



Agenda

DATE 1/28/15 TIME 2:30pm

BY Yolanda Green
Alicia Hartwig

CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM

Wednesday, February 4, 2015, 2:00 P.M. to 4:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES
 - a. Wednesday, January 7, 2015
5. EXTERNAL AUDIT MATTERS
 - a. 2014 CAFR
 - i. Presentation by External Auditors and Finance Department
 - ii. Discussion
 - b. Park Bond Audit
 - i. Schedule and Status
 - c. BDD Operations Audits
 - i. Schedule and Status
 - ii. Entrance Conference – on February 25, 2015
 - d. Lodger's Tax Audit
 - i. Schedule and Status
 - e. Report from External Audit Committee (Clark de Schweinitz and Marc Tupler)
6. REVIEW OF FINANCIAL REPORTS FROM CITY
 - a. Financial Reports (Progress) (Hazeldine Romero and Loretta Valencia)
 - b. Update from Finance Director (Oscar Rodriguez)
7. INTERNAL AUDIT MATTERS (Liza Kerr)
 - a. Review of Status of Internal Audit Reports
 - i. Update on Tracking of Findings
 - b. ITT Follow-Up Audit
 - i. Schedule and Status
 - c. Public Utilities Audit
 - i. Schedule and Status
 - d. Fraud, Waste and Abuse Hotline
 - i. Schedule and Status
 - e. General Information
 - f. Report of Internal Audit Subcommittee (Hazeldine Romero and Cheryl Pick Sommer)
8. UNFINISHED BUSINESS
 - a. Inspector General's Office
9. NEW BUSINESS
 - a. Committee Annual Report to Finance Committee / Discussion of ideas and points to cover (Clark de Schweinitz)
10. NEXT MEETING DATE
 - a. Wednesday, March 4, 2015
11. ADJOURNMENT

Persons with Disabilities in need of accommodations,
contact the City Clerk's office at 955-6520 five (5) working days prior to the meeting date.

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MINUTES OF THE
CITY OF SANTA FÉ
AUDIT COMMITTEE

February 4, 2015
2:00 p.m. – 4:00 p.m.

1. CALL TO ORDER

A regular meeting of the City of Santa Fé Audit Committee was called to order by Mr. Clark de Schweinitz, Chair on this date at approximately 2:00 p.m. in the Convention Center Administrative Conference Room, Santa Fé, New Mexico.

2. ROLL CALL

Roll call indicated the presence of a quorum as follows:

Members Present:

Clark de Schweinitz, Chair
Hazeldine Romero, Vice Chair
Marc Tupler
Loretta Valencia

Members Absent:

Cheryl Pick Sommer

Others Attending:

Liza Kerr, Internal Auditor
Oscar Rodriguez, Finance Director
Morgan Browning, Auditor
Bobby Cordova, Auditor
Carl Boaz, Stenographer

NOTE: All items in the Committee packet for all agenda items are incorporated herewith to these minutes by reference. The original Audit Committee packet is on file in the Audit Department.

3. APPROVAL OF AGENDA

Ms. Romero moved to approve the agenda as published with the option to move items. Mr. Tupler seconded the motion and it passed by unanimous voice vote.

4. APPROVAL OF MINUTES

- **January 7, 2015**

Ms. Romero moved to approve the minutes of January 7, 2015 as presented. Mr. Tupler seconded the motion and it passed by unanimous voice vote.

5. EXTERNAL AUDIT MATTERS

a. 2014 CAFR – Presentation

Mr. Bobby Cordova and Mr. Morgan Browning presented the audit to the Committee.

Mr. Cordova said they weren't sure whether to hand out the 2-page timeline which was presented to Council with a printed Power Point. They distributed copies to the Committee.

Mr. Cordova went through the presentation outline. First was the timeline. We are glad we conducted the audit for City. July 21 was entrance conference. Set expectation and when deliverables were to happen. Things were done on schedule. The CAFR became public on December 12, 2014

The schedule for 2015 is critical this year for a successful submission.

He said the opinion rendered was an unmodified opinion, meaning there are no qualifications. With two years of unmodified opinions, it would allow the auditor to reduce testing for internal controls. They tested six programs with federal funds as listed. The oversight agencies issue compliance supplements. The auditor is the gatekeeper for what the grant is supposed to be doing and determined if it met the test. All six fed programs tested were unmodified and represent 86% of all federal programs. The City is responsible to make sure the reports are in accord with GAAP and are reliable.

