, with the intention of meeting park staff, gaining a better understanding of their operation, presenting themselves in person, and answering staff’s questions, thus enhancing communication and relationships throughout the District.

Director Wieskamp asked about the term “engagement letter” in relationship to the note that internal audit will begin to use engagement letters for all internal audit projects in 2010. CFO Rubaloff explained that the engagement letter is the standard terminology for the agreement that sets forth clearly the auditor’s understanding of the topic, scope and focus of the audit work, thus eliminating any confusion in what the audit requester expects and what the auditor will complete. External auditors always require an engagement letter signed by the client prior to the audit work. The District’s internal audit staff are now going to submit an engagement letter for signature by the requesting party prior to initiation of internal audit work. This will provide enhanced clarification for all parties.

This was an informational item and no formal action was needed.

7. Approval to Write off 2009 Asset Valued Greater than \$25,000.

Assistant Finance Officer Deborah Spaulding presented a report of assets recommended to be deleted from the District’s fixed asset records. There are 74 items, and they have a net asset value of \$76,000. Fifty-four pieces of equipment, with a net asset value of \$61,000, were sent to auction, producing \$147,000 in proceeds. Items not suitable for auction include two infrastructure items: the park office trailer at Shadow Cliffs (this was destroyed and hauled to a scrap yard), and the lagoon salt water pump at Miller Knox. Staff recommends that the listing of fixed assets be written off and reflected in the 2009 financial statements.

By motion of Director Wieskamp and seconded by Director Sutter, the Finance Committee recommended the approval to write off the aforementioned assets be presented to the full Board.

8. Public Comments.

There were no public comments.

Meeting adjourned at 2:40PM