



# Agenda

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10/29/14

11:35

*Alicia Hartung*

CITY OF SANTA FE AUDIT COMMITTEE MEETING  
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM  
Wednesday, November 5, 2014 - 2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES
  - a. Wednesday, October 8, 2014
5. EXTERNAL AUDIT MATTERS
  - a. 2014 CAFR
    - i. Schedule and Status (Morgan Browning and Teresita Garcia)
  - b. Park Bond Audit
    - i. Schedule and Status
  - c. BDD Operations Audits
    - i. Schedule and Status
  - d. Lodger's Tax Audit (Liza Kerr)
    - i. Schedule and Status
  - e. S.T.O.P. Program and False Alarm System
    - i. Schedule and Status
  - f. Report from External Audit Committee (Clark de Schweinitz and Marc Tupler)
6. REVIEW OF FINANCIAL REPORTS FROM CITY
  - a. Financial Reports (Hazeldine Romero and Loretta Valencia)
7. INTERNAL AUDIT MATTERS (Liza Kerr)
  - a. Rebalanced Audit Plan
    - i. Status
  - b. Review of Status of Audit Reports
    - i. Update on Tracking of Findings
  - c. ITT Follow-Up Audit
    - i. Schedule and Status
  - d. Public Utilities Audit
    - i. Schedule and Status
  - e. General Information
    - i. Fraud, Waste and Abuse Hotline
    - ii. Policy on How to Write Policies
  - f. Report of Internal Audit Subcommittee (Hazeldine Romero and Cheryl Pick Sommer)
8. UNFINISHED BUSINESS
9. NEW BUSINESS
  - a. Inspector General's Office
10. NEXT MEETING DATE
  - a. Tuesday, December 2, 2014
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.

**SUMMARY INDEX**  
**CITY OF SANTA FÉ AUDIT COMMITTEE**  
**November 5, 2014**

<b>ITEM</b>	<b>ACTION TAKEN</b>	<b>PAGE(S)</b>
1. CALL TO ORDER		1
2. ROLL CALL	Quorum Present	1
3. APPROVAL OF AGENDA	Approved as presented	1
4. APPROVAL OF MINUTES		2
• October 8, 2014	Approved as amended	2
5. EXTERNAL AUDIT MATTERS		2-5
a. 2014 CAFR (Browning & Garcia)	Report/Discussion	5
b. Park Bond Audit	Discussed with POSAC	6
c. BDD Operations Audits	Discussion	6
d. Lodger's Tax Audit	Reported under Hotline	6-7
e. S.T.O.P. Program and False Alarm System	Discussion	7
f. External Audit Subcommittee Report	None	7
6. REVIEW OF FINANCIAL REPORTS FROM CITY		7-9
a. Financial Reports	Discussion	7-9
7. INTERNAL AUDIT MATTERS		9-10
a. Rebalanced Audit Plan	Discussion	10-11
b. Review of Status of Audit Reports	Discussion	11
c. ITT Follow-Up Audit	Discussion	11-12
d. Public Utilities Audit	Discussion	12
e. General Information		12
i. Fraud, Waste and Abuse Hotline	Discussion	12
ii. Policy on How to Write Policies	Discussion	12
f. Internal Audit Subcommittee Report	None	12
8. UNFINISHED BUSINESS	None	12
9. NEW BUSINESS		12-13
a. Inspector General's Office	Discussion	12-13
10. NEXT MEETING DATE: December 2, 2014	Approved	13
11. ADJOURNMENT	Adjourned at 4:07 p.m.	13

**MINUTES OF THE**  
**CITY OF SANTA FÉ**  
**AUDIT COMMITTEE**

November 5, 2014  
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 2:09 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 [arriving later]  
Cheryl Pick-Sommer [excused]  
Marc A. Tupler  
Loretta Valencia

**Members Absent:**

**Others Attending:**

Liza Kerr, Internal Auditor  
Teresita Garcia, Finance Department  
Carl Boaz, Stenographer  
Morgan Browning, Auditor

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 Finance Department.

