

City of Cupertino  
**Audit Committee**  
Special Meeting  
May 1, 2017

**1. CALL TO ORDER**

At 4:00 p.m., Chairman Eno Schmidt called the meeting to order at Conference Room A, Cupertino City Hall, 10300 Torre Avenue, Cupertino CA 95014.

**2. ROLL CALL**

Committee Members Present: Chairman Eno Schmidt, Vice Chair Mark Zavislak, Peter Shin, and Councilmember Rod Sinks

City Staff Present: Kristina Alfaro, Lisa Taitano, David Brandt, and Beth Viajar

Absent: Councilmember Steven Scharf

Guests: Kathy Lai, Kevin Smith and Matthew Geerdes from Crowe Horwath, Rick Rosenthal and Carolyn Cox of US Bank

**3. APPROVAL OF MINUTES**

Committee Chair Schmidt moved to approve the Minutes of the March 13, 2017 special meeting. Council member Sinks seconded and the motion passed 3 – 1 with Peter Shin voting No.

**4. ORAL COMMUNICATIONS**

Alfaro gave a review of City Staff recommendations proposed to be presented to City Council to address the four material weaknesses identified by the independent auditor, Maze & Associates in their Memorandum dated March 7, 2017 on Internal Control (“MOIC”) for the Year Ended June 30, 2016. After a series of questions from Committee members, Councilmember Sinks expressed the consensus of the Committee to approve the recommendations and asked City Staff provide the Audit Committee monthly updates/timeline with specific dates for planned actions and any revisions and a listing of assigned staff and fraction of their effort/time put in on these action items. City staff indicated this direction would be taken.

**5. NEW BUSINESS**

**A. Crowe and Horwath introduction and discussions on the Investment AUP, additional review of internal controls and Audit Committee input on fiscal 2017 audit, the proposed audit schedule for FY2016-17, and training opportunities**

Introductions were made by Kathy Lai, Kevin Smith and Matthew Geerdes of Crowe Horwath.

- Kathy reviewed the proposed wording already confirmed with City Staff to modify on page 5 of the Investment Policy, the redlined changes regarding review of internal controls to be reflected in the policy as part of agreed-upon procedures. This revised wording now conforms the actual practice of the independent auditor with the policy statement language as in prior

years an Agreed Upon Procedures report will be provided by Crowe, Horwath to the Audit Committee and City.

- Kathy Lai reviewed a brief presentation on Crowe Horwath's approach to the audit and other services to be provided to the City for the fiscal year July 1, 2016 through June 30, 2017. Crowe has a project management secure proprietary system that assists with communication and transparency during their audit procedures.
- Chairman Schmidt summarized that the major input from the Audit Committee into Crowe Horwath's interim audit procedures involves the high priority that the Committee puts on the successful implementation of the City Staff's plan to address the four major weaknesses in internal control identified in the recently concluded audit of fiscal 2016.

**B. Review and propose changes to the City's two investment policies**

Upon question from Committee member Zavislak, Rick Rosenthal of US Bank agreed that from his perspective the only change to the OPEB Investment Policy statement provided to the Committee should be to make a correction on page 2 to reduce by 1% from the Real Estate asset class and add a corresponding 1% to the Equity asset class so that Equity = 63%, and Real Estate = 5 % for the Benchmark Target. Committee member Shin motioned to accept the OPEB Investment policy as corrected, Councilmember Sinks seconded and the motion passed unanimously.

For the Investment Policy, Committee member Zavislak Motioned to approve the investment policy, with marked changes, seconded by Chairman Schmidt, and the motion passed unanimously.

**C. Annual Performance review of the OPEB Retiree Health Investment Trust (US Bank and PARS)**

Rick Rosenthal of US Bank provided an annual performance review of the OPEB Retiree Health Investment Trust as of March 31, 2017.

**D. Review of Standard Work Plan and the Action Items List**

- Chairman Schmidt indicated that the April column of the Standard Work Plan schedule should include an item in which the Audit Committee provides the independent auditor with the Committee's input for the interim independent audit procedures.
- In regard to the Action items list, City Manager Brandt gave indication of direction of staff priorities for items 3,4,10,11 and 13 of action items.

**E. Review of the Treasurer's Investment Report for QE March 2017**

Chairman Schmidt motioned to approve, Committee member Zavislak seconded and the motion passed with 3 votes in favor and 1 abstention by Peter Shin.

**F. Next meeting date and adjournment for the Committee**

**6. ADJOURNMENT**

Sinks motioned to adjourn at 6:18pm with the next regularly scheduled meeting of the Committee be scheduled on July 11, 2017 at 4:00pm for two hours, Zavislak seconded with a unanimous approval.

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Mary Redwine  
Recording Secretary