



# Agenda

CITY CLERK'S OFFICE

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PREPARED BY Yolanda Green

APPROVED BY [Signature]

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

Wednesday, June 3, 2015, 2:00 P.M. to 4:00 P.M.

1. CALL TO ORDER (20 minutes, items 1 through 5)
2. WELCOME TO NEW COMMITTEE MEMBER – CAROLYN GONZALES, CPA
3. ROLL CALL
4. APPROVAL OF AGENDA
5. APPROVAL OF MINUTES
  - a. April 1, 2015
6. REPORT ON DISCUSSIONS WITH MAYOR (Clark de Schweinitz, Hazeldine Romero, Liza Kerr) (40 minutes)
  - a. How to increase independence of Audit Department
  - b. What if any changes are required to be made to the current ordinance
7. KNIGHTON AWARD (5 minutes) – for False Alarm Monitoring System Audit
8. EXTERNAL AUDIT MATTERS (10 minutes)
  - a. Discussion with Committee on how to approach review of audits per Ordinance
  - b. Planning for next CAFR and follow-up with external auditor
9. INTERNAL AUDIT MATTERS (Liza Kerr) (10 minutes)
  - a. General Information
  - b. Risk Assessment / Audit Plan
    - i. Get out 30 days earlier
    - ii. Discussion on how to get the risk assessments back sooner
    - iii. Update on status of 2015 / 2016 audit plan
10. UNFINISHED BUSINESS (20 minutes)
  - a. Review / Approval of Committee Annual Report to the Finance Committee / Discussion of ideas and points to cover (Clark de Schweinitz)
  - b. Update on Park Bond issues
11. NEW BUSINESS (10 Minutes)
  - a. Status of Appointments to Committee
  - b. Election of New Officers to Committee
12. NEXT MEETING DATE (5 minutes)
  - a. Wednesday, July 1, 2015 (unless Committee votes to change)
13. ADJOURNMENT

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**CITY OF SANTA FÉ AUDIT COMMITTEE**  
**June 3, 2015**

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**MINUTES OF THE**

**CITY OF SANTA FÉ**

**AUDIT COMMITTEE**

June 3, 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. WELCOME TO CAROLYN GONZALES**

Chair de Schweinitz welcomed Ms. Gonzales to the Audit Committee.

**3. 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  
Carolyn Gonzales, CPA

**Members Absent:**

Marc Tupler [excused]

**Others Attending:**

Liza Kerr, Internal Auditor  
Oscar Rodriguez, Finance Director  
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.

**4. APPROVAL OF AGENDA**

Chair de Schweinitz said agenda item #6 is an important discussion but he wanted Ms. Romero here for it. Item #8 shouldn't take much time to go over our duties in reviewing audits. Ms. Kerr has #9 and should talk about the audit plan. The last ones are pretty quick with a short update on park bond issues.

Ms. Kerr said the Committee was drawn into it.

Chair de Schweinitz asked to leave the agenda as is but hold off for #6 until Ms. Romero arrives.

Ms. Sommer asked how often the Audit Committee gets financial statements.

Mr. Rodriguez said they are monthly financial reports and this month, it is part of the budget. The Committee should get it every month.

Ms. Sommer asked for it to be added to the agenda.

**Ms. Sommer moved to approve the agenda with one addition. Ms. Gonzales seconded the motion and it passed by unanimous voice vote.**

## **5. APPROVAL OF MINUTES – April 1, 2015**

Mr. Rodriguez asked for a correction on page 6, second paragraph, where "that" should be "than." Also on page 8, 12<sup>th</sup> paragraph where the second sentence should say "The manual time sheet struggle is huge."

On page 9, 3<sup>rd</sup> paragraph at end of the paragraph, he asked to add "even today."

**Ms. Sommer moved to approve the minutes of April 1, 2015 as amended. Chair de Schweinitz seconded the motion and it passed by unanimous voice vote.**

### **Financial Report (Agenda Addition)**

Financial Report was added to the agenda and Mr. Rodriguez provided it.

Mr. Rodriguez said the report starts with projections for the future year. In the past the Finance Committee just approved them. So he asked them to approve this report. It is not much changed except they made up the deficit in the budget and it will build up about 5-6 more days of reserves. Unfortunately, the projected revenue is below what was first anticipated for next year. He recommended a budget with no money from reserves (balanced) in the General Fund. There are many other GRT or property tax funds as part of police, fire, etc. For those, the deficit is about \$11 million and they don't want to make it worse. They did not raise taxes. They also separated all capital expenditures to handle them separately (which started in July) as opposed to keeping that in the operations budget. The Council approved that.