**3. APPROVAL OF AGENDA**

**Ms. Valencia moved to approve the agenda as published. Mr. Tupler seconded the motion and it passed by unanimous voice vote.**

**4. APPROVAL OF MINUTES**

- **October 8, 2014**

Ms. Valencia requested the following changes to the minutes:

On page 3, 8<sup>th</sup> paragraph should say, "Ms. Kerr referred to item O on the third to last page of Exhibit 1 and asked if they had received those yet."

On page 3, 13<sup>th</sup> paragraph should spell out BARs - "Budget Adjustment Requests."

On page 3, 14<sup>th</sup> paragraph should read, "Ms. Kerr noted on the last page of Exhibit 1, nothing has been filled out yet."

On page 4, 5<sup>th</sup> paragraph, should read, "Ms. Valencia said at last month's meeting, Erica explained this to the Committee and that Exhibit 1 was used as an internal tool that was developed under Atkinson. One question the Committee had was on the column 'Completed Date by City' and were told that if it was not a current date or had no date, it still had to be done."

On page 4, 6<sup>th</sup> paragraph, last line should read, "Most of the items are at a point of completion."

On page 10, 9<sup>th</sup> paragraph should read, "Ms. Valencia explained that she and Ms. Romero were trying to focus on which type of report they could present to the Committee and follow the ordinance."

Ms. Kerr requested the following changes:

On page 13, 12<sup>th</sup> paragraph where it should say, "Ms. Kerr said she would contact the Councilors on the Finance Committee to see what they wanted to see from the Audit Committee."

On page 14 at the top it should say, "Ms. Kerr reported that this is still on the back burner until the ITT Audit is finished."

On page 14, 5<sup>th</sup> paragraph, it should say she would present the amended Audit Plan to Council.

Ms. Romero asked that in that paragraph, the first sentence should say that she (Ms. Kerr) was to audit her own time to the Audit Plan.

**Ms. Romero moved to approve the minutes of October 8, 2014 as amended. Mr. Tupler seconded the motion and it passed by unanimous voice vote.**

## **5. EXTERNAL AUDIT MATTERS**

### **a. 2014 CAFR**

- **Schedule and Status (Morgan Browning and Teresita Garcia)**

Mr. Browning reported they were on track with most of the book put together: financial statements and final trial balance. The statements are coming together except some of the government-wide. It is starting to look like a CAFR and this week tying out the numbers and asking Ms. Garcia to give information to support the numbers. He had no doubts that they would meet the December 1 deadline.

Ms. Kerr asked what he did with the STOP program.

Mr. Browning said he looked at what Ms. Garcia prepared and audited her schedules, receivables, etc.

Ms. Garcia explained that STOP is no longer an active program. With it being defunct, all that is reported there is cash and not receivable.

Ms. Kerr recalled that the book said the fines and penalties were not recorded. She referred to the guidance of the Blue Book and asked if it should be recorded as receivable.

Ms. Garcia said she treated them as they did for all municipal court fines and they did not record any of that as receivable. "Penalties no longer exist. We cannot collect what is not ours."

Ms. Kerr concluded that there were no penalties in the past because the program no longer existed and were just written off. Ms. Garcia agreed.

Mr. Browning knew the False Alarm program was booked but didn't think any STOP would be booked based on her conversations with Ms. Garcia.

Ms. Kerr noted that the finding for STOP must be addressed in the audit so she asked how that requirement would be done and in this regard if the City would be meeting the state legal requirements for conducting an audit.

Mr. Browning said, "Absolutely." When he read the emails, he didn't see the sense in auditing a program that has been terminated.

Ms. Valencia asked when that happened.

Ms. Garcia didn't remember.

Ms. Valencia asked if Atkinson audited it last year.

Ms. Garcia said they did as part of finances.

Ms. Kerr didn't understand how they could have if they didn't record the receivables.

Ms. Garcia said they audited the cash received. The information from STOP is on a cash basis. She didn't know that any agency booked it as a receivable. It is reviewed and accounted for separately in the audit as a special revenue. "We record what has been received and a 10% of it goes to the stop loss program and we deduct the mediation fees and half of net profit goes back to AOC."

