



# CITY OF CUPERTINO

## AGENDA

### AUDIT COMMITTEE

**This will be a teleconference meeting without a physical location.**

**Monday, September 27, 2021**

**4:00 PM**

#### Special Meeting

#### **TELECONFERENCE / PUBLIC PARTICIPATION INFORMATION TO HELP STOP THE SPREAD OF COVID-19**

In accordance with Governor Newsom's Executive Order No-29-20, this will be a teleconference meeting without a physical location to help stop the spread of COVID-19. Members of the public wishing comment on an item on the agenda may do so in the following ways:

- 1) E-mail comments by 2:00 p.m. on Monday, September 27 to the Audit Committee at [AuditCommittee@cupertino.org](mailto:AuditCommittee@cupertino.org). These e-mail comments will be received by the Audit Committee members before the meeting and posted to the City's website after the meeting.
- 2) E-mail comments during the times for public comment during the meeting to the Audit Committee at [AuditCommittee@cupertino.org](mailto:AuditCommittee@cupertino.org). The staff liaison will read the emails into the record, and display any attachments on the screen, for up to 3 minutes (subject to the Chair's discretion to shorten time for public comments). Members of the public that wish to share a document must email [AuditCommittee@cupertino.org](mailto:AuditCommittee@cupertino.org) prior to speaking.
- 3) Teleconferencing Instructions  
Members of the public may observe the teleconference meeting or provide oral public comments as follows:

Oral public comments will be accepted during the teleconference meeting. Comments may be made during "oral communications" for matters not on the agenda, and during the public comment period for each agenda item.

To address the Audit Committee, click on the link below to register in advance and access the meeting:

Online

Please click the link below to join the webinar:

You are invited to a Zoom webinar.

When: Sep 27, 2021 04:00 PM Pacific Time (US and Canada)

**Topic: Cupertino Special Audit Committee Teleconference Meeting - September 27, 2021  
(Meeting Begins at 4:00 PM)**

**Register in advance for this webinar:**

**[https://cityofcupertino.zoom.us/webinar/register/WN\\_rgTRWcp1SkG36lTQ2NMtZA](https://cityofcupertino.zoom.us/webinar/register/WN_rgTRWcp1SkG36lTQ2NMtZA)**

**Or an H.323/SIP room system:**

**H.323:**

**162.255.37.11 (US West)**

**162.255.36.11 (US East)**

**213.19.144.110 (Amsterdam Netherlands)**

**213.244.140.110 (Germany)**

**103.122.166.55 (Australia Sydney)**

**103.122.167.55 (Australia Melbourne)**

**69.174.57.160 (Canada Toronto)**

**65.39.152.160 (Canada Vancouver)**

**Meeting ID: 969 1328 3822**

**SIP: 96913283822@zoomcrc.com**

**After registering, you will receive a confirmation email containing information about joining the webinar.**

**Please read the following instructions carefully:**

- 1. You can directly download the teleconference software or connect to the meeting in your internet browser. If you are using your browser, make sure you are using a current and up-to-date browser: Chrome 30+, Firefox 27+, Microsoft Edge 12+, Safari 7+. Certain functionality may be disabled in older browsers, including Internet Explorer.**
- 2. You will be asked to enter an email address and a name, followed by an email with instructions on how to connect to the meeting. Your email address will not be disclosed to the public. If you wish to make an oral public comment but do not wish to provide your name, you may enter "Cupertino Resident" or similar designation.**
- 3. When the Chair calls for the item on which you wish to speak, click on "raise hand." Speakers will be notified shortly before they are called to speak.**
- 4. When called, please limit your remarks to the time allotted and the specific agenda topic. In compliance with the Americans with Disabilities Act (ADA), anyone who is planning to attend this teleconference meeting who is visually or hearing impaired or has any disability that needs special assistance should call the City Clerk's Office at 408-777-3223, at least 48 hours in advance of the meeting to arrange for assistance. In addition, upon request, in advance, by a person with a disability, meeting agendas and writings distributed for the**

meeting that are public records will be made available in the appropriate alternative format.

*Special Meeting*

## ROLL CALL

## APPROVAL OF MINUTES

1. Subject: Approve minutes of Regular Meeting on July 26, 2021 and Special Meeting on August 30, 2021  
Recommended Action: Approve minutes of Regular Meeting on July 26, 2021 and Special Meeting on August 30, 2021  
[A - Minutes 07.26.21](#)  
[B - Minutes 08.30.21](#)

## ORAL COMMUNICATIONS

*This portion of the meeting is reserved for persons wishing to address the Committee on any matter within the jurisdiction of the Committee and not on the agenda. Speakers are limited to three (3) minutes. In most cases, State law will prohibit the Commission from making any decisions with respect to a matter not on the agenda.*

## NEW BUSINESS

2. Subject: Receive Internal Audit Update  
Recommended Action: Receive Internal Audit Update  
[A - Internal Audit Status Report](#)  
[B - City of Cupertino Procurement Operational Review - Project Plan](#)
3. Subject: Review and Consider Accepting OPEB and Pension Investment Trust Policies  
Recommended Action: Review and Consider Accepting OPEB and Pension Investment Trust Policies  
[A - Staff Report](#)  
[B - OPEB Trust Investment Draft Policy](#)  
[C - Pension Trust Investment Draft Policy](#)
4. Subject: Budget Format Review Summary and OpenGov Study Session  
Recommended Action: Consider the Budget Format Review Summary and Conduct OpenGov Study Session  
[A - Budget Format Review Update](#)  
[B - Sub-Committee Initial Comments on Budget Format Review](#)  
[C - Sub-Committee Formal Memorandum on Budget Format Review](#)  
[D - Budget Format Review Update PPT](#)  
[E - Questions Regarding the Current Budget Report](#)

5. Subject: HdL Contract and Refund Error  
Recommended Action: Accept HdL Contract and Refund Error  
[A - Staff Report](#)
6. Subject: Audit Committee Meeting Frequency  
Recommended Action: Consider Approving Changes to the Audit Committee Meeting Frequency  
[A - Staff Report](#)

## OLD BUSINESS

## STAFF AND COMMITTEE REPORTS

## FUTURE AGENDA SETTING

## ADJOURNMENT

*In compliance with the Americans with Disabilities Act (ADA), anyone who is planning to attend this teleconference meeting who is visually or hearing impaired or has any disability that needs special assistance should call the City Clerk's Office at 408-777-3223, at least 48 hours in advance of the meeting to arrange for assistance. In addition, upon request, in advance, by a person with a disability, meeting agendas and writings distributed for the meeting that are public records will be made available in the appropriate alternative format.*

*Any writings or documents provided to a majority of the members after publication of the agenda will be made available for public inspection. Please contact the City Clerk's Office in City Hall located at 10300 Torre Avenue, Cupertino, California 95014, during normal business hours.*

*IMPORTANT NOTICE: Please be advised that pursuant to Cupertino Municipal Code section 2.08.100 written communications sent to the Cupertino City Council, Commissioners or City staff concerning a matter on the agenda are included as supplemental material to the agendized item. These written communications are accessible to the public through the City's website and kept in packet archives. Do not include any personal or private information in written communications to the City that you do not wish to make public, as written communications are considered public records and will be made publicly available on the City website.*

*Members of the public are entitled to address the members concerning any item that is described in the notice or agenda for this meeting, before or during consideration of that item. If you wish to address the members on any other item not on the agenda, you may do so during the public comment.*



# CITY OF CUPERTINO

## Agenda Item

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**21-9870**

**Agenda Date: 9/27/2021**

**Agenda #: 1.**

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Subject: Approve minutes of Regular Meeting on July 26, 2021 and Special Meeting on August 30, 2021

Approve minutes of Regular Meeting on July 26, 2021 and Special Meeting on August 30, 2021

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 4<sup>th</sup> 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 5E, 5G, 5H, and 5I 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 5E, 5G, 5H, and 5I 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 5E, 5G, 5H, and 5I 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 items 5E, 5G, 5H, and 5I 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 5E, 5G, 5H, and 5I 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

City of Cupertino  
**Audit Committee Special Meeting**  
Minutes  
August 30, 2021

**CALL TO ORDER**

At 4:00 p.m., Chair 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

Absent: Committee Member Song

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

Absent: None

Guests: None

**1. APPROVAL OF MINUTES**

Vice Chair Chen inquired about item 5E (HdL Contract and Refund Error) and 5F (Audit Committee Meeting Frequency) and the reference to Vice Chair Chen being absent. Korach noted that Vice Chair Chen may not have been present for the formal motion, but that he would revisit the recording and modify the verbiage in the minutes to “motion carried unanimously by all members present.” Councilmember Moore suggested the numbering of the minutes correspond to the agenda. Vice Chair Chen moved to have the minutes brought back at a future meeting to include the revisions discussed. Chair Liang seconded and the motion carried unanimously with Committee Member Song absent.

**ORAL COMMUNICATIONS**

None.

**NEW BUSINESS**

**2. HdL Contract and Refund Error - 15 minutes**

Interim City Manager Greg Larson requested this item be continued to a future Audit Committee meeting to provide a more complete response to questions received from the Committee. Councilmember Moore motioned to continue the item until further information is obtained from staff. Vice Mayor Chao seconded. The motion carried unanimously with Committee Member Song absent.

**3. Budget Format Review – 70 minutes**

Korach provided a brief introduction of the item. Councilmember Moore requested history of the budget and the changes that have been made in recent years. Korach discussed the use of Opengov’s Transparency Portal and Stories. Director Alfaro also discussed the electronic

publishing of the City's interactive quarterly budget reports and the resident tax calculator. Councilmember Moore inquired about the public engagement and feedback on the budget, specifically regarding how much money the City has to spend on future projects. Korach referenced budget workshops that staff have conducted for the Community which teaches the budget process and allows residents to balance their own budget, build their own forecast, and prioritize spending. Korach also explained the relationship of cash and investments to fund balance and the potential opportunity to expand upon that topic through Opengov Stories and the quarterly budget reports. Councilmember Moore inquired about the budget format review process and how current and future sub-committees could move forward most efficiently. Director Alfaro discussed the regular presentations and staff recommendations provided to City Council regarding the City's fund balance. She explained that budget format review changes were historically communicated to Council and that substantive budget format changes were minimal in the previous sub-committee's recommendations as they were more applicable to Opengov. Vice Chair Chen noted that many observations are content oriented rather than format related. She noted that the format of the budget document was really good. She inquired about City Council's budget program and the details of the cost allocation revenues. Vice Chair Chen suggested that fund balance and changes in accordance with the fund balance policy receive more attention. Councilmember Moore discussed the City of Sunnyvale breaking out their operating and CIP budgets, that the budget format review should only focus on the format rather than the content, and that the timing of process was a bit compressed for FY 21-22. She suggested having the organization charts updated more frequently and that budget amendment authority/process be expanded upon. Vice Chair Chen noted that the budget at a glance was a very helpful document. She recommended that the budget message be addressed to both City Council as well as the Cupertino Residents. Director Alfaro and Korach noted that the City was successful in adding the historical staffing charts and account level detail in FY 21-22. Councilmember Moore asked about Opengov's annual budget page and a discrepancy with the printed document. Korach explained this was likely due to the filter selections and that the data in Opengov agrees with the printed document. Councilmember Moore noted having difficulty navigating Opengov and requested that the landing pages include all of the City's funds as opposed to only the General Fund. Chair Liang asked what the amended budget amounts on Opengov mean. Korach explained the carryover process and how the amended budget changes throughout a fiscal year. Councilmember Moore expressed interest in having the Committee's questions regarding Opengov addressed. She also inquired about the capital budget amounts and why the budget is so large in the most recent year. Korach explained the reason for the amended budget being significantly higher in the current year than previous years. Councilmember Moore requested additional text/narrative be included to accompany the data. Chair Liang confirmed the capital budget process with clarifications from Director Alfaro. Vice Chair Chen suggested a budget calendar be created. Alfaro and Korach presented the budget calendar/cycle included in the Adopted Budget and quarterly budget presentations. Vice Chair Chen wondered if it could be presented in a table format. Vice Mayor Chao referenced CUSD's budget calendar and their forecast. Councilmember Moore requested clarification on what all of the reports on the City's "Budget and Reports" website landing page are. She suggested establishing a separate sub-committee that would be solely focused on Opengov. Councilmember Moore also inquired about the CIP

budget and if program/budget units could be used for each project. Director Alfaro noted that staff would pass the request along to Public Works as they are the owner of the CIP budget document. Vice Mayor Chao recommended there be more community outreach/engagement in the budget format review. Korach suggested a motion be made to summarize the format review points that were made. Councilmember Moore noted that there were few format review changes and that most of the comments made today are related to Opengov. She suggested continuing this item to summarize the points the Committee is interested in focusing on to provide further direction to staff. This item was continued to a future meeting.

#### **4. Follow-up on Previous FY Management Letter Items and Management Response – 10 minutes**

Korach noted there were no notable items provided by the City's external auditors in FY 19-20. Councilmember Moore asked what the Management Letter actually is. Korach explained what management letters typically include and that the City received no findings from the external auditor in FY 19-20. Councilmember Moore inquired about the timing of the report. Korach noted that the management letter coincides with the issuance of the ACFR (annual comprehensive financial report) and are typically delivered to the City 6 months after the close of a fiscal year. Director Alfaro noted the acronym for the annual financial report has changed from "CAFR" to "ACFR."

