

City of Cupertino
Audit Committee Special Meeting
Minutes
June 24, 2024

CALL TO ORDER

At 3:05 p.m., Chair Schmidt called the special meeting to order in the City of Cupertino Quinlan Conference Room, 10185 North Stelling Road.

ROLL CALL

Committee Members Present: Chair Eno Schmidt, Mayor Sheila Mohan, Committee member Angela Chen, Committee member Hanyan Wu, Councilmember Hung Wei

City Staff Present: Kristina Alfaro, Thomas Leung, Janet Liang, Jonathan Orozco, Pamela Wu

Absent:

Guests: Ken Pun (The Pun Group), Sophia Kuo (The Pun Group), Chelsea Ritchie (Moss Adams), Maria Stroth (Moss Adams)

ORDERS OF THE DAY

1. APPROVE MINUTES OF REGULAR MEETING ON APRIL 22, 2024

Mayor Mohan motioned, Councilmember Wei seconded. The motion to approve the amended minutes passes with Committee member Chen abstaining.

POSTPONEMENTS

ORAL COMMUNICATIONS

Rhoda Fry provided comments.

OLD BUSINESS

NEW BUSINESS

2. Receive the Enterprise Risk Assessment Final Report and FY 2024-25 Internal Audit Work Plan

Stroth provided an overview. Councilmember Wei asked about accounting/finance being listed in the low/moderate risk category, is that an area that the City has worked on and that the City is doing well. Stroth noted that the City has updated procedures and policies in 2023 which is why it was given a low/moderate rating. Mayor Mohan asked about the compliance and financial reporting category going from moderate to moderate to high which means we have declined, why is that. Stroth noted that the risk is driven by the need to continue to update policy and procedures and limited compliance related training. She added that given the city's financial situation, some of the improving processes include getting new improved systems.

Committee member Wu asked if this report is issued every 4 years. Stroth noted that it would be done every three to four years. Committee member Wu asked what happens in the in between period. Stroth noted that enterprise risk management is a point in time assessment of how have things gone and where are we now. Chair Schmidt asked how they determine if something is moderate vs high. Stroth noted that they do a comprehensive document review such as looking at org charts, policies, procedures, planning documents and interviews.

No public comment.

Committee member Chen motioned to receive the Enterprise Risk Assessment Final Report and forward to City Council, Mayor Mohan seconded. The motion passes unanimously.

Ritchie provided an overview. Chair Schmidt asked how do they plan to integrate with the external auditors or is there duplication of effort on the financial statements. Ritchie noted that they are able to reach out to The Pun Group to look at prior external auditor reports. Chair Schmidt asked how does it work. Ritchie noted that they would ask for prior year audit work papers to make sure the two align. Chair Schmidt asked if the first two recommended internal audit projects address the items on the risk assessment. Stroth noted that it does as it came out of the moderate/high-risk areas and is an opportunity for the city on how to improve. Chair Schmidt asked in regards to the recommended validation process establishment, how do they see the audit committee fulling its roles. Ritchie noted that the heavy lift is on looking through the external internal audit recommendations and coming to staff when they have noted a finding has been validated. Mayor Mohan asked relative to last year, what has been cut back due to the reduction in the contract. Ritchie noted that they have cut down and gone into a narrow scope such as grants management and special revenue, and the ongoing internal audit meetings will change from bi-weekly to monthly.

No public comment.

Committee member Chen motioned, Committee member Wu seconded. The motion passes unanimously.

3. Status update for prior Internal Audit Work Plans in Fiscal (FY) 2021-22 and FY 2022-23

Alfaro provided an overview. Chair Schmidt asked about the enterprise resource planning deficiencies, if staff is planning to replace NewWorld. Alfaro noted that the ERP was one of the service level reductions and staff is working with NewWorld to understand if we are using their software to the best of its abilities to build efficiencies.

No Public Comment.

Mayor Mohan motioned, Councilmember Wei seconded. The motion passes unanimously.

4. Receive the FY 2022-23 Annual Comprehensive Financial Report (ACFR)

Orozco provided an overview. Pun noted that staff has been diligent in providing information and they would rather have an accurate financial statement and not have a rushed financial statement. Orozco noted that the financials sections is being presented to the committee, the transmittal, MD&A, and statistical section are not included. He added that staff is looking to move forward the financials section and will have the remaining documents ready in time for the next City Council meeting with a draft sent to the Audit committee for review.

Chair Schmidt asked for clarification on the prior period adjustment that is almost like an unrecorded loan. Orozco noted that in the loans receiveable section, the City does have a disclosure of two loans and the auditors notated that and asked where is the receiveable from this interest. The City has not historically recorded it, as it may have been thought back then as uncollectable and if it was it should have been written off. However, it still remains on the books as collectible and the City is reporting this interest with the thoughts that once the loans mature, staff would assess whether the City would want to collect on that debt, forgive it, or though the collection process foreclose on the property and collect. Chair Schmidt asked what is the likelihood of other loans of this nature. Kuo noted that they look at the general details and due diligence to look into the accounting records.

Committee member Wu asked about property tax and what is the dynamics of the offset. Orozco noted that Prop 13 sets a percentage of how much the City can collect and is a static percentage. Chair Schmidt noted that the GFOA tax abatement disclosure discloses a lot more information than the draft footnote and asked how will the City follow it. Alfaro noted that there are confidentiality statutes in California that the City needs to follow.

Committee member Chen asked about the unassigned fund balance of \$71 million and if it is being used to address the deficit. Alfaro noted that a large portion of it went to the committed reserve, which is now \$74.5 million.

Rhoda Fry provided public comment.

Mayor Mohan motioned, Committee member Chen seconded. The motion passes unanimously.

5. Receive the proposed Audit Committee 2024 Schedule and Workplan

Orozco provided an overview. Staff will add a budget format review to the October meeting.

Rhoda Fry provided public comment.

STAFF AND COMMITTEE REPORTS

COMMITTEEMEMBER ATTENDANCE AT UPCOMING MEETINGS AND EVENTS

FUTURE AGENDA SETTING

ADJOURNMENT

The meeting adjourned at 4:52 p.m.

Recording Secretary:
Janet Liang, Management Analyst