

City of Cupertino
Audit Committee Regular Meeting
Minutes
April 28, 2020

1. CALL TO ORDER

At 4:01p.m., Chairman Eno Schmidt called the Audit Committee meeting to order. This was a teleconference meeting with no physical location.

2. ROLL CALL

Committee Members Present: Chairman Eno Schmidt, Vice Mayor Paul, Councilmember Sinks, Angela Chen

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

Absent: Daisy Liang

Guests: Chris McCarry, Carlos Oblites (Chandler via conference call), Rick Rosenthal, Carolyn Cox (USBank via conference call), and Mitch Barker (PARS)

1. APPROVAL OF MINUTES

Finance Manager, Zach Korach, provided a redlined version of the minutes. Chairman Schmidt moved to approve the February 11, 2020 regular meeting minutes and Chen seconded; motion passed unanimously.

ORAL COMMUNICATIONS

OLD BUSINESS

NEW BUSINESS

2. Embezzlement Debrief - Korach - 5 minutes

Korach mentioned there are no further updates related to the Embezzlement. Korach shared that in the pretrial conference held in February, no agreement was reached. Korach added that a pretrial conference is slated for April 15, 2020, but due to COVID-19, it has been further postponed to May 27, 2020.

3. Budget Format Review- Korach - 15 Minutes

Chairman Schmidt summarized the audit committee's task in reviewing the budget format. Audit subcommittee consisting of Chairman Schmidt and Vice Mayor Paul performed the budget format review for FY 2019-20. Korach proceeded by sharing the budget format and pointed out the conclusions and recommendations that resulted from the initial and formal comments, questions, and observations made by the subcommittee. Mentioning that staff will continue to address the challenge of bridging the intellectual gap and making sure that information can be found in one central location. Korach discussed the onboarding of OpenGov and the transparency portal to provide the City's financial data to community members. Korach recommended bringing this item back to the next audit committee meeting, scheduled for October 27, 2020, to discuss further city staff recommendations in establishing a policy or

procedure to structure language for OpenGov navigation and set a threshold at a department or fund level.

Chairman Schmidt inquired about the questions regarding the staff report and asked about question 9A, which referenced the current Policy, that stated: “ensure that enterprise activities remain self-supporting.” Korach explained the verbiage change from “ensuring” to “monitor”, within the fiscal policy section in the proposed budget document, bringing more clarity and transparency.

Vice Mayor Paul commented on the five primary budget documents for the public and suggested providing a FAQ section.

Korach agreed and decided that City staff will work on the implementation plan to make specific documents available. Korach ensured that information could be centralized and engage the community using an open town hall. Korach mentioned that the budget team may work closely with the communications office to create a timeline for releasing surveys throughout the year.

The audit committee approved the subcommittee report.

4. Quarterly Review of Treasurer’s Report as of March 31, 2020 - Chandler and Korach - 30 minutes

Korach received a question from Chairman Schmidt regarding the City’s cash flow and a request to explicitly include the calculation within the staff report or treasurer’s investment report, ensuring sufficient liquid fund is available during the COVID-19 pandemic, to meet City’s obligations for the next six months. Korach responded that staff does not anticipate a dramatic impact on the City’s cash flows for the last quarter of Fiscal Year 2019-20 because the City has a high level of liquidity.

Chris McCarry from Chandler gave the economic update and reviewed unprecedented Federal intervention. McCarry pointed out that before the pandemic, the economy was strong. McCarry mentioned that due to the CARES Act, \$2.7 trillion has been used to help mitigate the long-term effects of this pandemic. McCarry provided a review of employment and mentioned that the unemployment rate would continue to go up.

McCarry reviewed data from Consumer, Economic Activity, Housing, Manufacturing, and Gross Domestic Product.

Vice Mayor Paul referenced the staff report and asked what the City’s portfolio might look like when looking at the second quarter, referencing the total portfolio balance increase of \$8.7 million.

Carlos Oblites from Chandler explained the portfolio’s design for safety and liquidity. Oblites pointed out that the City entered from a position of strength and has performed as such. Oblites discussed that the treasury and agencies make up approximately 55% of the City’s portfolio and gained considerably. Oblites mentioned that maintaining a diversified portfolio is great to withstand events like the current pandemic.

Korach began reviewing the treasurer's investment staff report and mentioned the portfolio's \$9 million increase over previous quarters to \$154.9 million was related to positive cash flows within the City's operating account.

Vice Mayor Paul suggested doing outreach and providing education to the public on where dollars are being spent, long-term public process and transparency project.

Vice Mayor Paul made a motion to accept the staff report, pursuant to recommended actions and feedback. Angela Chen seconded the motion, which passed unanimously.

5. OPEB & Pension Section 115 Trust Performance Report - US Bank - 20 minutes

Rosenthal gave an overview of the Custom Benchmark and each asset class, range, and target reference to page 4 of the presentation. Rosenthal reviewed the Annual Portfolio values and began by stating that first quarter had a positive performance in 2019, where portfolio was up at almost 21%, and the ending portfolio value in March 2020 was at \$25.4 million, taking the City back to where it was at the end of 2018. Rosenthal pointed out that the quarter rebounded nicely and that the market has gone up on the equity side, mainly due to action from the government and some stimulus being added. Rosenthal discussed that the portfolio went up \$1.7 million since the end of the quarter.

Rosenthal explained that there were changes made to reduce the exposure to more vulnerable markets and taking a conservative approach, sharing that the portfolio stands in a good position.

Vice Mayor Paul asked about City's performance compared to CalPERS and if the discount rate for CalPERS might decrease as a result of the market.

Mitch Barker from PARS answered that a year from now, the discussions will be underway and could take a year to go from the current 7% discount rate to a 6.5% discount rate.

The audit committee accepted the OPEB & Pension Section 115 Trust Performance Report.

6. Annual Review of City Investment Policy - Chandler, US Bank, and Korach - 10 Minutes

Korach mentioned that he coordinated with Chandler on the Investment policy, and there are no recommended changes to the City Investment Policy. Korach mentioned there was missing verbiage regarding the City's Section 115 Pension trust. Chairman Schmidt recommended the section be updated as the first bullet point on page 12 of the Policy be addressed more thoroughly.

Vice Mayor Paul motioned to approve the Investment Policy subject to Chairman Schmidt's suggestions. Angela Chen seconded. The motion passed unanimously.

Vice Mayor Paul made a motion to move Items 7 - 9 to a future Audit Committee meeting. Angela Chen seconded the motion, which passed unanimously.

7. Internal Audit Work Plan - Korach - 15 minutes

Deferred to next meeting

8. Interim External Audit Procedures - Crowe - *10 minutes*

Deferred to next meeting

9. FY 2018-19 Management Letter Response - Korach - 5 minutes

Deferred to next meeting

10. ADJOURNMENT

The meeting adjourned at 6:10 PM

Recording Secretary
Mariela Vargas