



Agenda DATE 7/24/16 TIME 11:34

SERVED BY Liza Kerr

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
Wednesday, August 3, 2016, 2:00 P.M. to 4:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF CONSENT CALENDAR
5. APPROVAL OF MINUTES
July 6, 2016 (Item 1)
6. CONSENT CALENDAR
 - a. External Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr) (Item 2)
 - b. External Audits - Schedule and Status (Liza Kerr) (Item 3)
 - c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings(Liza Kerr) (Item 4)
 - d. Internal Audits - Schedule and Status, (Liza Kerr) (Item 5)
7. EXTERNAL AUDIT MATTERS
 - a. Review and discuss Lodger's Tax Operations Audit 2015 (By Committee) (Item 6)
 - b. Discuss resignation of Barraclough & Associates as the Lodger's Tax Auditor (Item 7)
 - c. Discuss need for a Lodger's Tax Task Force
 - d. Discuss BDD 2015 Financial Operations Audit (Reviewed by Hazeldine Romero)
 - e. Contingency Auditor Recap – Troy and Banks (Item 8)
8. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY
Finance / Financial update (Oscar Rodriguez)
9. FURTHER DISCUSSION ON INDEPENDENCE ISSUES AND ORDINANCES
 - a. Update on revised Audit Committee Ordinance (Clark de Schweinitz)
 - b. Update on revised Internal Audit Ordinance (Clark de Schweinitz)
10. INTERNAL AUDIT MATTERS (Liza Kerr)
 - a. Genoveva Chavez Community Center Update
 - b. Annual Internal Audit Report
11. UNFINISHED BUSINESS
Update on finding new audit committee member
12. NEW BUSINESS
None at this time
13. PUBLIC COMMENT – (5 MINUTES)
14. NEXT MEETING DATE
Wednesday, September 7, 2016
15. 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.

SUMMARY INDEX
CITY OF SANTA FÉ AUDIT COMMITTEE
August 3, 2016

ITEM	ACTION TAKEN	PAGE(S)
1. CALL TO ORDER		
2. ROLL CALL	Quorum Present	1
3. APPROVAL OF AGENDA	Approved as presented	1-2
4. APPROVAL OF CONSENT CALENDAR	Approved as presented	2
5. APPROVAL OF MINUTES		
• July 6, 2016	Approved as presented	2
6. CONSENT CALENDAR LISTING	Listed	2
a. External Audits - Completed Last 4 Years		
b. External Audits - Schedule and Status		
c. Internal Audits - Completed Last 4 Years		
d. Internal Audits - Schedule and Status		
7. EXTERNAL AUDIT MATTERS		
a. Lodger's Tax Operations Audit 2015	Discussion	2-3
b. Barraclough & Associates Resignation	Discussion	3-5
c. Lodger's Tax Task Force Need	Discussion	5
d. BDD 2015 Operations Audit	Discussion	5-7
e. Contingency Auditor Recap: Troy & Banks	Discussion	7, 8-9
8. REVIEW OF FINANCIAL REPORTS		
a. Financial Update	Report/Discussion	9
9. INDEPENDENCE ISSUES AND ORDINANCES		
a. Revised Audit Committee Ordinance	Discussion	9
b. Revised Internal Audit Ordinance	Discussion	9
10. INTERNAL AUDIT MATTERS		
a. Genoveva Chávez Community Center Update	Reported by Ms. Kerr.	9-10
b. Annual Internal Audit Report	Approved submission of the report	10
11. UNFINISHED BUSINESS	Discussion	10-11
12. NEW BUSINESS	None	11
13. PUBLIC COMMENT	None	11
14. NEXT MEETING DATE:	September 7, 2016	11
15. ADJOURNMENT	Adjourned at 3:49 p.m.	11

MINUTES OF THE

CITY OF SANTA FÉ

AUDIT COMMITTEE

August 3, 2016
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
Carolyn Gonzales, CPA
Hazeldine Romero [arriving later]
Cheryl Pick Sommer

Members Absent:

[One vacancy]

Others Attending:

Liza Kerr, Internal Auditor
Carl Boaz, Stenographer
Councilor Michael Harris
Councilor Renee Villarreal
Don Martinez, Potential Member
Oscar Rodriguez, Finance Department Director
Teresita Garcia, Finance Department [arriving later]

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

Member Sommer moved to approve the agenda as presented. Member Gonzales seconded the motion and it passed by unanimous voice vote.

4. APPROVAL OF CONSENT CALENDAR

Member Sommer moved to approve the Consent Calendar as published. Member Gonzales seconded the motion and it passed by unanimous voice vote.