Ten prior year findings were resolved and at the exit conference they talked about them in detail.

Of current year findings, there were adjustments made to the budget during the year all that were over expenditures over budget must be reported. The actual exceeded the approved. There were questions on disaster recovery. SSA requirements not complied with. There were three federal findings last year (# 5). He noted that repeat federal findings bring pressure to pay money back.

Ms. Valencia commented regarding the findings of budget overages, the staff stated the City would train employees to get invoices submitted timely.

Mr. Cordova said they needed to impose a cutoff at June 10 to not order anything more. July is too late to adjust the budget.

Mr. Rodriguez said staff ordered things before June 30 that were delivered in September. The problem was when not closing every month to know how to handle it. There was no system in place to avoid that. They also opened a PO for one dollar as a strategy so when the deadline approached, there was already a

PO. The vendor is not at fault here but the vendors do have something to do with it.

Mr. Browning said Ms. Garcia would say the departments were not diligent in getting that done by the deadline. They operated on a cash basis.

Ms. Valencia asked if the problem was the spending or the Budget Adjustment Requests (BAR).

Mr. Browning said it is a BAR issue.

Mr. Rodriguez said the vendors know they have to submit invoices promptly and pay attention to the approaching end of the fiscal year. The City is changing to the concept of procurement with a specific date. Historically, during the last month of the fiscal year, 30% of purchases are made.

Chair de Schweinitz recalled there were a series of retroactive payments. Someone said it was a bad practice.

Mr. Rodriguez said it was his statement. There were two ITT purchases. They bought stuff without going through the procurement process and asked Council to make them retroactive purchases.

Mr. Browning said they would scrutinize the minutes for that.

Mr. Cordova clarified that the procurement issue is a separate issue from budget.

Ms. Kerr said the IT policies for disaster recovery were never finalized and approved. We need to get assurance from the vendors who access the City's data that they have controls in place for protection of all data. She recalled the security policy last year which couldn't be implemented because the City didn't have a security officer. The IT Steering Committee meetings are beginning formally. They previously were meeting informally and had no agenda and no minutes were kept.

Mr. Cordova said under "other items", that the reporting back to the federal government is done and they have accepted the reporting and he will provide a copy to the Audit Committee. It will be a reiteration of the audit.

The audit entrance conference for BDD is scheduled later this week and there are about 3 years of operations to audit (2012, 2013 and 2014).

Ms. Kerr invited some of the Audit Committee members to attend it.

Mr. Tupler agreed to attend.

Ms. Romero asked if the schedule allowed enough time to complete the annual audit.

Mr. Cordova hoped to start it sooner and do the interim controls early and use June if not May, for planning and controls testing which should help.

Regarding the CAFR, Mr. Cordova had made recommendations at the exit conference to start earlier on it. There are about 80 funds that have to be reconcile to the CAFR. So at the end this time it was hard to get the adjustments in place timely. The end of October would be great to have a draft in place.

Mr. Browning said the assembly of drafts was antiquated. The Company has a system allowing conversion of the whole document to PDF as opposed to manual documents. The first draft was scanned in and then they used OCR for searches and it took a long time. So this year with one button, they can PDF all of it.

Mr. Rodriguez asked if a more disciplined monthly close would help. The City wasn't used to closing each month.

Mr. Cordova was not sure if it would help or not.

Mr. Browning said the final trial balance was submitted to him in late October because the City relies only on their year-end reconciling. The monthly close would certainly help.

Ms. Valencia asked if they relied on time line that the Finance Department did.

Mr. Browning said the time line was Atkinson's and was used by the Finance Department. It wasn't his list. He knew what to ask for and relied on his own experience. It is important to have a time line to hold the auditor accountable.

Chair de Schweinitz noted that in the year before, the Audit Committee got a report every month to compare the timeline with actual production.

Ms. Kerr offered to send an example.

Mr. Cordova said it would help if the auditors could tweak it.

Ms. Romero said the auditors could do their own timeline and report monthly to the Audit Committee. The Audit Committee didn't see their version of it but liked it when working with Atkinson.

