

City of Cupertino  
**Audit Committee Special Meeting Minutes**  
December 11, 2018

**CALL TO ORDER**

At 4:19p.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: Amy Chan, Kristina Alfaro, Zach Korach, Thomas Leung, and Mariela Rodriguez

Absent: Jim Luther

Guests: Jennifer Meza and Mitch Barker, PARS; Rick Rosenthal and Carolyn Cox, US Bank via conference call; Steve Morang, Frank Rimerman via conference call; Kathy Lai and Matthew Geerdes, Crowe via conference call.

**APPROVAL OF MINUTES**

Mayor Paul motioned to approve the July 17, 2018 minutes, Chairman Schmidt seconded subject to changes suggested on items 5 on reference to October 23, 2018 meeting, which subsequently cancelled and moved to December 11, 2018, and the motion passed.

Mayor Paul motioned to approve the October 16, 2018 minutes, Chairman Seconded subject to modification of wording in "washed through the income statement", and motion passed unanimously.

**ORAL COMMUNICATIONS**

**OLD BUSINESS**

**NEW BUSINESS**

**1. OPEB & Section 115 Trust Performance Report - Rick Rosenthal, US Bank**

Chairman Schmidt inquired about the net investment performance number. Zach Korach turned it over to Rich Rosenthal, US Bank, Rosenthal stated that it is not possible to get the net number as US bank data is not linked with HighMark data. Chairman suggest city staff to look back at archive data to provide data to Rick. Mitch Barker, PARS, offered to reach out to HighMark and get data.

Chairman Schmidt asked Rosenthal to give the summary of the performance report. Rosenthal mentioned market has been unkind and has made changes on some international funds. Mentioned interest rates have been moving at a steep increase in last few years. Suggested allocations more in equity less in bonds.

## **2. Pension Rate Stabilization Program (Section 115 Trust): Proposed Investment Policy**

Finance Manager Zach Korach introduced update on Section 115 pension trust, which was approved by Council. Korach and staff have been working with PARS to establish trust. Korach and staff provided a proposed pension trust investment policy.

Thomas Leung presented and explained the proposed pension trust investment policy. Leung provided recommendations as to how the city could invest in hybrid asset allocation, given current market volatility. Chairman Schmidt Compared the 115 trust with the OPEB, mentioned 10 years is a long-term investment.

Chairman Schmidt suggested accepting the staff report subject to the re-evaluation of risk to have same risk profile and rate of return as the OPEB trust. Chairman Schmidt also suggested to delete accounting rules and add the reasons as to why the trust is being implemented as stated in the staff report and presentation slides. Schmidt motioned to accept the City staff recommendation and investment policy subject to acceptance and approval of amendments, Mayor Paul seconded.

## **3. CAFR and AUP Update**

Kathy Lai, Engagement Partner, presented the current status of the CAFR. Lai informed the committee that there has not been any development, still waiting on PARS reports to the OPEB evaluation and implementation of GASB 75. Matt Geerdes, Senior Audit Manager, presented additional procedures regarding the financial statements and AUP for Fiscal Year 2017.

## **4. Internal Control Review Status Update**

Steve Morang presented an update of review additional fraudulent activities done by a former senior accountant. Data was reviewed on the payroll side, no fraud was found.

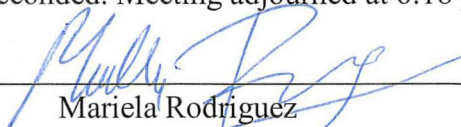
Morang moved on to internal control review, mentioned to have 5 processes including information technology general control, currently 80% thru review of processes.

Chairman Schmidt asked how the studies have overlapped and how this fraud is not subject to happen again. Amy Chan presented a scenario as to create a phony company and asked where in the vendor creating process and invoice process the system could catch a discrepancy. Korach provided a summary of the step process to payment and vendor validation. Kathy Lai will provide draft recommendations to ensure vendor creation are segregated to the payment processing phase.

Chairman Schmidt suggested March meeting to discuss how this process has been improved.

## **5. ADJOURNMENT**

Chairman Schmidt moved to adjourn the meeting and carry items 7 thru 10 to next meeting on January 22, 2019, Mayor Paul Seconded. Meeting adjourned at 6:18 pm.



---

Mariela Rodriguez  
Recording Secretary