Ms. Kerr pointed out that the False Alarm program did run all year and asked if they recorded receivables for that program.

Mr. Browning agreed. He had all the AJEs and aging reports.

Ms. Romero asked if the Committee has an updated status report.

Ms. Garcia said no because she didn't have time to do one. "Most of it is completions. This is the final month for completions. We have it up to the point of the trial balance and now will put the completion dates in."

Ms. Valencia asked if there were many repetitive findings from last year.

Mr. Browning said quite a few were resolved. His IT person is going through and giving definitive answers. Some will be going away. In the single audit we have had many federal things that are going away and the IT findings are still in process.

Ms. Valencia asked if he would be issuing a clean opinion.

Mr. Browning said, "That's where we are headed."

Chair de Schweinitz asked if there were no weaknesses.

Mr. Browning said he needed to go through them with Ms. Garcia in fine detail and come to a net finding. There was nothing that could be called a weakness. Disposal of capital assets is an issue but not a material weakness. He didn't have anything that stand out as a deficiency.

Chair de Schweinitz asked about net residual findings.

Mr. Browning explained the term.

Chair de Schweinitz asked if there would be any negotiations.

Mr. Browning said there would not be negotiations. He was not allowed to do that.

Ms. Valencia asked if the Committee could have a copy of the CAFR at the next meeting.

Ms. Garcia said no. It is not considered public until the State Auditor releases it and this is a public meeting. She could share what they submitted without the findings. The findings are not public until the State Auditor reads them.

Mr. Browning said their benchmark is ten days but for some reason, the process seems to take much longer. He was thinking maybe mid-January would be the release time.

Ms. Garcia said it must be in by December 31 so it might be available before that.

Chair de Schweinitz thought perhaps they would have it at the January meeting.

Ms. Kerr asked if the Audit Committee is invited to the exit conference. Ms. Garcia agreed.

Ms. Valencia suggested the External Subcommittee members attend.

Ms. Garcia thought the exit conference would be before Thanksgiving. A Councilor needed to attend the conference too and that might affect the date.

Mr. Browning agreed to let Ms. Kerr know the date.

Ms. Valencia asked if Mr. Browning would come to the December or January meeting.

Mr. Browning agreed to come in January to go over findings but could not attend the December meeting.

Mr. Browning excused himself from the meeting.

#### **b. Park Bond Audit**

- **Schedule and Status**

Ms. Kerr announced the final contract was signed today with REDW. The first meeting is December 3 for a half hour to discuss basic planning and expectations and the audit will start in January. Ms. Garcia agreed.

Mr. Tupler was comfortable with that timing.

Ms. Kerr said POSAC seemed satisfied with that too.

Chair de Schweinitz asked if it was due March 31.

Ms. Kerr agreed and said she needed to find out if it must be on the Council agenda. She would double-check with Legal and see what they agreed on regarding changing the date and whether it has to be presented to Council or not.

#### **c. BDD Operations Audits**

- **Schedule and Status**

Ms. Kerr asked about the status.

Ms. Garcia said they had not started but it is ready to begin. The BDD staff is reconciling the employee records. She wasn't sure when they would get underway with it but probably after January 1.

**d. Lodger's Tax Audit (Liza Kerr)**

- **Schedule and Status**

Ms. Kerr said the auditors got the signed letters a couple of days ago and they are ready to go. They notified the entities chosen to be audited that they will be audited.

Ms. Valencia asked if they select a sample.

Ms. Garcia said the City gave them a list and they rotate the samples. There are eight new ones and two older ones that needed follow up.

Mr. Tupler asked if they were only repeated if they had issues. Ms. Kerr agreed.

**e. S.T.O.P. Program and False Alarm System**

- **Schedule and Status**

Ms. Kerr said she had nothing more to report on this.

Ms. Valencia asked why the False Alarm System was being listed separately on the agenda.

Ms. Kerr explained that last year, they did an audit on it and found the receivables had not been booked so there was a question raised on whether "non-plugged revenues" (or something like that) needed to be booked or not.

