

City of Cupertino
Audit Committee Special Meeting
Minutes
May 24, 2021

1. CALL TO ORDER

At 4:00 p.m., Chair Daisy Liang called the special meeting to order. This was a teleconference meeting with no physical location.

2. ROLL CALL

Committee Members Present: Vice Mayor Chao, Councilmember Moore, Vice Chair Daisy Liang, Committee Member Angela Chen, Committee Member Song (arrived 10 minutes late)

City Staff Present: Deborah Feng, Kristina Alfaro, Zach Korach

Absent: None

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

3. APPROVAL OF MINUTES

Councilmember Moore did not recall being nominated for Vice Chair by Vice Mayor Chao. This was confirmed by Vice Mayor Chao. Councilmember Moore moved to approve the April 28, 2021 minutes and Vice Chair Chen seconded. The motion carried unanimously with Councilmember abstaining and Committee Member Song absent.

ORAL COMMUNICATIONS

Peggy Griffin noted concerns regarding adequate checks and balances and red flags as noted below:

1. "In February 2021, all City Council candidates mistakenly were sent a full refund of their \$2,860 candidate statement fee! That's a \$14,300 mistake. It was the candidates that caught it, not the City!
2. The actual refund of \$284 these candidates were supposed to get has yet to be paid to them!
3. The recent disclosure that a contractor was permitted to submit invoices that exceeded the contracted amount **AND** that the City paid it! (Reference City Council Meeting 05-18-2021, Agenda Item #15)
4. Very old invoices yet to be paid! (Reference City Council Meeting 05-18-2021, Agenda Item #15 where Mayor Paul points this out.)
5. Accounts Payable statements not appearing on the City Council Agenda regularly to be approved. There are long dry spells followed by bursts which make it very difficult for Council and the public to review them all.
6. Allowing contractors to submit invoices quarterly rather than monthly increases the risk of overruns."

Vice Mayor Chao moved to add the items mentioned by Peggy Griffin to the next regular meeting agenda. Councilmember Moore seconded. The motion carried unanimously.

5 - NEW BUSINESS

5A – Internal Audit Report – 60 minutes

Mark Steranka provided an overview of the enterprise risk assessment report. He discussed the recommended projects to be conducted in FY21 and FY22 including procurement, capital program effectiveness, policy inventory, and fraud waste and abuse program (FWA).

Councilmember Moore inquired if FWA could be moved up in the schedule and expressed interest in the vendor management internal controls piece. Mark Steranka noted that the recommended projects included in the report can be selected “a la carte.”

Councilmember Moore asked if City’s budgets are ever audited. Mark noted that the external auditor audits the financial statements which includes a review and comparison presentation of the budget to actuals. On the internal audit side, they do audit budgets, but it’s more common at the program/activity level. Councilmember Moore asked what the review of policies would look like. Steranka noted that a review would look for gaps in policies and ensuring they’re up to date.

Vice Mayor Chao asked about the timing and schedule of the recommended projects and about the policy inventory and FWA and its ongoing costs. Steranka confirmed the schedule and the potential for ongoing supporting costs at the discretion of the Committee and Council.

Vice Mayor Chao recommended these items require Council approval. Korach confirmed the internal audit plan will go to Council for approval.

Vice Mayor Chao also asked about the scope of the capital project effectiveness project. Steranka explained the project.

Committee Member Song asked about the embezzlement and the recent council candidate refund error and if they were related. She asked if this is a segregation of duties issue and what the process is for payments. Steranka noted that they would expect to review internal controls across the City. Korach explained that the embezzlement and the refund error were unrelated and that the refund error was not a matter of fraud, but rather human error. Korach asserted that there are controls in place and pursuant to Council approval of the internal audit plan, the City will be reviewing the procurement process and related controls in depth.

Councilmember Moore inquired about the policies around procurement, budgeting, and what triggers Council approval for contracts. Furthermore, Councilmember Moore expressed interest

in additional internal audit plan items (Senior Center Operational Review, vendor management and internal controls, grant management review, employee performance management review, and AR control review). Steranka noted that the recommended list of projects for FY 21-22 are priority projects and all other recommended projects in the report would be recommended subsequently.

Vice Chair Chen recommended tying the recommended projects to the risk areas identified in the enterprise risk assessment report. Chen also inquired about the funding source for these projects. City Manager Feng noted that the necessary amounts of funding are included in the budget and anything above and beyond would require Council approval.

Councilmember Moore noted that in FY13, the Adopted Budget added a contingency budget and expressed concern over the budget's growth in years since. City Manager Feng noted that responses to her questions would be addressed in advance of the next budget study session.

Vice Mayor Chao expressed interest in the employee performance management project and senior center operational review as well as a possible sports center operational review. Lastly, Vice Mayor Chao asked about what internal audit is going to be doing in FY 21-22. Steranka reiterated that the ten projects in the report are important projects, but the four projects currently recommended represent the first round of projects to be completed. Additional projects will be candidates for the subsequent fiscal year.

Councilmember Moore asked about the recommended action and if the Committee could add projects. Korach noted that they could, but that adding projects could impact the timing of completion of the four projects currently being recommended.

Vice Mayor Chao asked why vendor management was not included on the list of recommended projects. Steranka noted that it would likely be a project slated for FY 22-23. Vice Mayor Chao noted that a fraud waste and abuse program may not be necessary and that vendor management be added. Councilmember Moore recommended fraud waste and abuse program not be removed. Vice Mayor Chao expressed that the current process is working. Committee Member Song expressed concern about the cost. Steranka recommended to represent the Committee's interest to add additional projects to Council.

5C – Interim External Audit Procedures – Crowe – 10 minutes

Korach recommended this item be reordered in consideration of the City's guests. Vice Mayor Chao motioned to reorder and Chen seconded. The motion carried unanimously. Kathy Lai and Geerdes provided a presentation on the FY 20-21 external audit plan.

5B - Budget Format Review – Vice Chair Chen moved to continue to next meeting and Committee Member Song seconded. The motion carried unanimously with Vice Mayor Chao and Councilmember Moore absent.

5D - FY 2019-20 Management Letter Response – Vice Chair Chen moved to continue to next meeting and Committee Member Song seconded. The motion carried unanimously with Vice Mayor Chao and Councilmember Moore absent.

5E - Embezzlement Debrief – Vice Chair Chen moved to continue to next meeting and Committee Member Song seconded. The motion carried unanimously with Vice Mayor Chao and Councilmember Moore absent.

6 - OLD BUSINESS

7 – STAFF AND COMMITTEE REPORTS

8 - ADJOURNMENT

The meeting adjourned at 5:41 p.m.