City of Cupertino
Audit Committee Special Meeting
Minutes
August 30, 2021

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

ROLL CALL
Committee Members Present: Vice Mayor Chao, Councilmember Moore, Chair Daisy Liang, Vice Chair Angela Chen
Absent: Committee Member Song
City Staff Present: Greg Larson, Kristina Alfaro, Zach Korach
Absent: None
Guests: None

1. APPROVAL OF MINUTES
Vice Chair Chen inquired about item 5E (HdL Contract and Refund Error) and 5F (Audit Committee Meeting Frequency) and the reference to Vice Chair Chen being absent. Korach noted that Vice Chair Chen may not have been present for the formal motion, but that he would revisit the recording and modify the verbiage in the minutes to "motion carried unanimously by all members present." Councilmember Moore suggested the numbering of the minutes correspond to the agenda. Vice Chair Chen moved to have the minutes brought back at a future meeting to include the revisions discussed. Chair Liang seconded and the motion carried unanimously with Committee Member Song absent.

ORAL COMMUNICATIONS
None.

NEW BUSINESS

2. HdL Contract and Refund Error - *15 minutes*
Interim City Manager Greg Larson requested this item be continued to a future Audit Committee meeting to provide a more complete response to questions received from the Committee. Councilmember Moore motioned to continue the item until further information is obtained from staff. Vice Mayor Chao seconded. The motion carried unanimously with Committee Member Song absent.

3. Budget Format Review – *70 minutes*
Korach provided a brief introduction of the item. Councilmember Moore requested history of the budget and the changes that have been made in recent years. Korach discussed the use of Opengov's Transparency Portal and Stories. Director Alfaro also discussed the electronic

publishing of the City's interactive quarterly budget reports and the resident tax calculator. Councilmember Moore inquired about the public engagement and feedback on the budget, specifically regarding how much money the City has to spend on future projects. Korach referenced budget workshops that staff have conducted for the Community which teaches the budget process and allows residents to balance their own budget, build their own forecast, and prioritize spending. Korach also explained the relationship of cash and investments to fund balance and the potential opportunity to expand upon that topic through Opengov Stories and the quarterly budget reports. Councilmember Moore inquired about the budget format review process and how current and future sub-committees could move forward most efficiently. Director Alfaro discussed the regular presentations and staff recommendations provided to City Council regarding the City's fund balance. She explained that budget format review changes were historically communicated to Council and that substantive budget format changes were minimal in the previous sub-committee's recommendations as they were more applicable to Opengov. Vice Chair Chen noted that many observations are content oriented rather than format related. She noted that the format of the budget document was really good. She inquired about City Council's budget program and the details of the cost allocation revenues. Vice Chair Chen suggested that fund balance and changes in accordance with the fund balance policy receive more attention. Councilmember Moore discussed the City of Sunnyvale breaking out their operating and CIP budgets, that the budget format review should only focus on the format rather than the content, and that the timing of process was a bit compressed for FY 21-22. She suggested having the organization charts updated more frequently and that budget amendment authority/process be expanded upon. Vice Chair Chen noted that the budget at a glance was a very helpful document. She recommended that the budget message be addressed to both City Council as well as the Cupertino Residents. Director Alfaro and Korach noted that the City was successful in adding the historical staffing charts and account level detail in FY 21-22. Councilmember Moore asked about Opengov's annual budget page and a discrepancy with the printed document. Korach explained this was likely due to the filter selections and that the data in Opengov agrees with the printed document. Councilmember Moore noted having difficulty navigating Opengov and requested that the landing pages include all of the City's funds as opposed to only the General Fund. Chair Liang asked what the amended budget amounts on Opengov mean. Korach explained the carryover process and how the amended budget changes throughout a fiscal year. Councilmember Moore expressed interest in having the Committee's questions regarding Opengov addressed. She also inquired about the capital budget amounts and why the budget is so large in the most recent year. Korach explained the reason for the amended budget being significantly higher in the current year than previous years. Councilmember Moore requested additional text/narrative be included to accompany the data. Chair Liang confirmed the capital budget process with clarifications from Director Alfaro. Vice Chair Chen suggested a budget calendar be created. Alfaro and Korach presented the budget calendar/cycle included in the Adopted Budget and quarterly budget presentations. Vice Chair Chen wondered if it could be presented in a table format. Vice Mayor Chao referenced CUSD's budget calendar and their forecast. Councilmember Moore requested clarification on what all of the reports on the City's "Budget and Reports" website landing page are. She suggested establishing a separate sub-committee that would be solely focused on Opengov. Councilmember Moore also inquired about the CIP

budget and if program/budget units could be used for each project. Director Alfaro noted that staff would pass the request along to Public Works as they are the owner of the CIP budget document. Vice Mayor Chao recommended there be more community outreach/engagement in the budget format review. Korach suggested a motion be made to summarize the format review points that were made. Councilmember Moore noted that there were few format review changes and that most of the comments made today are related to Opengov. She suggested continuing this item to summarize the points the Committee is interested in focusing on to provide further direction to staff. This item was continued to a future meeting.

4. Follow-up on Previous FY Management Letter Items and Management Response – *10 minutes*

Korach noted there were no notable items provided by the City's external auditors in FY 19-20. Councilmember Moore asked what the Management Letter actually is. Korach explained what management letters typically include and that the City received no findings from the external auditor in FY 19-20. Councilmember Moore inquired about the timing of the report. Korach noted that the management letter coincides with the issuance of the ACFR (annual comprehensive financial report) and are typically delivered to the City 6 months after the close of a fiscal year. Director Alfaro noted the acronym for the annual financial report has changed from "CAFR" to "ACFR."

5. Embezzlement Update – *10 minutes*

Korach explained the history of this item being added to the regular agenda. He provided a brief history and debrief on the embezzlement and where the legal proceedings currently stand. Councilmember Moore asked what the actual embezzlement was. Korach explained the scheme and the impacted deposit liability accounts. Vice Chair Chen asked how the internal controls were enhanced subsequent to the fraud and discovery of fraud. Korach noted the City's engagement of a forensic accounting firm to validate staff's findings and the exposure of the fraud scheme. A comprehensive internal control review was conducted and presented to the Audit Committee. Korach explained the enhancements achieved through the new system implementation in 2015 and the additional controls implemented subsequent to the discovery. Councilmember Moore inquired about the depositing of the checks and Korach explained the checks were cut to vendors the former Senior Accountant had created and registered in her name.

OLD BUSINESS
None.

FUTURE AGENDA SETTING – *15 minutes*

Chair Liang suggested adding credit cards to the next meeting. City Manager Larson noted that the internal audit program will begin the procurement operational review that will include credit cards and recommended utilizing the internal auditor's process. Chair Liang suggested having the internal audit work plan brought back to the Audit Committee prior to the commencement of the work. Vice Chair Chen suggested having an Opengov study session in September 2021. Councilmember Moore referenced the Audit Committee Work Plan and

suggested bifurcating items from the October regular meeting to an earlier special meeting in September. Korach noted the OPEB/Pension investment trust policy and Audit Committee meeting schedule could be moved earlier. Vice Chair Chen suggested the budget format review summary be combined with the Opengov study session and that an internal audit update be included. Korach summarized the items to be slated on the agenda for September: Budget format review summary and Opengov study session, OPEB/Pension Trust Investment Policy, Audit Committee meeting frequency, HdL contract and Council candidate refund error, and Internal audit update.

ADJOURNMENT
The meeting adjourned at 6:00 p.m.

Recording Secretary:
Zach Korach, Finance Manager