



# Agenda

CITY CLERK'S OFFICE

DATE 12/30/15 TIME 8:49 A.M.

SERVED BY Lisa Kerr

RECEIVED BY Melini Byers

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

Wednesday, January 6, 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**  
December 16, 2015 (*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*)
    - i. CAFR 2015 <http://www.saonm.org/> (type in Santa Fe in Audit Report Search)(Select 2015)
    - ii. Santa Fe Railyard 2015 (*Item 4*)
    - iii. Santa Fe Solid Waste Management Agency 2015 (*Note Item 5 not used*) (*Item 6*)
  - c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings (*Item 7*)
  - d. Internal Audits - Schedule and Status, (*Item 8*)
  - e. Budget Report (Andrew Hopkins) (*Item 9*)
  - f. Investment Report (Helene Hausman) (*Item 10*)
7. **REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY**  
Financial update (Oscar Rodriquez)
8. **EXTERNAL AUDIT MATTERS**  
Update on Park Bond Audit (Marty Mathisen) (Liza Kerr)
9. **FURTHER DISCUSSION ON INDEEDENCE ISSUES AND ORDINANCES**
  - a. Update on revised Audit Committee Ordinance, (Kelley Brennan)
  - b. Update on revised Internal Audit Ordinance, (Kelley Brennan)
10. **INTERNAL AUDIT MATTERS** (Liza Kerr) Acquiring quotes for consideration of hiring of consultant as needed.
11. **UNFINISHED BUSINESS**
12. **NEW BUSINESS**
13. **PUBLIC COMMENT – (5 MINUTES)**
14. **MATTERS FROM CITY ATTORNEY - Executive Session**

In accordance with the New Mexico Open Meetings Act §10-15-1(H)(2) NMSA 1978,  
Discussion Regarding Limited Personnel Matters, Relating to the Investigation of Complaints  
Made Against Individual Public Employees Via the City's Fraud, Waste and Abuse Hotline.  
(Liza Kerr; Kelley Brennan)

15. **NEXT MEETING DATE**  
Wednesday, February 3, 2016

16. **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**  
**January 6, 2016**

<b>ITEM</b>	<b>ACTION TAKEN</b>	<b>PAGE(S)</b>
1. CALL TO ORDER		
2. ROLL CALL	Quorum Present	1
3. APPROVAL OF AGENDA	Approved as amended	1-2
4. APPROVAL OF CONSENT CALENDAR	Approved as amended	2
5. APPROVAL OF MINUTES		
• December 16, 2015	Approved as amended	2
6. CONSENT CALENDAR LISTING	Listed	2-3
7. REVIEW OF FINANCIAL REPORTS	Not reported	3
8. EXTERNAL AUDIT MATTERS		
a. Park Bond Audit update (Liza Kerr)	Report by Mr. Mathisen	3-7
9. INDEPENDENCE ISSUES AND ORDINANCES		
a. Revised Audit Committee Ordinance	Not Discussed	8
b. Revised Internal Audit Ordinance	Not Discussed	8
10. INTERNAL AUDIT MATTERS	Not Discussed	8
11. UNFINISHED BUSINESS	None	8
12. NEW BUSINESS	None	8
13. PUBLIC COMMENT	None	8
14. MATTERS FROM THE CITY ATTORNEY	Executive Session	8-9
15. NEXT MEETING DATE:	February 3, 2016	9
16. ADJOURNMENT	Adjourned at 3:45 p.m.	9

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

January 6, 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  
Hazeldine Romero, Vice Chair  
Cheryl Pick Sommer  
Marc Tupler

**Members Absent:**

Carolyn Gonzales, CPA (Excused)

**Others Attending:**

Liza Kerr, Internal Auditor  
Carl Boaz, Stenographer  
Kelley Brennan, City Attorney  
Marty Mathisen, Atkinson and Company  
Sarah Brack, Atkinson and Company  
Andrew Hopkins, Finance Department  
Teresita Garcia, Finance Department

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

**3. APPROVAL OF AGENDA**

Ms. Kerr said BDD and SWMA should be removed from the agenda.

**Member Sommer moved to approve the agenda as amended with BDD and SWMA removed from the agenda. Member Tupler seconded the motion and it passed by unanimous voice vote.**

#### **4. APPROVAL OF CONSENT CALENDAR**

**Member Romero moved to approve the Consent Calendar as presented. Member Tupler seconded the motion and it passed by unanimous voice vote.**

Mr. Hopkins excused himself from the meeting.