Ms. Romero asked if there were any remaining issues that the Audit Committee needed to be aware of.

Mr. Cordova said there were none to his knowledge.

Ms. Valencia asked why there wasn't a statement of position for major enterprise funds.

Mr. Browning said page 25-26 has them. All others were lumped together on page26.

Ms. Valencia referred to page 52, under special revenue bonds, that it showed an amount in the Balance Sheet due to and due from in the same fund.

Mr. Browning said he would have to go back to see what it corresponds to.

Ms. Romero asked how he satisfied himself that the estimates were adequate.

Mr. Browning listed the elements of the estimates and said there were report numbers to support the estimates. They probably won't question the actuaries' work. For special assets, he scanned those details and notes and asked if it really makes sense.

Ms. Romero asked if the City were receptive to his input.

Mr. Browning agreed and said he put them in proper categories that could be looked at. They had no issues with the estimates.

Ms. Romero asked if there were any significant changes in account balances from last year and this year.

Mr. Cordova said the debt decreased \$9.5 million.

Mr. Browning added that they issued GO bonds that made up for it. They explained the reasons on page 6. He pointed out that GASB 65 was implemented this year and they had to take off all issuance costs from previous years. Page 18 showed the new accounting standard. Changes in capital assets were shown on pages 48-49. Debt was shown on page 58. It shows the GO bonds and accounting for the differences. They asked lots of questions to Erica and Teresita in the Finance Department. He added that GRT revenue going up.

Mr. Cordova said anything they identified as a risk would have been dealt with.

Ms. Romero said the Audit Committee would just like to look at those items to make sure.

Mr. Cordova said it is a key assessment for them by asking questions and walking through the process.

Mr. Tupler said the Audit Committee doesn't want the little things to turn into material things.

Ms. Kerr said that the auditor's chooses to look at the STOP program as part of the CAFR audit for FYE 2014, and that the Audit Committee was told they didn't need to do a special audit on the STOP program for FYE 2014 as the procedures could be included in the CAFR audit.

Mr. Browning said they looked at the STOP Program only for 2014. They did a risk assessment on the program and determined separate procedures were not needed.

Mr. Cordova added that there are specific procedures to do, in regards to the STOP Program, and it is not an audit. It is considered an agreed upon procedure.

Ms. Kerr asked if they felt it was necessary to go back to 2009.

Mr. Cordova said the program had never been audited and that the Nuisance Ordinance does require these procedures to be done on an annual basis. He just provided an engagement letter as a starting point to open discussions.

Chair de Schweinitz thought the two findings the auditors cited this year were minor, compared with the BAR procedures that have been going on a long time, and other findings previously cited in the financial audit.

Mr. Cordova said this first year, they tried to get their hands on everything so the strategy might change a little next year but there might still be something out there they were unaware of.

Mr. Browning pointed out that as a home rule city, Santa Fé has its own procurement code and he followed that in the testing. It deviates a lot from the State Procurement Code.

Mr. Rodriguez agreed but said the general rules are the same as the state's.

Chair de Schweinitz thanked the auditors for their time and looked forward to working with them again this year.

Mr. Cordova said they would work on the time line and get one that is doable.

b. Park Bond Audit

Ms. Kerr said they started the field work on Monday, January 26th. They submitted a request to management on January 19th so that items would be there when they walked in the door, but nothing was ready when they got here. The City did make the services of Erica Martinez available on Thursday January 29th to show them how to pull their own documents. They are still missing many of the items requested and this delay has set them seriously behind schedule.

Mr. Rodriguez said the results could be very monumental on how the City does business and he was enthusiastic about it.

c. BDD Operations Audits Entrance Conference – on February 25, 2015

Ms. Kerr announced the entrance conference on February 25 and Mr. Tupler is invited.

Ms. Kerr stated she had been requested to take all of the specifics off the agenda.

Ms. Romero said that much of the detail was provided in the Status of Audits Report and agreed it is redundant to have each one listed.

Ms. Valencia said, "My comment is on emails exchange between Liza and me to take out the entrance conference because that should be included in schedule and status. Otherwise then, and that's what this Committee had agreed upon when we established the agenda a couple of months ago. And we voted on it. So then what will happen is that we include that and include 7 a and include e. Then what happens is we start deviating from something the Committee approved. And unless that, again, because it was voted on, I think we need to stick to those bases and cover the entrance conference under schedule and status."

