



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Date: September 16, 2025

Subject

Internal Audit Work Program: Special Revenue Fund Process Review

Recommended Action

Receive the Special Revenue Fund Process Review Report

Background

On July 2, 2024, the City Council approved the FY 2024-25 Internal Audit Work Program, which included a review of the City's special revenue fund processes. The review, conducted by Moss Adams (the City's internal auditor at that time, now Baker Tilly), focused on documenting existing processes, identifying gaps compared to best practices, and testing the allowability of prior-year expenditures.

The review concentrated on ten special revenue funds, each with revenues legally restricted for specific purposes:

1. Storm Drain Improvement (Fund 210): Accounts for the construction and maintenance of storm drain facilities, including drainage and sanitary sewer facilities. Projects are funded by the Capital Reserve.
2. Storm Drain (Fund 215): Accounts for revenues from developers as a result of connections to the storm drainage sewer system.
3. Environmental Management/Clean Creek/Storm Drain (Fund 230): Accounts for activities related to operating the Non-Point Source Pollution Program. Revenues are from parcel taxes.
4. Community Development Block Grant (CDBG) (Fund 260): Accounts for the Federal Housing and CDBG Program activities. CDBG is a federally funded program for housing assistance and public improvements.
5. Housing and Community Development (HCD) Loan Rehab (Fund 261): Accounts for activities related to rehabilitation loans.
6. Below Market Rate (BMR) Housing (Fund 265): Accounts for activities related to the BMR Housing Program. Revenues include BMR housing mitigation fees collected from

developers to mitigate the impact of housing needs. Monies in this fund are governed by the program's rules.

7. Transportation (Fund 270): Accounts for the City's gas tax, vehicle registration fees, and grant revenues and expenditures related to the maintenance and construction of City streets. All revenue in this fund is restricted exclusively for street and road purposes, including related engineering and administrative expenditures.
8. Traffic Impact (Fund 271): Accounts for development impact fees to ensure that new development and redevelopment projects pay their "fair share" to mitigate traffic impacts.
9. Park Dedication (Fund 280): Accounts for the activity granted by the business and professions code of the State of California in accordance with the open space and conservation element of the City's General Plan. Revenues are restricted for the acquisition, improvement, expansion, and implementation of the City's parks and recreation facilities.
10. Tree (Fund 281): Accounts for revenues from in-lieu tree replacement fees and tree damage and removal fees. The revenues are transferred to the Street Tree Maintenance Program to pay for new and replacement trees.

Findings

Moss Adams concluded that processes and controls are in place to ensure only allowable expenditures are charged to special revenue funds. However, some processes and controls were not well-documented, which contributed to miscoding expenditures in FY 2023-24.

Observation:

- Processes exist but lack sufficient documentation. Gaps in written procedures, staff knowledge, and training led to miscoded expenditures.

Recommendations:

1. Verify that processes and controls are fully documented and easily replicable.
(Management agrees)
2. Conduct and document staff training on permitted uses of all special revenue funds.
(Management agrees)

Additional Process Improvement Opportunities

In addition to the formal recommendations, Moss Adams identified two opportunities for improving consistency and oversight:

1. Allowability of Expenditures (Fund 265 – BMR Housing):
 - a. In one of five expenditure samples tested, auditors could not confirm allowability based solely on the BMR Housing Mitigation Program Procedural Manual and invoice documentation. Expenses related to the Haven to Home and Rotating Shelter Car Park programs were ultimately explained by Community Development as supporting the provision of affordable housing.
 - b. To reduce ambiguity, Moss Adams recommends:

- i. Obtaining and documenting City Attorney review when allowable uses are unclear. *(Management agrees)*
 - ii. Revising the BMR Procedural Manual to clarify eligible uses where necessary. *(Management agrees)*
- 2. Roles and Responsibilities:
 - a. Departments are responsible for coding invoices; Finance verifies appropriateness at a higher level. During the review, it was difficult to identify departmental contacts responsible for specific funds.
 - b. Moss Adams recommends that Finance centrally maintain for each special revenue fund:
 - i. Regulatory documentation (Municipal Code sections, resolutions).
 - ii. The responsible department.
 - iii. The staff position responsible for ensuring expenditures comply with fund restrictions. *(Management agrees)*

Audit Committee Review

On July 28, 2025, the Special Revenue Fund Process Report was presented to the Audit Committee. The Committee reviewed the findings and voted to forward the report and its recommendations to the City Council, along with a request that staff: Update the BMR Housing Mitigation Program Procedural Manual. *(Management agrees with the recommended action. Baker Tilly will provide the Audit Committee with progress updates during quarterly reports.)* This is listed as an additional process improved management is in agreement with as stated in the additional process improvement section of the audit.

Sustainability Impact

No sustainability impact

Fiscal Impact

No fiscal impact.

City Work Program (CWP) Item/Description

None

Council Goal:

Public Engagement and Transparency

Fiscal Strategy

California Environmental Quality Act

California Environmental Quality Act impact

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Floy Andrews, Interim City Attorney

Approved for Submission by: Tina Kapoor, Interim City Manager

Attachments:

A – Special Revenue Fund Process Review Final Report