#### **5. Embezzlement Update – 10 minutes**

Korach explained the history of this item being added to the regular agenda. He provided a brief history and debrief on the embezzlement and where the legal proceedings currently stand. Councilmember Moore asked what the actual embezzlement was. Korach explained the scheme and the impacted deposit liability accounts. Vice Chair Chen asked how the internal controls were enhanced subsequent to the fraud and discovery of fraud. Korach noted the City's engagement of a forensic accounting firm to validate staff's findings and the exposure of the fraud scheme. A comprehensive internal control review was conducted and presented to the Audit Committee. Korach explained the enhancements achieved through the new system implementation in 2015 and the additional controls implemented subsequent to the discovery. Councilmember Moore inquired about the depositing of the checks and Korach explained the checks were cut to vendors the former Senior Accountant had created and registered in her name.

#### **OLD BUSINESS**

None.

#### **FUTURE AGENDA SETTING – 15 minutes**

Chair Liang suggested adding credit cards to the next meeting. City Manager Larson noted that the internal audit program will begin the procurement operational review that will include credit cards and recommended utilizing the internal auditor's process. Chair Liang suggested having the internal audit work plan brought back to the Audit Committee prior to the commencement of the work. Vice Chair Chen suggested having an Opengov study session in September 2021. Councilmember Moore referenced the Audit Committee Work Plan and

suggested bifurcating items from the October regular meeting to an earlier special meeting in September. Korach noted the OPEB/Pension investment trust policy and Audit Committee meeting schedule could be moved earlier. Vice Chair Chen suggested the budget format review summary be combined with the Opengov study session and that an internal audit update be included. Korach summarized the items to be slated on the agenda for September: Budget format review summary and Opengov study session, OPEB/Pension Trust Investment Policy, Audit Committee meeting frequency, HdL contract and Council candidate refund error, and Internal audit update.

#### **ADJOURNMENT**

The meeting adjourned at 6:00 p.m.

Recording Secretary:

Zach Korach, Finance Manager



# CITY OF CUPERTINO

## Agenda Item

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**21-9871**

**Agenda Date: 9/27/2021**  
**Agenda #: 2.**

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Subject: Receive Internal Audit Update

Receive Internal Audit Update



Date: September 27, 2021  
To: City of Cupertino Audit Subcommittee  
From: Moss Adams  
Subject: Internal Audit Status Report July 1, 2021 through September 15, 2021

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#### Enterprise Risk Assessment

- Objective: Conduct an enterprise risk assessment to gather operational insights sufficient to inform an internal audit program.
- Schedule: September 2020 through December 2020
- Activities for This Period: Presented final report to the City Council in July.
- Activities for Next Period: none
- Issues: none

#### Internal Audit Program

- Objective: Develop an internal audit program to guide internal audit activities for FY 21-22.
- Schedule: February 2021 through April 2021
- Activities for This Period: Presented program to the City Council in July.
- Activities for Next Period: none
- Issues: none

#### Procurement Operational Review

- Objective: Assess the City's procurement function, including structure, policies and procedures, processes, tools, oversight, and training.
- Schedule: September 2021 to through December 2021
- Activities for This Period: Conducted kickoff meeting and finalized project plan.
- Activities for Next Period: Conduct interviews, review documents, and begin developing preliminary findings.
- Issues: none

#### Policy Inventory and Plan

- Objective: Perform an inventory of financial policies, compare to best practices, and establish a prioritized plan to develop/update priority policies.
- Schedule: October 2021 to through December 2021
- Activities for This Period: none
- Activities for Next Period: none
- Issues: none

#### Capital Program Effectiveness Study

- Objective: Assess processes, interdepartmental collaboration, and throughput for capital planning and execution, including contract management and reporting.
- Schedule: December 2021 to through February 2022
- Activities for This Period: none
- Activities for Next Period: none
- Issues: none

#### Fraud, Waste, and Abuse Program

- Objective: Develop a FWA program, including program design, hotline implementation, ongoing hotline administration, and training.
- Schedule: February 2022 to through April 2022
- Activities for This Period: none
- Activities for Next Period: none
- Issues: none





## CITY OF CUPERTINO

### PROCUREMENT OPERATIONAL REVIEW WORK PLAN

PROJECT UNDERSTANDING
<b>OBJECTIVE</b> <p>The goal of this internal audit project to perform an operational assessment of Cupertino's procurement function, including evaluating the structure, function, and role of procurement personnel. We will assess the alignment of procurement services with:</p> <ul style="list-style-type: none"> <li>• City goals, policies, and business plan</li> <li>• Industry best practices</li> <li>• Applicable laws and regulations.</li> </ul> <p>We will also identify opportunities for improvement in service delivery, internal controls, organization, operations, and process efficiency. Our work plan is as follows:</p>

ROLES AND RESPONSIBILITIES	
	<b>Moss Adams</b>
	<b>Project Manager:</b> Colleen Rozillis, Director <a href="mailto:colleen.rozillis@mossadams.com">colleen.rozillis@mossadams.com</a>   M 206.694.9760
	<b>Other Project Staff:</b> Mark Steranka, Partner Angela Janda, Senior Manager Emily Hayes, Manager Jessie Lenhardt, Senior
	<b>City of Cupertino</b>
	<b>Project Sponsor:</b> Cupertino City Council and Audit Committee <b>Project Contact:</b> Zach Korach

WORK PLAN AS OF SEPTEMBER 10, 2021	
FACT FINDING AND DATA COLLECTION	
Conduct interviews with key stakeholders, including but not limited to:	
<ul style="list-style-type: none"><li>• Key staff in departments with procurement and contracting activities</li><li>• Other key personnel in department as identified during the project.</li></ul>	
Analyze available data and documents related to:	
<ul style="list-style-type: none"><li>• Policies and procedures, including, but not limited to:<ul style="list-style-type: none"><li>◦ Purchasing administrative policies and procedures</li><li>◦ Contracting administrative policies and procedures</li><li>◦ City credit cards policy</li><li>◦ Surplus property disposal</li><li>◦ Sole source justifications</li></ul></li><li>• Prior assessment reports of purchasing and contracting functions</li><li>• Job descriptions for purchasing and contracting positions</li><li>• Purchasing and Contracting system documentation</li></ul>	
Conduct Surveys	
<ul style="list-style-type: none"><li>• Internal staff survey: We will administer a short survey to relevant staff to better understand their experience with the various processes related to purchasing and contracting activities.</li></ul>	
Conduct and consolidate research on industry standards and best practices related to procurement	
Deliverables	
	<ul style="list-style-type: none"><li>• Interviewee list</li><li>• Document request</li><li>• Survey questions</li></ul>
ANALYSIS AND ASSESSMENT	
Conduct a gap analysis comparing current state to desired/best practices, and evaluate the importance, impact, potential risks, and scope of our observations.	
Determine if any other documents or staff interviews would be useful to the process and conduct additional data collection.	
Conduct best practice research and peer benchmarking, as appropriate, to identify innovative and emerging practices for procurement service delivery.	
Conduct testing of internal controls and/or procurement records to ensure compliance with City policies and applicable laws and regulations.	

Draft preliminary findings memo summarizing observations and risks based on fact finding and data collection.
Conduct work session with Cupertino staff to discuss preliminary findings.
Develop findings and recommendations for the improvement of service delivery, organizational structure and function, operations, controls, and process efficiency
<b>Deliverables</b>
 <ul style="list-style-type: none"> <li>Preliminary findings memo</li> </ul>
<b>REPORTING</b>
Prepare draft report which includes findings and recommendations.
Review draft report with key stakeholders to validate facts and assess the practicality of recommendations.
Develop a high-level implementation roadmap showing recommended prioritization and anticipated level of effort to implement recommendations.
Deliver finalized report to the City
Present a summary of results to the City's Audit Committee and City Council, as requested.
<b>Deliverables</b>
 <ul style="list-style-type: none"> <li>Draft Report</li> <li>Final Report, with implementation roadmap</li> <li>Presentation of Final Report.</li> </ul>



## PROJECT PLAN TIMELINE

Project timeline Overview	9/13	9/20	9/27	10/4	10/11	10/18	10/25	11/1	11/8	11/15	11/22	11/29	12/6	12/13	12/27	1/3
<b>Fact Finding and Data Collection</b>																
<i>Conduct Interviews</i>																
<i>Gather documentation</i>																
<i>Analyze interviews and documentation</i>																
<i>Conduct an employee survey (optional)</i>																
<b>Preliminary Findings</b>																
<i>Develop preliminary findings</i>																
<i>Review preliminary findings &amp; gather feedback</i>																
<b>Draft Report to City</b>																
<i>Develop draft report</i>																
<i>Review draft report &amp; gather feedback</i>																
<b>Finalize Report</b>																
<i>Develop finalized report</i>																
<i>Report Finalized</i>																
<b>Report Presentations</b>																



# CITY OF CUPERTINO

## Agenda Item

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**21-9872**

**Agenda Date: 9/27/2021**  
**Agenda #: 3.**

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Subject: Review and Consider Accepting OPEB and Pension Investment Trust Policies

Review and Consider Accepting OPEB and Pension Investment Trust Policies



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.ORG

### AUDIT COMMITTEE STAFF REPORT

Meeting: September 27, 2021

#### Subject

Review and Consider Accepting OPEB & Pension Trust Investment Policy Review

#### Recommended Action

Review and Consider Accepting OPEB & Pension Trust Investment Policy Review

#### Discussion

##### *Background*

In FY 2009-10, the City established a Section 115 Trust to help fund its retiree health obligations, also known as other post-employment benefits (OPEB). In FY 2017-18, the City also established a Section 115 Trust to pre-fund its pension obligations and reduce the potential impact of pension cost volatility on the City's operating budget.

The Audit Committee is responsible for reviewing the investment policies for the Section 115 Trusts. On October 22, 2019, the Audit Committee reviewed the investment policies. It adopted an OPEB Trust Investment Policy with a target rate of return of 6.5% and a Pension Trust Investment Policy with a target rate of return of 6.25%. The Investment Manager, US Bank, manages security selection and asset allocation in accordance with the investment policy.

#### **Section 115 Trust Overview**

A Section 115 Trust is a tax-exempt investment tool that allows local governments to pre-fund pension and retiree health costs. The benefits of a Section 115 Trust include the following:

- Local control over assets: The City controls the contributions, withdrawals, investment strategy, and risk level of assets in the Trust.
- Potential for higher investment returns than General Fund: Investment requirements that apply to the City's General Fund assets under Government Code 53601 are not applicable to Trust assets.

- Pension rate stabilization: Assets can be transferred to CalPERS at the City's discretion to pay for Normal Cost or UAL contributions, and can be used to reduce or eliminate large fluctuations in the City's pension costs.
- Diversification: Trust assets will be diversified from CalPERS investments.

### **OPEB Trust Overview**

In FY 2009-10, the City established a Section 115 Trust to help fund its retiree health obligations, also known as other post-employment benefits (OPEB). Compared to a pay-as-you-go plan, the OPEB Trust allows the City to:

- grow assets to pay future OPEB benefits;
- earn higher returns than the General Fund;
- reduce its total cost for providing post-employment benefits; and
- reduce its net OPEB liability.

As of June 30, 2021, the City's OPEB Trust has a market value of \$38.0 million and has earned an annualized investment return of 8.16% gross of fees since inception.

### **OPEB Trust Investment Objective**

The OPEB Trust has a 'Balanced' investment objective with a target rate of return of 6.5%. The investment objective is designed to provide a moderate amount of current income with moderate growth of capital. This objective is recommended for investors with a long-term time horizon. The strategic asset allocation ranges and tactical targets for this objective are listed below:

<b>Asset Class</b>	<b>Range</b>	<b>Target</b>
Fixed Income	20-40%	29%
Equities	50-70%	63%
Real Estate	0-15%	5%
Commodities	0-10%	2%
Cash	0-10%	1%

### **CalPERS Overview**

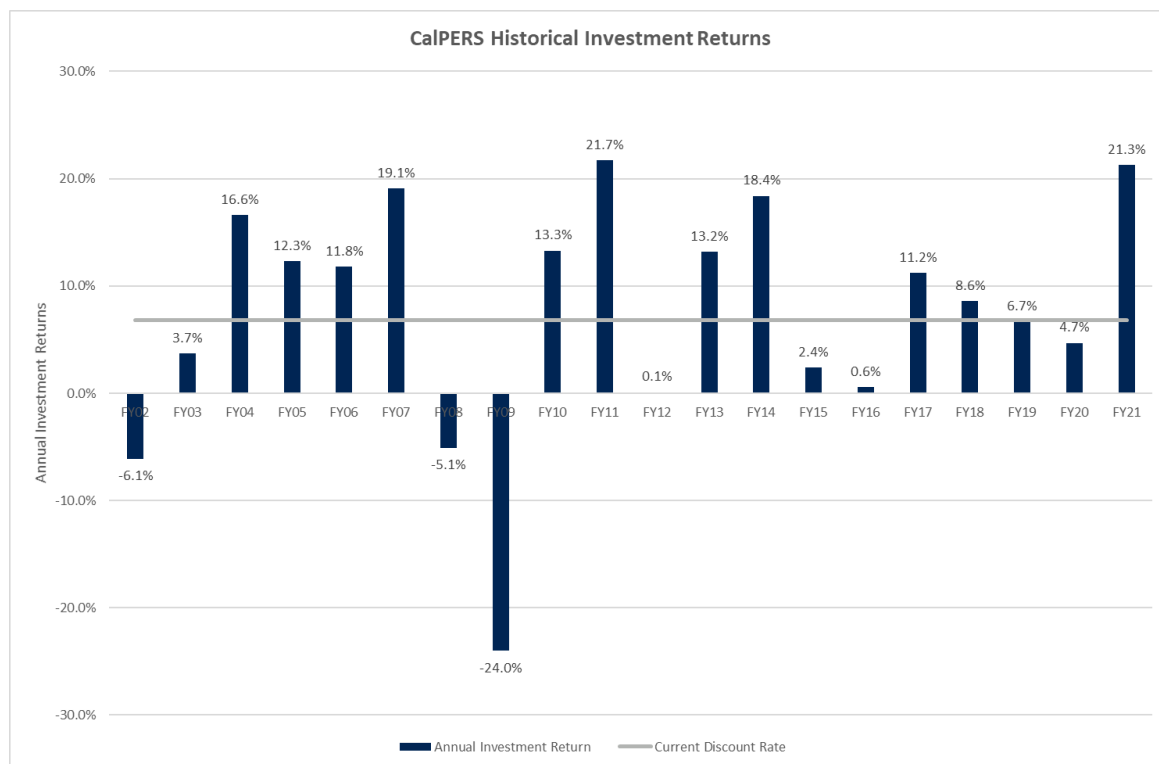
The City provides a defined benefit pension to its employees through the California Public Employees' Retirement System (CalPERS). Retiree pensions are calculated using a formula based on an employee's age, earnings, and years of service, and are funded by a combination of employer contributions, employee contributions, and investment earnings. Each year, CalPERS determines an employer's contributions based on actual investment returns and actuarial assumptions including:

- expected investment returns (discount rates),
- inflation rates,
- salaries,
- retirement ages, and
- life expectancies.