5. APPROVAL OF MINUTES

July 6, 2016

Member Sommer moved to approve the minutes of July 6, 2016 as presented. Member Gonzales seconded the motion and it passed by unanimous voice vote.

6. CONSENT CALENDAR LISTING

- a. External Audits - Completed Audits within the Last 4 Years with Open Findings
- b. External Audits - Schedule and Status
- c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings
- d. Internal Audits - Schedule and Status

7. EXTERNAL AUDIT MATTERS

a. Review and Discuss Lodger's Tax Operations Audit 2015

Member Gonzales reported on Lodger's Tax, using the new review format. She explained to the Councilors and public that this is a format the Committee created for a concise summary. This is not an audit but agreed upon practices for the audit that would be done. Barracough does specific procedures and presents their findings and submitted this report on May 10. The audit is as of June 30, 2015.

They were clear on taxes not collected and not pursued by the City. They do a sample and in the sample, identified certain results of their test work of unpaid interest or penalties that were never collected.

Ms. Kerr noted that 87 hotels are included and many short-term rentals that are registered. They are required to send in tax revenue monthly. The City prepares a spreadsheet of all payments received each month and then the auditors select a sample to test from this record.

Member Gonzales explained the auditors discovered a lack of reconciliations being performed by the City.

Ms. Kerr added that this is a repeat finding every year. She reached out to David Tapia about it to try and clear the 2014 findings. He stated that he does reconciliations, but she is not sure what he is reconciling to.

Member Romero arrived at 2:11.

Member Gonzales said legal action was recommended in some instances. She went through the recommendations to go to Finance Committee. Her first recommendation was to determine if there are accounting procedures and controls in place; whether they are reviewed and monitored regularly. The finance department needs to perform reconciliations on a monthly basis, document it and describe how any differences are resolved. She asked what the City can do to take legal action against Lodger's that are not paying. They have the capability.

Ms. Kerr said the ordinance needs to be strengthened.

Mr. Rodriguez said right now, if a lodger is late one month, it is a \$100 fine. Sometimes they are liable for only \$70 but if late, that is part of the system. It doesn't escalate over time.

Ms. Kerr thought the penalty should be a percentage, like a 10% per month penalty.

Mr. Rodriguez said it is the same with false alarms. They are supposed to report monthly and if not, they are subject to a fine. So people don't report for years. In terms of reconciliations, it is not the culture of the City. The City has traditionally not reconciled monthly.

Member Gonzales recalled that about a year ago, David Tapia provided the report on excel. She asked if it could be done in a separate format.

Ms. Kerr felt the software is not the issue. She said there were 23 findings in 2014. He cleared 8 and 4 are pending a reconciliation.

Member Sommer wondered how much money is owed to the City. They did a small sample. They checked 10 and 2 were okay but the rest were at issue.

Ms. Kerr explained that there are 87 vendors. Every three years, thirty are put in a pool and ten are to be pulled to be included in the audit. But it doesn't always happen that way.

b. Discuss resignation of Barracough & Associates as the Lodger's Tax Auditor

Chair de Schweinitz pointed out that Barracough isn't the one that chooses who is pulled.

Mr. Rodriguez agreed. The reason is because they send out letters and some say they are not going to give the information.

Ms. Kerr disagreed. There are emails going back and forth between Barracough and the City. Once the letters go out, that is the sample. And if they don't respond, it becomes a finding.

Mr. Rodriguez said some lodgers claim they don't have information. Some of the letters come back undelivered.

Member Gonzales asked if the information comes to his department and if not, a second step is taken.

Mr. Rodriguez agreed, if it is a returned letter. But ultimately, who gets selected are those that reply to Barraclough and it is seldom the first choice. That is a sore spot for Mr. Randall. Part of the compliance requirements are the information and accuracy of the data.

Member Gonzales asked how they determine these entities when they go on the Lodgers Tax Report.

Ms. Kerr said they have high, medium, and low risk rankings. But when an entity gets a business license and go on the lodger's tax roll and the City needs to be communicating between business office and finance office.

Mr. Rodriguez clarified that it is the same office. The bigger problem is that the report is voluntary and not verified if it is accurate for their occupancy rate. It should be a law to report their vacancy rate.

