

City of Cupertino
Audit Committee Regular Meeting
Minutes
July 26, 2021

CALL TO ORDER

At 4:00 p.m., Daisy Liang called the regular meeting to order. This was a teleconference meeting with no physical location.

ROLL CALL

Committee Members Present: Vice Mayor Chao, Councilmember Moore, Chair Daisy Liang, Vice Chair Angela Chen, Committee Member Song (arrived 10 minutes late)

City Staff Present: Greg Larson, Kristina Alfaro, Zach Korach

Absent: None

Guests: Carlos Oblites and Chris McCarry (Chandler), Rick Rosenthal and Carolyn Cox (US Bank), Mitch Barker and Jennifer Meza (PARS), Kathy Lai and Matt Geerdes (Crowe),

1. APPROVAL OF MINUTES

Councilmember Moore inquired about the Committee titles mentioned in the roll and that Chair Liang and Vice Chair Chen's titles should be updated. Korach confirmed this was an error and would be corrected. Chair Liang moved to approve the May 24, 2021 minutes with the amended edits and Councilmember Moore seconded. The motion carried unanimously with Committee Member Song absent.

ORAL COMMUNICATIONS

Peggy Griffin expressed her thanks for the work the Committee is doing and encouraged the Committee to investigate the cause of issues that are brought to the Committee's attention. She encouraged that these instances be documented and used as test cases in the future.

NEW BUSINESS

2. Multi-Factor Authorization Training from City's Infrastructure Division - 10 minutes

Iqraam Nabi provided the training for the Committee.

3. Quarterly Review of Treasurer's Report as of June 30, 2021 – Chandler and Korach – 75 minutes

Korach discussed the City's cash flow over the previous quarter and throughout the fiscal year ending June 30, 2021. He discussed the 4th quarter \$20 million transfer from the City's operating cash to the investment portfolio for purposes of reducing the liquidity ratio to desired levels. Councilmember Moore asked about the \$20 million transfer and the policy in place that authorized it. Korach noted there is no policy in place primarily because there is no budgetary impact when dollars are transferred from the City's operating account to the City's investment account. Councilmember requested further information be included in the staff report

discussing the process. Vice Chair Chen inquired about the 10% liquidity mark discussed in the staff report and that current liquidity exceeds the 10% level. Korach discussed the liquidity ratio of “1” and the 10% level being estimates based on the City’s operating expenditures. They were established to ensure short-term as well as long-term obligations (cash outflows) are able to be met. He mentioned that although the City’s cash and cash equivalent balance exceeds 10%, the City is anticipating a decline in revenues in the upcoming year that may have an impact on the City’s cash and cash equivalent balance. Vice Chair Chen inquired about the June expenditures being significantly higher than the previous fiscal year. Korach noted this was due to the \$20 million transfer (outflows) from the operating account to the investment portfolio. Vice Chair Chen asked if encumbrances and land acquisitions were included. Korach noted that the recent property acquisition would be captured as an outflow, but encumbrances would not be as they do not represent an outflow of cash. Chair Liang requested that a bank reconciliation be included to better identify the \$20 million transfer. Vice Mayor Chao asked about the frequency of these transfers. Korach noted these are typically completed on an annual basis as sufficient time is needed to accumulate cash and cash equivalents. Vice Mayor Chao wondered if we could transfer these dollars more frequently. Korach noted that since the onset of the pandemic and the unprecedented increase in sales tax was one of the primary drivers for this accumulation of cash and that we would not expect it every year. Korach noted that the quarterly audit committee meetings and the review of the treasurer’s report serves as the assessment and monitoring of the City’s cash and cash equivalent balance. Councilmember Moore inquired about the amount of sales tax actuals in excess of budget. Korach confirmed approximately \$15 million in actual sales tax revenues are estimated above the FY21 adopted budget amount of \$20.9 million. Chair Liang asked how fast the City could get money from the investment portfolio (liquidate). Carlos Oblites discussed the liquidity of the portfolio and the various options the City has. Oblites reminded the Committee that liquidating investments results in potential realized gains and/or losses. Oblites also noted that staff are in constant communication with he and Chris regarding cash and investments activities. Oblites also provided a presentation on the City’s portfolio. Councilmember Moore confirmed the purpose of the LAIF state pool for the City and asked if other agencies solely rely on LAIF. Oblites discussed the varying resources, knowledge, and staffing levels between agencies.

4. OPEB & Pension Section 115 Performance Report – 10 minutes

Mitch Barker provided a presentation on the Section 115 Trusts. Councilmember Moore requested the slides be sent to the Committee and posted online. Rick Rosenthal provided a presentation on the Section 115 Trusts and their respective performance. Councilmember Moore asked about the dip in 2018 and what occurred. Rosenthal explained the political climate in 2017 and its impact on 2018 investment performance. Korach reminded the Committee of the time and the remaining agenda items.