As of the June 30, 2019 actuarial valuation, the City's CalPERS plan has an actuarial liability of \$148.5 million, an unfunded liability of \$49.2 million, and a funded ratio of 66.9%. The unfunded liability is the difference between pension assets and liabilities while the funded ratio is the ratio of pension assets to liabilities.

A defined-benefit plan is considered adequately funded if its assets equal or exceed the value of its future liabilities. When the funded ratio is lower than 100%, the plan has insufficient assets to pay all future liabilities. Poor investment returns during the Great Recession significantly decreased the plan's assets. In addition, enhanced benefits and actuarial assumption changes due to increased life expectancies increased the plan's liabilities. These two factors significantly decreased the funded status of the system.

Over the past few years, CalPERS has taken steps to improve the long-term financial sustainability of the system. In December 2016, the CalPERS board voted to reduce the discount rate, also known as the assumed rate of return for investments, from 7.5% to 7.0% over three years from FY 2018-19 to FY 2020-21. In February 2018, the CalPERS board also voted to decrease the amortization period for new pension liabilities from 30 years to 20 years effective July 1, 2019. While these changes will provide long-term benefits to the pension plan, they will also increase the City's pension contributions.



For FY 2020-21, CalPERS reported a preliminary investment return of 21.3%, bringing the average investment return to 10.3% for a 5-year period, 8.5% for a 10-year period, 6.9% for



a 20-year period, and 8.4% for a 30-year period. Given that returns in a given year are volatile, it can be more instructive to look at returns over longer time horizons.

Time Period Total Investment Return	
1 Year	21.3%
5 Year	10.3%
10 Year	8.5%
20 Year	6.9%
30 Year	8.4%

Under the "Funding Risk Mitigation Policy," approved by the CalPERS Board of Administration in 2015, the double-digit return in FY 2020-21 will trigger a reduction in the discount rate used to calculate employer and Public Employees' Pension Reform Act (PEPRA) member contributions. The discount rate, or assumed rate of return, will drop to 6.8% from its current level of 7%. The impact of the Risk Mitigation Policy will affect contributions starting in FY 2023-24.

Currently, CalPERS is conducting its Asset Liability Management (ALM) process. The ALM process, which runs on a four-year cycle, reviews the current investment strategies and actuarial assumptions. The ALM process can result in changes to the asset allocation of the investment portfolio, new actuarial assumptions, and changes to the discount rate. As a result, the CalPERS Board of Administration may elect to lower the discount rate even further. The positive returns experienced in FY 2020-21 would mitigate a potential lowering of the discount rate.

### **Pension Trust Overview**

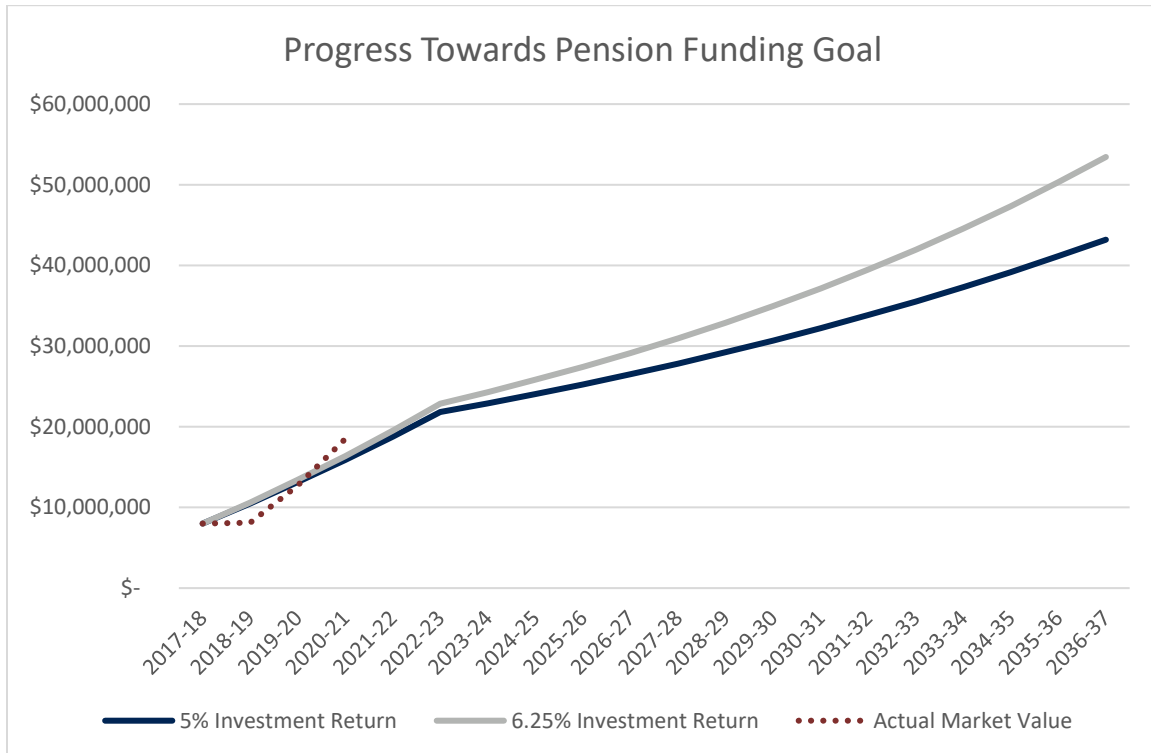
Given that pension obligations are one of the City's largest financial obligations, the City has taken proactive steps to reduce the impacts of pension cost volatility. In March 2018, the City provided options to Council on addressing rising pension costs. In April 2018, the City presented a long-term pension funding strategy to the Fiscal Strategic Plan Committee. In May 2018, the City implemented a Pension Rate Stabilization Program (PRSP), also known as a Section 115 Trust, to reduce pension rate volatility on the City's budget. The City contributed \$8.0 million in FY 2018-19 and \$4.0 million in FY 2019-20, bringing total contributions to \$12.0 million. The Pension Trust helps the City to:

- grow assets for future pension contributions;
- invest assets over appropriate time horizons;
- earn higher investment returns than the General Fund;
- reduce pension contribution volatility; and
- diversify funds from CalPERS investments.

As a fiscal sustainability measure, the City funds the Pension Trust using a more conservative discount rate of 6.25%. The City's pension funding goal is to accumulate sufficient funds in the Pension Trust to fund the difference between a 6.25% and a 7%

discount rate and achieve a funded ratio of 80% over 20 years. The City's projections indicated that the City would need to accumulate over \$42 million in the Pension Trust within 20 years to achieve its pension funding goal.

To achieve this goal, the funding strategy proposed \$8.0 million in initial funding, along with additional funding of \$10.0 million over the first five years. The following chart illustrates the City's progress towards its pension funding goal. The 5% investment return represents the lowest investment return that would allow the City to achieve its goal. A 6.25% investment return is the current target rate of return of the Pension Trust. The dotted line represents the actual market value of the City's Pension Trust. The Pension Trust was funded with an initial contribution of \$8.0 million and subsequent contributions of \$4.0 million in FY 2019-20 and \$2.0 million in FY 2020-21. As of June 30, 2021, the City's Pension Trust has a market value of \$18.5 million and has earned an annualized investment return of 15.44% gross of fees since inception. This chart illustrates that the City is on track towards its pension funding goal.



Note: The 5% Investment Return and 6.25% Investment Return projections are for illustrative purposes only. Actual returns will be different.

Given this strategy and the City's current progress, the City is in a strong position to withstand the effects of pension cost increases. By using a more conservative discount rate than CalPERS, the City can allocate more towards pension funding each year than required by CalPERS. If CalPERS investment returns fall short of assumptions, the City will be better prepared for future pension cost increases. If the discount rate is lowered

below the recent triggered reduction to 6.8%, which is a distinct possibility, the City will be better prepared to absorb these costs.

### **Pension Trust Investment Objective**

The Pension Trust has a 'Balanced' investment objective with a target rate of return of 6.25%. This investment objective is designed to provide a moderate amount of current income with moderate growth of capital. This objective is recommended for investors with a long-term time horizon. The strategic asset allocation ranges and tactical targets for this objective are listed below:

<b>Asset Class</b>	<b>Range</b>	<b>Target</b>
Fixed Income	20-40%	29%
Equities	50-70%	63%
Real Estate	0-15%	5%
Commodities	0-10%	2%
Cash	0-10%	1%

### **Discount Rate**

Defined benefit plans are highly sensitive to the discount rate assumption. The discount rate is the expected rate of return of the plan's assets over the long term. The discount rate will depend on the plan's size, asset allocation, time horizon, and other considerations. The duration of the defined benefit obligation for a retiree health plan is often longer than that for a pension plan. As a result, the choice of discount rate for OPEB plans can be higher than for pension plans.

From the City's perspective, the discount rate is important as it is used to determine the City's annual contributions to the plan, the plan's unfunded liability, and the plan's funded status. In other words, the discount rate is used to determine whether a plan has enough assets to meet its future obligations. The discount rate must be realistic to allow the City to foresee funding issues that may impact future operating budgets and future generations of retirees and plan members. If the discount rate assumption is too high and investments earn less than expected, a funding shortfall may result, requiring the City or CalPERS members to make greater contributions than expected.

### **OPEB Discount Rate Analysis**

The discount rate of the OPEB Trust is currently 6.5%. Under GASB 75, if an OPEB plan holds investments in a trust specifically to pay for future benefit payments and those assets are projected to be sufficient to make the projected benefit payments, the discount rate is based on the long-term expected rate of return for those investments.

The City's OPEB contributions are primarily driven by investment returns and changes in medical costs. A 1 percentage point decrease in the discount rate is expected to increase OPEB contributions by up to \$565,000 per year.

### **CalPERS Discount Rate Analysis**

While CalPERS currently uses a discount rate of 7% and although the rate was recently triggered to be reduced to 6.8%, market experts project lower returns for the next several decades due to lower-than-historical interest rates and economic growth. The Pew Research Center forecasts a long-term investment return of 6.4% while J.P. Morgan, and Wilshire Associates forecast a long-term investment return of 6.5% for typical pension fund portfolios.

The discount rate has a significant effect on the City's CalPERS contributions. If the discount rate is less than the 6.8% assumption, the City's CalPERS contributions will increase. If CalPERS lowers the discount rate by 1 percentage point, the City's contributions will increase by up to \$2.4 million per year.

This analysis shows the potential contribution impacts if CalPERS were to lower the discount rate based on lower expected investment returns.

### *Recommendation*

The City recommends maintaining the discount rates of 6.50% for the OPEB Trust and 6.25% for the Pension Trust. The discount rates are based on the long-term expected rate of return for assets in the trusts and the City's time horizon for the investments.

US Bank, the Investment Manager, and PARS, the Trust Administrator, have estimated a long-term expected return of 6.56% based on the current asset allocation (60%-80% equities).

The City recommends a higher discount rate for the OPEB Trust than the Pension Trust because OPEB investments are expected to have a longer time horizon. OPEB obligations are generally longer in duration and the City expects to withdraw Pension Trust funds earlier to fund CalPERS contributions. Given that changes to the CalPERS discount rate have larger effects on the City's operating budget and are farther out of the City's control, it is important that the City be able to use the Trust to pay CalPERS contributions as needed. A lower discount rate can reduce investment return volatility and reduce the probability of losses to assets, allowing the City to preserve its capital better.

### Sustainability Impact

There is no sustainability impact.

### Fiscal Impact

There is no direct fiscal impact at this time. The discount rate assumptions will affect the City's contributions to the plan, the plan's assets, and the plan's liabilities.