For the franchise fees for the water utility he recommended a fee of 12%. The City has done it for a number of years but they are not calling it a franchise fee.

The city is on track in revenues and expenditures are 5% below budget. They do need to project a

significant deficit from non-collections at the airport and he felt they could still collect those.

The Convention Center Fund from lodgers' tax is 20% above budget due to a terrific job by Randy Randall and can close the gap. Some Council members are surprised with the report that is now projecting a \$91 million balance.

The water utility can only put out about \$14 million in capital improvements so money is coming in faster than they spend it. With the wet spring the revenues could go down.

Chair de Schweinitz asked what Councilor Bushee's complaint about it was.

Mr. Rodriguez said it was about transfers to pay for General Fund expenses. It is the same with wastewater. The City has been paying for positions that don't report to the utility - 20 employees, out of the Water budget. A franchise fee will recognize it formally. It is about \$5 million now. They called the transfers "payment in lieu of taxes." So it is a franchise fee. It means the liability now is on the City's insurance. So now it is transparent.

Ms. Kerr asked if there were restrictions on the \$91 million in reserves.

Mr. Rodriguez said there were none. It could be used in the General Fund but he didn't recommend more than 12%.

Ms. Kerr mentioned that Maurice Lierz questioned whether the cash reserves were restricted. Now Mr. Rodriguez mentions that they are not.

Mr. Rodriguez said some are restricted but not from the Water Utility reserves. He will be looking at other cash reserves and report them as restricted and unrestricted balances.

Ms. Kerr said auditing cash reserves is in the audit plan so she could work on that at some point next year.

Mr. Rodriguez pointed out that the abatement law says that anyone doing business with the State, risks a contract ceasing if they didn't appropriate for the contract.

Ms. Kerr wondered how the external auditors missed that \$91 million balance all of these years.

Mr. Rodriguez said they are reporting it properly.

Ms. Sommer asked if the Water Utility is planning for aging facilities replacements.

Mr. Rodriguez agreed and said BDD is too. The high rates make Santa Fé lowest in consumption among other communities.

## **6. REPORT ON DISCUSSIONS WITH MAYOR (Clark de Schweinitz, Hazeldine Romero, Liza Kerr)**

### **a. How to increase independence of Audit Department**

### **b. What if any changes are required to be made to the current ordinance**

These items were skipped until Ms. Romero arrives.

[The Committee moved to #7.]

## **7. KNIGHTON AWARD – for False Alarm Monitoring System Audit**

Chair de Schweinitz put a copy of the award letter in the packet.

Ms. Kerr said Santa Fe is the first city in New Mexico to ever receive this award and all of them compete every year. The Committee commended Ms. Kerr for her work on the audit.

## **8. EXTERNAL AUDIT MATTERS**

### **a. Discussion with Committee on how to approach review of audits per Ordinance**

Chair de Schweinitz said the audit committee ordinance requires them to review audits to ensure compliance with standards, and to review the findings. BDD is an entity of the City but the Railyard Corporation is not a city entity. There are large leases with the Railyard so it makes sense to review their financial statements. It was noted that there are never any findings with the Railyard.

Chair de Schweinitz thought it could be a lot of work and asked how the Committee could do it without wearing themselves out. The Committee hasn't spent enough time with the CAFR and follow up and it might be beyond the Committee's scope.

Ms. Gonzales asked how many entities are out there that have audit done.

Ms. Kerr said there are about 10.

Ms. Gonzales asked if they are required to submit them to the City.

Ms. Kerr said the Railyard does as part of their lease agreement. She puts them all into the database.

Ms. Romero arrived at 2:37.

Ms. Kerr recalled that when the committee first started tracking whether required audits had been done SWMA was an issue. They were way behind, and they weren't the only entity that was behind. There were

several others including BDD. The Transit Authority has a triennial review done. There is also an FTA review of the Airport that had several findings last year. .

Chair de Schweinitz added that sometimes the Committee asks representatives from audited departments or external entities to come speak to the Committee.

