

City of Cupertino  
**Audit Committee Regular Meeting**  
Minutes  
November 15, 2021

**CALL TO ORDER**

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

**ROLL CALL**

Committee Members Present: Chair Daisy Liang, Vice Chair 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: Rick Rosenthal, Mark Steranka (Moss Adams)

**1. APPROVAL OF MINUTES**

Vice Mayor Chao moved to approve the regular meeting minutes of October 25, 2021. Chair Liang seconded and the motion carried unanimously with Vice Chair Chen abstaining

**ORAL COMMUNICATIONS**

None.

**NEW BUSINESS**

**2. Review and Consider Accepting OPEB and Pension Investment Trust Policies – 45 minutes**

Korach provided a brief presentation on the OPEB and Pension Investment Trusts, including their purpose, roles and responsibilities, and recommended revisions to the draft policies. Councilmember Moore inquired about the December 7<sup>th</sup> approval date as well as the benchmark target that were established. Rick Rosenthal explained the benchmarks and the broadest measures used. Councilmember Moore expressed concern about commodity benchmarks existing despite no commodities included in the portfolio. Rosenthal explained the methodology of commodities within US Bank and that the range is from 0-2%. Vice Mayor Chao asked if the Committee reviews the policy every year. Vice Mayor Chao discussed the return performance of the trusts compared to the target rate of return and the strong performance by US Bank. Vice Mayor Chao asked how points within a range are determined and which asset class has seen the strongest return over the previous year. Rosenthal explained how equities have been the strongest class and how US Bank operates tactically through market conditions and how it affects the ranges. Chair Liang asked how quickly US Bank responds to market conditions. Rosenthal noted that it's constantly being evaluated, but significant changes do not occur regularly. Councilmember Moore inquired about the discount rate or target rate of return and how the Committee can recommend to Council without having discussion. Korach noted that the discount rate or target rate of return is determined by Audit Committee and

recommended to City Council and that the discount rate and sensitivity analysis was presented during the September special meeting. Councilmember Moore referenced a staff report from 2019 that offered additional information. Korach discussed the history of the discount rate/target rate of return reductions and the recommendation to maintain the current rates for the next year. Councilmember Moore requested the updated analysis. City Manager Larson inquired about CalPERS media attention and where the City thinks they might go in terms of discount rate reductions. Thomas Leung noted that CalPERS would be making a final determination between 6.5%-7% during their November board meeting. Councilmember Moore moved to accept the policies as stated with an updated discount rate and sensitivity analysis brought to the Committee at a future meeting. Vice Mayor Chao seconded and the motion carried unanimously.

### **3. HdL Contract and Candidate Refund Error – 35 minutes**

City Manager Larson highlighted the HdL contract challenges as discussed in the staff report. Larson discussed aspects of budget and purchasing authority. Committee Member Song asked about Moss Adams audit and the ethics, transparency, and segregation of duties. Larson discussed the various internal controls and cost benefit considerations. Vice Mayor Chao noted that the contract issue still should have been prevented/detected and wondered what can be done in the future. Larson noted that bringing the function in-house would assist with the oversight as well as the cost. Vice Chair Chen asked about a potential purchasing manager – Larson suggested waiting for the internal audit report to receive recommendations from Moss Adams. Vice Chair Chen also asked about the use of work orders. Larson agreed that the use of work orders could be beneficial. Vice Chair Chen asked about the City Manager's budget authority. Larson noted that purchasing authority was \$175,000. Councilmember Moore discussed the history of the contract amendments and noted that the first contract was exceeded as well. Councilmember Moore expressed interest in ensuring the contract service and other budget account line item amounts provide more control. Councilmember Moore noted that the delivering of masks should have been covered under the CARES Act. Peggy Griffin thanked the Committee and staff for looking into the matter and requested that Larson's presentation be attached to the agenda materials. Korach provided an update on the refund error and noted that this is an opportunity for improvement and the City is eager to receive Moss Adams' recommendations for implementation considerations. Vice Mayor Chao agreed and requested a final resolution/response to these matters come back to the Committee. Vice Chair Chen expressed interest in seeing the final resolution as decided by City Council.

Vice Chair Chen motioned to move items 4, 5, 6 to a future meeting. Councilmember Moore seconded and the motion carried unanimously by all members present.

### **OLD BUSINESS**

None.

### **STAFF AND COMMITTEE REPORTS**

None.

**FUTURE AGENDA SETTING**

A special meeting on December 13, 2021 will be scheduled to discuss items 4, 5, and 6 as well as the discount rate sensitivity analysis.

**ADJOURNMENT**

The meeting adjourned at 6:00 p.m.

Recording Secretary:

A handwritten signature in blue ink, appearing to read "Zach Korach", is written over the text "Recording Secretary:".

Zach Korach, Finance Manager