Ms. Kerr stated that removing detail from the agenda meant she would need to keep a separate agenda for herself that has the detail in it so she could know what she was talking about.

Ms. Valencia said she could keep what she had to do for her way of remembering to report it and do what she had to do. But the detail is part of the packet so the Audit Committee is transparent and should stick with the approved agenda and delete the ii part from the published agenda. On 7a she agreed with Ms. Romero that it is redundant because the Committee agreed that each audit would be listed.

Ms. Kerr said she would retitle it the Internal Audit Matters.

Mr. Tupler agreed; they didn't need one bullet point under it and could be summarized in the main topic.

Ms. Valencia suggested they could discuss the format at a future meeting but she felt it was working well but noted they were starting to deviate from it.

Mr. Tupler thought the agenda should reference a report or a person or something to tie it to. Seeing schedule and status on there did not give him any information at all.

Ms. Kerr said she was okay with what the Committee wanted.

Mr. Rodriguez excused himself from the meeting.

Ms. Kerr clarified that the agenda is presented at the City Manager's meeting that is held every Tuesday morning and with some detail in it, it lets people outside of the Committee know a little bit about what is happening. And if it something they are interested in, they could come to the meeting and address it. The agenda preparation is the Chair's job so whatever they wanted was okay with her.

Chair de Schweinitz agreed that it would list the audits.

Ms. Kerr asked if they want to have the agenda format discussed under unfinished or new business.

Mr. Tupler said it should be under New Business.

d. Lodger's Tax Audit

Ms. Kerr said the report is in the packet and the format is what she would do with the follow-ups. It is not an audit but a follow up. It summarizes the objectives of the follow up in an executive summary. She pointed out the on this report the revised mediation date was not included on the chart, but that she would correct this. This is a follow up on the open findings from the Lodgers' Tax Audit. Right now, she is working on the IT follow up, but that is an audit and Lodger's Tax is just a summary. She is having to do a lot more work on ITT.

Mr. Tupler said every time he saw a new report generated out of Access, he wanted to make sure it is good use of the Ms. Kerr's time. Ms. Kerr said it was. She added the report he was referencing shows the findings cleared in the current month. It would not be released to anyone except the Audit Committee.

e. General Information

Ms. Valencia said last month Ms. Kerr had field work started but it isn't on this report and should be added. And she went from having good detail on each audit and now it has just summary information.

Ms. Kerr explained that she could only add so much into a cell so she put the information from prior months into a new column of past comments and is just reporting on comments for this month but it is all still in the database. She didn't see the point in reviewing past comments.

Ms. Valencia agreed but asked her to add the date when the field work started.

Ms. Kerr suggested putting "schedule and status" at the top, and then the Committee could talk about each report. It would make it flow easier instead of jumping back and forth.

f. Report from External Audit Committee (Clark de Schweinitz and Marc Tupler)

There was no report.

6. REVIEW OF FINANCIAL REPORTS FROM CITY

a. Financial Reports (Progress) (Hazelaine Romero and Loretta Valencia)

Ms. Valencia said they went through both packets that were presented at the last meeting. Mr. Rodriguez was giving his packet to the Finance Committee and wanted to use that for his reports to the Audit Committee.

Mr. Tupler asked if there were any differences.

Ms. Valencia said there were lots of differences. The investment report was redundant so she eliminated that one. The other was a debt service report and she liked that report. So we recommended incorporating that into Mr. Rodriguez' report and he is willing to do that.

Ms. Garcia also gave them a cash balance report and Mr. Rodriguez is including that now.

And then there was a budget vs. actual but Ms. Garcia's was detailed and Mr. Rodriguez's more of a summary. So debt and debt service was the only part added from Ms. Garcia's report.

Then she and Ms. Romero met with Mr. Rodriguez and his report still has to be tweaked because his starting amounts were not reconciled with the CAFR. She has concerns that the numbers Mr. Rodriguez starts with has due to and due from, accruals and cash. He wants to work with us and with Ms. Garcia on that.

