

City of Cupertino
Audit Committee
July 17, 2018

CALL TO ORDER

At 4:03p.m., Chairman Eno Schmidt called the meeting to order at Conference Room A, Cupertino City Hall, 10300 Torre Avenue, Cupertino CA 95014.

ROLL CALL

Committee Members Present: Chairman Eno Schmidt, Daisy Liang, Mayor Paul

City Staff Present: Kristina Alfaro, Bill Mitchell, Zach Korach, Beth Viajar, and Thomas Leung

Absent: Jim Luther and Councilmember Chang

Guests: Dennis Yu, PARS, Monique Spyke and Ellen Clark (PFM), Kathy Lai and Matthew Geerdes (Crowe) via conference call.

APPROVAL OF MINUTES

Mayor Paul motioned to approve the April 10, 2018 regular meeting minutes, Chairman Schmidt seconded subject to receiving and reviewing Council-adopted City and OPEB Investment Policies, and the motion passed.

ORAL COMMUNICATIONS

OLD BUSINESS

NEW BUSINESS

1. PARS presentation for Pension Rate Stabilization Program (PRSP)

Dennis Yu gave a presentation on PARS' pension rate stabilization program for the City. Chairman Schmidt inquired about PARS' flexibility in using investment managers. Chairman Schmidt also inquired about PARS' ability to perform and provide forecasting/projection models based on various investing and funding strategies. Dennis Yu responded affirmatively and Chairman Schmidt recommended that if PARS is selected, City staff work with PARS on these models and analysis.

2. PFM presentation for Pension Rate Stabilization Program (PRSP)

Monique Spyke and Ellen Clark gave a presentation on PFM's pension rate stabilization program for the City. Chairman Schmidt inquired about PARS' ability to perform and provide forecasting/projection models based on various investing and funding strategies. Chairman Schmidt also inquired about the important and relevance of considering short-term and long-term needs. Monique Spyke and Ellen Clark responded affirmatively and explained that the need for resources (short-term versus long-term) may differ from one agency to the next.

3. Audit Committee evaluation and selection of third party administrator for Section 115 Trust (PRSP)

Finance Manager Korach referenced the staff report which indicated PARS' more advantageous fee structure and their core business focus being Section 115 Trusts. The Committee and City staff deliberated and all agreed that the economies of scale favored the selection of PARS. The Committee has been pleased with PARS' performance in past years. Darcy motioned to select PARS as the City's trust administrator, Chairman Schmidt seconded, and the motion passed unanimously.

Chairman Schmidt recommended to add Audit Committee oversight to Section 115 Trust to investment policy once Council approves Trust. Delegation of Duty: Zach has wording to add to policy and send mark-up to committee. Mayor Paul motioned to approve investment policy and committee member Luther seconded, and motion passed unanimously. Chairman Schmidt motioned to approve OPEB investment policy, committee member Luther seconded, and motion passed unanimously.

4. Interim Report on FY 2017-18 financial statement audit and Investment Policy AUP

Kathy Lai, Engagement Partner, introduced the team and turned it over to Matt Geerdes, Senior Audit Manager, to present the report. Chairman Schmidt inquired about the City's bank reconciliation procedures and policies. Geerdes responded by discussing their audit procedures over the bank reconciliation and reported no related findings. Mayor Paul inquired regarding the City's disbursement cycle and what procedures were performed. Geerdes addressed by discussing the audit procedures performed in FY 2017-18 and reported no related-findings. Mayor Paul also inquired of the auditor's performance and ability to perform testing in years preceding FY 2017-18 (the year currently under audit). Geerdes responded by noting that when procedures outside the scope of a financial statement audit are requested, clients commonly seek agreed-upon procedures (AUP) audits and/or consult with forensic accounting firms.

5. MOIC from Previous Year (FY 2016-17): Management's responses on current status

Finance Manager Korach presented the current status for each of the notable items. Bill Mitchell offered explanation regarding the City's bank reconciliation process as it relates to various off-site modules within the City. Korach, Viajar, and Leung clarified the procedures and documentation currently in place. Korach discussed the City's asset management module (for capital assets) and Mayor Paul inquired about the lack of operational integration and both he and Chairman Schmidt recommended bringing this item back to the December 11, 2018 Audit Committee meeting for further discussion and resolution, if any. Geerdes added that the City's capital assets will be an area the audit team focuses on during the final phase of the audit during the month of September.

6. Review of Treasurer's Investment Report for QE June 2018

Finance Manager Korach presented the Treasurer's Investment report for the quarter ending June 30, 2018. Mayor Paul inquired about the \$25 million transfer and its nature. Korach noted that it was a transfer from the City's money market account to the City's LAIF account for the opportunity of higher yield. Chairman Schmidt motioned to approve the report, Mayor Paul seconded, and the motion passed unanimously.

7. ADJOURNMENT

Chairman Schmidt moved to adjourn the meeting, Mayor Paul seconded, adjourned the meeting at 6:16pm.



Zach Korach
Recording Secretary