5. Interim Report on CAFR and AUP by Independent Auditor – Kathy Lai and Matt Geerdes provided a report on the interim phase of the audit and the next steps leading up to final issuance. Councilmember Moore requested the slides be sent and posted.

6. HdL Contract and Refund Error – Korach provided a briefing of the staff report. Peggy Griffin spoke on this item thanking the Committee and staff for the report and explanations. She emphasized the issue of invoice date versus date of payment. She also questioned the existence and effectiveness of internal controls regarding the candidate refund error. Vice Chair Chen asked about the outstanding balance yet to be paid to HdL and how that will be resolved. Korach noted that a contract amendment was brought to City Council but not approved and that staff were directed to bring back more information on the item for further consideration. Vice Chair Chen asked if there was sufficient budget to make the payments. Korach explained the issue of invoices not being entered into the financial statement and as a result, no budget issue existed. City Manager Larson expressed his desire to have an opportunity to look into the matter further. Vice Mayor Chao asked who has the responsibility of alerting the City of the excess in rendered services. Korach noted this matter was not the sole fault of any one department or individual, but rather it is a collective responsibility of the contractor as well as the department responsible for managing the contract and/or function. Chair Liang asked about the tracking of the contracts as it relates to the accounts payable process. Korach explained that contracts are generally not included in the backup for invoice processing, but that encumbrance and budget controls are in place to ensure invoice payments do not exceed the contract. In this matter, the invoices were not being entered into the financial system timely and that is a contributing factor to how services rendered exceeded the contracted amount. Councilmember Moore asked about the FY19 and FY20 adopted budget amounts for contract services being less than the contracted amounts and what the significance of the budgeted amounts is. Councilmember Moore expressed concern about the purchasing policy and the authority of the City Manager to amend the contracts. She noted GFOA's best practice for setting up a formal process for maintaining records of complaints/concerns of this nature. City Manager Larson reflected on his previous employer experiences, noting that instances of overbilling, although rare, do occur. He discussed his desire to reach a resolution regarding the HdL matter. Korach added an explanation on the budgeted contract services amounts and their correlation to executed contract amounts, but would need additional time to review the details in order to provide a complete and accurate response. He also reminded the Audit Committee of the internal audit work plan and the fraud waste and abuse program that is slated to be completed during FY21-22 that will surely assist in the independent maintenance and record keeping of audit related observations, concerns, and complaints. Councilmember Moore motioned to move items 6, 8, 9, and 10 to a special meeting to be scheduled. Vice Mayor Chao seconded. Motion carried unanimously by all members present.

7. Audit Committee Meeting Frequency

Larson and Korach provided a briefing on the staff report. Vice Mayor Chao recommended having eight (8) regular meetings for purposes of predictability. Councilmember Moore noted that City Council provided direction for the Committee to meet monthly. She preferred having eight (8) predictable/regular meetings. Vice Chair Chen noted she was fine with having eight (8) meetings, but to have four (4) of them to be reserved as special for purposes of attendance. Vice Mayor Chao expressed concern about establishing special meetings due to the lack of attendance requirements. Councilmember Moore echoed the Vice Mayor's comments. Vice Chair Chen assured her intention is not to miss any meetings. Vice Mayor Chao proposed

scheduling special meetings for the remainder of the calendar year and revisit this discussion at the Committee's next regularly scheduled meeting with proposed changes to the frequency effective for the next appointment of Committee members. Committee Member Song stated she was flexible with the various proposals made by Committee Members. Peggy Griffin agreed with Vice Mayor Chao's recommendation, but also expressed concerns about being able to miss special meetings and recommended that the special meetings be pre-scheduled and agreed upon. Vice Mayor Chao motioned to direct staff to bring this item back at the next regularly scheduled meeting. Councilmember Moore noted that a motion is not required if the Chair desires to have it added to the agenda. Councilmember Moore motioned to move items 6, 8, 9, and 10 to a special meeting to be scheduled. Vice Mayor Chao seconded. Motion carried unanimously by all members present.

9. Budget Format Review

Councilmember Moore motioned to move items 6, 8, 9, and 10 to a special meeting to be scheduled. Vice Mayor Chao seconded. Motion carried unanimously with Vice Chair Chen absent.

10. Follow-up on Previous FY Management Letter Items and Management Response

Councilmember Moore motioned to move 6, 8, 9, and 10 to a special meeting to be scheduled. Vice Mayor Chao seconded. Motion carried unanimously by all members present.

11 - Embezzlement Debrief – Councilmember Moore motioned to move items 6, 8, 9, and 10 to a special meeting to be scheduled. Vice Mayor Chao seconded. Motion carried unanimously by all members present

OLD BUSINESS

None.

STAFF AND COMMITTEE REPORTS

None.

ADJOURNMENT

The meeting adjourned at 6:45 p.m.

Recording Secretary:

Zach Korach, Finance Manager

