

City of Cupertino
Audit Committee Regular Meeting
Minutes
May 24, 2022

CALL TO ORDER

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

ROLL CALL

Committee Members Present: Chair Kitty Moore, Mayor Darcy Paul, Committeemember Hammer

City Staff Present: Thomas Leung, Beth Viajar

Absent: Committeemember Song, Vice Chair Angela Chen

Guests:

ORDERS OF THE DAY

APPROVAL OF MINUTES

ORAL COMMUNICATIONS

None.

NEW BUSINESS

6. Receive report on Interim Audit and AUP Engagements and provide direction

Staff recommended that this item be postponed until the next meeting because the ACFR was delayed due to the single audit. Chair Moore asked for a reminder of what the single audit was. Leung noted that the single audit was conducted for FY 2021 due to the grant revenues received from the American Rescue Plan Act. The expenditures were over a certain threshold, so the auditors conducted a single audit. Mayor Paul moved this item to a date uncertain. Committeemember Hammer seconded. Motion carried unanimously by all members present. Vice Chair Chen and Committeemember Song absent.

7. Review Monthly Treasurer's Report for March 2022 and recommend filing with City Council

Leung noted that this item was presented at the April meeting and would answer any questions. Chair Moore asked Leung to pull up the reports for journal adjustments and asked what those were. Leung noted that we had journal adjustments in March due to the mid-year report that went to Council in March, which included a \$10 million transfer to the Capital Reserve and other adjustments requested by departments. Committeemember Hammer inquired if these adjustments were made due to the review of closed results or for budgetary or funding reasons prior to the close of the books. Leung noted that the adjustments were made prior to the close of the books. Leung showed a report of receipts, disbursements, and journal adjustments. Journal adjustments include transactions that take place in other systems. For example, revenues received

in the Parks and Recreation system would not be recorded in the financial system but as journal adjustments. Chair Moore said that the Environmental Management Clean Creek Storm Drain Special Revenue Fund had a journal adjustment of \$104k. What does this mean? Leung noted that he would have to look into the details for that specific adjustment. Adjustments may have been due to transfers between funds. Chair Moore said this should be looked into as Special Revenue Funds are for a designated purpose. The same with BMR Housing and Transportation funds. She requested that the budget have the mechanism which created them. She said she could locate some within the municipal code. For example, the purpose of the Tree Fund wasn't clear. She noted that the Park Dedication Fund had a policy associated with this fund. The fees came from a certain zone. The money would benefit the zone, and if there were no projects within that area, it would go out to a wider area. She inquired where that policy exists and, as this item is going to City Council to include a table that will explain these funds in the staff report. She noted statutory requirements for some of these Special Revenue Funds. If you have not expended the money or identified where it will be spent within five years of receiving the funds, it would need to be refunded. Mayor Paul motioned. Committeemember Hammer seconded. Motion carried unanimously by all members present. Vice Chair Chen and Committeemember Song absent.

9. Receive Audit Committee 2022 Schedule and Work Plan and provide direction to staff

Leung provided an overview of the 2022 Schedule and Work Plan. No public comment. Chair Moore commented on how the budget format review is shown for May 23rd, but it was not shown on the agenda yesterday. She asked if the internal audit update would take place in June. Leung noted they planned to bring the two internal audit policies to Council in June and would work with the auditors to bring the work plan in June or July. Chair Moore asked if recommendations regarding the budget review, such as having a budget auditor, would be under future agenda-setting or the work plan. Leung noted that input could be provided when the internal auditors come in June or July to discuss the work plan. It could also be stated here, and staff has noted that recommendation. Chair Moore commented on the budget format review from 1995 when the head of the finance department was the chair. They had a discussion and decided the budget format review was one of the Audit Committee's duties. The rationale was that the City Council did the budget review. She said the budget format review should be a budget review and a budget format review. She added that it was a severe handicap. She hoped it could be remedied when it went to Council. Committeemember Hammer asked if the Audit Committee looked at budget versus actuals on a regular basis. Leung noted that the Audit Committee did not. City Council reviewed budget versus actuals as part of the quarterly financial reports. Committeemember Hammer asked if we reviewed the budget, would we consider also looking at the performance of the budget on a regular basis. Leung noted that he would check with the City Attorney to see if a budget review could be added. Chair Moore asked about the frequency of the appointment of auditors. Leung noted that it was approximately every 4-5 years and believed that the Audit Committee would be reviewing the appointment of an auditor in FY 2024. Chair Moore asked for confirmation regarding whether the review of the City's investment policies and internal controls is around the Chandler account investments and the US bank accounts. Leung confirmed. The Audit Committee reviews the pension and OPEB investment policies in September/October and the City Investment Policy, which governs the Chandler investments, in April. Chair Moore asked the difference between recommending the appointment of auditors and the appointment of

internal auditors. Leung noted that one was for external auditors and one was for internal auditors. Chair Moore asked if they suggested a budget audit would that be something Moss Adams would apply for or make a bid for. Leung said he would need to confirm with the City Attorney. Chair Moore asked if we could bring this back to the June 27th meeting as a potential work plan item to investigate having a budget audit. Leung noted that staff would check with the City Manager to see what he recommended. Currently, the external auditor audits budget versus actuals, and the internal auditor audits the City's budget policies. Committeemember Hammer noted that the external auditors audit budget versus actuals and if we can request results of that audit on a regular basis. Leung confirmed that it can be requested and will bring the external auditors back for further discussion. Chair Moore asked if the external auditors could look at it quarterly. Leung noted that staff would look into it.

OLD BUSINESS

None.

STAFF AND COMMITTEE REPORTS

FUTURE AGENDA SETTING

ADJOURNMENT

The meeting adjourned at 4:30 p.m.



Recording Secretary:

Janet Liang, Administrative Assistant