

City of Cupertino
Audit Committee Special Meeting
Minutes
April 24, 2019

1. CALL TO ORDER

At 4:12 p.m., Chairman Eno Schmidt called the meeting to order at Cupertino City Hall Conference Room A, 10300 Torre Avenue, Cupertino CA 95014.

2. ROLL CALL

Committee Members Present: Chairman Eno Schmidt, Daisy Liang, Mayor Scharf, Councilmember Paul, Jim Luther

City Staff Present: Timm Borden, Kristina Alfaro, Zach Korach, and Mariela Vargas, Beth Viajar, Thomas Leung

Absent:

Guests: Kathy Lai and Matthew Geerdes (Crowe) and Steve Morang (Frank Rimmerman) via conference call.

3. APPROVAL OF MINUTES

4. ORAL COMMUNICATIONS

5. OLD BUSINESS

6. NEW BUSINESS

A. Embezzlement Debrief and Internal Controls Risk Assessment Report

Finance Manager, Zach Korach provide a brief recap of the alleged embezzlement report. In April 2018 City staff discovered fraudulent activities for a total of \$791,494. Steve Morang with Frank Rimmerman an forensic accounting firm retained by the City provided a review of different stages of review to the city findings. Morang mentioned that it conducted an Internal Control Review of the current system. Morang looked at procurement, Treasury, Payroll, HR, and Cash receipts and provided detailed review of each process. One recommendation was the Segregation of duties and changes to the IT system access in ERP System. Morang mentioned that City staff took recommendations and immediately began implementing them.

Zach Korach, Finance Manager provided a presentation on the implementation of the new Enterprise Resource Planning (ERP) systems and implementation of new internal controls. Crowe mentioned that a review is performed on a quarterly basis and that the Finance division is working with the IT department to ensure there is segregation of duties. Councilmember Paul commented on resident concerns over construction deposits. Korach mentioned that IT is working closely with the Community Development Department to have better records. Timm Borden, City Manager mentioned that Accela a new land management system will be

implemented soon and will have more integration, triggers and notifications to communicate with the residents.

Korach talked about the reconciliation with the existing land management system and sub-ledgers and mentioned there will be a monthly reconciliation where it is feasible.

Staff is working with legal counsel through court proceedings on the embezzled fund. Chairman Schmidt motioned to approve staff report subject to addendum that in addition to the staff report have policy to have periodic reconciliation to the subledger and general ledger. Jim Luther seconded, and motion passed unanimously.

B. FY 2017-18 Financial Statement Audit: Update and CAFR Review

Korach began introducing notable changes on previous fiscal year over the financial statement audit and was pleased to report that there was no prior period adjustment due to accounting errors. There were previous period adjustments related to GASB 75 standards. Korach referred the committee to the strong financial position as it pertained to post-employment benefits plan. Referenced the OPEB liability to show the City's total liability. Chairman Schmidt proposed a special meeting to go over the results to their internal control reports and the Crowe management letter. Meeting adjourned subject to picking up proceedings on May 23rd. The motion was seconded by Mayor Scharff and carried unanimously.

3. ADJOURNMENT

The meeting was adjourned at 6:03pm.

Mariela Vargas
Recording Secretary