Ms. Sommer found two places in the audit committee ordinance that specify what the audit committee should be doing regarding audit reports: To ensure that all of the audits conform to standards and report findings to Finance and to propose corrective findings. She asked if Mr. Rodriguez could have Finance report bring a list of audits done within the City and with entities associated with the City next time. Then the Committee could divide them up each year to review them.

Ms. Romero said it was not a static list and sometimes the list changes.

Ms. Kerr said that she maintains a database with all entities and departments listed that have audits done. She agreed to bring the list next time with dates due.

Ms. Gonzales asked if all of them are subject to the GASB standards.

Ms. Kerr said those that are have to issue a statement that they comply. Most are government agencies.

Ms. Romero said the only report where she had seen that phrase was the City annual report. For some it is not applicable. Some might not be subject to that standard.

Ms. Kerr asked Mr. Rodriguez if the leases are in default. That could have a major impact on cash flow.

Mr. Rodriguez said they asked for abeyance - not so much in default.

Ms. Kerr suggested maybe a subcommittee with one CPA and one non-CPA could assume the responsibility of ensuring the audits conform to standards and they could report the findings back to the audit committee. Some are not even called audits, but rather reviews. We will read the reports and track the findings. .

Ms. Romero said if she was assigned to read an audit report, she would first review the auditor's letter, then MDA, then findings, and then notes to Financial. Then she could report the results to the committee.

Ms. Sommer said she reviewed the SWMA report in the manner described by Ms. Romero but had no idea what the scope of the audit was. So the committee would need to know what the auditor was engaged to do. Notwithstanding, Ms. Sommer reported the pertinent information contained in the audit report to the Committee in compliance with the ordinance.

Ms. Kerr mentioned that SWMA is a financial audit. She said the Committee needs to know the scope of each audit.

Ms. Sommer said they need to know that up front.

Chair de Schweinitz asked if the review that Ms. Somers did and subsequent report back to the audit committee was what they wanted to do with each one.

The report stated that the auditors did not test internal controls, nor did they issue an opinion on them. Ms. Gonzales said they don't issue an opinion on internal controls unless it is in the scope and don't rely on the controls unless they are going to test them. She explained that if they are not relying on internal controls it just increases the number of transactions they look at. She mentioned that this is a typical and accepted practice.

Ms. Romero explained that State Auditor rules require testing of internal controls.

Ms. Sommer verified that SWMA does report it to the State Auditor.

Ms. Romero agreed but mentioned it also gets rolled up to the City's CAFR.

Chair de Schweinitz asked how much authority the Audit Committee has to do anything about any findings that they do come across.

Mr. Rodriguez said he would forward any future contracts or engagement letters to the Audit Committee.

#### **b. Planning for next CAFR and follow-up with external auditor**

Ms. Kerr said the engagement letter for the CAFR is being worked on for the upcoming audit. She asked if it was possible to add to expand the scope of the financial audit in certain problem areas where problems have been identified since the auditors will already be there doing work. For example she mentioned the issue in accounts payable where the vendor checks are not always mailed directly to the vendor. Oftentimes they go back to the person submitting the check request. Checks can get diverted. She asked if there is a process the Committee needs to follow in order to add this to scope.

Mr. Rodriguez stated that this problem occurred downline of reporting the numbers in the financial statements so probably would not be something the financial auditors would look at.

Ms. Romero recalled in the entrance conference a few years ago, there were problems with the Fire Department and the auditor was asked to look more carefully at that.

Mr. Rodriguez said they will look at it. He gave the example that some vendors call and ask to pick up the check instead of mailing it.

Chair de Schweinitz asked where things were in preparing for the CAFR next year.

Mr. Rodriguez said they have not had entrance conference yet. And the Committee members are all



invited to be there.

Ms. Kerr recalled last year they were told they couldn't have all members because it constitutes a quorum.

Mr. Rodriguez said it will happen within two weeks. Staff is finding a date for using Council Chambers.

Ms. Sommer asked if the Committee can see the engagement letter. Mr. Rodriguez agreed.

Ms. Gonzales asked if it is a three-year agreement. Mr. Rodriguez agreed.

Because Ms. Romero had arrived, the Committee went back to 6.

## **6. REPORT ON DISCUSSIONS WITH MAYOR (Clark de Schweinitz, Hazeldine Romero, Liza Kerr)**

### **a. How to increase independence of Audit Department**

Chair de Schweinitz related at the Council meeting Councilor Bushee went into the authority of City Manager over the Auditor and thought it wasn't independent. The City Manager said he had not influenced the Auditor in any way. But the Mayor was concerned. At a subsequent meeting he felt the independence of auditor should be strengthened and wanted a review of the ordinance.

