



ADMINISTRATIVE SERVICES DEPARTMENT

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AUDIT COMMITTEE STAFF REPORT

Meeting: July 30, 2019

Subject

FY 2017-18 Comprehensive Annual Financial Report (CAFR) and related supplemental reports.

Recommended Action

Accept the FY 2017-18 Comprehensive Annual Financial Report (CAFR) and related supplemental reports.

Discussion

The City of Cupertino's external auditor, Crowe LLP., audited the City's accompanying financial statements as of and for the year ended June 30, 2018. During the audit, procedures were performed to obtain audit evidence regarding amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design appropriate audit procedures. Audit procedures are not designed to express an opinion on the effectiveness of the entity's internal control.

Crowe LLP expressed an unmodified (or clean) opinion, stating "the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Transportation Special Revenue Fund, and the Housing Development Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America" (see FY 17-18 CAFR, page 2).

Crowe LLP also issued an Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (GAGAS Report). The purpose of this report is solely to describe the scope of the

auditor's testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report disclosed two findings, *2018-001 Information System Controls* and *2018-002 Vendor Creation and Payment Process*, classified as a material weakness and significant deficiency, respectively. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A detailed description of both findings as well as management's responses can be found in the GAGAS Report attachment.

The City of Cupertino engaged Crowe LLP to perform an Agreed-Upon-Procedures (AUP) on the City's Appropriations Limit Worksheet related to the City's compliance with Section 1.5 of Article XIII B of the California Constitution during the period ending June 30, 2018. City Council adopted Resolution 2017-055 establishing a Limit of \$96,028,489 for FY 2017-18; no exceptions were noted.

Lastly, the City of Cupertino engaged Crowe LLP to perform an AUP on the City's investment policy dated May 1, 2017 and June 7, 2018; no notable exceptions were made.

As for the timing of the issuance of these reports, there are multiple factors to consider:

1. Issuance of PARS Financial Statements – PARS serves as the City's trust administrator for the City's OPEB Section 115 Trust. Accordingly, Crowe LLP., required PARS' financial statements in order to express an opinion on the City's financial statements. PARS' financial statements were not made available until March 22, 2019.
2. Issuance of Forensic Accountant's Report – The City engaged Frank Rimerman + Co. to perform a review on the City's internal control environment. This report was issued on March 22, 2019 and accordingly, Crowe LLP., required this report be made available prior to expressing an opinion on the City's financial statements.

With the exception and uncertainty of the availability of PARS' financial statement for FY 2018-19, City staff are hopeful to achieve an earlier issuance of all audit-related reports.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Administrative Services Director

Approved for Submission by: Deborah L. Feng, City Manager

Attachments:

A – FY 2017-18 CAFR

B – FY 2017-18 GAGAS Report

C – FY 2017-18 Appropriation Limit AUP Report

D – FY 2017-18 Investment AUP Report