Ms. Romero added that where a number doesn't start with the CAFR, he would have a footnote to explain clearly why it doesn't tie to the CAFR. She felt they got better information on how Mr. Rodriguez comes up with projections for the future and showing when they would run out of money.

Ms. Valencia said he would probably have a December 31 packet now to bring to the March meeting.

Ms. Romero said he would provide it monthly to the Finance Committee as well.

Ms. Valencia noted one positive is that he is working with the General Ledger and the Trial Balance and providing it to the Finance Committee and wants to provide it to the Audit Committee as well.

Mr. Tupler asked if the Finance Committee has a response.

Chair de Schweinitz said they were shocked at what he had to report.

Ms. Kerr agreed. And it might help to have members from the Audit Committee to attend the Finance Committee meeting once in a while.

Chair de Schweinitz said the Committee would still want the option to ask Mr. Rodriguez what is behind these things.

b. Update from Finance Director (Oscar Rodriguez)

The update was presented earlier in the meeting.

7. INTERNAL AUDIT MATTERS (Liza Kerr)

a. Review of Status of Internal Audit Reports

- **Update on Tracking of Findings**

Ms. Kerr said this refers to the report in the packet, Completed Audits in the last four years.

Mr. Tupler asked if they were all external.

Ms. Kerr said it includes everything and it could be moved up front in the agenda.

Ms. Romero suggested separating external from internal.

Ms. Kerr said okay.

She said there are 62 outstanding findings this month and last month there were 75 so it is a drop in open findings. In the packet it shows the findings cleared this month in Lodger's Tax findings status. So next month I'll clear those and add the new ones. There were none cleared in any other audit. It is all in her database. They started with 235 when she first put the database together and now down to 62. Since it is a significant amount, she will report it to Mr. Snyder but ordinarily she would just report them to the Audit Committee.

b. ITT Follow-Up Audit

Ms. Kerr reported she is working on it

c. Public Utilities Audit

She made no comment on it.

d. Fraud, Waste and Abuse Hotline

Ms. Kerr said this is still coming up as a priority. The release to the employees did not occur. She e-mailed Matt Ross three times and also Mr. Snyder and they don't respond to the emails or her voice mail.

Chair de Schweinitz said it was up to management to move forward and implement the hotline.

Ms. Kerr understood. She was tasked with implementing a hot line.

Ms. Romero agreed Ms. Kerr has done her part and it is now their responsibility.

Ms. Kerr said okay; she is done and will let it go.

e. Railyard Report

Ms. Kerr included this report in the packet so it could be discussed next month.

Chair de Schweinitz said the Committee should review it and then make a motion on whether it complies or not.

Ms. Kerr said she put in the 2014 report and commented that she had just received it.

f. Report of Internal Audit Subcommittee (Hazeldine Romero and Cheryl Pick Sommer)

This was reported earlier in the meeting.

8. UNFINISHED BUSINESS

a. Inspector General's Office

Chair de Schweinitz said there was nothing new to report. He asked Legal for the proposed ordinance. It worried him in light of the budget discussion whether the forensic auditor position will be approved.

Ms. Kerr thought she had enough budget to cover some audit software that would help with data analytics. She is going to request it of the City Manager but would make the request closer to the end of the fiscal year. If she could show some cost savings, it might provide the funding for a new position.

She was approached on Monday by Mr. O'Reilly and Ms. Vigil that they want to move her out of her office and move in a contractor who will install water meters. She suggested remodeling her back room for the contractor but got no response.

9. NEW BUSINESS

a. Committee Annual Report to Finance Committee / Discussion of ideas and points to cover (Clark de Schweinitz)

Chair de Schweinitz said the Audit Committee does an annual report to the Finance Committee and he was going to start working on it. The Committee can deal with it at the next meeting.

Ms. Valencia asked if members could email suggestions. Chair de Schweinitz agreed.

Ms. Kerr said she would leave it on the agenda for next month.

10. NEXT MEETING DATE – Wednesday, March 4, 2015

11. ADJOURNMENT

Ms. Romero moved to adjourn the meeting. Ms. Valencia seconded the motion and it passed by unanimous voice vote.

The meeting was adjourned at 4:15 p.m.

Approved by:


Clark de Schweinitz, Chair

Submitted by:


Carl Boaz for Carl G. Boaz, Inc.