Chair de Schweinitz noted that Member Gonzales wanted to talk about the CAFR with Mr. Rodriguez present. He suggested maybe doing that at the next meeting since Mr. Rodriguez was not present. He agreed to make an effort to get him here next time. The issue is about the monthly closings.

#### **5. APPROVAL OF MINUTES - December 16, 2015**

Chair de Schweinitz noted on page 7 it should be how the project manager was doing with the Park Bond Audit. (Not Atkinson).

Member Sommer said the minutes did not reflect the motion she made to go into executive session. Her motion was based on Ms. Brennan's version.

**Member Romero moved to approve the December 16, 2015 minutes as amended. Member Tupler 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 (Liza Kerr)** A copy of the report is attached to these minutes as Exhibit 1.
- b. **External Audits - Schedule and Status** A copy of the report is attached to these minutes as Exhibit 2.
  - i. **CAFR 2015**
  - ii. **Santa Fe Railyard 2015** A copy of the audit is attached to these minutes as Exhibit 3.
- c. **Internal Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr)** A copy of the report is attached to these minutes as Exhibit 4.

- d. **Internal Audits - Schedule and Status** A copy of the report is attached to these minutes as Exhibit 5.
- e. **Budget Report (Andrew Hopkins)** A copy of the report is attached to these minutes as Exhibit 6.
- f. **Investment Report (Helene Hausman)** A copy of the report is attached to these minutes as Exhibit 7.

## 7. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM THE CITY

### a. Financial Update (Oscar Rodriguez)

Mr. Rodriguez was not present to provide the Financial Update.

## 8. EXTERNAL AUDIT MATTERS

### a. Update on Park Bond Audit (Marty Mathisen and Liza Kerr)

Mr. Mathisen gave a handout to the Audit Committee members, entitled "City of Santa Fe Parks and Bonds Discussion Items — Items needed — Questions." A copy is attached to these minutes as Exhibit 8,

Mr. Mathisen said he met yesterday with Mr. David Buchholz (Bond Counsel) and his assistant. They went through a lot of the documents, both the accountants and the lawyers. They are now in the middle of test work. He set up several interviews for next week and hoped that is a good decision. They need to get through the documents as a basis to have effective interviews.

He thought they have made good progress, on the basis of talking with Mr. Buchholz.

He pointed out that in the box of his handout is the definition of capital asset.

Ms. Kerr gave him a copy of the CAFR to find the answers.

Mr. Mathisen asked if in the exit interview, they addressed the parks and bonds.

Ms. Kerr said they were looking at the 2012 Bond issue and the activity from last year.

Mr. Mathisen said in the box is the definition that is quoted on page 29 of the City of Santa Fe CAFR official federal definition for capital asset - an asset costing \$5000 or more that has an estimated useful life greater than 1 year. That is a federal law and state statute. Federal law takes precedence because the bonds are tax free. That was also quoted in the Mel Morgan memo which was a response to the request of Councilor Bushee whether the City could use bond proceeds for maintenance and labor. This memo was from Mel Morgan, but drafted by the City Attorney's office. There was a cite of federal law as

guidance. He believed it said that the bond could not be used for operations or maintenance. The bond could be used for capital items and capital assets. That is the federal and state law.

You cannot use bonds for working capital under the federal rules - which is defined as anything that is not a capital asset. So bonds should have been used for capitalizable assets only including the labor it costs to install the asset they will be looking closely at this issue as they proceed with their work to determine whether this was done or not. Mr. Mathisen stated it is too early to tell what the results are going to be.

Mr. Mathisen said they wanted to focus in on anything that might have been connected with maintenance. Early on, Robert Romero had mentioned maintenance but referred to replacement of irrigation which only fits the definition of capital asset if the cost is greater than \$5,000.

Also, Mr. Mathisen mentioned that POSAC had various lists of concerns. There was unconfirmed information saying a certain amount of money was spent on operations at Marty Sanchez golf course that was not capital outlay. So he will be looking into this also.

Member Tupler said he has had discussions with POSAC and some of their representatives. One distinction that needs to be made is the difference between maintenance of a park and the operations that would put that capital asset into place there. Labor can be capitalized for putting the asset into place. That issue is still open.

Mr. Mathisen agreed. The Attorney General of the Supreme Court says that labor used to install the asset is a can be capitalized and therefore is a proper use of bond proceeds. That is allowable. And that is the main focus of their audit. He has seen other minutes where the Parks Director talked of capitalization but the term "maintenance" was used a lot in that discussion.

