

City of Cupertino  
**Audit Committee Special Meeting**  
Minutes  
February 22, 2021

**CALL TO ORDER**

At 4:17 p.m., City Clerk, Kirsten Squarcia called the special meeting to order. This was a teleconference meeting with no physical location.

**ROLL CALL**

Committee Members Present: Vice Mayor Chao, Councilmember Moore, Vice Chair Daisy Liang, Committee Member Angela Chen, Committee Member Song

City Staff Present: Deborah Feng, Kristina Alfaro, Zach Korach, Thomas Leung, Mariela Vargas

Guests: Mark Steranka, Emily Hayes, Tammy Lohr (Moss Adams), and Kathy Lai and Matt Geerdes (Crowe)

**CEREMONIAL MATTERS AND PRESENTATIONS**

**1. Oath of Office**

City Clerk, Kirsten Squarcia, conducted the oath of office for newly appointed Committee Member, Sophie Song.

**2. Commissioner's Handbook**

Kirsten Squarcia provided a presentation on the City's Commissioner's Handbook approved by City Council on January 19, 2021.

**APPROVAL OF MINUTES**

Committee Member Chen mentioned the minutes stated Vice Mayor Liang should be corrected to Vice Mayor Chao. Councilmember Moore mentioned the request to have appointment of Chair and Vice Chair be included in the minutes. Councilmember Moore moved to approve January 27, 2021 meeting minutes pursuant to the changes discussed and Vice Mayor Chao seconded; motion passed unanimously with Committee Member Song abstaining.

**NEW BUSINESS**

**1. Budget Format Review**

Korach provided background on this agenda item, the responsibility of the Audit Committee, and the past practice of establishing a sub-committee of the Audit Committee. Councilmember Moore mentioned expressing interest at the January 27, 2021 Audit Committee meeting. Vice Chair Liang expressed interest of joining the sub-committee. Vice Mayor Chao moved to appoint Vice Chair Liang and Councilmember Moore to the sub-committee. Committee Member Chen seconded, the motion carried unanimously.

**2. Review of FY 2019-20 CAFR and Supplemental Reports**

Korach provided a recap of the presentation Kathy Lai from Crowe gave at the special meeting on January 27, 2021 and asked if the Audit Committee had any questions at this time. Committee

Member Chen asked about a fund balance policy and the defined benefit pension plan's required contributions. Korach mentioned recommendations for use of excess fund balance is generally brought to City Council as part of the Mid-Year Financial Report and excesses are generally transferred to the Capital Reserve to fund future Capital Improvement Program projects. Korach mentioned the pension contribution split between employer and employee being 23% and 8% respectively. Matt Geerdes and Kathy Lai discussed the "pensionable" payroll and where the amounts are included in the CAFR. Committee Member Chen inquired about CalPERS' discount rate of 7% and if it was reasonable. Matt Geerdes explained CalPERS' discount rate is out of the City's control and set up CalPERS. Korach explained the reasoning for establishing the City's Section 115 Trust. Committee Member Song inquired about Matt Geerdes and if he was from CalPERS. Korach mentioned that Matt Geerdes was the Manager for the City's external audit firm, Crowe. Vice Chair Liang inquired about the pension plan's distributions. Matt Geerdes referred to page 66 of the CAFR which reports the amount of annual distributions. Committee Member Song inquired about the internal control of the CalPERS fund. Matt Geerdes mentioned they review internal control reports submitted by CalPERS and conducted by separate external auditors in order to gain comfort.