Ms. Kerr said Barraclough indicated that Barraclough felt it is not profitable to do this audit because they don't get responses from the lodgers or the City either. When they send emails to the City Finance would not even respond, not even a courtesy email back, nothing. It was like hitting a blank wall. The same thing happened with REDW when they came in a few years back. REDW got completely stonewalled. The staff auditor from Barraclough left that job in November and the manager took over. But the manager doesn't have time to send out repeated emails. Emails were sent from Barraclough to Internal Audit then to Finance with no response from Finance starting May 12, until early July. On July 18, she asked David Tapia in Finance about the findings and he said no one every sent him a draft. After her attempts, Ms. Garcia finally responded in July that Finance would fix it all and the next day, Doug quit and Barraclough resigned. It was very embarrassing. It is very unprofessional. It is becoming a situation where auditors will no longer bid on City jobs. As a result of all of this, in the future they might bid but at a much higher rate.

Member Sommer asked if it is worth it for City to do this audit.

Ms. Kerr explained that it is required by law. She went through that with the State Auditor's office. It is a very basic audit which is a public document. But Finance cannot keep sweeping it under the carpet. The Findings must be responded to.

Mr. Rodriguez apologized for the staff. He explained that he is changing the structure right now with creation of a Treasurer's office. So it will be addressed. Maybe what is owed here is an explanation from staff and what David Tapia understands it to be.

Ms. Kerr thought it is not a high priority because it doesn't go to State Auditor. Barraclough has done it for the last ten years for the City.

Mr. Rodriguez offered to bring a report to the next meeting on the extent and what we are doing to fix it.

Ms. Kerr said Mr. Tapia does a great job. He is not the problem.

Member Gonzales said that the longer this goes on, the less time there is to really get on it and fix it.

Ms. Kerr added that there is a potential for money here.

Mr. Rodriguez agreed there is definitely money.

Councilor Harris related that Council looks at enforcement and that Lodgers Tax seems to be a big issue and that will be more difficult to enforce in the new ordinance. He would certainly urge a look at those who don't respond. They need to respond regardless of whether they owe \$100 or \$10,000.

Also, to Mr. Rodriguez, he said he had been concerned about bid coverage. Do businesses want to do business with the City of Santa Fe? The City took six months to pay a particular invoice. He knew Mr. Rodriguez was working on it but we need to keep at it for people to comply. We need better compliance on Lodgers Tax.

Ms. Kerr said last time, there were only three who came to the table for this audit: Barraclough, REDW, and a firm from Texas that wanted to charge \$90,000, versus \$30,000 from Barraclough. Now, we've lost REDW and Barraclough so there are no local resources anymore and if they do bid, their prices will be over inflated. Just being courteous goes a long way.

Member Sommer agreed. We need to look at the ordinance for sufficient enforcement.

Ms. Kerr said she will be meeting with Ms. Brennan on that.

Member Romero noted when late with the audit, their records become less available when archived.

Chair de Schweinitz aside if this is something for Finance.

Member Sommer didn't think so. The Committee needs to handle it. Member Gonzales agreed.

c. Discuss need for a Lodger's Tax Task Force

Ms. Kerr had a conversation with the City Manager and will be meeting with Barraclough, Ms. Brennan and Mr. Rodriguez to figure out what happened and see how we can improve the process on August 16. John Barraclough will present to the Finance Committee in September. She recommended a member of the Audit Committee be there.

Chair de Schweinitz felt that is another reason why we don't need a task force to solve this.

Ms. Kerr agreed.

d. Discuss BDD 2015 Financial Operations Audit (Reviewed by Hazeldine Romero)

Councilor Harris said he is on the BDD Board and just went to Fiscal Services and the BDD Audit

Committee yesterday so this is timely.

Member Romero said this audit is for the year ended June 30 2015 and it has a clean opinion. This one is late but not as much as in previous years. This was done by RCT, CPA. They do the City audit. This did not have an executive summary report nor any management analysis discussion. She was not sure why that didn't happen. An issue was the fiscal agent agreement that expired December 1, 2015. She didn't know if a new agreement was in place.

Councilor Harris said the amount has been agreed on and budgeted but he was not sure it is finalized.

Member Romero reported that the overall net position is a positive \$212 million but the main reason is because a solar project was brought over and boosted the income from that area. Otherwise it would have been a loss. The lateness was a discussion and the recommendation was what other things can be streamlined. It is due September 30 for this year.

Ms. Kerr said she got a timeline and will send it out.

Member Romero said the audit for June 30 2016 is due in September so it probably will be late again.

Councilor Harris said- the financials were delivered.

Mr. Rodriguez didn't know that he has committed to September but they did last year should make this audit pretty easy.

Ms. Kerr agreed to send an email and ask.