Then they met with the General Counsel's office and Council didn't agree to the ordinance they were working on. So we are back to redefining the Audit Committee's role and the independence of the Auditor.

Ms. Kerr had a draft memo on it. It poses questions whether we should go back and amend the City Charter. If the Committee had hiring and firing over the Auditor, right now the Charter gives that authority to the City Manager. The Charter amendment last time did separate the City Clerk from under the City Manager.

Ms. Kerr thought the audit department was already in the Charter.

Mr. Rodriguez noted that in three years there will be no City Manager but the Executive Mayor and the question of independence changes again and might be less under the Executive Mayor. But without a change in the Charter, everyone is hired and fired by the City Manager.

Ms. Kerr said what triggered this was a conversation with Chair de Schweinitz regarding the Charter, so she met with the City Attorney. She put in the memo what needs to be done.

Mr. Rodriguez said there is the perceived independence but since she is appointed by the Mayor, she is subject to the Mayor's approval.

Chair de Schweinitz said in order protect the Auditor's independence the Committee needs to be strong on this. Political decisions have been made so lobbying might be necessary. So he wanted a resolution to

consider a charter change or revised ordinance that strengthens the Audit Committee role in CAFR, hiring auditors and overseeing their work. Might be wise just to do charter amendment.

Ms. Sommer asked how long that would take.

Chair de Schweinitz thought by next March.

Ms. Sommer pointed out that after approval the ordinance would no longer control the Audit Committee.

Chair de Schweinitz agreed they would have to redraft the ordinance.

Mr. Rodriguez said it is the language of the charter.

Ms. Kerr asked if the Committee wanted to flesh out the memo for the Mayor in the next couple of weeks. We have to have a resolution approved by September so it might take more than one pass through the committees.

Ms. Sommer thought this is a simple concept and the aftermath needs more consideration.

Chair de Schweinitz asked if the Committee was ready to make a motion.

**Ms. Sommer made a motion to approve the memo. Ms. Romero seconded the motion and it passed by unanimous voice vote.**

Ms. Kerr thought maybe Councilor Bushee or the Mayor would sponsor it.

**b. What if any changes are required to be made to the current ordinance**

Ms. Kerr said the Committee will have further discussion on that later.

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

**a. General Information**

- Lodger's Tax Audit

Ms. Kerr noted that the draft audit report for Lodger's Tax Audit was not in the packet. She said it was in draft form at this point and she wanted to give Chelsea a report of feedback.

- Parking

Ms. Kerr met with Parking Services' new director. The team said which ones were cleared so she set

up a folder for shared access with them. As they clear the findings, they will put it in the folder. And she wanted them cleared by June 30.

- BDD

Ms. Kerr reported this is in the report writing phase and all field work is done.

**b. Risk Assessment / Audit Plan**

- 1) Get out 30 days earlier**
- 2) Discussion on how to get the risk assessments back sooner**
- 3) Update on status of 2015 / 2016 audit plan**

Ms. Kerr said this was on track for 60 days before end of FY. But they didn't have the April 13 plan. Councilor Maestas pulled it because he didn't see the 3-year plan. They didn't even put it on the agenda. They put it in the minutes that the report met the 60-day requirement. It went to the next Council meeting and she couldn't be there for illness. Councilor Bushee pulled it from consent with a question if the City had one or two auditors for next year and the answer was that the City only has one auditor. So we need two auditors. Ms. Kerr will issue an annual report for all the audits being done.

Ms. Romero asked if they were still to meet with Councilor Bushee to talk about the audit plan.

Chair de Schweinitz agreed. He referred to page 5 of the 2015-2016 audit plan that showed the hours. The second amount is higher than doing the audits and should be explained.

Ms. Kerr said in the appendix it is skewed differently than on page 5 which is benchmarking.

Ms. Gonzales pointed out a discrepancy on page 5 where the hours should be 875 and 880 hours.

Ms. Kerr agreed and thanked her. She explained that without any administrative assistant she has to do everything. It all comes out of the administrative category because it isn't audit work.

Ms. Gonzales thought it needed a different title than administrative.

Ms. Kerr agreed. It really is audit work.

