



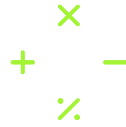
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CITY OF CUPERTINO Special Revenue Fund Process Review

Audit Committee Meeting
July 28, 2025



Agenda

01 PURPOSE AND SCOPE

02 METHODOLOGY

03 OBSERVATIONS AND RECOMMENDATIONS

Purpose and Scope

The purpose of this engagement was to:

- Document the process used for special revenue fund accounting
- Identify gaps compared to best practices
- Conduct testing of prior years' accounting

Methodology

Our work was performed between August 2024 and April 2025. The project consisted of four phases:

1. **Project Initiation and Management:** This phase concentrated on comprehensive project planning and project management, including setting the scope, identifying staff to interview and documents to review, communicating the plan, and establishing a game plan for execution.
2. **Fact Finding:** This phase included staff interviews, document reviews, research on industry best practices, and testing of a sample of expenditure transactions. We worked with City staff to obtain the most currently available information and insights.
3. **Analysis:** This phase served as the assessment portion of the project. Based on the information gathered, we evaluated the importance, impact, and scope of our observations in order to draw conclusions and develop process recommendations.
4. **Reporting:** This phase concluded the project. We reviewed draft observations and recommendations with City leadership to validate facts and confirm the practicality of recommendations.

Observation and Recommendation

Process Documentation and Training

Observation

Processes and controls exist to ensure only allowable expenditures are recorded to special revenue funds, but some processes and controls are not well-documented. Gaps in documentation, staff knowledge, and training led to miscoding expenditures to a special revenue fund in FY24.

Recommendation

- A. Verify the processes and controls that ensure only allowable expenditures are recorded to special revenue funds are well-documented and easily replicable.
- B. Conduct and document staff training on permitted uses of all special revenue funds.

Additional Process Improvement Opportunities

	Category	Recommendation
1	Allowability of Expenditures	<p>Where ambiguity exists between permitted use of special revenue fees and City expenditures, we recommend the following:</p> <ul style="list-style-type: none">• Obtain and document City Attorney review of the proposed expenditure or expenditure category.• Specific to the BMR fund—if appropriate, consider revising the BMR Housing Mitigation Program Procedural Manual to clarify permitted use of fees.
2	Roles and Responsibilities	<p>We recommend Finance maintain the following information centrally for each special revenue fund:</p> <ul style="list-style-type: none">• Regulatory documentation, such as Municipal Code section or City resolution, that guides the use of each special revenue fund• Department responsible for managing each special revenue fund• Position or person within department responsible for ensuring that invoices coded to special revenue funds adhere to regulatory requirements and restrictions

Questions?

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