Member Romero said this audit was finished May 10, 2016. There was a second finding for how they allocate costs. She guessed it was not part of this agreement. The way they do it may not be fair.

Councilor Harris explained that there was a gap. It was not clearly stated and became an issue between city and county. He thought it was resolved with a formula.

Member Romero said the findings are not major.

Councilor Harris asked if once this review gets through the Audit Committee, if it goes to BDD.

Member Sommer said they should have gotten the audit before the Audit Committee.

Ms. Kerr agreed. It has been released for a couple of months now.

Councilor Harris said it needs to go to the BDD Board.

Mr. Rodriguez said the Board should have gotten a stack of copies of the audit.

Chair de Schweinitz asked if the missing information on page 11 and no management analysis was

because of all the turmoil. It is a requirement of general auditing procedures.

Member Romero agreed.

Mr. Rodriguez asked if he was in a position to ask for that. They draft it and we make last minute changes.

Ms. Kerr said it is definitely in his purview to ask for that.

Mr. Rodriguez said he would.

Chair de Schweinitz asked if the transfers from public side to enterprise side were okay.

Member Romero agreed. The reasons for the transfers are appropriate. The enterprise is like a business and the government side is funded by taxes. BDD charges a fee and has expenses - and as a business is supposed to have a profit. The business side revenues come from three entities who use the water. They set up specific funds for construction.

Councilor Harris said there are issues with design and construction. Four pumps failed in a recent surge. He talked about going out to Buckman and the tour taken. He also sits on SWMA Board.

Councilor Villarreal needed to excuse herself to catch the shuttle. Ms. Kerr briefly explained how the Audit Committee came to be and her role as City Auditor.

Councilor Harris said he is hearing a high level of frustration. He was glad it is raised here but that should also be acknowledged at Finance Committee. If it isn't getting resolved, Audit should appear at Finance.

Chair de Schweinitz said they will be there on August 15 for sure.

Councilor Harris excused himself from the meeting.

e. Contingency Auditor Recap – Troy and Banks (Item 8)

Chair de Schweinitz wasn't sure why this was a big deal and went on to Mr. Rodriguez.

8. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY

a. Financial update (Oscar Rodriguez)

Mr. Rodriguez said their first report comes out at the end of the quarter. He is focusing on closing out the year and presented a preliminary report to Council. He brought copies for the Committee.

The Balance is recommended for capital improvements. Even after collecting for higher revenue, he held back for certain positions. They ended positive. For first time, they will publish an unaudited close-out report and that will happen in September. In the past, the City got one report, six months after end of FY.

He said Adam Johnson is doing a great job at Budget Director. He is hiring a Treasurer and a Cash Manager to replace Helene Hausman who passed away.

Ms. Kerr asked if they have tried to recruit people with CPA status into the staff. She explained that accountants out of college have to work for a CPA to get certified. It might help the City recruit accountants out of college.

Mr. Rodriguez said a CPA is not required. He has a strong pool of candidates and will make an offer next week for the Treasurer. Then the Treasurer participates in hiring a Cash Manager. He added that he brought on a budget analyst but he was hired away at LANL.

Mr. Rodriguez said the capital improvement plan was accepted and is taking root. City programs overspent by \$48 million last year. It just wasn't budgeted. But that culture is changing. There is still a long way to go.

Councilor Harris commented that ICIP has a rational clear process now.

Mr. Rodriguez said last year it took 11 months to do that statement and this year, it took a couple of weeks.

Member Gonzales asked what the time line is for the CAFR.

Mr. Rodriguez said it will be on time in December. He hoped BDD will be on time this year too.

Chair de Schweinitz asked when the auditors will come in to work.

Mr. Rodriguez said they are here already. There is one more year of that contract.

Chair de Schweinitz asked about the entrance conference date.

Mr. Rodriguez agreed to let people know.

e. Contingency Auditor Recap – Troy and Banks (Item 8)

Ms. Kerr went back to this agenda item. She said she asked them to send an update and they did. She shared it with the Committee and said there has been time spent on this. In their report, they found money owed to the City. They found that- out of 800 Verizon accounts, 50 are dormant. That starts a review process. Mr. Snyder said those were for the police chief so they went through those.

Member Gonzales noted under electricity, there are different rates and changes.

Ms. Kerr agreed. That is what these guys do. They feed all the accounts in and look for things of concern. It is significant what they came up with. They get a percentage of the savings realized.

Member Gonzales thought some of it is misleading because a portion goes for future savings.

Ms. Kerr thought they were charging a good rate.

Chair de Schweinitz thought they would find more.

