

City of Cupertino
Audit Committee Regular Meeting
Minutes
February 11, 2020

1. CALL TO ORDER

At 4:08p.m., Chairman Eno Schmidt called the meeting to order at Cupertino City Hall Conference Room C, 10300 Torre Avenue, Cupertino CA 95014.

2. ROLL CALL

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

City Staff Present: Kristina Alfaro, Zach Korach, Mariela Vargas, Deborah Feng

Absent:

Guests: Chris McCarry, Carlos Oblites (Chandler), Rick Rosenthal, Carolyn Cox (USBank via conference call), Mitch Barker, Jennifer Meza (PARS), Kathy Lai and Matt Geerdes (Crowe), Mark Steranka (Moss Adams)

3. APPROVAL OF MINUTES

Councilmember Paul motioned to approve the October 22, 2019 regular meeting minutes and Daisy Liang seconded, motion passed with 3 votes in favor, and 2 abstentions.

4. ORAL COMMUNICATIONS

5. OLD BUSINESS

6. NEW BUSINESS

A. Treasurer's Investment Report for period ending December 31, 2019(10min)

Finance Manager, Zach Korach, introduced the item and reported that there are no new additions to the treasurer's report since last quarter. Korach passed it on to Chris McCarry and Carlos Oblites from Chandler for their presentation on the Treasurer's Report. Oblites communicated that Chandler oversees City investments and they relate to operating funds, the investments they manage on behalf of the City are subject to California Government Code and are limited to fixed income securities. Oblites continued to share that the City makes money in two ways; interest income and the value of the principle. The goal being safety first followed by liquidity and then return. McCarry continued by giving an economic overview and markets' update. Reporting that there is some level of uncertainty due to the coronavirus and the U.S. elections coming up in November. There has been a big drop in interest rates, as it dropped 20 basis points, due to the coronavirus. He continued by reporting that employment numbers are strong, inflation is contained, positive for continued growth in the market. Chairman Schmidt asked about LAIF returns and Oblites mentioned that the last 3-month of 2019 LAIF return was 0.34%. The one-year return thru December 31st was 3.48% and net of fees is 3.40%. The City was able to take massive fair value gains which were

booked per GASB 31 in the Audit. Oblites mentioned that it is important to know that the Portfolio will not be like the benchmark because the benchmark was longer than what the portfolio looked like. Oblites mentioned that as we see more gains above the benchmark on a steady basis, will allow for that bench mark return be closer, which is the goal. Councilmember Sinks motioned to accept the Treasurer's Report, Daisy Liang seconded. Motion passed unanimously.

B. Pension & OPEB Trust Performance Report 12.31.2019

Rick Rosenthal gave a quick overview of the performance of the two portfolios for the 4th quarter results. OPEB market value has changed over time and referred to page 5 of the presentation. Rosenthal reported that the City ended the year at the highest market value that we have seen in this portfolio, at \$31.15 Million. Year to date the City has earned \$750, 000. Chairman Schmidt mentioned the inception to date target is 6.5% net of fees and the City is currently at 7.18% or approximately 7% net of fees which the City has been in excess at approximately .5% net of fees higher than benchmark. Rosenthal continued with the summary of pension portfolio mentioning that it is a newer portfolio, which began in the second quarter of 2019. Reporting data from April – December 2019.

C. Review of FY 2018-19 CAFR and Supplemental Reports (1 hr)

Kathy Lai, Crowe began review of the CAFR report. She shared, in response to a question from the Chair about the disclosures in CAFR footnote 2 "Cash and Investments", that Crowe starts procedures with the investment cash balance and review the policies that the city has in place to do a comparison with the California Government Code. Lai continue by providing an example of the type of procedures taken during audit and shared that no exceptions were found, which is positive for the City. Lai continued by stating that an appropriation limit calculation is required by the California Constitution and that these procedures were calculated and they made sure it was approved by a governing body. Also, no exceptions related to that. She commented that there is still work being done on the Transportation Development Act Fund. Chairman Schmidt brought up some questions regarding the transmittal letter as it relates to the alleged embezzlement and whether there are any limitations to what can be said in the transmittal letter. Chairman Schmidt requested providing disclosure that the City does not expect to incur any financial loss and that restitution is expected from the alleged event. Also, information as to how the accounting is up to this point to make it clear to the reader. Korach acknowledged Chairman Schmidt recommendation to revising the transmittal with disclosing that the City does not anticipate to incur a net loss and as to additional information, staff will have to consult with the City Attorney. Councilmember Paul requested the last sentence on the transmittal letter be revised. Chairman Schmidt brought up the Section 115 trust and mentioned he learned that it is a hybrid trust, as it can only be used to pay down the city's pension obligation to CalPERS. There are limitations that are significant and are not treated the same way as a fiduciary trust. Chairman Schmidt suggested adding more disclosure on this to make it clearer for the reader. Lai explained that GASB implemented pension standards. GASB does not find, Section 115 trust, as a trust

to offset total pension liability. Councilmember Paul requested making publicly available documents that show performance over time. Korach recommended adding these reports to the Budget. Chairman Schmidt requested that these be included in the sensitivity analysis and be added as a future agenda item. Lai shared that in the horizon new accounting standards are to be implemented, GASB 84, which might bring some changes. Lai will keep staff and committee updated on those changes. Committee member Liang motioned to approve the report, subject to the process watching over changes, Councilmember Paul seconded. Motion passed unanimously.

D. Internal Audit Kick-Off (1:30 min)

Korach gave a brief overview as part of the FY 19 - 20 Council Work Plan Program the Internal Audit Function was an approved item under Administrative Services Department. Staff went under an RFP process and formed an RFP committee. The City as a result of the RFP process retained Moss Adams LLP to serve as the designated Internal

Auditor and conduct projects focusing on: Risks, Internal Controls. Compliance, Performance, and Best practices. Mark Steranka provided a review of the phases they will be working on and shared the FY 19- 20 Internal Audit Plan, which included the entire operations department not just Finance. Mark explained that the Risk Assessment is introduced to the organization with collaboration with the City Manager. Moss Adams job is to remain independent and objective while still being collaborative. Korach mention that the City Attorney recommended to take the Audit Charter as a resolution that is approved by the Audit Committee and subsequently by the City Council. Committee reviewed the Audit Charter and Moss Adams reported that the Final Audit report would be provided to Audit Committee, City Council and available to the public. Korach commented that the Internal Audit process will be a multi-year funding request at \$50,000 per year. Councilmember Paul requested having a process flow chart with information, for public information and awareness of the process. Councilmember Sinks motioned to approve the Audit Charter, Committee member Angela Chen seconded. Motion passed unanimously.

E. Budget Format Review

Deferred to next meeting

F. Audit Committee Proposed Standard Work Plan 2020

Deferred to next meeting

G. Embezzlement Debrief

Deferred to next meeting

3. ADJOURNMENT

The meeting adjourned at 6:08 PM



Mariela Vargas
Recording Secretary