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Prepared by: Thomas Leung, Senior Management Analyst


Reviewed by: Zach Korach, Finance Manager

Approved for Submission by: Greg Larson, Interim City Manager

Attachments:

A – OPEB Trust Investment Policy

B – Pension Trust Investment Policy

 <p style="text-align: center;"><b>Other Post-Employment Benefits (OPEB) Investment Policy</b></p>	<b>Citywide Policy Manual</b>
	Attachments: N/A
<b>Effective Date:</b> November 16, 2021	<b>Responsible Department:</b> Administrative Services
<b>Related Policies &amp; Notes:</b> City Investment Policy, Pension Investment Policy	

## Overview

In response to the Government Accounting Standards Board (GASB) Statement No. 45, replaced by GASB Statement No. 74 and GASB Statement No. 75, new disclosure requirements for Other Post-employment Benefit (OPEB) Plans, the City of Cupertino has adopted a Section 115 Trust and Plan that seeks to satisfy these liabilities for certain eligible employees

## Executive Summary

Account Name:	City of Cupertino OPEB Trust
Account Number:	6746035000
Investment Authority:	Full Investment Authority
Current Assets:	<del>\$31.4 million (September 2020)</del> \$38.0 million (June 2021)
Time Horizon:	Long-Term
Target Rate of Return:	6.5%
Communication Schedule:	Meetings will be conducted at least twice per year
U.S. Bank Portfolio Manager:	Rick Rosenthal <a href="mailto:richard.rosenthal@usbank.com">richard.rosenthal@usbank.com</a> 213-443-1848
U.S. Bank Relationship Manager:	Carolyn Cox <a href="mailto:carolyn.cox@usbank.com">carolyn.cox@usbank.com</a> 415-677-3603

### **Investment Objective: ‘Balanced’**

This investment objective is designed to provide a moderate amount of current income with moderate growth of capital. Investors should have sufficient tolerance for price and return volatility and substantial periodic declines in investment value. This objective is recommended for investors with a long-term time horizon.

The strategic asset allocation ranges and tactical targets for this objective are listed below:

<b>Asset Class</b>	<b>Range</b>	<b>Benchmark Target</b>
<b>Fixed Income</b>	20-40%	29%
<b>Equities</b>	50-70%	63%
<b>Real Estate</b>	0-15%	5%
<b>Commodities</b>	0-10%	2%
<b>Cash</b>	0-10%	1%

### **Investment Guidelines**

#### **Overview**

This document defines the investment policy, guidelines and performance objectives applicable to the assets of The City of Cupertino’s OPEB Trust. The goal of this Policy is to create an investment framework within which the assets can be actively yet prudently managed.

The purpose of this document is threefold.

- First, it will set forth an investment structure for managing the Portfolio assets. This structure is expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
- Second, it will serve as to encourage effective communications between the organization and parties involved with investment management decisions.
- Third, these guidelines will provide a framework to measure ongoing investment performance.

Within the constraints imposed by these policies, Investment Managers are expected to comply with all applicable fiduciary and due diligence requirements under the “prudent investor” rules, which state: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” All applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Portfolio are to be adhered to.

## **Diversification**

Your Portfolio Manager is responsible for maintaining the balance between the various asset classes based on the investment objective's strategic asset allocation. As a general policy, the Investment Manager will maintain reasonable diversification at all times by asset class, credit quality, issuer, sector, industry, and country.

The following parameters shall be adhered to in managing the portfolio:

### **Fixed Income Assets**

- The fixed income investments are to maintain intermediate-term average weighted duration, between three-seven years.
- At the time of purchase, no single fixed income issuer shall exceed 2% of the total market value of the Portfolio, with the exception of U.S. Treasury or Agency obligations.
- The direct high-yield portion shall constitute no more than 10% of the total market value of the Portfolio.

### **Equity & Growth Assets**

- The domestic equity investments are expected to be diversified at all times by size, industry, sector, and style (Large Cap, Mid Cap, and Small Cap).
- At the time of purchase, no individual equity security shall exceed 2% of the total market value of the Portfolio.
- The international equity investments (including emerging markets) shall constitute no more than 20% of the total market value of the Portfolio
- The real estate investments shall be captured through the use of diversified mutual funds or ETFs investing in REITs; and shall constitute no more than 15% of the total market value of the Portfolio.
- The commodities investments shall be captured through the use of diversified mutual funds or ETFs; and shall constitute no more than 10% of the total market value of the Portfolio.

## **Permitted Asset Classes and Security Types**

### **Fixed Income & Cash Equivalent Investments:**

- Domestic Certificates of Deposit (rated A-1/P-1 or better)
- Domestic Commercial Paper (rated A-1/P-1 or better)
- Floating Rate Notes
- Money Market Mutual Funds
- U.S. Treasury Bonds, Bills and Notes
- U.S. Agency (and Instrumentality) Discount Notes, Notes, and Bonds
- Treasury Inflation-Protected Securities (TIPS)
- Municipal Bonds and Notes
- Corporate Bonds
- Mortgage-Backed Bonds (MBS)



- Asset-Backed Bonds (ABS)
- High-Yield Bonds (rated B-/B3 or better)
- Dollar denominated Foreign Bonds and Notes
- Bond Mutual Funds

Equity Investments:

- Common & Preferred Stocks
- American Depositary Receipts (ADRs)
- Domestic and International Equity Mutual Funds (Open and Closed)
- Emerging Market Equity Funds or Exchange Traded Funds (ETFs)

Alternative Investments:

- Commodities Mutual Funds or Exchange Traded Notes (ETNs)
- REIT Investment or Pooled Strategy or Fund of REITs
- Registered Hedge Funds or Hedge Fund of Funds

**Prohibited Asset Classes and Transactions**

The Investment Manager is prohibited from purchasing or holding any of the following types of investments:

- Partnerships unless investing in Master Limited Partnerships invested in a mutual fund and limited in scope and allocation of Portfolio based on asset class limitations of table above
- Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions
- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor
- Investments for the purpose of exercising control of management

**Duties and Responsibilities**

- 1) CITY OF CUPERTINO AUDIT COMMITTEE
  - a) Establish, approve, and maintain investment objectives, guidelines, and policies (including this Policy).
  - b) Appoint Investment Managers who can be reasonably expected to adhere to the investment guidelines and meet the investment objectives as established.
  - c) Monitor the investment performance of the Portfolio and compare actual investment performance relative to an appropriate benchmark index given the stated investment guidelines and objectives set forth in this Policy.
  - d) Conduct a formal review of the Portfolio's asset allocation, investment structure and performance annually or more frequently as the need arises.
  - e) Periodically review the Portfolio performance against objectives.
- 2) CITY OF CUPERTINO CITY COUNCIL
  - a) Adopt the Policy by resolution of the City Council on an annual basis.

### 3) PORTFOLIO MANAGER

The Portfolio Manager will be responsible for carrying out the activities related to the Portfolio in accordance with the Policy including:

- a) Manage the day-to-day investment of Portfolio assets in accordance with the Policy guidelines and objectives included herein.
- b) Exercise full investment discretion and prudence in the selection and diversification of investments.
- c) Promptly bring to the attention of the City Treasurer or designee any investment that is subsequently downgraded and fails to meet the quality guidelines, along with a recommendation of retention or disposal.
- d) Provide on a quarterly basis the following investment reporting:
  - (i) Year-to-date rate of return
  - (ii) Annualized one, three, five, etc. rates of return
- e) Provide annually to the City's Audit Committee a commentary and analysis of investment performance to include an evaluation of the current and future investment environment and potential impact of the investment environment on achievement of investment objectives.

#### **Investment Policy Statement Review**


The City's Audit Committee will review and the Cupertino City Council will adopt this Investment Policy Statement at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Policy.

If at any time the Portfolio Manager finds the above guidelines too restrictive or possibly injurious to investment returns, they should communicate that information immediately to the City's Audit Committee.

City Manager's signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Revisions: City Council - November 17, 2020**

 <b>Pension Trust Investment Policy</b>	<b>Citywide Policy Manual</b>
<b>Effective Date:</b> November 16, 2021	<b>Attachments:</b> N/A
<b>Related Policies &amp; Notes:</b> N/A	<b>Responsible Department:</b> Administrative Services

### Investment Policy Statement

#### Overview

The City has established a Section 115 Trust with PARS to assist in stabilizing the potential impact of pension cost volatility on the City's operating budget. The City intends to use the Section 115 Trust to pre-fund pension costs and proactively address the unfunded liability. The City's goal is to have sufficient assets in the trust to increase the funded status to over 80% within 20 years, as well as fund the difference between a 7.0% and 6.25% discount rate.

#### Executive Summary

Account Name:	City of Cupertino Pension Trust
Account Number:	6746050100
Investment Authority:	Full Investment Authority
Current Assets:	<del>\$13.6 Million (September 2020)</del> \$18.5 million (June 2021)
Time Horizon:	Long-Term
Target Rate of Return:	6.25%
Communication Schedule:	Meetings will be conducted at least twice per year
U.S. Bank Portfolio Manager:	Rick Rosenthal <a href="mailto:richard.rosenthal@usbank.com">richard.rosenthal@usbank.com</a> 213-443-1848
U.S. Bank Relationship Manager:	Carolyn Cox <a href="mailto:carolyn.cox@usbank.com">carolyn.cox@usbank.com</a> 415-677-3603

## **Investment Objective: ‘Balanced’**

This investment objective is designed to provide a moderate amount of current income with moderate growth of capital. Investors should have sufficient tolerance for price and return volatility and substantial periodic declines in investment value. This objective is recommended for investors with a long-term time horizon.

The strategic asset allocation ranges and tactical targets for this objective are listed below:

<b>Asset Class</b>	<b>Range</b>	<b>Benchmark Target</b>
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<b>Cash</b>	0-10%	1%

## **Investment Guidelines**

### **Overview**

This document defines the investment policy, guidelines and performance objectives applicable to the assets of The City of Cupertino’s Pension Trust. The goal of this Policy is to create an investment framework within which the assets can be actively yet prudently managed.

The purpose of this document is threefold.

- First, it will set forth an investment structure for managing the Portfolio assets. This structure is expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
- Second, it will serve as to encourage effective communications between the organization and parties involved with investment management decisions.
- Third, these guidelines will provide a framework to measure ongoing investment performance.

Within the constraints imposed by these policies, Investment Managers are expected to comply with all applicable fiduciary and due diligence requirements under the “prudent investor” rules, which state: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” All applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Portfolio are to be adhered to.

## **Diversification**

Your Portfolio Manager is responsible for maintaining the balance between the various asset classes based on the investment objective's strategic asset allocation. As a general policy, the Investment Manager will maintain reasonable diversification at all times by asset class, credit quality, issuer, sector, industry, and country.

The following parameters shall be adhered to in managing the portfolio:

### **Fixed Income Assets**

- The fixed income investments are to maintain intermediate-term average weighted duration, between three-seven years.
- At the time of purchase, no single fixed income issuer shall exceed 2% of the total market value of the Portfolio, with the exception of U.S. Treasury or Agency obligations.
- The direct high-yield portion shall constitute no more than 10% of the total market value of the Portfolio.

### **Equity & Growth Assets**

- The domestic equity investments are expected to be diversified at all times by size, industry, sector, and style (Large Cap, Mid Cap, and Small Cap).
- At the time of purchase, no individual equity security shall exceed 2% of the total market value of the Portfolio.
- The international equity investments (including emerging markets) shall constitute no more than 20% of the total market value of the Portfolio
- The real estate investments shall be captured through the use of diversified mutual funds or ETFs investing in REITs; and shall constitute no more than 15% of the total market value of the Portfolio.
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## **Permitted Asset Classes and Security Types**

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- Domestic Certificates of Deposit (rated A-1/P-1 or better)
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- Money Market Mutual Funds
- U.S. Treasury Bonds, Bills and Notes
- U.S. Agency (and Instrumentality) Discount Notes, Notes, and Bonds
- Treasury Inflation-Protected Securities (TIPS)
- Municipal Bonds and Notes
- Corporate Bonds
- Mortgage-Backed Bonds (MBS)
- Asset-Backed Bonds (ABS)
- High-Yield Bonds (rated B-/B3 or better)

- Dollar denominated Foreign Bonds and Notes
- Bond Mutual Funds

Equity Investments:

- Common & Preferred Stocks
- American Depositary Receipts (ADRs)
- Domestic and International Equity Mutual Funds (Open and Closed)
- Emerging Market Equity Funds or Exchange Traded Funds (ETFs)

Alternative Investments:

- Commodities Mutual Funds or Exchange Traded Notes (ETNs)
- REIT Investment or Pooled Strategy or Fund of REITs
- Registered Hedge Funds or Hedge Fund of Funds

**Prohibited Asset Classes and Transactions**

The Investment Manager is prohibited from purchasing or holding any of the following types of investments:

- Partnerships unless investing in Master Limited Partnerships invested in a mutual fund and limited in scope and allocation of Portfolio based on asset class limitations of table above
- Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions
- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor
- Investments for the purpose of exercising control of management

**Duties and Responsibilities**

- 1) CITY OF CUPERTINO AUDIT COMMITTEE
  - a) Establish, approve, and maintain investment objectives, guidelines, and policies (including this Policy).
  - b) Appoint Investment Managers who can be reasonably expected to adhere to the investment guidelines and meet the investment objectives as established.
  - c) Monitor the investment performance of the Portfolio and compare actual investment performance relative to an appropriate benchmark index given the stated investment guidelines and objectives set forth in this Policy.
  - d) Conduct a formal review of the Portfolio's asset allocation, investment structure and performance annually or more frequently as the need arises.
  - e) Periodically review the Portfolio performance against objectives.
- 2) CITY OF CUPERTINO CITY COUNCIL
  - a) Adopt the Policy by resolution of the City Council on an annual basis.

