

City of Cupertino  
**Audit Committee Regular Meeting**  
Minutes  
September 27, 2021

**CALL TO ORDER**

At 4:00 p.m., Vice Chair Chen called the special meeting to order. This was a teleconference meeting with no physical location.

**ROLL CALL**

Committee Members Present: Chair Daisy Liang (arrived shortly after roll call), Vice Chair Angela Chen, Committee Member Song (arrived late), Vice Mayor Chao, Councilmember Moore

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

Absent: None

Guests: Colleen Rozillis, Moss Adams

**1. APPROVAL OF MINUTES**

Councilmember Moore inquired about the alphanumeric sequencing and consistency of items from the regular meeting minutes of 7.26.21 to the published agenda. Korach noted that this would be corrected and brought back to the Committee at the next regular meeting.

Councilmember Moore moved to approve the minutes of the 8.30.21 special meeting and await the correction to the 7.26.21 minutes. Chair Liang seconded and the motion carried unanimously by all members present.

**ORAL COMMUNICATIONS**

None

**NEW BUSINESS**

**2. Internal Audit Update – 25 minutes**

Colleen Rozillis from Moss Adams provided an update on the internal audit plan for the fiscal year as well as for the procurement operational review. Councilmember Moore asked whether the oversight bodies of other agencies receiving internal audit services have access to members of Moss Adams. Rozillis confirmed they do and proposed various options to facilitate communications. Rozillis also explained the working structure with City staff. Councilmember Moore requested Audit Committee and Councilmembers be included on future surveys that are being completed by City staff. Vice Chair Chen asked if City Council reviewed the internal audit enterprise risk assessment and wondered how the projects were being prioritized. Rozillis explained the process for prioritization and the multi-year strategy of an internal program. Korach confirmed that the report was provided to City Council. Vice Mayor Chao also confirmed that the City Council accepted the internal audit plan. Vice Mayor Chao also inquired about the timing of projects on a multi-year projects and the process. Rozillis explained

the process for identifying projects based on the risk assessment report and ensuring that Moss Adams has “made the rounds” across the organization. Vice Chair Chen asked about the procurement review and if Moss Adams has specialized personnel working on the engagement. Rozillis noted that herself along with other team members have extensive experience working on procurement engagements in the public sector. Chair Liang asked about credit card testing. Rozillis explained the process for conducting the procurement operational review and noted that further engagements may result from the findings and observations of the review. Rozillis noted the goal was to complete this procurement operational review by the end of the calendar year. Vice Mayor Chao inquired about the survey questions being asked. Rozillis explained the strategy for conducting interviews and that interview guides and systems are used; however, additional questions may be asked depending on the interview content. All participants will be asked basic questions regarding procurement; however, additional questions will be asked depending on the participants’ role in procurement. Vice Mayor Chao asked if contractors are included on the surveys and Rozillis said she could work with City staff to obtain the contact information to conduct the surveys. Councilmember Moore expressed interest about the process of contractors involved in the RFP processes and how other agencies handle the process. Rozillis explained the various practices of other agencies and noted the review would include discussion over the City’s practices.

### **3. Review and Consider Accepting OPEB and Pension Investment Trust Policies – 60 minutes**

Korach provided a brief introduction to the item and Thomas Leung provided a presentation on the City’s OPEB and Pension plans, identified challenges, and funding strategies. Thomas concluded with a recommendation to accept the trust policies with no changes to the current discount rates/target rate of return for either investment trust. Chair Liang asked about and Leung explained the relationship of the discount rate and the City’s contributions and how CalPERS’ decisions may impact the City’s required contributions. Additionally, he explained the importance of the Section 115 Pension Trust for mitigating the fiscal impacts of those decisions. Vice Chair Chen asked about the funding strategy of the pension trust and additional contributions made by the City. Thomas explained the five year funding strategy and the 20-year return, balance, and theoretical funded status goals. He also explained CalPERS’ risk mitigation policy and their asset liability management process. Vice Chair Chen asked about the employer cost and how they’re impacted. Leung noted that it’s dependent on the group the employee belongs to based on state policy. Councilmember Moore inquired about the policy drafts and how they were originally derived and specifically the listed prohibited investments. Korach noted that he would consult with US Bank regarding any possible recommended changes to the policies. Councilmember Moore requests comparative data with other jurisdictions be included. Korach added that comparative data regarding investment strategy/approach was looked at in the previous fiscal year and that the results vary by jurisdiction based on their respective needs, both current and projected. Korach explained the basis for the “balanced” approach for the City and noted that comparative data regarding permitted and prohibited investment classes can be provided. Councilmember Moore asked about a “dip” in one of the charts presented as well as the steep initial incline in the funding and projection chart. Leung explained the future reduction in annual required contributions as a result of the unfunded liability eventually being paid off. Leung explained the steep incline

resulting from the City's contributions made in the first five years whereas future increases are resulting from earnings. Vice Mayor Chao inquired about the pension liability and which specific liabilities/employee services the City is responsible for paying. Director Alfaro noted that the City is responsible only for the pension benefit corresponding to the employee service rendered for Cupertino. Councilmember Moore inquired about socially and environmentally responsible investing as a component of the investment policy and if the City has considered this. Korach referenced previous discussions from 2019 regarding the consideration of divesting from fossil fuels. He discussed the portfolios' current status and the challenges that were identified at that time and that the Audit Committee had not taken action to bring a policy decision forward to City Council. Councilmember Moore inquired about SB 792 and its impact on the City. Korach agreed to the Bill's importance and that legislation potentially impacting the City's sales tax revenues might not be within the purview of the Audit Committee, but at the very least would be communicated directly to City Council as part of the quarterly budget reports. Committee Member Song expressed concerns about the internal controls and segregation of duties at US Bank and Chandler. Korach reminded the Committee that US Bank and Chandler operate in a fiduciary capacity for the City and are required to invest in accordance with the City's adopted investment policies. Additionally, our external consultants prepare and provide to the Audit Committee and City Council quarterly reports for purposes of validating the portfolios' compliance with said policies. Chair Liang requested this item be brought back at the next regular meeting to discuss comparative data regarding prohibited and permitted investments and target rates of return.

#### **4. Budget Format Review Summary and OpenGov Study Session – 10 minutes**

The Committee continued this item to a special meeting in November 2021.

#### **5. HDL Contract and Refund Error – 5 minutes**

At the request of Interim City Manager Larson, the Committee continued this item to the next regular meeting in October 2021.

#### **6. Audit Committee Meeting Frequency – 25 minutes**

After deliberation from the Committee, Vice Chair Chen moved to increase the regular meeting frequency from four (4) to eight (8) meetings per calendar year, starting in calendar year 2022. Vice Mayor Chao seconded and the motion carried unanimously by all members present.

#### **OLD BUSINESS**

None.

#### **STAFF AND COMMITTEE REPORTS**

None.

#### **FUTURE AGENDA SETTING**

None.

#### **ADJOURNMENT**

The meeting adjourned at 6:00 p.m.

Recording Secretary:  
Zach Korach, Finance Manager

A handwritten signature in blue ink, appearing to read "Zach Korach", is positioned below the printed name.