Member Romero said the good news is that they are finding losses and fixing them.

Ms. Kerr said some phones were left in departed employees' names. There is also the use of her time to set this up to consider. She was glad to see they made some money on it.

9. FURTHER DISCUSSION ON INDEPENDENCE ISSUES AND ORDINANCES

a. Update on revised Audit Committee Ordinance (Chair de Schweinitz de Schweinitz)

b. Update on revised Internal Audit Ordinance (Chair de Schweinitz de Schweinitz)

Ms. Kerr asked Chair de Schweinitz to speak with Ms. Brennan again about this before contacting possible sponsors.

Member Sommer commented that Ms. Brennan is so busy that she wouldn't have anything to say and she didn't want this to be a waste of time for her. She suggested just asking her, if that is appropriate.

Member Gonzales thought that was a great idea.

10. INTERNAL AUDIT MATTERS (Liza Kerr)

a. Genoveva Chávez Community Center Update

Ms. Kerr reported that the audit is moving forward. She had lots of interviews and got lots of information that she needs to get on paper. Several areas are ready. She is following up on the front line issues; had information into the scrap metal issue (the hot line tip). There were actually hot line tips for scrap metal. She had a request in to Capital Scrap to get more information about the two people. Then she could do that report and the personnel issues in that are confidential. She agreed to let the Committee know that it is issued. Physical security is also ready to go.

Ms. Garcia arrived at 3:29.

Ms. Kerr said the volunteers part is ready to go with that. She knows the situation out there. She held it back to find the correct criteria and wrap her head around a good protocol. For the issue with temporary employees, she will have a separate audit report. Procurement is another big one and will just take time.

b. Annual Internal Audit Report

Ms. Kerr said she is required to submit an annual report within 60 days of year end, so she will report on the August 15 agenda for Finance. The Excel spreadsheet shows the number of hours she has worked. Then she will go back with a memo to explain it. If the Committee will approve this part, she would send it forward with a cover memo. She asked if she should also attach the audit plan because she is comparing numbers. After feedback, she decided to do the contingency audit as an attachment also.

She also has a presentation about the hot line.

Member Gonzales, in looking through the hours, asked what was included in Admin and what was included in Audit. She made some suggestions for moving things out of Admin.

Chair de Schweinitz asked her to email a copy to the members when it is done.

Ms. Kerr invited everyone to that meeting on September 6.

Ms. Garcia asked if copy of the Hot Line report has been sent to the State Auditor.

Member Gonzales moved to approve the annual report. Member Romero seconded the motion and it passed by unanimous voice vote.

11.UNFINISHED BUSINESS

Chair de Schweinitz asked Member Gonzales to send out a clean copy of the template.

Member Gonzales said she just did.

The Committee briefly discussed what to include in their report to the Finance Committee.

Ms. Kerr asked Ms. Garcia about dates for the entrance conference and the auditing work.

Ms. Garcia said they are starting this week. The State Auditor asked the external auditors to look at two additional high risk areas. One is the delay in water billing. He wanted background on it. She assumed it was part of the hot line complaints. The Staff is trying to quantify them to identify if there was any writing off of accounts.

The auditors are starting the federal grants and picking samples and then will do audit plan and then follow up on the State Auditor's requests.

Member Gonzales asked when the entrance conference will be.

Ms. Garcia didn't know yet. She thought they were going to meet with the State Auditor first. She thought that would take about a month and then come back in September.

12. NEW BUSINESS

Chair de Schweinitz asked Mr. Martinez about his interest in becoming a new member.

Mr. Martinez said the Judge asked him to consider membership.

Chair de Schweinitz said the Committee tries to keep everything independent so the judge does the appointing.

Ms. Garcia left the meeting at 3:46.

Chair de Schweinitz said that he Member Sommer are lawyers and Member Romero and Member Gonzales are CPAs.

Mr. Martínez said he is accountant preparing taxes since 1979. He was on Planning Commission under Mayor Delgado, was Chair of the Summary Committee and also on the Short-term rental task force. His only concern was that he had to pick up his son from school at 3 pm. He might be able to arrange for his secretary to pick him up. He explained that he is a single father with two adopted kids.

13. PUBLIC COMMENT – (5 MINUTES)

There were no public comments.

14. NEXT MEETING DATE: Wednesday, September 7, 2016

15. ADJOURNMENT

The meeting adjourned at 3:49 p.m. on motion by Member Sommer and second by Member Gonzales.

Approved by:

Clark de Schweinitz, Chair

Submitted by:



Carl Boaz for Carl G. Boaz (Inc.)