Ms. Valencia said that False Alarm has receivables but not S.T.O.P.

Ms. Garcia said there was confusion about the definitions related to that type of receivable. It is either non-exchange or exchange and that should be reflected in the financial statement. It has to be reported correctly and record in the year it was effected. Otherwise, it will misstate financials if they are bunched into one year. With S.T.O.P., the program is for civil misdemeanors or civil infractions so there are questions about the City's authority to collect it. So it is not recognizable because there is no opportunity to collect it. So it became a very questionable receivable.

Council decided once the contract ended for STOP that closing out was the vendor's responsibility, not the City's. False Alarm is different and complicated. The vendor has to report to a third party and the 3<sup>rd</sup> party has to bill if there is a false alarm. The City still has to respond to that.



Ms. Valencia reasoned that it validates the Accounts Receivable. She asked if that should still be an internal audit matter since it is resolved to be part of CAFR. She asked if that would be a follow-up item.

Ms. Kerr said one of the findings was that False Alarm System had about 867,000 that were accounts receivable but not recorded anywhere. That went back several years. That was what Ms. Garcia was talking about. Only the current year had to be reported. Some were penalties which were non-exchange revenues. It was complicated.

Ms. Valencia asked if were other findings other than accounts receivable that needed to be included in the internal audit.

Ms. Garcia said it was more with the vendor and the ordinance. This had just one finding in that program so they will clean up the ordinance to make it more manageable and she thought they have been doing that.

Ms. Kerr said regarding the collection issue that there was no staff follow-up to see if these businesses even still exist. That was a finding. Some of that falls on Finance but it was across the board.

Ms. Valencia thought she had seen those findings and that said that would be addressed when Ms. Kerr worked on them. Ms. Kerr agreed.

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

Mr. Tupler said they had nothing more to report.

**6. REVIEW OF FINANCIAL REPORTS (Liza Kerr)**

**a. Financial Reports (Hazeldine Romero and Loretta Valencia)**

Ms. Garcia said she had not worked on the financial reports for the City.

Ms. Valencia said she intended to call Ms. Garcia later to go over it.

Ms. Kerr said she would ask Councilor Dominguez what the Finance Committee wanted in the reports. The Committee could draft a letter to Councilor Dominguez about it and ask what they would like to see.

Ms. Garcia said the Finance Committee is looking again at how to present the budget. They are looking at the budget process as well. They want to be proactive in budgeting and planning and relying on Mr. Snyder without a Finance Director in place. They interviewed a candidate yesterday for that position.

Chair de Schweinitz said the Committee might want to help Finance on that endeavor once they get through the CAFR.

Ms. Valencia said before December 2, she and Ms. Romero would have the CAFR and give a framework of what the Subcommittee would like to see.

Ms. Romero said she met with Ms. Garcia and gave her that framework already.

Ms. Garcia reminded the Committee that if they wanted to compare it with the CAFR to remember that the CAFR is based on accrual and they would only see the financial statement with accrual at the end of the year (December 31, 2014). She said that would not mislead anyone. She wanted to know if the Committee wanted just the operating portion (which would make more sense). She wanted to know how the Committee wanted it presented. She said she could prepare them a hundred different ways.

Ms. Valencia asked if she was familiar with what Ms. Romero gave her.

Ms. Garcia said she was but there are many ways to break it out. She asked if the Committee wanted salaries and benefits together or broken out.

Ms. Valencia proposed to sit down in early December to figure that out.

Ms. Garcia suggested doing a study session.

Mr. Tupler asked if this would go to Finance Committee. He wanted to avoid duplicating efforts.

Ms. Garcia said the report to Finance is about 300 pages and too cumbersome because the chart of accounts is huge.

Ms. Valencia asked if Ms. Garcia could pencil in some possible dates in early December to work on developing reports and figure out the level at which the Committee would be content.

Ms. Kerr asked what the ordinance prescribed for the report to Finance and Ms. Valencia read from the ordinance.

Ms. Kerr suggested they might need to ask the Finance Committee what they wanted prior to a study session.