### 3) PORTFOLIO MANAGER

The Portfolio Manager will be responsible for carrying out the activities related to the Portfolio in accordance with the Policy including:

- a) Manage the day-to-day investment of Portfolio assets in accordance with the Policy guidelines and objectives included herein.
- b) Exercise full investment discretion and prudence in the selection and diversification of investments.
- c) Promptly bring to the attention of the City Treasurer or designee any investment that is subsequently downgraded and fails to meet the quality guidelines, along with a recommendation of retention or disposal.
- d) Provide on a quarterly basis the following investment reporting:
  - (i) Year-to-date rate of return
  - (ii) Annualized one, three, five, etc. rates of return
- e) Provide annually to the City's Audit Committee a commentary and analysis of investment performance to include an evaluation of the current and future investment environment and potential impact of the investment environment on achievement of investment objectives.

### **Investment Policy Statement Review**

The City's Audit Committee will review and the Cupertino City Council will adopt this Investment Policy Statement at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Policy.

If at any time the Portfolio Manager finds the above guidelines too restrictive or possibly injurious to investment returns, they should communicate that information immediately to the City's Audit Committee.

City Manager's signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Revisions: City Council – November 17, 2020**

City Manager's signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Revisions:**





# CITY OF CUPERTINO

## Agenda Item

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**21-9873**

**Agenda Date: 9/27/2021**  
**Agenda #: 4.**

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Subject: Budget Format Review Summary and OpenGov Study Session

Consider the Budget Format Review Summary and Conduct OpenGov Study Session



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.ORG

### AUDIT COMMITTEE STAFF REPORT

Meeting: October 27, 2020

#### Subject

Budget Format Review Update.

#### Recommended Action

Accept staff report.

#### Discussion

In FY 2019-20, Audit Committee Chair Eno Schmidt and Vice Mayor Paul established a sub-committee to review the City's budget format. Initial observations, suggestions, and questions were submitted to and responded by City staff (see attachment F2). On November 12, 2019, the sub-committee issued a formal memo (see attachment F3) to City staff discussing the conclusions and recommendations from the review process. City staff's responses to the November 12, 2019 memo are attached (see attachment F4). City staff's updates on budget format are provided below:

#### **Adopted Budget**

While the sub-committee concluded that the City's budget document meets or exceeds its peers in a variety of categories, the City continues to improve the budget document each year to make the budget easier to understand for residents. For FY 2020-21, the City has added the following sections to the budget document:

- Capital Improvement Program (Page 42)
  - Discussion of Capital Improvement Program funding and financial impacts
- Revenue Comparisons (Page 118)
  - Per Capita comparisons of total revenues, property tax, sales tax, transient occupancy tax, franchise fees, and building permits with neighboring jurisdictions
- Pension (Page 153)
  - Explanation of CalPERS pension plan, discount rate, and investment returns
  - Discussion on the impact of CalPERS discount rate and investment returns

- Discussion of the City's strategies to reduce pension cost volatility, including the Section 115 Trust

### **Budget at a Glance**

The City received feedback from the sub-committee to reference the Transparency Portal in the Budget at a Glance. The City is working on its first interactive Budget at a Glance, which will bridge the gap between the traditional Budget at a Glance and the Transparency Portal.

### **OpenGov Transparency Portal**

The sub-committee recommended that the City enhance the Transparency Portal by:

- Providing more context to major amount and changes and
- Interconnecting key communication elements on the budget to the Transparency Portal.

Based on the sub-committee's feedback, the City is currently working to provide more context to financial data in the Transparency Portal through the following initiatives:

- Interactive Budget at a Glance
  - Present the budget in a simple, visual, and interactive format
  - Provide more context to financial reports in the Transparency Portal
- Interactive Capital Improvement Program Budget
  - Illustrate progress of capital projects from a financial standpoint
  - Connect project narratives to interactive maps and financial reports
- Stories for important initiatives (e.g. CARES Act)
  - Provide updates on important initiatives
  - Connect initiatives to financial reports in the Transparency Portal
  - Gather feedback from the community
- Budget Story
  - Explain important financial concepts including revenues, expenses, departments, and funds
  - Provide answers to frequently asked questions about the budget
  - Serve as a starting point to users unfamiliar with government finance or the Transparency Portal

These initiatives will help the City improve its financial transparency and community engagement. In addition, the City will continue working to incorporate feedback from the sub-committee, City Council, and residents, into the format of its budget documents and reports.

### **Sustainability Impact**

No sustainability impact.

Fiscal Impact

No fiscal impact.

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Prepared by: Thomas Leung, Senior Management Analyst

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Deborah Feng, City Manager

Attachments:

F2 – Sub-Committee’s Initial Comments on Budget Format Review

F3 – Sub-Committee’s Formal Memorandum on Budget Format Review

F4 – City staff’s responses to the November 12, 2019 Memo

**AUDIT COMMITTEE**

**SUBCOMMITTEE ON THE ANNUAL BUDGET REPORT (CHAIR ENO SCHMIDT  
AND COUNCILMEMBER DARCY PAUL FY 19-20)**

Questions Regarding the Current Budget Report (Please provide written responses within two weeks):

1. Three Budget Reviewers for the GFOA Award evaluation had suggestions for improvement. **Please describe how, if at all, each of the suggestions for improvement were addressed in the budget for the fiscal year beginning July 2019.** Please provide evaluation at least on the below-listed two items.

Responses with respect to all of the suggestions by the GFOA Budget Reviewers would be appreciated.

- a. Reviewer ID S411 suggests under “Document-Wide Criteria” that the City  
“Try to reduce the document size to around 400 pages.”

RESPONSE: The Budget Team continues to take this comment into consideration each year; however, it is a challenge to identify which specific sections can afford to be reduced by 100+ pages. This comment is not marked with an asterisk (\*) and as a result, does not require implementation to ensure the budget award is received in subsequent years. If the Sub-Committee has specific recommendations as to which sections they would like to see reduced, and so long as all of the GFOA and CSMFO award criteria are not compromised, the Budget Team will be glad to accommodate.

- b. All three reviewers rated the presentation for category F9 “Impact of capital investments on operating budget” as being “Information Not Present” or “Does Not Satisfy”.

RESPONSE: Typically, operating, or General Fund, impacts are quantified via operating transfers; however, there were no budgeted operating transfers in FY 18-19 or FY 19-20 for Capital Improvement Program projects. The City’s General Fund will transfer excess fund balance at fiscal year-end (FYE) to the Capital Reserve (Fund 429) in accordance with its Use of One Time Funds Policy (page 85). FY 2019-20 was the first year the City’s budget document included a Capital Improvement Program (CIP) project summary (page 493). The Fund Balance Report (page 96) discusses the impact of revenues and expenditures/expenses on each particular fund’s fund balance, including the capital projects from the CIP budget. The Budget Team agrees that a more expansive narrative/discussion may be beneficial; perhaps in the forecast section near the end of the Financial Policies and Schedules section.

- c. How were the other suggestions for improvement by GFOA Budget Reviewers were addressed.

RESPONSE:

- Financial Structure, Policy and Process: Department org charts have experienced changes in recent years. Enhancing the aesthetics and understandability will be an area to address in FY 2020-21.
  - Financial Summaries: Categorized and forecasted summaries for all of the City's funds were included beginning on page 146. Additional information and charts can be included (similar to the General Fund); however, and as mentioned above, the Budget Team does keep the document's length in mind when determining what and what not to include.
  - Capital and Debt: See response to 1.b. above
  - Departmental Information: Total FTEs are included in each of the Department Budgets. This is also reiterated/duplicated/summarized on page 491 and presented historically as well. Performance measures are included as well as workload indicators (FY 2019-20 was the first year for presenting workload indicators)
  - Document-Wide Criteria: The Budget Team will add the state to the cover so long as it complies with branding requirements as established by the Communications Office.
  - Other Comments/Suggestions: No specific comments or suggestions noted for implementation.
2. With respect to the Transparency Portal and the use by Cupertino of OpenGov:

a. What are the goals of having the Transparency Portal?

RESPONSE:

- The Transparency Portal provides an accessible platform so that members of the public have access to the City's financial data in real time.
- This tool fosters communication and trust not only with the public, but amongst City staff.
- OpenGov's Budget Builder provides an effective tool for departments to compile, submit, review, and approve budget requests. It also serves as an important archive for the thousands of communications that occur during the budget process from one year to the next.

b. What key performance indicators (KPIs) for the Transparency Portal have been established by the City?

RESPONSE: The City does not have KPIs for the Transparency Portal. The Budget Team is open to establishing KPIs; however, success is measured by volume of external use

c. How has the City been doing relative to these KPIs?

RESPONSE: See response 2.b. above.



3. With regard to the City's link provided to OpenGov as to the Transparency Portal, in examining on non-departmental expenditures for the budget in 2019-2020, why is the actual for 2019-2020 equal to the budget for 2019-2020 (as of Sep 28, 2019)? See screenshot taken from this link:

[https://cupertino.opengov.com/transparency#/28185/accountType=expenses&embed=n&breakdown=28459e6a-563e-4695-97d4-8a0d97d881e1&currentYearAmount=cumulative&currentYearPeriod=years&graph=bar&legendSort=desc&proration=true&saved\\_view=83847&selection=0816267C08601EE8C423B11CADCC4989&projections=null&projectionType=null&highlighting=null&highlightingVariance=null&year=NaN&selectedDataSetIndex=null&fiscal\\_start=earliest&fiscal\\_end=latest](https://cupertino.opengov.com/transparency#/28185/accountType=expenses&embed=n&breakdown=28459e6a-563e-4695-97d4-8a0d97d881e1&currentYearAmount=cumulative&currentYearPeriod=years&graph=bar&legendSort=desc&proration=true&saved_view=83847&selection=0816267C08601EE8C423B11CADCC4989&projections=null&projectionType=null&highlighting=null&highlightingVariance=null&year=NaN&selectedDataSetIndex=null&fiscal_start=earliest&fiscal_end=latest)

RESPONSE: The City implemented a change in methodology for recording its operating transfers (non-departmental expenditures). Rather than recording/recognizing them on a quarterly/monthly basis, the City records/recognizes them all at once as soon as the budget is adopted by Council. Purpose: increased efficiency determining the amount and reason for each interfund transfer when preparing the Interfund Transfers footnote in the Comprehensive Annual Financial Report (CAFR) at year-end. In other words, rather than having hundreds of transactions/line items to tie to and from each of the funds, the gross transfer amounts can more easily be tied to the adopted budget, Council resolutions, etc.

- a. This raises the question, separate from the format of the data presented, how, if at all, is the data presented to the public on OpenGov reviewed for accuracy and completeness?

RESPONSE: The information presented in OpenGov is imported straight from the City's enterprise resource planning (ERP) system, New World System (NWS). All of the financial data is reviewed and reconciled on a weekly and monthly basis to ensure accuracy, completeness, cutoff, and existence.

- b. What process is followed? If there is a process, is the process memorialized in a written medium?

RESPONSE: Other than what has been discussed in the previous response, there is no formal process memorialized in a written medium. The Budget Team is open to recommendations and suggestions.

- c. What documentation is reviewed in the process of evaluating OpenGov information, and what management approvals are required prior to publication of the information?

RESPONSE: The information that is imported into OpenGov from NWS is subject to numerous controls and reviews, namely within the payroll, accounts payable, and

revenue collection process. These are processed and reviewed by multiple employees, signed off and authorized by management, on a weekly, bi-weekly, and monthly basis.

4. For Budget versus Actual in the OpenGov transparency portal (see above link in question 2), Non-departmental drops from 2018-19 Actual of \$19,376,088 to 2019-20 (Amended Budget) and Actual of \$10,539,557?

RESPONSE: Non-departmental revenues and expenditures/expenses include the City's operating transfers from one fund to the other. Prior year actuals are typically higher than subsequent year budget amounts for the following reason; the Adopted Budget does not include excess General Fund fund balance that is transferred to the Capital Reserve in accordance with the City's Use of One Time Funds Policy (page 85)

- a. Can we link to the "Department Operating Budgets" then to the Non-departmental section to help explain?

RESPONSE: That is certainly an option. We can also have a more expansive explanation in the non-department section to explain the purpose of each of the transfers.

- b. An explanation in the Budget message document for this particular question does not seem to be present. If it is, please indicate the location.

If such an explanation is not present, please suggest a location for it.

RESPONSE: Correct, other than including the non-departmental amounts within the fund's total budgeted amounts (page 31 for example), there is no expanded discussion on the transfers in the Budget Message section.

5. Can the subcommittee see the questions submitted by the public to the City related to the Transparency Portal/budget for the past year?

RESPONSE: The City has been frequently asked how much has been spent on the Regnart Creek Trail project. To the Budget Team's knowledge, no additional questions have been raised.

