

City of Cupertino
Audit Committee Regular Meeting
Minutes
October 25, 2021

CALL TO ORDER

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

ROLL CALL

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

City Staff Present: Greg Larson, Kristina Alfaro, Zach Korach, Thomas Leung

Absent: Vice Chair Chen

Guests: Carlos Oblites and Chris McCarry (Chandler), Rick Rosenthal and Ryan Maxey (US Bank), Mitch Barker and Jennifer Meza (PARS), Mark Steranka (Moss Adams)

1. APPROVAL OF MINUTES

Councilmember Moore moved to approve the regular meeting minutes of July 26, 2021 and special meeting minutes of September 27, 2021. Vice Mayor Chao seconded and the motion carried unanimously by all members present.

ORAL COMMUNICATIONS

Ms. Peggy Griffin expressed concern over City credit cards and the volume and dollar amount of transactions. Ms. Griffin noted there should be a policy, training, and audit of credit card transactions. Korach referenced the internal auditor's procurement operational review and the timing and scope.

NEW BUSINESS

2. Mandatory KnowB4 Training from Infrastructure Division – 10 minutes

Iqraam Nabi from the City's Innovation & Technology Department provided the security training.

3. Treasurer's Investment Report for Quarter Ending September 30, 2021 – 35 minutes

Chris McCarry provided an overview of the economy and market impacts. Carlos Oblites provided an overview on the portfolio over the last quarter. Chair Liang asked about the credit quality of the portfolio and if the City was taking on too much risk. Oblites explained the rating criteria used by S&P and Moody's and that all of the City's investments have very strong ratings. He provided additional information on the acquisitions and dispositions over the previous quarter. Chair Liang asked about the return in Q2 and Q3. Oblites spoke to the fluctuation in value as a result of increasing interest rates; however, the yield or interest income was still strong. Councilmember Moore inquired about the LAIF statement and why the

balances did not change over the previous month. Oblites explained that the interest apportionments are not paid out until subsequent to quarter end. Chair Liang requested that the bank reconciliation be provided with the operating statements. Korach explained bank reconciliations are not ready for Audit Committee meetings due their preparation requiring 30-45 days following the period end.

4. OPEB and Pension Investment Trust Performance Report as of September 30, 2021 – 20 minutes

Mitch Barker provided a brief overview of the 115 Trust Program. Rick Rosenthal provided an overview on the investment portfolios over the quarter. Chair Liang asked how the performance will look in the fourth quarter of 2021. Rosenthal noted that the month of October has shown strong performance and rebounded from the difficult September. Chair Liang inquired about the contributions made and the timing as well as the fee structure. A brief discussion regarding fees will be included in the next report.

5. Review and Consider Accepting OPEB and Pension Investment Trust Policies – 25 minutes

Korach provided background on previous meetings' discussions, specifically toward prohibited investment classes and socially responsible investing. Rosenthal confirmed and reiterated much of the overview. Councilmember Moore asked about the policies needing to be updated to include the most recent portfolio balances. Korach confirmed that those updates would be made prior to submission to City Council. Councilmember Moore asked where in the policy the City would be prohibited from investing in Bitcoin (BTC). Rosenthal submitted that BTC is not an equity and would never come into the portfolio; however, recommended that a prohibition be made in the policy if the Committee so chooses. Councilmember Moore expressed interest in prohibiting cryptocurrencies. She also inquired what controls are in place to screen ETF investments. Rosenthal discussed his firm's research and due diligence process and advised that as new investment types are developed, the policy be reviewed and amended as necessary and applicable. Ms. Griffin (member of the public) encouraged the policy prohibit cryptocurrency, leveraged assets, and assets with high beta. Councilmember Moore inquired about the volatility of the portfolio and requested staff to bring back information on US Bank's approved investment list and volatility mitigation measures that are in place. Vice Mayor Chao wondered what other agencies policies are like. Vice Mayor Chao moved for staff to bring back recommendations on the volatility of investment including, but not limited to, cryptocurrency. Councilmember Moore seconded and the motion carried unanimously by all members present.

6. Internal Audit Update – 20 minutes

Mark Steranka provided an overview on the Policy Inventory project as well as the internal audit update for all scheduled projects. Councilmember Moore and Vice Mayor Chao inquired about the attachments and the organization/ordering of the information included. Vice Mayor Chao asked that all internal audit reports/documents be posted on the City's website. Korach said they would be posted going forward. Ms. Peggy Griffin thanked the internal auditors and requested that the deliverables be posted on the City's website. Councilmember Moore asked if Moss Adams will be looking at the municipal code regarding purchasing and the City's purchasing policy, what is City Manager authority, spot-checking will be completed,

purchasing threshold agency comparisons, parks and recreation contracts, and contract approval process. Steranka confirmed that policies, procedures, and thresholds will be looked at. Vice Mayor Chao requested links to be included in the status update reports and asked about credit card policies. Steranka confirmed it would be included in the policy inventory. Vice Mayor Chao inquired about contingency budgeting. Steranka noted that it would be included. Vice Mayor Chao asked about procedures versus policies and how they are identified. Steranka explained the process. Vice Mayor Chao asked about CIP budgeting and multiyear projects. Councilmember Moore hoped that Moss Adams will look at the financial policies in the budget and how contingencies are calculated.

Councilmember Moore moved to continue items 7, 8, and 9 to the special meeting on November 15, 2021. Vice Mayor Chao seconded and the motion carried unanimously by all members present.

OLD BUSINESS

None.

STAFF AND COMMITTEE REPORTS

None.

FUTURE AGENDA SETTING

None.

ADJOURNMENT

The meeting adjourned at 6:00 p.m.

Recording Secretary:

Zach Korach, Finance Manager