



# Agenda

MEETING OFFICE

11/25/14 TIME 9:53

*Yelanda Green*  
*Alicia Harling*

CITY OF SANTA FE AUDIT COMMITTEE MEETING  
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM  
Tuesday December 2, 2014, 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, November 5, 2014
5. EXTERNAL AUDIT MATTERS
  - a. 2014 CAFR
    - i. Schedule and Status
  - 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. 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. 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. Status of hiring a new Finance Director
  - b. Continued about Inspector General's Office
9. NEW BUSINESS
  - a. PCI issue
  - b. Update on Hiring of New Finance Director
10. NEXT MEETING DATE
  - a. Wednesday, January 7, 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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**CITY OF SANTA FÉ AUDIT COMMITTEE**  
**December 2, 2014**

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**MINUTES OF THE**

**CITY OF SANTA FÉ**

**AUDIT COMMITTEE**

December 2, 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 2:00 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  
Cheryl Pick-Sommer [arriving later]  
Marc A. Tupler  
Loretta Valencia

**Members Absent:**

**Others Attending:**

Liza Kerr, Internal Auditor  
Oscar Rodriguez, Finance Director  
Teresita Garcia, Finance Department [arriving later]  
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 Finance Department.

**3. APPROVAL OF AGENDA**

**Mr. Tupler moved to approve the agenda as presented. Ms. Romero seconded the motion and it passed by unanimous voice vote. Ms. Pick-Sommer was not present for the vote.**

Chair de Schweinitz said they would welcome the new Finance Director, Oscar Rodriguez a little later in the agenda.

Ms. Kerr anticipated that the new ITT Division Director, Renee Martinez, would be present later.

#### 4. APPROVAL OF MINUTES

- **November 5, 2014**

Ms. Romero requested the following changes to the minutes:

On page 3, fifth paragraph, it should say "Blue" not "Glue."

On page 3, 14<sup>th</sup> paragraph, it should say "financial audits" not "financial statements."

On page 10, the third paragraph from the bottom should say, "Ms. Romero explained that the auditor numbers the findings with the digits indicating the first year the finding was reported. The finding numbers carry over to the next year if the findings are not resolved."

On page 12, third paragraph under Inspector General's Office, the word "is" should be "if."

Ms. Valencia requested a change on page 8, fifth paragraph from the bottom where the ordinance cited should be 6-5.2 (I).

On page 11, sixth paragraph under General Information should say, "Ms. Kerr," not "M. Kerr."

**Ms. Romero moved to approve the minutes of November 5, 2014 as amended. Mr. Tupler seconded the motion and it passed by unanimous voice vote. Ms. Pick-Sommer was not present for the vote.**

Mr. Oscar Rodriguez was introduced to the Committee. He was appointed two weeks ago and his first day was last Wednesday just before the exit conference for the CAFR.

Chair de Schweinitz said he made good comments at the conference.

Chair de Schweinitz said the next Audit Committee meeting is on January 7 and he hoped Mr. Rodriguez would come join the meeting.

Mr. Rodriguez agreed that, at least for first few months, he would ask to be on the agenda. He would apologize beforehand if his presentation looked a little sketchy but he would get the Committee's comments and get up to speed.

Chair de Schweinitz agreed and went down to item #6 on the agenda.

#### 6. REVIEW OF FINANCIAL REPORTS FROM CITY (Hazeldine Romero and Loretta Valencia)

Chair de Schweinitz explained that the Audit Committee had not been able to review the financial statements because there aren't any interim financial statements available. Ms. Romero put together a framework for the interim Financial Statements.

Mr. Rodriguez asked to see it.

Ms. Romero handed out the framework which listed six items that should be included. She said that Ms. Garcia didn't know if she could roll it up this high. But with it, they could do comparisons using a month-to-month analysis. She and Ms. Valencia are to meet with Ms. Garcia on December 16<sup>th</sup> at 1:00 p.m. as a work session.

Mr. Rodriguez wanted to be at that meeting.

Ms. Kerr wanted to come to it also.

Mr. Rodriguez said he would come with a draft and would feel uncomfortable without a financial report.

Ms. Romero clarified that because the City was posting on a cash basis, she didn't want the statements to get out there and be misinterpreted.