Ms. Valencia wasn't sure why they needed to write a letter to Councilor Dominguez.

Chair de Schweinitz suggested having a study session first so they needed to meet first with Ms. Garcia.

Ms. Garcia noted one of the issues is how the City is spending GRT revenue. The GRT might need to be redistributed and look more to property tax revenue. She talked about the possibilities for reporting.

Ms. Valencia said it was almost like governance issue vs. requirements. Councilors look at policies as

a whole. The Audit Committee knows where to start with the CAFR.

Ms. Garcia said another issue is private banking so the Finance Committee will look at the Audit Committee regarding outside groups. The Committee's expertise can be built on that or economic development.

Chair de Schweinitz said the Committee members should also try to attend the Finance Committee meetings in order to get a better understanding of what is needed.

Ms. Garcia added that the Finance Committee minutes are on the web so you can see what they are talking about. They are now discussing why the City gets so many change orders in the contracts. Santa Fe has a local preference and they are discussing how much it costs the City for the local preference.

Ms. Garcia said they could advertise it as a study session.

## **7. INTERNAL AUDIT MATTERS (Liza Kerr)**

### **a. Rebalanced Audit Plan**

- **Status**

Ms. Kerr said this was not an amendment to the Audit Plan but just rebalancing so it didn't need to be presented to Council.

Chair de Schweinitz asked if the committee wanted to approve it. Ms. Kerr had said they should remove the word "amendment" and accept it as a rebalance of what was already approved.

Ms. Valencia disagreed with the City Manager in this regard. The Public Utilities Audit budget was cut in half for hours from 300 to 140 hours. To her, that was an amendment. And the ITT audit was added.

Ms. Kerr said ITT was just moved from the second quarter to the first quarter.

Ms. Valencia said it should not be decreased but she understood moving things around as rebalancing.

Mr. Tupler saw it just as a work flow issue and reallocating resources.

Ms. Valencia believed the audit plan was really amended. She also disagreed that it should not go to Council. But it is already approved.

Ms. Kerr said the Public Utilities audit will get done. If she ended up putting in more hours in the third quarter, she would just take it out of somewhere else.

Ms. Valencia asked why the hours were decreased if Ms. Kerr was doing the same scope of work.

Chair de Schweinitz suggested just letting it lie for right now. The City Manager suggested otherwise. He asked if the Committee wanted to conform to what he requested.

Ms. Kerr said if at the end of third quarter and found she needed more hours on one, she would bring a proposed amendment then.

Ms. Romero agreed but if something on the plan couldn't be done, or a new program came up, that would be an amendment of the plan. Ms. Kerr agreed.

Ms. Romero said Council doesn't care about the number of hours but whether the work gets done or not. Ms. Kerr agreed.

#### **b. Review of Status of Audit Reports**

- **Update on Tracking of Findings**

Ms. Kerr reminded the Committee that she would keep the audit on the report if they have open findings.

Mr. Tupler asked if the Committee was required to address them within a certain time frame.

Ms. Kerr agreed. She noted they had 212 open findings in September and now have 83.

Mr. Tupler asked how that was documented.

Ms. Kerr said if it was on a grant program, she would get a letter from the grantor acknowledging it was resolved. Some of the Lodger's Tax findings will come off. Parking is the biggest one. She talked with Mr. Gurulé about it and that might become an amendment.

She said the BDD construction audits were probably filed late. The next time it gets audited, that finding will either come off or gets put down as a new late report.

Ms. Romero explained that the auditor puts the first year of the finding and puts a number by them. They carry over it if it is still a finding.

Mr. Tupler surmised that the older they get, the higher priority they have.

Ms. Kerr said it depended. They could be a repeat but modified finding. The Data Center findings should be cleared very soon and also False Alarms.

#### **c. ITT Follow-Up Audit**

- **Schedule and Status**

Ms. Kerr said they have been talking with the auditor and making sure to be in sync on the findings. She sent an email to Mr. Tupler on the Payment Card Industry standards (PCI). She will talk with Mr. Snyder about it on Monday.

