

City of Cupertino  
**Audit Committee Regular Meeting**  
Minutes  
July 28, 2020

**1. CALL TO ORDER**

At 4:02 p.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 (Chandler via conference call), Rick Rosenthal, Carolyn Cox (USBank via conference call), and Mitch Barker (PARS), Mark Steranka (Moss Adams via conference call), Kathy Lai and Matt Geerdes (CROWE via conference call)

**1. APPROVAL OF MINUTES**

Councilmember Sinks moved to approve April 28, 2020, regular meeting minutes and Angela Chen seconded; motion passed unanimously.

**ORAL COMMUNICATIONS**

**OLD BUSINESS**

**NEW BUSINESS**

**2. Internal Audit Work Plan - Moss Adams - 30 minutes**

The internal audit work plan moved from item 5 to item 2 on the Agenda.

Finance Manager, Zach Korach began by stating the impact COVID-19 has on current City operations and mentioning the majority of employees are now working from home. Management was considering deferring the Internal Audit function, staff recommended moving forward with the internal risk assessment.

Mark Steranka from Moss Adams briefed the committee on the project process and mentioned there is currently no work being done due to the shelter-in-place. Steranka noted that the workplan is set to begin in August and through November with the risk assessment. Steranka mentioned that there are currently no concerns with the remote work environment. The risk assessment will have four phases; identifying people to interview, reviewing documents, fact finding and management surveys to measure risk. Interviews will range from the Council level down to management across the organization. Steranka explained Risk Assessment areas of focus having three inputs of opportunity for using risk, strengthening control, and enhancing performance.

### **3. Treasurer's Investment Report for period ending June 30, 2020 – 30 minutes**

Korach began the presentation by prefacing last quarter's treasurer's report that was prepared by Chandler asset management to show on the more internal components of treasury reporting, Liquidity, Cash Flow - Coverage, Cash Flow - Forecasting.

Chris McCarry from Chandler began the review of the economic update.

The labor markets are slower to recover, but seeing positive information as areas of the economy start opening.

McCarry continued by reviewing the portfolio and mentioned that the report complies. McCarry shared that the objective is to provide safety to ensure capital preservation in the overall portfolio, provide sufficient liquidity for cash needs, and market a rate of return. McCarry reviewed the portfolio statistics, sector, quality, duration distribution, and investment performance.

Vice Mayor Paul motioned to approve the treasurer's report. Councilmember Sinks seconded. The motion passed unanimously.

### **4. OPEB & Pension Section 115 Trust Performance Report - US Bank - 30 minutes**

Carolyn Cox from USBank began by briefing the committee on the bank's status and invited Rick Rosenthal to begin the presentation.

Rosenthal began reviewing the OPEB portfolio and period performance. Rosenthal mentioned that the rate of return was 15.48%, and net of fees were 15.42%. Rosenthal began reviewing the 115 Pension trust portfolio and explained that it was decided not to invest immediately since the market was in freefall, but at the beginning of April, it slowly began moving and ultimately invested in entirety.

Korach mentioned that there were some relatively minor adjustments to decrease the risk and the portfolio.

Vice mayor Paul requested that a comparison analysis be made to see how the City is doing compared to neighboring cities.

Korach mentioned that staff is looking at reserve comparisons within the general fund that would include economic uncertainty reserves as well as section 115 trust, and have presented comparative data against neighboring jurisdictions to the City Council.

### **5. Interim report on CAFR and AUP by independent auditor - Crowe - 15 minutes**

Kathy Lai from Crowe began with a presentation on the Financial Statement Audit.

Lai covered the Crowe LLP Audit Team for the City, Engagement Objectives, Planned Audit Deliverable, Planned Audit Timeline.

Matt Geerdes continues with SAS 99 Communications reviewing auditors' responsibilities under Generally Accepted Auditing Standards.

Lai covered the COVID-19 Impact and Crowe's response in conducting audits. Lai continued to share that Crowe has invested in various technologies, CiRT project management platform, and Crowe insight, which allows them to perform quality audits. Lai continued by sharing significant new GASB Pronouncement.

Chairman Schmidt commented on the Cupertino engagement AUP Investment FY20 letter and suggested changes.

#### **6. Budget Format Review - Korach - 5 minutes**

Korach provided a quick overview of the areas that received special attention, that resulted from the audit committee subcommittee for the budget format review. Review GFOA and CSMFO comments on enhancing operating impacts. Capital improvement program and enhance pension obligation and forecast section.

Kristina Alfaro shared with the committee the CAPIO EPIC Award the City of Cupertino received on Community Relations/Participation, 2020 Excellence in Public Communication Award from the Budget and Bites Community Workshop. Thanked the City Council for the idea to bring this workshop forward and to the Administrative Services team for their work in putting the event together.

Vice mayor Paul motion to adjourn subject to the next meeting, scheduled October 27, 2020 meeting. Angela Chen seconded. The motion passed unanimously.

#### **10. ADJOURNMENT**

The meeting adjourned at 6:29 p.m.

*Mariela Vargas*

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Recording Secretary  
Mariela Vargas