Ms. Sommer asked her to put the 1082 hours as audit work on page 5 and put what is included in the definition.

Ms. Kerr said she would- I'll do it.

Chair de Schweinitz proposed to meet with Councilor Bushee on Tuesday next week. He asked if Ms. Romero would try to arrange it with her.

## 10. UNFINISHED BUSINESS

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

Chair de Schweinitz explained to Ms. Gonzales that the Committee presents an annual report to Finance each year and his draft report was in the packet. The report covered nine things and he reviewed them quickly. #7 had a change for Ms. Kerr to put in.

Chair de Schweinitz said Councilor Maestas seems to be looking for an Inspector General for the City.

Ms. Sommer suggested maybe the annual report would preempt that desire.

Ms. Kerr said she learned at the recent conference that most cities start slow with a forensic auditor. They use all kinds of tricks to get more people to use the hotline and split it off early on to not get overwhelmed with forensic. And they have a consultant.

Ms. Kerr pointed out that if the Inspector General was separate from Audit, she wouldn't have to supervise the Inspector General.

Chair de Schweinitz suggested they stay with our motion and if it is considered by Council at the same time, maybe it will work out. We don't want to have Ms. Kerr overseeing the IG.

Ms. Kerr said she could use a forensic auditor and may just present that to the City Manager.

Ms. Kerr reported that she got software but no consultant in the new budget.

Ms. Sommer wondered where they would get the funds for the Auditor if she is independent.

Mr. Rodriguez recalled the Judge asked that. It is General Fund funding and Council makes the budget. It is the same thing with the Judge.

Ms. Kerr asked if she should add that to the memo.

Mr. Rodriguez said the only way to get around that is to specify a percentage of GRT revenue.

Ms. Sommer suggested "with adequate funding."

Ms. Kerr said she would add that when she gets a sponsor.

**Ms. Sommer moved to approve the annual report as corrected. Ms. Romero seconded the**

**motion and it passed by unanimous voice vote.**

**b. Update on Park Bond issues**

Mr. Rodriguez reported that the State Auditor has stepped in and will work with the City to develop a scope of services for the Park Bond audit. They could do RFP, hire the current auditor or have their own staff do it. They will interview people and report on what will happen. It preempts the resolutions on the Park Bond. The scope needs to happen fast and they need to know what other changes need to be made. We presented a management report. It is on-line.

Ms. Kerr clarified that it isn't in the Park Bond folder.

Mr. Rodriguez said to go to hot topics. It is in that folder. It gives summary of expenses. The total cost is secure hard data. All REDW provided was a vague draft plan. Staff went out and figured out what the project did. The overall project is fine but the individual projects may not have met the target.

Ms. Sommer asked if all the money was spent.

Mr. Rodriguez said about \$1.3 million is left which is set aside to match the federal grant for the trail underpass under St. Francis and all projects have small balances which total about \$200,000.

Ms. Sommer asked if he was confident the money was spent on those projects. Mr. Rodriguez agreed.

Mr. Rodriguez added that REDW said they only got a draft Implementation Plan, not a final one. That plan was purposely done as a guide and the critics said it was hard and fast plan. Staff had some discretion. All the money is accounted for to the penny.

In March, 2009 the bonds were issued and sold and the City got the money in June and in June Council made the decision to use their own labor to do the projects. So they amended the plan. The amount for labor was \$7 million and they spent \$6.01 million. So they did a good job. The preliminary IP was never finalized.

Ms. Gonzales asked who should have finalized it.

Mr. Rodriguez said it was a Council decision. But it quickly got set in stone.

**11. NEW BUSINESS**

**a. Status of Appointments to Committee**

Chair de Schweinitz showed the current status of appointments. He agreed to contact Judge Yalman to reappoint Ms. Sommer to the Committee.

**b. Election of New Officers to Committee**

**Ms. Sommer moved to elect Clark de Schweinitz as Chair. Ms. Gonzales seconded the motion and it passed by unanimous voice vote.**

Chair de Schweinitz appointed Ms. Romero as Vice Chair.

**12. NEXT MEETING DATE – Wednesday, July 1, 2015 (unless Committee votes to change)**

**13. ADJOURNMENT**

The meeting was adjourned at 4:18 p.m.

Approved by:

  
Clark de Schweinitz, Chair

Submitted by:

  
Carl Boaz for Carl G. Boaz, Inc.