Mr. Rodriguez said a trial balance is reality but having no information is worse.

Mr. Tupler suggested there could be a disclaimer.

Ms. Kerr agreed but now it sounds like the City will be booking accruals on a monthly basis.

Mr. Rodriguez agreed. He was more concerned with not having any monthly financial statements.

Mr. Tupler asked if there might have been some software limitations that were still issues.

Mr. Rodriguez said there is no acceptable reason why the City doesn't have monthly financial statements. The City is in a much worse situation operating without them, even with a percentage error. So he would apologize that the monthly reports might not look like the Committee wants them but he will set it up. The Department people have gotten used to doing it this way and that needs to change.

Mr. Rodriguez shared his background. Although he didn't have a finance degree, he has been in this environment for 25 years and taught classes and feels totally confident in doing this. He had been in procurement in Washington DC and a City Manager in the past.

Ms. Pick-Sommer arrived at 2:17.

Mr. Rodriguez said using accrual accounting would help the department run well with less work, less minutia and more resources available. The City has all the data needed to make good decisions. They are more conservative in the process. For example, a purchase order isn't even generated until the actual cash is reserved. If it is a contract for two years, the funds are totally taken out despite the effect on cash flow. If

the monthly close process goes well, we will see services improve and processes improve.

Chair de Schweinitz added that City Council will be very pleased and will benefit from this too.

Mr. Rodriguez said this was a big part of their conversation in his interview and how they could get there with more efficient reporting. He assured the Committee he would show up at the meeting with a draft for getting that done.

Mr. Rodriguez said there were also some missing internal controls for people to be more on the dot with budgeting. His intention was to include, as part of the budget, the financial management policies and also ratios.

Mr. Tupler noted that doing it once a year at time of audit could be a big surprise.

Mr. Rodriguez said he would like to work with the Audit Committee to come up with the financial policies for the organization. And every year, they would get reviewed - like cash reserve policies - what has to be deducted from reserves, etc.

Mr. Tupler said Ms. Kerr had talked about software for policies.

Ms. Kerr agreed. That software is called Policy Pro and the City already owns it.

## **5. EXTERNAL AUDIT MATTERS**

### **a. 2014 CAFR – Schedule and Status**

Chair de Schweinitz noted Ms. Kerr's email saying the CAFR had been hand-delivered on time to the State Auditor's office. He attended the exit conference last Wednesday and said it was interesting.

Ms. Pick-Sommer asked Mr. Rodriguez if he planned to solve the monthly reporting problem (for monthly financial reports) this year.

Mr. Rodriguez said no one was more concerned than he was with not having the monthly close. He intended to post the very first one in January. He needed to get the discipline going so by the spring they would have a monthly financial report the Audit Committee would be satisfied with.

He was also concerned that the auditor did not raise that this as a lack of internal control – the monthly close – as important. Mr. Rodriguez was also concerned that the external auditors had not raised an issue about credit cards that was mentioned in yesterday's draft memo. So they needed to have a conversation about that too.

Mr. Tupler questioned, if the external auditor didn't come up with findings, if they were really doing their job.

Mr. Rodriguez had been in places where last year's auditors were hired as financial consultants to minimize findings. The other findings in the CAFR seemed to be very minor.

Ms. Kerr said there were budget findings. She questioned how management could have resolved variances if they couldn't compare months because they never were given a budget-to-actual report.

Mr. Tupler asked when the Audit Committee would get their copy of the CAFR.

Ms. Kerr said it would be about 45 days when the State Auditor releases it.

Mr. Rodriguez agreed that not having budget-to-actual reports was a symptom of weakness but also a structural issue that the department believed they could just roll past the dates. But they did get the job done.

Chair de Schweinitz thought it was interesting that Mr. Browning didn't talk at the exit conference but his boss did talk. The findings this year all seemed to be minor like firemen not signing the Social Security option and the senior center not depositing cash receipts daily as required by the Grantor.

Mr. Rodriguez said there was something else going on there.

Chair de Schweinitz asked if they didn't get everything they needed and it was brushed off.

Ms. Valencia pointed out that this Committee must make recommendations to the Finance Committee and the Finance Director and City Manager on how to improve the external audit process. She said it sounded like the Audit Committee might have copies of the CAFR by January 7 and the Committee could come with recommendations on how the process went and how it could be improved.

