

City of Cupertino
Audit Committee Regular Meeting
Minutes
July 30, 2019

1. CALL TO ORDER

At 4:06 p.m., Chairman Eno Schmidt called the meeting to order at Cupertino City Hall Conference Room A, 10300 Torre Avenue, Cupertino CA 95014.

2. ROLL CALL

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

City Staff Present: Kristina Alfaro, Zach Korach, Mariela Vargas, Beth Viajar, Bill Mitchell

Absent: Jim Luther, Mayor Scharf

Guests: Carlos Oblites and Chris McCarry (Chandler), Rick Rosenthal (USBank via conference call), Mitch Barker (PARS), Kathy Lai and Matt Geerdes (Crowe)

3. APPROVAL OF MINUTES

Chairman Eno Schmidt motioned to approve the April 23, 2019 regular meeting minutes and the April 24, 2019 special meeting minutes. Committee Member Daisy Liang motioned to approve the minutes and Councilmember Paul seconded, motion passed unanimously.

4. ORAL COMMUNICATIONS

5. OLD BUSINESS

6. NEW BUSINESS

A. FY 2017-18 Comprehensive Annual Financial Report (CAFR) and related supplemental reports.

Finance Manager, Zach Korach, began the presentation and review of the GAGAS Report. Korach mentioned that the CAFR received an unmodified by the external auditors. There were two audit findings; Information System Controls and mentioned that one employee had superuser access and superuser access was removed upon the finding. Korach discussed how currently all transactions and employee creation requests have to go through multiple layers of review. On a quarterly basis the Finance team meets with IT to make sure that all requests were approved, authorized, and followed the policies and procedures. Information Systems Controls Policies and Procedures have been updated. The second comment was regarding vendor creation; Korach reviewed the vendor creation, payment process, authorization, and segregation of duties that is currently maintained. The purchasing policy is anticipated to be approved into the current FY 19- 20.

Korach continued on appropriation limit and mentioned there were no exceptions noted and the same was for the Investment AUP, no exceptions noted. Chairman Schmidt commented on Investment AUP, purchase date was not available and suggested having an alternate strategy in the future. Zach concluded presentation with next steps for FY 2018- 19 procedures.

Kathy Lai from Crowe, provided additional comments on the CAFR.

Chairman Schmidt asked about the changes that occurred and if they were made early enough. Kathy mentioned that the written policies and procedures are still in process. Matt Geerdes provided a briefing on what Crowe is doing now to test the IT systems. Chairman Schmidt asked Bill Mitchell, Cupertino Chief Operation Officer, whether contractors would be subject to the same policies. Mitchell provided a review of the policy we currently have. Chairman Schmidt also asked about ransomware and what is being done now to prevent the City from getting attacked. Mitchell shared that the City has cyber security in place and are providing tools and education to City staff to prevent these types of cyber-attacks and other risks. IT sends monthly tests email and mandatory training for those who fail the tests. Mitchell shared that the City has a disaster recovery back up plan, for servers and storage.

Councilmember Paul requested pagination & structure on the CAFR. Recommended adding language regarding the embezzlement on the next CAFR and modify some of the management report language. Kathy commented they will work with the team to find an appropriate place to add this language. Chairman Schmidt motioned to accept the staff report and Councilmember Paul seconded. Motion passed unanimously.

B. Treasurer's Investment Report for period ending June 30, 2019

Chairman Schmidt invited Korach to provide a review of the Treasurer's Investment Report. Korach referred the Committee to pg. 163, packet on Cash Flow Forecast report, FY 19-20. Korach discussed charts in detail in reference to charges and City revenue. Chairman Schmidt questioned the estimated 8 million shown on the graph. Korach explained that expenditures will be exceeding revenues, estimated 18.1 million and expecting expenditures of 21.7 million. Korach collaborated with Chandler for this report. Chairman Schmidt asked what key assumptions were most important to create this report.

Carlos Oblites from Chandler, explained the key assumption were made on a cyclical, CIP and Budgetary Basis. Kristina Alfaro, Director of Administrative Services, provided key assumption; Sales Tax, Property Tax, TOT, and explained the different assumptions and one-time anomalies.

Carlos continued to explain how this information is used to get an idea on how much of these funds need to be kept liquid. Carlos discussed the report and how

the portfolio is continuing to progress, as planned, toward the desired benchmarks and portfolio balance as established by management. Chairman Schmidt motioned to approve the Treasurers investment report subject to changes suggested. Daisy Liang seconded and motion passed unanimously.

C. OPEB & Pension Section 115 Trust Performance Report - US Bank

Chairman Schmidt introduced Rick Rosenthal and Mitch Barker from US Bank. Chairman Schmidt requested having the net exemption date and data will be needed form Highmark. Information will be provided at next meeting in October. Staff will work with the actuary, Cheiron, and auditors to get the report.

Rick introduced the OPEB and Pension report and explained the Performance in the last year's and the current performance. The portfolio was up 3.08% and benchmark was up 3.48%. Equities were up 3.3%, Bonds up 2.98%, Real State 1.71% for the quarter.

Rick discussed the portfolio further. Mitch asked what the preferred timing use of funds was and Korach answered between 5 to 10-year range. Chairman Schmidt suggested staff provide a staff report on risk profile.

D. Budget Form Review

Korach deferred the Budget Form Review to the next meeting in October. Korach commented that staff is looking for high level review and feedback of committee members of Budget and Budget at a Glance, Information that is being presented or that needs to be presented. Councilmember Paul suggested comparing the OPEB to other cities and see how Cupertino compares. Alfaro mentioned that the City is moving to online dashboard that can go into more detail and presenting information at a high level.

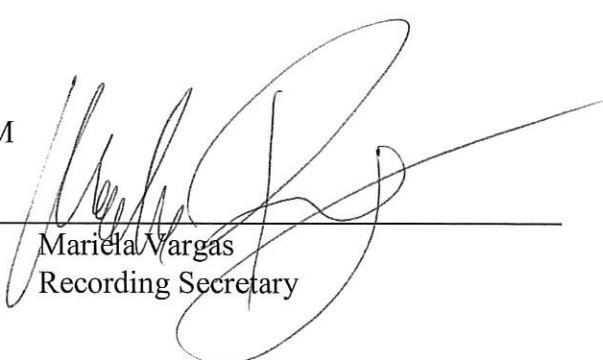
Chairman Schmidt mentioned the Audit Committee should be looking at the Budget Format. Councilmember Paul suggested look at other Cities including, City of Campbell, as it shares a similar structure to Cupertino. He also suggested creating a Budget subcommittee or having more meetings. Councilmember Paul and Chairman Schmidt volunteered to form the budget subcommittee.

E. Audit Committee Standard Work Plan 2019

Deferred to the next meeting.

3. ADJOURNMENT

The meeting was adjourned at 6:07 PM



Mariela Vargas
Recording Secretary