6. Since Opengov is being used as Cupertino's Transparency Portal, see these selected comments at the Opengov link:

- a. "Build Trust Through Effective Communication – Engaging with constituents and stakeholders is critical to every public agency's success. With OpenGov, leaders can analyze and communicate complex topics and decisions in a simple manner anyone can understand. Agencies are able to build trust with colleagues and residents by gathering input on key

initiatives and aligning budget and the strategic plan to both performance objectives and public expectations.”

- i. Question: What are the key complex topics and decisions made in Cupertino that (the City’s leaders) through OpenGov are communicating?

RESPONSE: The Budget Team has primarily utilized OpenGov’s Transparency Portal and Budget Builder software. We’ve also used this platform to present budget and prior year actual data at City Council Meetings. Additionally, we’ve used this tool to provide information to City Council on various subject like Capital Projects, salary and benefit costs. Moving forward, the Budget Team is excited to further complement the budget tools with the use of stories, an interactive platform to present and inform audiences on specific projects and initiatives.

- ii. How is the City using OpenGov (the transparency portal) by “aligning budget and the strategic plan to both performance objectives and public expectations”?

RESPONSE: The budget process establishes a public expectation and the Transparency Portal allows the public to view, in real-time, the City’s financial data.

- b. One possible idea is to (cross)link the “context” in the Budget message (for example the June 2019 Budget message) and other “context” in the Department Operating Budgets to some of the OpenGov Transparency portal modules, for major line items or major changes from previous years. The OpenGov transparency portal currently is filled with data and ability to compare but could benefit from adding convenient context. Is this something that Staff could do?

RESPONSE: Adding “notes” is definitely one way to increase context. The use of “stories” is also another tool available to the City that can obviously tell a story about a project, initiative, etc. Based on requests from Council, Commissions, Committees, the public, management, etc., staff can create and publish stories as necessary.

- i. Could Staff then introduce some of the OpenGov communication elements (see above questions and Opengov website for more)?

RESPONSE: Open Town Hall is a survey tool the City is looking into utilizing more consistently and frequently.

- ii. Palo Alto is using the “note” function (although only one posted) of the OpenGov. What does Staff think about using this functionality as a starting point for communications? See link here to Palo Alto:

[https://palto.to.opengov.com/transparency#/18215/accountType=revenues&embed=n&breakdown=types&currentYearAmount=cumulative&currentYearPeriod=years&graph=bar&legendSort=coa&proration=true&saved\\_view=51273&selection=E7F4AA9C788A9B9A3D41A6865E3D305B&projections=null&projectionType=null&highlighting=null&highlightingVariance=null&year=NaN&selectedDataSetIndex=null&fiscal\\_start=2013&fiscal\\_end=latest](https://palto.to.opengov.com/transparency#/18215/accountType=revenues&embed=n&breakdown=types&currentYearAmount=cumulative&currentYearPeriod=years&graph=bar&legendSort=coa&proration=true&saved_view=51273&selection=E7F4AA9C788A9B9A3D41A6865E3D305B&projections=null&projectionType=null&highlighting=null&highlightingVariance=null&year=NaN&selectedDataSetIndex=null&fiscal_start=2013&fiscal_end=latest)

RESPONSE: Yes, we can add these notes to various saved “views” to provide context to the reader/audience.

7. The order in which one accesses the below Budget documents a. – e., can result in an entirely different set of questions. What is the intended order that key Budget documents should be examined by the public?:
  - a. Budget (500+ pages)
  - b. OpenGov (transparency portal)
  - c. Budget at a Glance
  - d. Budget message
  - e. Department Operating Budgets

RESPONSE: While the Budget Team’s preference would be the Adopted Budget (which contains the Budget Message and Department Operating Budgets), followed by the

Budget at a Glance, and then finally OpenGov, one of the advantages to having these multiple tools is that the order of preference can be determined by any reader/audience depending on their needs, interests, and desires. For example, a reader that isn't interested in getting lost in 500+ pages of details might prefer to a high level glad at the Budget at a Glance – and vice a versa. The moment a budget becomes adopted and printed, it's already outdated. That is what is great about OpenGov; it is a living constantly updating platform that addresses the common question, "I know how much was budgeted...how much have we spent?"

8. Following-up on Question 7., above, there are also Financial Policies and Schedules. Assuming that the above-listed Budget documents of 7.a. – 7.e. are not envisioned as being examined in any particular order (and if they are, we should make that clear to the public), please consider using items 7.d. and 7.e. as a contextual "bridge" between the Budget at a Glance and the Budget? Or perhaps there should be another intermediate step to the Transparency Portal which provides both context/bridge and the data? Should all of the above-mentioned budget items (7.a. – 7.e. and the Financial Policies and Schedules) be linked together in some way in the Transparency Portal?

RESPONSE: Agreed. Each of the tools discussed have pros and cons and readers/audiences may not be aware of them (e.g., one is detailed, one is high-level, one



is current, etc.). One of the ways we've tried to tackle this challenge is through events such as Budget & Bites and through social media engagement. The Budget Team is open to recommendations and idea to building this contextual "bridge."

9. In Financial Policies and Schedules:

- a. On p75 (p9 of 94 PDF) of the Fiscal Policies – Revenue Policies, the final policy listed states "Ensure that Enterprise activities remain self-supporting in the long-term." How does the City analyze compliance with this policy? Please provide examples?

RESPONSE: Governmental Accounting Standards Board and various interpretations of the standards do not appear to have a specific threshold for how "self-supporting" is defined. For example, there is not an exact threshold of 50% which would qualify a fund or activity to be reported as an enterprise fund. Compliance is continually monitored based on historical and/or current subsidized (General Fund assistance) activities.

- b. On p92 (p26 of 94 PDF), the Audit Committee is neither listed nor has a budgeted expenditure allocated. Can this be corrected? If so, please describe the process for including the Audit Committee here.

<b>11 Commissions</b>				
131 Telecommunication Commission	7,028	-	-	7,028
140 Library Commission	23,346	-	-	23,346
142 Fine Arts Commission	54,541	-	-	54,541
150 Public Safety Commission	22,738	-	-	22,738
155 Bike/Ped Safety Commission	1,244	-	-	1,244
160 Recreation Commission	51,443	-	-	51,443
165 Teen Commission	64,019	-	-	64,019
170 Planning Commission	109,787	-	-	109,787
175 Housing Commission	38,251	-	-	38,251
180 Sustainability Commission	37,951	-	-	37,951

RESPONSE: [We will ensure the Audit Committee and related staff time is added in the FY 2020-21 Proposed and Adopted Budget.](#)

10. Is there anywhere within the Budget documents where a member of the public can easily determine how much of Cupertino's annual budget is spent on compensation, benefits, and pension obligations for the City's employees? If not, please provide in table format, broken down by departments, the number of FTEs, and the absolute amounts spent on each department for compensation, benefits, and pension obligations. Please include City Council compensation.

RESPONSE: [The resolution on page 12 provides a financial overview by fund showing the City-wide account classification amounts \(employee compensation and employee benefits are included\). Page 40 and 41 of the Budget Message discuss the ongoing challenges of retirement benefits. Page 111 discussed the General Fund expenditures, specifically the majority of the City's employee compensation and employee benefits. The pages to follow within the All Fund Summary beginning on page 117, show the employee compensation and employee benefits totals aggregated at the fund-type level.](#)

The second (2<sup>nd</sup>) page of each of the Department budget sections shows a total FTE allocation. Shortly thereafter and near the front of each of the Department budgets, a total revenues and expenditures by account classification is reported. For example, Council and Commissions' Department budget on page 165 reports the total employee compensation and employee benefits totals for the year. Lastly, there is a saved view in the transparency portal titled "[Employee Compensation and Benefits](#)" that breaks out by department salary and benefits costs by department.

**AUDIT COMMITTEE  
SUBCOMMITTEE ON THE ANNUAL BUDGET REPORT  
November 12, 2019**

**CONCLUSIONS AND RECOMMENDATIONS**

1. Awards from respected Associations for Budget Presentation highlight and support the outstanding work being accomplished by the City Staff of Cupertino in the budget process:
  - a. Distinguished Budget Presentation Award by Government Finance Officers Association; and
  - b. Excellence Award for Fiscal Year Operating Budget by California Society of Municipal Finance Officers.
2. Comparison of budget documents from other cities as presented in September 25, 2019 Staff Report to the Budget Book Subcommittee of the Audit Committee, shows the City of Cupertino meeting or exceeding its peers in a variety of budget presentation categories. Use of the Transparency Portal and communication of Budget At a Glance are clearly within the peer leadership.
3. In the spirit of continuous improvement and building on the strong budget formats already in-place in Cupertino, here are some areas the Subcommittee recommends further investigation and possible adjustment be considered by focus on possible enhancements to the
  - a. Budget At a Glance
    - i. Adding modules such as the Ten-Year Staffing and Population Growth chart to highlight and explain significant changes or elements of the current budget; and
    - ii. Reference Transparency portal of OpenGov for supplemental key elements.
  - b. Transparency portal of OpenGov
    - i. Provide more context to major amounts and changes from year to year or budget to actual by
      1. Linking to the context already available in other budget documents or
      2. Creating new content if needed and posting.
    - ii. Interconnect or make more obvious some of the key communication elements on the budget already underway in Cupertino and as listed by OpenGov as one of the transparency portal's strengths. For example, OpenGov on its website states "Build Trust Through Effective Communication. Engaging with constituents and stakeholders is critical to every public agency's success. With OpenGov, leaders can analyze and communicate complex topics and decisions in a simple manner anyone can understand. Agencies are able to build trust with colleagues and residents by gathering input on key initiatives and aligning budget and the strategic plan to both performance objectives and public expectations."
      1. Link into OpenGov those initiatives already underway; and
      2. Explore other ways to implement and demonstrate through the portal.

PLEASE SEE SEPARATE SUBCOMMITTEE QUESTIONS SUBMITTED TO CITY STAFF WITH RESPONSES FROM STAFF

In particular the following City Staff responses warrant additional consideration and action based on responses provided: Questions 1b, 1c, 2b, 4a, 6ai, 6b, 6bii, 8, 9b and 10.

Additionally, the response by City staff to Question 9a which asked about the current stated policy of “Ensure that Enterprise activities remain self-supporting in the long-term” seems to us to indicate as a minimum the word “Ensure” might be replaced with “Monitor” or even better a policy defining “self-supporting in the long-term” be adopted so that the City indeed could ensure that said policy is being implemented.

Respectively submitted  
Budget Subcommittee of Cupertino Audit Committee  
Councilman Darcy Paul  
Cupertino Audit Committee Chair Eno Schmidt

# Budget Format Review Update

Audit Committee Regular Meeting  
October 27, 2020



CUPERTINO

# Topics

1. Adopted Budget
2. Recommendations
3. Solutions
4. Next Steps

# Adopted Budget

- Added CIP Financial Impacts Discussion
- Added Revenue Comparisons
- Expanded Pension Discussion