She said the Finance Staff had a very nice audit timeline with some of it very detailed and it would be a good tool, if tweaked and used correctly. So how to use the timeline more effectively would be a good recommendation. Also, maybe the Audit Committee could see what the findings were and which ones were cleared. So to keep us aligned with our charge, we could consider that next time.

She added that Ms. Garcia got sick during the process and didn't really have a backup. We might not need the CAFR prior to January but it would be nice to have it and wrap up this process and move on to financial reports.

Chair de Schweinitz said if not in January, maybe by the February meeting.

Mr. Rodriguez felt the Audit Committee could have a good conversation about the process. He agreed to get Mr. Bobby Cordova, the partner in charge, at the January meeting to present the CAFR and discuss the audit process.

Ms. Valencia said Mr. Tupler and Chair de Schweinitz are the external audit subcommittee members who deal with the external audit contract issues. They may have recommendation about this process.

Mr. Tupler pointed out that this was the first year of a 3-year contract with the external auditors.

Mr. Rodriguez said there were lots of things prescribed by the State Auditor. Sometimes it requires extra procedures and extra formats. As a result, many auditors just default to that format. They would deny that to DFA but most auditors just go by that.

Mr. Tupler asked then if the State Auditor's requirements are just minimum requirements.

Mr. Rodriguez agreed.

Ms. Kerr said the AICPA standards are much more stringent than the State Auditor's Rule.

Chair de Schweinitz asked that they have the discussion regarding the CAFR in February as the committee needs to have time to review the CAFR to prepare for the discussion. .

#### **b. Park Bond Audit – Schedule and Status**

Ms. Kerr had the initial meeting with REDW this morning. They are sending out a PBC list (prepared by client). They looked at the scope and objectives and will be asking for things like the bond ordinance, policies, who has been invoiced with it, etc. So that is happening right now but was not included in the status of audits report because this is new.

She reported that at the Finance Committee meeting on Monday, Councilor Dominguez asked for an amendment to the resolution and she emailed Melissa Byers to prepare it. They are posting a timeline in a portal they are creating and she would include that for the January 12 meeting. She will verify the date for the entrance conference which she thought was on January 15. Mr. Tupler volunteered to attend.

Ms. Kerr said REDW will start field work on February 2 and on February 12 do a draft report and issue the final report by March 31.

Ms. Kerr said the report originally had to be done by December 31 so she went to Legal who said it did not need an amendment but now Councilor Dominguez wanted to do an official amendment to the resolution.

#### **c. BDD Operations Audits – Schedule and Status**

Ms. Kerr said this was summarized in her report. There had been no changes.

#### **d. Lodger's Tax Audit – Schedule and Status (Liza Kerr)**

Ms. Kerr reported she just got an email from Chelsea Martin at Barraclough & Associates today. In the email she reported that they received responses from 8 of the 20 entities selected for audits. They will send



a second request letter later this week to the hotels that have not responded. She has completed four audits so far and none had any problems worth noting. Two audits were scheduled during that week and two more for the following week.

Ms. Pick-Sommer asked if the reporting format was being fixed.

Ms. Kerr agreed. The format was very casual with no table, etc. It was very difficult to read. She asked them to set it up a formal audit format.

Ms. Valencia said Ms. Kerr could add REDW for the Park Bond Audit on the form.

Ms. Kerr agreed and would also add the amendment to the resolution and the timeline.

**e. Report from External Audit Subcommittee (Clark de Schweinitz and Marc Tupler)**

This was already covered.

**6. REVIEW OF FINANCIAL REPORTS FROM CITY (Hazeldine Romero and Loretta Valencia)**

This was already discussed.

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

**a. Review of Status of Internal Audit Reports**

**• Update on Tracking of Findings**

Ms. Kerr said there were no changes since November 24. Since they will soon release the CAFR, she would go through those findings and do reports on closed and open findings. There were 221 findings not closed as of three months ago and that total was now down to 83.

Ms. Kerr went to the findings attachment and showed Mr. Rodriguez the opening findings list.