According to David Buchholz, federal regulations are applicable because these are tax-free bonds. They were working on the hierarchy and that was good but the distinction between capital and maintenance is ongoing. He is trying to get a handle on anything that might be non-qualified maintenance.

He added that POSAC is an advisory committee and they did a lot of work on it. They found at least 5-6 areas on reallocation of funds that were brought to Council and approved but they were for labor. There was at least a half dozen instances and he was going to put together a time line to make sure he was not reaching. So there were approvals sought. There was also a giant BAR brought to Council for approval.

Trails had an original budget of \$9 million but could not be built to the Santa Fe Community College. That freed up some of the bond funds. They will be looking at the questionable expenses of which there is not a huge amount but a few(?).

He asked if there were any documents of consultation outside of bond counsel.

Ms. Kerr said Mr. Rodriguez is the person who needs to answer those questions and unfortunately, was not at the meeting today.

Mr. Mathisen said he has emailed and called Mr. Rodriguez. And he did help to get interviews set up. One was with Robert Romero, one with Isaac Pino, one with Mr. Chávez. He is trying for one with Bette Booth also.

Member Tupler said Ms. Booth is in Mexico for an extended stay.

Mr. Mathisen said he is looking for Anna Hansen as an alternative.

Member Sommer asked if the minutes indicated that there were discussions as City Council meetings about using the money for city labor and if that was to install capital assets would not be inappropriate. Mr. Mathisen agreed.

Member Sommer asked if the time sheets or payroll records are sufficiently specific to tell what the employees were doing.

Ms. Sarah Brack said that might be an issue. The time sheets don't say specifically what the people were doing at the park but they do indicate what park they were working on. One of the POSAC concerns was that people worked 270 hours at the MRC (31 person-days) in a two-week period in January which is a lot in January. She asked if that would be maintenance. There was no way to tell. And in some instances, the time sheets are not detailed.

Member Sommer assumed there was no data sheet for a supervisor telling an employee to go do something - that it was verbal and no written data sheet.

Ms. Brack said she has not asked that but it could be a different route to go instead of the time sheet. It is possible there is some other record of what they were doing. She will definitely ask about that but, based on Mr. Rodriguez' statements, there were not specific records on what specifically the people were doing.

Member Tupler asked if the time sheets were tied to a particular cost center or project number that would identify the park.

Ms. Brack agreed. The park is identifiable, based on the time sheet records.

Member Tupler asked if there was a comparison with the plan budget on certain man/hours for a specific project there that could be reconciled.

Ms. Brack was not sure those records for a detailed project budget exist.

Mr. Mathisen said \$5 million of costs are identified for labor (10%) and there were six or seven higher level administrative people in charge of the bond and then a group of 29 temporary employees. The lion's share of \$5 million was hiring contractors - landscapers. So what the 29 people were doing is in question. Then there is discussion if they were pumping money into the economy with hiring those people.

So Mr. Mathisen said they need more information and will be paying close scrutiny to this issue.

Ms. Kerr asked if the \$5 million is identified as payroll.

Mr. Mathisen said no; more is coming out of that for landscaper contracts.

Ms. Garcia arrived at 2:37.

Ms. Garcia said they didn't find anything unusual. It was just for 2015.

Ms. Brack asked if the City has changed any [financial] procedures based on the recommendations of the REDW report.

Ms. Garcia said they have. They used to just say okay for payment. Now the PO has to be signed at the bottom by the person who received it (the shipment of goods). They have also directed how the files should be set up as project files.

Mr. Mathisen asked if they were all capitalized.

Ms. Garcia said they were. If the expense was just maintenance and repairs, it was not taken from bond funds.

Member Sommer asked how Staff decided on those not charged to capital.

Ms. Garcia said if the project was over \$5,000 they just capitalized all of it. If the project was under \$5,000, they did not capitalize it. They separated funds by business units and if there were additional funds, the whole project was included in the \$5,000 floor.

Mr. Mathisen said the City used BARs to go from one park to another, if they needed more funds. He asked how those decisions were made.

Ms. Garcia said the bond allocation was to the different parks. If it was under \$50,000, the City Manager could approve it; if greater \$50,000, it went to Council. The adjustment was sent to DFA.

Member Sommer said there were two for \$10,000.

Ms. Garcia said they followed the same procedure. Regarding capitalization - that created the problem for the labor. "We capitalized labor and that caused confusion. We had to attach the labor to the parks, not



just have a total for labor.”

Ms. Kerr asked if there was an effort to distinguish what labor was putting an asset into place versus just for maintenance. What piece of it was not capitalized?