### **3. Internal Audit Report (Enterprise Risk Assessment)- Moss Adams**

Mark Steranka, Emily Hayes, and Tammy Lohr (Moss Adams) provided a presentation on the results of the enterprise risk assessment and the recommended internal audit projects resulting from the enterprise risk assessment. Committee Member Song inquired about the "Notes Receivable" in the financial statements and its internal controls. Korach discussed the internal controls over loans receivable and specifically the Stevens Creek LLP item having been approved by City Council. The purpose and terms of the loan were discussed. Council Member Moore mentioned concern regarding the risk noted around governance regarding the length of Council meetings and the number of Commissions/Committees in the City. Moore expressed slight concern over the comments regarding affordable housing and the appearance of the City being chastised over not being a real estate development company. Moore requested the section be re-written. Moore inquired about the 3-5 year plan and where that was located in the report. City Manager Feng expressed her support for the internal audit function and mentioned that the surveys and interviews used to derive the report were conducted in the fall of 2020 and that progress and improvements have already been made since. Feng discussed her experience with internal and quality control audits and their tendency to include comments about decision making processes. Feng agreed that it would be a good idea to include the number of entitlements into the affordable housing piece. Tammy Lohr mentioned that adding the additional figures on RHNA and the City's entitlements can be added to the report and the 3-5 year strategic planning is included in the risk mitigation strategy section of the report. Committee Member Chen asked about page 7 and the outsourcing of services, including sewer and whether that was accurate to say. Emily Hayes would review and provide clarification. Committee Member Chen noted the survey response was 45.7% (less than 50% of employees) and asked if that was normal. Emily Hayes noted that the response rate was exceptionally high. Councilmember Moore referred to the VTA risk assessment achieving 73%. Mark Steranka mentioned that in the Moss Adams' team's experience conducting surveys, 45.7% was a very high response. Committee Member Chen asked about other agency's experience and if there were positive outcomes. Mark Steranka noted that there were positive outcomes in every case. Vice Mayor Chao echoed Councilmember Moore's comments on affordable housing and

mentioned the report does not seem to be based on facts and that the findings do not appear to represent the residents, but rather information controlled by the media. Vice Mayor Chao asked how effective this assessment is. Vice Mayor Chao inquired about the questions that were asked in the survey. Tammy Lohr noted the questions were embedded in the report narrative of the respective section. Vice Mayor Chao requested to have the original question file to determine context. Mark Steranka said they could send the questions. Vice Mayor Chao stated that the risk assessment should not be comparing to other agencies or what Moss Adams believes to be the benchmark, but rather, the assessment should be comparing against the goals of Cupertino itself. Mark Steranka noted that the assessment is doing both, comparing against the City itself as well as industry best practice and that these are recommendations and the City is not required to take action. Vice Mayor Chao noted that an assessment of a city government should not be completed using standards of a company. The Vice Mayor discussed the length of the Council meetings and that it was not a misalignment with management, but rather a result of a City Council that cares about its residents. Vice Mayor Chao noted that the residents, customers, contractors, and former contractors were not interviewed. Kristina Alfaro noted the purpose of internal audit and the process for identifying and implementing recommendations this year and into next year. Vice Mayor Chao continued to express the need to expand the scope of interviews. Council Member Moore reiterated that no residents were asked. Council Member Moore inquired whether other risk assessments had been conducted. Korach said this was the first assessment as the internal audit function was newly established. Council Member Moore asked if there were other firms that provide internal audit services. Korach confirmed and noted that the City went through a formal RFP process from which Moss Adams was selected by being the highest rated firm. Council Member Moore discussed why City Council meetings start late and not earlier in the day was due to City Council salaries being so low. Mark Steranka noted that the report was reviewed by management. Vice Chair Liang asked if the internal audit firm used a standard survey or if they customized it for Cupertino. Mark Steranka said it was a standard. Vice Mayor Chao asked if there were any specific instances from past Council meeting in which Brown Act violations occurred. Tammy Lohr mentioned that these were not documented and were anecdotally included in the assessment report. City Manager Feng noted that these were not just anecdotal, but they were also trends in the observations. Council Member Moore agreed with Vice Mayor Chao in wanting additional information regarding the violations. Committee Member Song recommended that City Council be included in the assessment and the results. Leaving it up to management is inadequate. Mark Steranka went over the purpose of an enterprise risk assessment and how it is intended to be used. Vice Mayor Chao requested that the term “assessment” not be used as it is not an assessment. Council Member Moore asked if there had been any public comments. Korach noted no requests from the public to comment. Council Member Moore moved to continue item 5 and 6 to the next meeting, Vice Mayor Chao seconded – the motion carried unanimously.

#### **4. Embezzlement Debrief**

This item was deferred to the next scheduled meeting in April 2021.

#### **ADJOURNMENT**

The meeting adjourned at 6:03 p.m.