**b. ITT Follow-Up Audit – Schedule and Status**

Ms. Kerr worked with the external auditor on the ITT Follow-up Audit. There were 25 findings altogether. She had them grouped into 8 findings. Many of them were cleared up and she would list her own findings individually in the database so they would be easier to track and clear them when they are resolved. She now broke them all into 12 findings. She had not updated it since November 24. Once finished, Public Utilities is next on the list.

Ms. Valencia went back to the Lodger's Tax Audit and asked if Barraclough addressed the findings or just start a whole new audit.

Ms. Kerr said they started a new one. She hadn't checked with David Tapia to see if any were cleared.

Mr. Tapia provides the information on Lodger's Tax. Ms. Kerr wasn't sure if Mr. Tapia was responsible to clear them. Zach Shandler was working with some of it in Legal.

### **c. Public Utilities Audit – Schedule and Status**

Ms. Kerr sent a letter to the State Auditor about suspected fraud and abuse. She explained to Mr. Rodriguez that a supervisor was diverting deposits and was let go and in the audit, found 10 instances and there might be others involved. She downloaded the data and estimated the embezzlement at \$15,000.

It was turned over to the police and she was told the woman did a plea bargain with them.

The City Manager has been briefed and a letter to the State Auditor was sent. It said we would be doing an internal investigation.

Chair de Schweinitz asked if this was public information. He was surprised the newspaper didn't pick it up.

Ms. Romero said she once was in charge of that department at the State Auditor's office and the reporters kind of left them alone.

Ms. Kerr said because of the plea bargain it was over for the supervisor because there is no double jeopardy.

Ms. Valencia asked if Public Utilities had a new director.

Ms. Kerr agreed. Ms. Karen Fiorina was very helpful to her and provided the information for her. The point of the audit is to tighten internal controls and they've already taken action on it. The City Manager wanted to know exactly what happened in order to keep it from happening again.

Ms. Valencia thought they were also getting a new software system. Ms. Kerr agreed.

Ms. Kerr said they now have ITT working with them on segregation of duties.

Ms. Pick-Sommer asked how it was found.

Ms. Kerr said Mr. Schiavo found it and brought it to Mr. Snyder's attention. To her it was a priority.

Ms. Pick-Sommer asked about the 18 open findings in the Parking audit.

Ms. Kerr said she met with Sevastian Gurulé who is moving to Constituent Services and wants an audit done. The problem is that the Parking Division is so broad that it would require another full audit which takes a lot of time. They do handle a lot of cash so getting controls in place is a top priority.

Ms. Valencia asked what the difference was between the parking forensic audit and the other parking audit.

Ms. Kerr said the Parking Audit report was issued before the Audit Committee started. Then later, allegations were made against Robert Romero, former City Manager, that he would take stacks of parking tickets and void them out. So they called for a forensic audit at \$47,000 through an RFP and the end result was that there were no findings against Mr. Romero and only 9 minor findings; none involving Mr. Romero. One employee voided her own ticket. They were all explainable.

#### **d. Fraud, Waste and Abuse Hotline – Schedule and Status**

Ms. Kerr said the contract went through and was signed by all parties. The implementation team is starting to work with the first meeting tomorrow or Thursday. She said she would send Mr. Rodriguez an invite. We need to figure out who gets called: either Human Resources or Ms. Kerr or the police.

Mr. Tupler asked if the vendor would provide advice on that.

Ms. Kerr agreed and Legal would give input. It is not part of IPRA if it comes to her but is under IPRA if it goes to HR.

Mr. Rodriguez said it needs some marketing behind it.

Ms. Kerr passed around the marketing posters and other materials.

Mr. Tupler asked if the report could be anonymous. Ms. Kerr agreed.

Ms. Kerr explained the changes to be made and shared them with the Committee. She explained that employees use the hotline and the public calls Constituent Services.

Ms. Pick-Sommer asked if the idea came from this Committee.

Ms. Kerr said Councilor Rivera initiated it from the ITT data center report that Ms. Kerr did.

Ms. Pick-Sommer asked who answers the phone.

Ms. Kerr said the company does answer the phone and they speak 150 different languages.

Ms. Pick-Sommer noticed it said they will disseminate information. She asked if that was to employees.

Ms. Kerr said they will not disseminate information to the employees. She briefly explained the process. She wanted to make sure things pertaining to funds would come to her and wasn't sure what would happen with it.

