

City of Cupertino
Audit Committee
Regular Meeting
October 13, 2016

1. CALL TO ORDER

At 3:01p.m. Chairman Eno Schmidt called the meeting to order at Conference Room EOC, Cupertino City Hall, 10300 Torre Avenue, Cupertino CA 95014.

2. ROLL CALL:

Committee Members Present: Chairman Eno Schmidt, Mark Zavislak, and Peter Shin

City Staff Present: Kristina Alfaro, Lisa Taitano, and Mary Redwine

Absent: Councilmember Sinks and Councilmember Paul

Guests: Mark Wong and Grace Zhang (Maze and Associates)

3. APPROVAL OF MINUTES

Committee member Shin moved to approve the July 14, 2016 meeting minutes with the addition of 2 amendments proposed by Committee member Shin. Committee member Zavislak seconded and the motion passed unanimously. The 2 amendments are as follows:

1. Committee member Shin requested to have the following statement added to the July 14, 2016 meeting minutes. "The 2.7 million dollar reduction was not verified with Lisa's March 22 email chart submitted at the July 14th meeting", according to Committee member Shin.
2. Add the following note to B1, before B2. Committee members Paul and Shin asked to reformat the Total Expenditure chart to show costs related to employee salary and benefits.

4. ORAL COMMUNICATIONS – NONE –

5. NEW BUSINESS

A. Review of FY2015-16 Interim Audit with Maze

Mark Wong and Grace Zhang of Maze and Associates discussed the Interim accounting issues memo of June 30, 2016. Taitano gave an update on the six findings, described as not material, from the FY15/16 Interim Audit that was included in the packet. Committee Chair Schmidt noted there was a potentially significant and material weakness with regard to no bank reconciliation since July 2015.

B. Status on FY2015-16 yearend close with staff

Taitano discussed status of yearend close. Staff has identified additional deposits received by city in FY14/15 that were inadvertently booked as revenue and we later found out (in this fiscal year) that they should have been booked as deposits (liability balance). This issue is being addressed. Taitano stated that staff has implemented a wire lock down, for any wire over \$50,000. All deposits will be required to be submitted to the City to either be electronic transfer or wire. Schmidt asking about prior period adjustments; Taitano said staff found six transactions that add to \$2.5 million. Maze said it most likely will be a restatement as all transactions were in the general fund. Taitano discussed how the developer mitigation report is used for deposit reconciliation. Committee Chair Schmidt asked to have his eight questions

that he emailed to Taitano and Maze put on record as types of questions for the committee and Maze to deliberate on. Here are Committee Chair Schmidt's questions:

- Was any cash discovered to be missing?
- Why did the audit procedures and the changes in internal control by City staff resulting from the identification of the previous fiscal year prior period adjustment (the error), not uncover the current prior period adjustment in the same account category?
- Is the financial impact limited only to developer deposits?
- Do bond holders of the City's debt need to be notified or are there any other legal implications of this prior period adjustment?
 - Does the City's legal counsel need to be informed and opine on this issue?
- What are the extra costs involved to the City resulting from the uncovering of this prior period adjustment (error)?
- What assurance can be provided that there will not be a prior period adjustment (error) in accounting in this same category uncovered in future
 - by the independent auditor?
 - by City staff?

Chair Schmidt asked the Committee to direct their questions via email to Redwine and Taitano, and copy Schmidt, and to create a comprehensive list for Taitano to have and coordinate with Maze to obtain consensus responses for the committee.

C. Review of Progress on Uncompleted Action Items from Previous meetings
Meeting adjourned before reaching item, moving to subsequent Audit Committee meeting.

D. Treasurer's Investment Reports for QE June 30 and September 30, 2016
Taitano discussed the reports which included duration calculations. Chairman Schmidt suggested a motioned to have City staff come back with interpretation or proposed recommendation addressing the issue reported in item #4 of Maze's Interim Accounting Issues Memo. Zavislak motioned, Shin seconded and passed unanimously. Shin raised a series of issues relating to internal control on investment schedule. Committee member Zavislak motioned to forward the reports to Council, Committee member Shin seconded and the motion passed unanimously.

E. Overview of Auditor RFP process
Mark Wong and Grace Zhang of Maze left the meeting. Taitano discussed the upcoming Auditor RFP process. Taitano provided background on what the audit subcommittee role and duties were for the Auditor RFP process. She also explained that staff's management of the process was essential to maintain proper procurement standards, as the contract would be executed by the City Manager and compliance with the requirements of the contract would rest with City staff. Committee decided to have a special meeting of two members with three

constituting a quorum. A meeting quorum would require public noticing and hinder the subcommittee from accomplishing its work efficiently. The Committee asked Redwine to check committee members schedules for this special meeting to discuss the RFP issue to occur in the next two weeks. Committee member Zavislak motioned to schedule this special meeting and committee member Shin seconded the motion and the motion passed unanimously.

ADJOURNMENT

The meeting was adjourned at 5:35pm by Zavislak and seconded by Schmidt with a unanimous approval.



Mary Redwine
Recording Secretary