Ms. Garcia said that is an accounting function which is a cash basis. They have no concept of what is accrual basis. They get lost on June 30 when it is moved to capitalized asset. They (City Council) don't have any concept of what capitalization means.

Ms. Brack noted there are five years of activity. She asked if Ms. Garcia is able to discern what is used to improve the park vs. what is maintenance afterwards.

Ms. Garcia said if it is maintenance, it is charged to maintenance and repair. It is done by PO. At that time, it is determined if it is maintenance. But at the bottom it is either maintenance or capitalization.

Ms. Brack pointed out that payroll is not tied to a PO. She asked what they do if there is a mix in the payroll.

Ms. Garcia said when they analyze the fund they go to the capital assets and attach it to the asset. They don't mix capital with maintenance. They usually do that when the project is completed.

Member Sommer asked who did the analysis.

Ms. Garcia said it is done at several points. The first is when it is budgeted and they contact the project managers to ask what is going to be used for. Next is when the POs are put together it is determined by the financial analyst at that level. And then at the end of the year when they have to capitalize those assets it is done again to decide if they have to reclassify those expenditures or not and we look at the fund as a whole and do the General Ledger on June 30. On June 29, they run the expenditure report and then capitalize on June 30.

Mr. Mathisen said he and Sarah have made good progress and he has a good feel for most of the issues.

Ms. Kerr asked when Mr. Buchholz was going to give him some kind of hierarchy or come to a decision about the rest of this.

Mr. Mathisen said yesterday, Mr. Buccholz said the hierarchy doesn't seem to be of any concern to them. It was just the consideration of federal law.

Ms. Kerr asked what that meant.

Mr. Mathisen said he was just quoting what he said. The State Auditor said they wanted it analyzed by the hierarchy of laws for bonds and decide what is the controlling statute in the hierarchy. If there was a

conflict in the relevant laws, they needed to analyze to see which one controlled.

There were no other questions for Mr. Mathisen and Ms. Brack and they departed at 2:54 p.m.

Ms. Brennan arrived at 2:56 p.m.

## **9. FURTHER DISCUSSION ON INDEPENDENCE ISSUES AND ORDINANCES**

**a. Update on revised Audit Committee Ordinance (Kelley Brennan)**

**b. Update on revised Internal Audit Ordinance (Kelley Brennan)**

Ms. Brennan apologized that she had not reviewed the ordinances yet.

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

There were no further Internal Audit matters.

## **11. UNFINISHED BUSINESS**

There was no unfinished business.

## **12. NEW BUSINESS**

There was no new business.

## **13. PUBLIC COMMENT**

There were no public comments.

## **14. MATTERS FROM THE CITY ATTORNEY (Executive Session)**

**Pursuant to the New Mexico Open Meetings Act §10-15-1(H)(2) NMSA 1978, Discussion Regarding Limited Personnel Matters, Relating to the Investigation of Complaints Made Against Individual Public Employees Via the City's Fraud, Waste and Abuse Hotline (Liza Kerr; Kelley Brennan)**

Member Sommer asked Mr. Brennan about the language for the motion, mentioning that Mr. Boaz used the language from the statute.

Ms. Brennan thought she had referenced the section of the statute that she was using. She asked that her language be used because it references what is on the agenda.

**Member Sommer moved that the Audit Committee go into executive session to discuss the matters listed on the agenda in accordance with the recommendation of the City Attorney. Member Tupler seconded the motion and it passed by unanimous roll call vote with Members Tupler, Sommer, Romero and de Schweinitz voting in favor and none voting against.**

The Committee went into executive session at 3:00 p.m.

**At 3:45 p.m. Member Sommer moved that the Audit Committee come out of executive session, stating for the record that the discussion in executive session was limited to the matters listed on the agenda. Member Romero seconded the motion and it passed by unanimous roll call vote with Members Sommer, Tupler, Romero and de Schweinitz voting in favor and none voting against.**

Upon ending the return to open meeting, Chair de Schweinitz announced that during the executive session, no actions were taken and the only matters discuss were those allowed under Section 1015-1 (H) (2), NMSA 1978.

**15. NEXT MEETING DATE – Wednesday, February 3, 2016**

**16. ADJOURNMENT**

Having completed the agenda and with no further business to come before the Audit Committee, the meeting was adjourned at 3:45 p.m.

Approved by:

  
Clark de Schweinitz, Chair

Submitted by:

  
Carl Boaz for Carl G. Boaz, Inc.