# Recommendations: Bridging the Gap



## Transparency Portal

Historical Data  
Budget  
Budget vs. Actuals



## Budget Documents

Adopted Budget  
Budget at a Glance

# How We Bridge the Gap



**Transparency  
Portal**

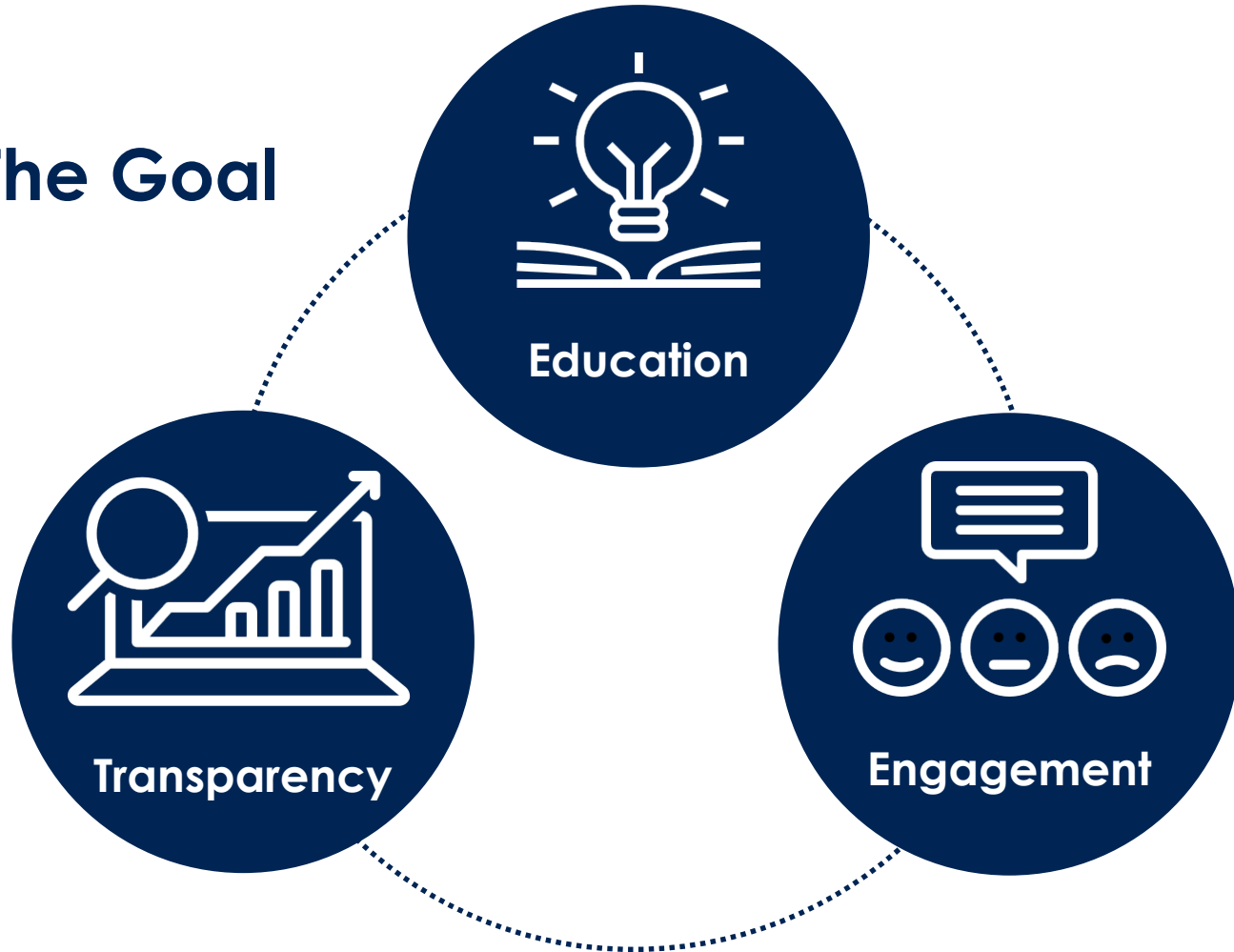


**OpenGov  
Stories**

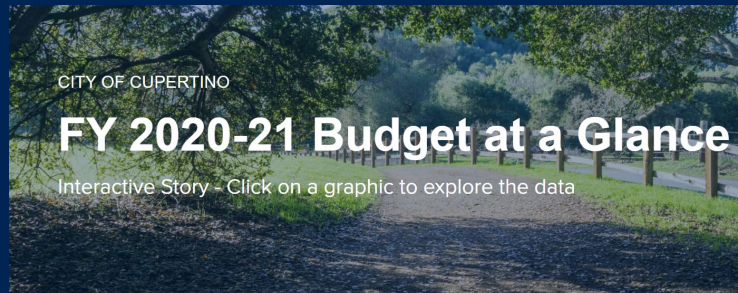


**Open Town  
Hall**

# The Goal

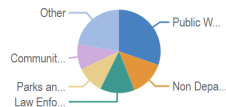


# Interactive Budget at a Glance



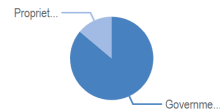
### Expenses by Department - All Funds

Data Updated today



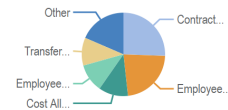
\$110,591,225.00

### Expenses by Fund Type - All Funds



\$110,591,225.00

### Expenses by Type - All Funds



\$110,591,225.00

Expenses in 2021

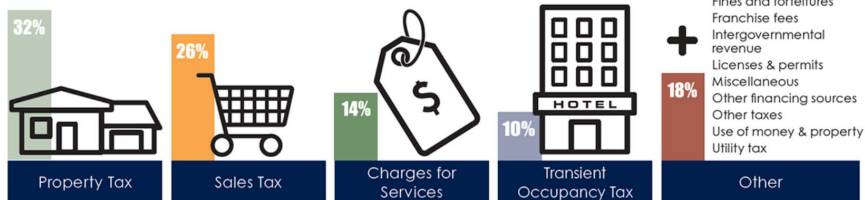
## A Message

As the City of Cupertino enters a time of economic uncertainty, I am forecasting anything, be it the economy or the weather, is not an exact science. What we are doing, is preparing for the worst while taking steps to ensure the best.

The COVID-19 pandemic, and the ensuing lockdowns, has negatively impacted the City's revenue. For purposes of our budget forecast, we are anticipating at least a two-year recovery.

## General Fund Revenues

Where does the City get its money?



# Resident Tax Contribution Calculator

Would you like to know where your tax

Answer a few short questions to explore your tax dollars

Start

Restart

Back

Restart

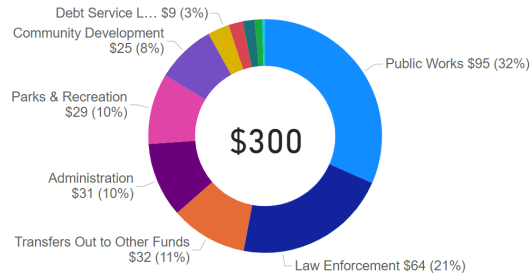
Do you own a home in Cupertino?

☐ Yes

☒ No

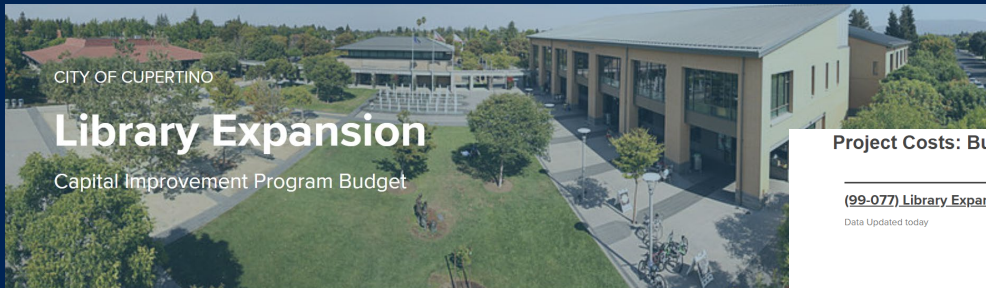
Next

How Your Tax Contributions Are Allocated (by Service)



Next

# Interactive CIP Budget



### Project Description

Develop a design and construct an approx. 4,400 SF addition to the Library building for a "program room" that will seat up to 130 to library events. Using the "Perch" option from the Civic Center Master Plan.

### Project Costs: Budget vs Actual

#### (99-077) Library Expansion

Data Updated today



# Important Initiatives

CITY OF CUPERTINO

## CARES Act

Using CARES Act Funds to Support the Community through COVID-19

### What is the CARES Act?

The CARES Act provides for payments to State, Local, and Tribal governments navigating the impact of the COVID-19 outbreak; billion in funding through the Coronavirus Relief Fund.

CARES Act Feedback Survey

### What do you think about this communication tool?

No deadline is currently set

Introduction

Feedback

Your Response

Outcome

#### Your Response

[Take the Survey](#)

What did you like the most about your experience?

What can we do to improve your experience?

Do you have any questions or comments?



# Budget Landing Page



Employee Compensation and Benefits

Find answers to the questions we get asked most about the budget

Employee Compensation and Benefits

36% of General compensation (%), and other the need to ough attrition is s. 02.75 in FY e in staffing.

Employee Compensation and Benefits

Year	Amount (\$M)
2015	~\$18M
2017	~\$20M
2019	~\$22M
2021	~\$29.2M

**\$29,198,632.00**  
Expenses in 2021

Questions and Comments

Help the City improve their financial transparency and public engagement



# Timeline

- Interactive Budget at a Glance
- Resident Tax Contribution Calculator
- Interactive CIP Budget
- Important Initiatives
- Budget Landing Page

## Next Steps

- Budget Format Review Subcommittee

# Thank you!

Questions?



CUPERTINO

## Questions Regarding the Current Budget Report

FY 20-21

Audit Committee Chair Daisy Liang

**1. Page 35 and 55 of the FY 21-22 Proposed Budget: Please add the Adopted Budget amounts for anywhere the FY18 and FY19 actuals are presented. This will allow a reader to understand where the actuals ended in respect to the amounts budgeted.**

*RESPONSE: The format of showing two years of actuals, prior year adopted, and current year adopted follows the criteria set forth by the Government Finance Officers Association (GFOA). Additionally, changing the size of the charts would result in the charts being significantly reduced in size and could make is less legible. As an alternative, staff could issue a separate appendix showing the prior year budget and actuals at the detailed account line item level and post on the City's website.*

**2. Page 42: The Non-Personnel Assumptions section discussed one-time special projects. Can we add links throughout the document for repeated information? Can we add onetime special projects as a saved "view" in OpenGov to allow the public to easily access the information?**

*RESPONSE: We can add a reference on page 42 to note that special projects are further detailed in the respective department narrative sections. Each page of the budget document has a link back to the Table of Contents. From there, a user can easily move to any section of the document they desire.*

**3. Page 81: The Basis of Budgeting section discusses the budget being split into nine departments. Can the document include a pie chart to show the departments percentages?**

*RESPONSE: General Fund expenditures by department is presented on page 36 of the Proposed Budget.*

**4. Page 93: What is the formula to calculate the \$19,000,000 for Economic Uncertainty reserve?**

*RESPONSE: The formula is noted on page 93 of the Proposed Budget document: "represents two months of General Fund (GF) expenditures excluding transfers out plus a two year drop in total general fund revenue of 13% or approximately 1.5 months, excluding the use of reserves." This can be estimated by using the "Financial Overview by Fund" chart on page 103.*

Total GF Expenditures	\$ 88,138,778
(less transfers out)	\$ (11,251,984)
Subtotal	\$ 76,886,794
Expenditures (2 months)	\$ 12,814,466
Revenues (1.5 months)	\$ 9,372,611
Hypothetical Reserve Amount in FY 21-22	\$ 22,187,077
Actual Reserve Amount in FY 21-22	\$ 19,000,000
Difference	\$ (3,187,077)

*In recent years, unassigned fund balance in General Fund has maintained high levels. That, coupled with the establishment of the Section 115 Trust (pension), City staff have not recommended increases to the Economic Uncertainty Reserve. In the event of economic uncertainty, further recommendations would be brought before City Council (e.g., increasing the Economic Uncertainty Reserve, utilizing the Pension Section 115 Trust, budget reductions, etc.).*

**5. Page 138: Can General Fund fund balance be added to the 20-Year General Fund Financial Forecast chart?**

*RESPONSE: Page 138 shows the revenues and expenditures and difference between the bars and the line represent changes in fund balance; these are emphasized on page 139. We could add a sentence nothing the beginning unassigned and total fund balance to provide additional context. That said, the General Fund fund balance forecast is discussed in detail beginning on page 155. Although having all of this information on one page would be ideal, it simply is not feasible. The forecast section is presented in a format consistent with the rest of the document and follows the flow/format of an income statement (revenue → expenditures → fund balance).*

**6. Page 148: What is “salary savings” as presented in the Five-year General Fund Expenditures Forecast chart?**

*RESPONSE: Salary savings is a common line item in budgets, particularly in forecast models. The City budgets for 100% of the authorized employee head count; however, throughout the year, savings is realized through turnover and attrition. This amount represents the anticipated savings from vacant positions and attrition throughout the fiscal year (cost of approximately 5 full-time employees).*

**7. Page 541: Where are the capital projects for FY 21-22 as well as any previously funded projects that have yet to be completed?**

*RESPONSE: The Capital Improvement Program (CIP) was not included in the Proposed Budget. It was first introduced to City Council at a study session on May 4, 2021, subsequent to the publishing of the Proposed Budget on May 1, 2021. The Final Adopted Budget will incorporate all financial information pertaining to CIP. Additionally, Public Works and the CIP team will be issuing a separate CIP Budget document as well.*

**Councilmember Moore**

**May 18, 2021**

**Format:**

**1. While Contingencies may not be an appropriate format issue to discuss, I think it should be removed and the reserve in the General Fund be appropriated as needed. The item has not been transparent from its inception in 2013 and looks like a slush fund with the largest share in the City Manager's budget. The Staff Report to City Council in June of 2013 neglected to mention that a new contingency amount of \$427k was even being appropriated and now the current format for the Budget shows \$3,773 for contingencies for the City Manager on p. 221, yet on p. 245 of the current Proposed Budget, there is \$593,250 appropriated in contingencies. Additionally, the City Manager is given authority to approve their spending on p. 244. This practice, and the whole contingency category, in my opinion, needs to end.**

*RESPONSE: City Council directed staff to reduce the City Manager Discretionary Fund to \$75,000 (a reduction of \$518,250) at the June 4, 2021 study session. City Council ultimately adopted the FY 21-22 Budget with a City Manager Discretionary Fund budget amount of \$75,000.*

**2. I do prefer the staffing tables used by Campbell and Sunnyvale for clarity.**

*RESPONSE: Noted. It will be challenging to incorporate similar staffing tables throughout each of the respective Program narratives. However, staff can create an appendix report for all positions and present by Department and Program.*

**3. I prefer the more detailed accounting which the City did in 2013 and other cities continue to do, referred to as the Account Level Summary.**

*RESPONSE: Noted. It will significantly increase the length of the document to show the account level detail throughout the document, but as an alternative, staff can create an appendix report for all budget and actuals at the account level detail.*

**4. I would like the previous comments from the last Budget Format Review Subcommittee (attached) added along with my comments and Daisy's for next week's City Council Budget Agenda item.**

*RESPONSE: Noted.*

**Content:**

**Proposed Budget is pretty easy to read and follow. Movement of money between funds along with department divisions and tasks moving between departments makes following the changes to department costs difficult to capture. Because some funding increased a great deal in 2020, it**

**would help to have a comparison back to 2019 in some instances (City Manager Contingency, for example, Proposed Budget p. 245)**

**1. Community outreach improvements to get input regarding the Proposed Budget goals and process.**

**a. Proposed Budget mentions input from the Audit and Fiscal Strategic Plan Committees, however neither has reviewed the Proposed Budget for input. Should these committees receive the Proposed Budget prior to coming to City Council in the future or is this process order better? The Fiscal Strategic Plan Committee is not codified and has no codified duty to review the Proposed Budget.**