Anyone who is handling cash will be affected by that. This could go as an amendment to the audit plan - special investigation. That went under administrative hours but could be counted as audit hours.

#### **d. Public Utilities Audit**

- **Schedule and Status**

Ms. Kerr said she has been talking with the public utilities staff about the audit. She briefly explained the water issue with Mr. Tupler regarding Customer Service. She also explained what she had done as part of her duties to follow up.

#### **e. General Information**

- i. Fraud, Waste and Abuse Hotline**

Ms. Garcia said the City needs to start in our own house about collecting GRT. For every City contract, we need to ensure that the contractors are reporting and paying GRT. The contractor is exempt from GRT. They got a letter from state that they are exempt. But they still have to report. They don't have a physical presence here or local employees.

Ms. Garcia said the City needs to prove they have made local attempts before going outside.

Mr. Tupler asked how.

Ms. Garcia said they would search for a local provider to fulfill the local preference and determine the impact when they can't find one locally.

She said the Fraud, Waste and Abuse contract got signed so they will be implementing the hotline and were working with Marketing so that could be launched and posters and wallet cards be issued and other templates to use as models.

- ii. Policy on How to Write Policies**

Ms. Kerr reminded the Committee about the [Insight] module on policy writing and she needed to find out if it has to be updated.

**f. Report of Internal Audit Subcommittee (Hazelaine Romero and Cheryl Pick-Sommer)**

There were no other matters to report from the Subcommittee.

**8. UNFINISHED BUSINESS**

There was no unfinished business.

**9. NEW BUSINESS**

**a. Inspector General's Office**

Chair de Schweinitz recalled Ms. Kerr gave materials for the members to read and then pulled it back and in and asked the Committee members to read the October 8 Council meeting discussion about having an inspector general's office. An Inspector General is one who investigates fraud but he would like to hire an auditor and, if needed down the road to be expanded, they could consider such an office.

She didn't think a detailed job description should go into an ordinance as Kelly Brennan had suggested. It would be to hire a forensic type auditor to deal with fraud, waste and abuse.

Chair de Schweinitz asked Ms. Kerr is she wanted the Committees to look at the draft.

Ms. Kerr said no. Ms. Brennan wanted Councilor Maestas to look at it first. She related how she had cut and pasted sections of it but nothing had added or deleted. Then she rearranged it for a more logical arrangement.

Chair de Schweinitz surmised they didn't know if Councilor Maestas wanted a whole department. Ms. Kerr agreed.

Ms. Valencia added that part of the Inspector General duties is to investigate criminal matters and sometimes carry fire arms.

Ms. Kerr said the Inspector General in Albuquerque was under Internal Audit and then was moved to be a separate department.

Chair de Schweinitz asked if Albuquerque sent her a draft. Ms. Kerr said no.

Mr. Tupler asked if she had found a similar city to compare with.

Ms. Kerr agreed and said they didn't really distinguish it. Dallas and Denver don't distinguish them as an Inspector General but just as an Auditor III with a salary range of \$52,000 to \$90,000. "Certified Fraud Examiner" designation is most common.

Mr. Tupler asked what drove the need for one.

Ms. Kerr didn't know.

Ms. Romero said in State government, Human Services had one for Medicare or Medicaid abuse. But any type of crime would be in their jurisdiction.

Chair de Schweinitz was concerned that it not get out of hand.

**10. NEXT MEETING DATE - Tuesday, December 2, 2014**

**11. ADJOURNMENT**

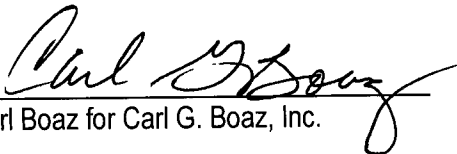
**Mr. Tupler moved to adjourn the meeting. Ms. Valencia seconded the motion and it passed by unanimous voice vote.**

The meeting was adjourned at 4:07 p.m.

Approved by:

  
Clark de Schweinitz, Chair

Submitted by:

  
Carl Boaz for Carl G. Boaz, Inc.