Mr. Rodriguez shared how other communities did it. It was similar to this plan.

Ms. Kerr shared how it could be dealt with by a subcommittee of the Audit Committee. She wanted non-employees to review them to make sure they get addressed and not buried.

Mr. Tupler liked that approach.

Ms. Kerr said this information has been reviewed by Councilors Rivera and Lindell who suggested changes. It will be officially presented at first January Council meeting. Then it will be included in paychecks to all employees.

**e. General Information**

Ms. Kerr reported that she told Mr. Snyder she needed another staff member - a person skilled to deal with fraud issues.

**f. Report of Internal Audit Subcommittee (Hazeldine Romero and Loretta Valencia)**

This was already addressed.

**8. UNFINISHED BUSINESS**

**a. Status of hiring a new Finance Director**

This was already covered.

**b. Continued discussion about Inspector General's Office**

Chair de Schweinitz said this issue was being thrown around by the Councilors but he hadn't heard anything lately. Albuquerque had one and it went away and was now being proposed again and the Mayor has probably vetoed it already. It might be a violation of IPRA to not disclose initial reports. FOG (Foundation for Open Government) opposed it too.

It is a similar thing in the Internal Auditor ordinance. If pursued by the City with the idea to prevent initial reports from being published, it will be challenged. In the article that he copied in the packet - He said Judith Amer had planned to propose it under the Home Rule provision. It is not for us to say now but he was worried about whether Ms. Kerr might be called on the carpet.

Ms. Kerr pointed out that under IPRA, there are seven exclusions and one is “unless otherwise precluded by law.” She briefly updated Mr. Rodriguez on the issue.

Mr. Rodriguez said it is unusual to have an Inspector General's office with a City Manager.

## **9. NEW BUSINESS**

### **a. PCI Issue**

Ms. Kerr provided her memo regarding Payment Card Industry Data Security Standards. [A copy is among the exhibits to these minutes.] She pointed out that there are very stringent standards that we are required to follow. It was established in 2006 and we need to take it seriously. The City is collecting this data and then keeping the data as back up to the transactions and includes credit card numbers, PIN numbers and expiration dates. With PCI, the City is not allowed to do that and the fines are significant. She will be issuing the audit alert to management to ensure they understand that this is a big deal.

Chair de Schweinitz surmised this was information for now.

Ms. Kerr agreed. She will be meeting with the City Manager on Thursday about it. He is behind compliance with it.

Ms. Valencia asked if the information is written down.

Mr. Rodriguez said it is keyed in but not written down.

Ms. Kerr said there was no reason to collect all of this personal information.

Ms. Garcia arrived at this time.

Ms. Garcia complained that the cashier had to key in that information. Then when people were getting cut-off notices they disputed their charges. She also explained the con game some people were using with water bills. Another problem was the phone connection for swiping a card. It required a dedicated line.

Now we have to go back and evaluate what we can do to take credit cards or debit cards. With the new security system we don't have to write down the number. Some people refuse to do it on-line. We will have to use a smart phone alternative for them. But we need to find a way to deal with the uncollectibles on credit cards and establish an alternative.

Chair de Schweinitz congratulated Ms. Garcia on the CAFR being submitted on time.

**b. Update on Hiring of New Finance Director**

This was covered earlier in the meeting.

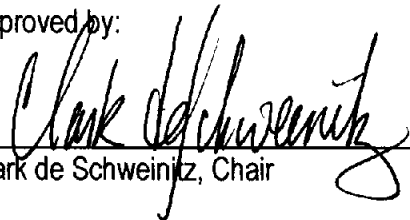
**10. NEXT MEETING DATE: Wednesday, January 7, 2015**

**11. ADJOURNMENT**

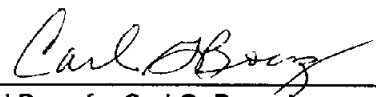
Ms. Pick-Sommer moved to adjourn the meeting. Ms. Valencia seconded the motion and it passed by unanimous voice vote.

The meeting was adjourned at 3:56 p.m.

Approved by:

  
Clark de Schweinitz, Chair

Submitted by:

  
Carl Boaz for Carl G. Boaz, Inc.