*RESPONSE: The Audit Committee is tasked with reviewing the Budget Format and the Fiscal Strategic Plan has historically reviewed the City's financial forecast, which is an important component to the City's budget document. While input on the actual budget document is only received from the Community via public meetings, the City's budget team holds annual community engagement budget workshops and includes interactive budget reports throughout the year via OpenGov.*

**2. The organizational charts need to reflect the Cupertino Municipal Code (CMC)**

**a. Add date of organizational chart**

**b. Update the online chart**

**c. Update CMC to reflect current organizational structure (e.g. add I.T. Department)**

**d. This should probably not be a work plan item, but an ongoing process of CMC cleanup**

*RESPONSE: The organizational charts in the budget document are correct. They will need to be updated online and in the CMC. The date of the organization chart in the budget corresponds to the budget document itself; thus the organization chart corresponds to FY 21-22.*

**3. CMC mentions a potential Public Safety Department should Police and Fire be administered by the City. The City contracts out both. How is the Fire Department paid for?**

*RESPONSE: Santa Clara County Fire is funded via property taxes. Property tax revenues are generated from the 1% tax on property values. Of that 1%, the City receives 7% and Santa Clara County Fire receives 15%, with the majority of the 1% going to school districts.*

**4. City Manager discretionary spending was \$743 for 2020 yet the 2022 Proposed Budget is \$593,250. Additionally, the Program Overview states that the contingency budget for the City Manager requires the City Manager approval (Proposed Budget p. 244). I would recommend this amount be removed and a policy for oversight be put in place. The City Manager’s overall budget has increased from \$786,535 in 2019 (expenditures plus contingencies) to \$2,115,071 proposed for 2022. How is this increase accounted for? Review the City of Cupertino Purchasing Policy (2013) Code Sec. 3.22 and 3.23.**

*RESPONSE:* The City Manager Contingency program was established to meet citywide unexpected expenses that may occur during the year. In FY 2013-14, a Contingencies expenditures category was added to each General Fund program to serve as a contingency for any unexpected expenditures that might occur during the year. Prior to FY 2020-21, the contingency amount was derived by taking 5% of the General Fund’s base materials and contract services to account for unforeseen events and/or activities that were not included in the respective fiscal year’s budget. In FY 2020-21, and in response to COVID-19, the contingency amount was cut in half to 2.5% of the General Fund’s base materials and contract services. Additionally, in FY 2020-21 The City Manager’s contingency established an appropriation specifically for Public Works’ unforeseen maintenance and repairs in an amount of \$280,000. The current 2.5% calculation is below GFOA’s best practice recommended range of 5-15%; however, once the Public Works unforeseen maintenance and repair contingency is factored, the contingency amount ends within the recommended range at 5%. In total, the City Manager’s contingency budget has remained relatively consistent year-over-year (YOY) as noted below:

Fiscal Year	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Budget	\$505,000	\$593,661	\$486,353	\$551,827	\$593,250
Actual	\$240,365	\$127,480	\$279,337	\$283,384	\$ -

The City Manager budget unit within the Department of Administration (100-12-120) has increased from \$993,118 (adopted) in FY 2018-19 to \$1,521,821 (proposed) in FY 2021-22. This increase is due to 2.3 additional full-time employees being accounted for in this budget unit. City Council recommended and adopted a FY 21-22 budget with a City Manager Discretionary Fund of \$75,000.

**5. Economic Development has switched to a contract service and has more than doubled in cost.**

*RESPONSE:* The Economic Development budget is proposed to decrease from \$430,494 in FY 2020-21 to \$337,074. As the function becomes further defined, staff will bring forward budget recommendations to City Council for consideration.



**6. Some committees use staff time (which seems to imply they have a budget amount) and are not codified: Economic Development Committee, Disaster Council, Fiscal Strategic Plan Committee. Needs clarification.**

*RESPONSE:* Staff time allocations less than 5% are generally not charged to specific budget units. In other words, the City would not create a budget unit for Fiscal Strategic Plan Committee because less than 5% of a respective employee's annual time is required.

**7. Multiple projects which are not approved in the City Council Work Plan show up in the Proposed Budget: New Logo, online store. Please remove these items from other headings such as "Contract Services" to a new heading which indicates they are Proposed Work Plan Items and not approved.**

*RESPONSE:* All City Work Program items will be budgeted and shown as "special projects" in the final adopted budget. Recording activities in a unique account requires the creation of a new general ledger account. This is completed once the City Work Program is adopted and the projects are finalized.

**8. Communications costs seems to be a separate area, could this be shown as a group?**

*RESPONSE:* Combining these groups would decrease transparency and also sacrifice historical data comparisons. OpenGov's Transparency Portal now has a saved "view" so that the Office of Communications and the Multimedia budget units can be seen in a combined fashion.

[OpenGov Saved View](#)

**9. It is unclear how much of the Cultural Events (\$402,137) items will occur, such as the 4th of July celebration. (PB p. 335-336), a similar item, Neighborhood Events (\$163,119) raises the same question (PB p. 350). Total events: \$565,256.**

*RESPONSE:* Most of the 4<sup>th</sup> of July funds are spent the FY before the event, so the money in the FY 2021-2022 budget will go toward the July 4, 2022. The other events within this account are Memorial Park Summer Events and Shakespeare in the Park which we are planning for late summer/early Fall 2021, Tree Lighting which is in December 2021, Big Bunny 5K in March/April 2022, and other small events. The Festivals start in the Fall and continue to Spring. At this time, we are assuming those will happen.

**10. Economic Development was \$89,910 for the 2019 actual expenditure and is now proposed at FY 2022 \$337,074 with a new contingency and materials amount of over \$60K with no staffing. Additionally, there is no codified Economic Development Committee which uses staff time. This area needs attention.**

*RESPONSE:* The Economic Development budget is proposed to decrease from \$430,494 in FY 2020-21 to \$337,074. With the function likely moving “in-house,” staff are recommending a reduction in this budget unit of \$38,694. As the function becomes further defined, staff will bring forward budget recommendations to City Council for consideration.

**11. Please explain the large increase in the BMR affordable housing fund PB p. 393 which shows an increase of revenue from 2019 actual of \$159,179 in taxes to 2022 Proposed Budget taxes of \$3,611,855. There is an allocation of \$600,000 shown for Homelessness and other Special Projects which has not been approved and the City Resolution to support the county Task Force on Homelessness indicated that the City would participate in a county-wide program which the City would likely be asked to contribute financially to.**

*RESPONSE:* Estimated revenues increased due to one-time anticipated Housing Mitigation In-Lieu Fees for Cupertino Village and De Anza Hotel. The majority of this program’s budget increase is due to two (2) tentative City Work Program items: \$300,000 for Affordable Housing Strategies and \$300,000 for Homeless Services and Facilities. Although the Affordable Housing Strategies is slated for removal, a \$200,000 item for Homeless Jobs Program is slated to be added.

**12. Code Enforcement has increased from \$508,167 in 2019 to \$1,202,392 proposed 2022. PB p. 406.**

*RESPONSE:* Full-time employee (FTE) allocations have increased since FY 2018-19 which is contributing to the increase. Additionally, and because of these relatively large proportional staffing increases and changes in methodology, the amount of cost allocation charges increased from \$22,478 in FY 2018-19 to \$277,786 in the proposed budget year.

**13. Facilities would be easier to track if grouped together, Facilities and Fleet next to Grounds, for example. Where are Stockmeir, Byrne, Blech?**

*RESPONSE:* The Department’s budget units/programs are organized in order of Division (xxx-XX-xxx). Because the Fleet or “Fixed Assets Acquisition” program is numbered 630-90-985, it naturally comes at the end. Changing the accounting structure would be an administrative challenge and make it more difficult to identify fluctuations year over year. A saved “view” on OpenGov has been created to see Grounds and Facilities budget units together.

[OpenGov Saved View](#)

Stocklmeir, Byrne and Blesch are not occupied buildings that are in use. The Facilities budgets are for maintenance of city buildings that are in use. Any budget allocations for these three properties would be considered a special project with a specific scope. Additionally, The City's budget does not include a comprehensive list of the City's capital assets for two primary reasons: 1) it is not a requirement or recommendation by the Government Finance Officer's Association (GFOA) and 2) the City strives to keep the budget document as concise as possible. It is regularly recommended by GFOA to shorten the document as necessary and appropriate.



# CITY OF CUPERTINO

## Agenda Item

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**21-9874**

**Agenda Date: 9/27/2021**  
**Agenda #: 5.**

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Subject: HdL Contract and Refund Error

Accept HdL Contract and Refund Error



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
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CUPERTINO.ORG

### AUDIT COMMITTEE STAFF REPORT

Meeting: September 27, 2021

#### Subject

HdL Contract and Refund Error Debrief

#### Recommended Action

Receive HdL Contract and Refund Error Debrief

#### Discussion

##### *HdL Contract*

Economic Development is a City function that has had a history of moving back and forth between the Community Development and Administration Department. During the first quarter of FY 2020-21, a decision to move this function from the City Manager's Division to the Community Development Department was approved by the City Manager based on the alignment of the function with the Department's operational goals and objectives. While this operational change was made, it was decided the budgetary changes would not be incorporated until the FY 2021-22 Adopted Budget.

Prior to and during FY 2019-20, the City's Economic Development function was managed in-house by a part-time Economic Development Manager. Subsequently, the employee left City service to work with HdL, an economic development service provider. In FY 2020-21, the City had an effective contract with HdL in the amount of \$170,000 per year.

These factors and the transition period created a challenge for both Administration and Community Development Departments to effectively manage the contract, services being rendered, and budget simultaneously throughout the year. Invoices received were routed to various departments and were not entered into the system timely which made it difficult for the departments to monitor the budgetary performance throughout the year. FY 2020-21 required additional services related to COVID-19 and the property acquisition of 10455 Torre Avenue and it was not until the second half of FY 2020-21 that staff became aware of services rendered exceeding the contract amount (\$170,000). A contract amendment was brought before City Council, but was not approved and

additional information was requested. To date, the City has not remitted payments in excess of the contract amount.

The functional transfer, both from an operational as well as a budgetary standpoint, is an irregular occurrence and resulted from management turnover in recent years. Contract management remains an essential responsibility for departments. As the City moves forward with the proposed internal audit work program, procurement, including contract management, will be reviewed and the findings and observations for improvement will be communicated to the Audit Committee upon completion.

#### *Refund Error*

In FY 2020-21, candidates running for City Council were required to pay \$2,860 in estimated candidate costs. Actual costs amounted to \$2,576, resulting in a candidate refund amount of \$284 subsequent to the 2020 election. Responsible Administration Department staff entered the invoice entry amounts in error. Rather than entering \$284, the actual cost of \$2,576 was mistakenly entered. This was then routed to the Department staff responsible for invoice approval and finally to Finance for review, processing, and payment. The essential internal controls and checks and balances were in place and operating effectively; however, this appeared to be an issue of human error, an inherent limitation to internal controls. A candidate received the incorrect refund and promptly notified the City. City staff took the matter seriously and corrected the error timely.

#### Sustainability Impact

No sustainability impact.

#### Fiscal Impact

No fiscal impact.

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Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Greg Larson, Interim City Manager

Attachments:

None.



# CITY OF CUPERTINO

## Agenda Item

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**21-9875**

**Agenda Date: 9/27/2021**  
**Agenda #: 6.**

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Subject: Audit Committee Meeting Frequency

Consider Approving Changes to the Audit Committee Meeting Frequency



## ADMINISTRATIVE SERVICES DEPARTMENT

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### AUDIT COMMITTEE STAFF REPORT

Meeting: September 27, 2021

#### Subject

Audit Committee Meeting Frequency.

#### Recommended Action

Consider Approving Changes to the Audit Committee Meeting Frequency.

#### Discussion

City Municipal Code Chapter 2.88.060 Meetings states, "The Audit Committee shall establish a regular time and place of meeting and rules of conduct thereof and shall hold at least one regular meeting quarterly." The Audit Committee has historically held regular meetings on a quarterly basis; however, in recent years and in order to complete the Committee's annual tasks, the need to hold 2-3 additional special meetings per year has occurred.

Effective July 21, 2020, City Council adopted Ordinance No. 20-2208 amending Chapter 2.88.100 Duties-Powers-Responsibilities of the City Municipal Code to include recommending appointment of internal auditors and to review internal audit reports. The City's internal audit function is broad-scoped and is anticipated to bring forward multiple internal audit reports throughout a respective fiscal year.

Because the timing of completion of these reports may not coincide with the Committee's regularly scheduled quarterly meetings and because each of the internal audit reports will likely warrant significant time and discussion, City staff recommend bifurcating the Committee's tasks to separate meetings. Regular quarterly meetings may be reserved for Duties-Powers-Responsibilities "A" through "F" and additional special meetings shall be scheduled for Duties-Powers-Responsibilities "G" to review internal audit report reviews on an ad hoc basis. With the City's internal audit function slated to complete approximately four (4) internal audit reports per year, it is anticipated four (4) additional special meetings would be held. Staff believe this will provide sufficient time for the Audit Committee to carry out its Duties-Powers-Responsibilities on an annual basis.

#### Sustainability Impact



No sustainability impact.

Fiscal Impact

No fiscal impact.

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Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Greg Larson, Interim City Manager