



Agenda DATE 1/26/16 TIME 12:45p

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

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF CONSENT CALENDAR
5. APPROVAL OF MINUTES  
January 6, 2016 (*Item 1*)
6. CONSENT CALENDAR
  - a. External Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr) (*Item 2*)
  - b. External Audits - Schedule and Status (Liza Kerr) (*Item 3*)
    - i. Santa Fe Solid Waste Management Agency 2015 (*Item 4*)
    - ii. Airport FAA Annual Inspection (*Items 5a and 5b*)
  - c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings (*Item 6*)
  - d. Internal Audits - Schedule and Status, (*Item 7*)
  - e. Budget Report (Andrew Hopkins) (*Item 8*)
7. EXTERNAL AUDIT MATTERS
  - a. Update on Park Bond Audit (Marty Mathisen) (Sarah Brack)
  - b. Presentation of CAFR – (Bobby Cordova) (Morgan Browning) (Teresita Garcia)
  - c. Buckman Direct Diversion (Teresita Garcia)
  - d. Santa Fe Railyard 2015 (Cheryl Pick)
8. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY  
Financial update (Oscar Rodriguez)
9. FURTHER DISCUSSION ON INDEPENDENCE ISSUES AND ORDINANCES
  - a. Update on revised Audit Committee Ordinance, (Kelley Brennan) (Liza Kerr)
  - b. Update on revised Internal Audit Ordinance, (Kelley Brennan) ((Liza Kerr)
10. INTERNAL AUDIT MATTERS (Liza Kerr)
11. UNFINISHED BUSINESS
12. NEW BUSINESS
13. PUBLIC COMMENT – (5 MINUTES)
14. NEXT MEETING DATE  
Wednesday, March 2, 2016
15. ADJOURNMENT

Persons with Disabilities in need of accommodations,  
contact the City Clerk's office at 955-6520 five (5) working days prior to the meeting date.

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**CITY OF SANTA FÉ AUDIT COMMITTEE**  
**February 3, 2016**

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

February 3, 2016  
2:00 p.m. – 4:00 p.m.

**1. CALL TO ORDER**

A regular meeting of the City of Santa Fé Audit Committee was called to order by Mr. Clark de Schweinitz, Chair on this date at approximately 2:00 p.m. in the Convention Center Administrative Conference Room, Santa Fé, New Mexico.

**2. ROLL CALL**

Roll call indicated the presence of a quorum as follows:

**Members Present:**

Clark de Schweinitz, Chair  
Carolyn Gonzales, CPA  
Hazeldine Romero, Vice Chair  
Cheryl Pick Sommer  
Marc Tupler

**Members Absent:**

**Others Attending:**

Liza Kerr, Internal Auditor  
Carl Boaz, Stenographer  
Marty Mathisen, Atkinson and Company  
Andrew Hopkins, Finance Department  
Teresita Garcia, Finance Department  
Oscar Rodriguez, Finance Director

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

**3. APPROVAL OF AGENDA**

**Member Romero moved to approve the agenda as published. Member Tupler seconded the motion and it passed by unanimous voice vote.**

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

Member Sommer understood that items that are put on the consent calendar are not to have any substantive discussion at the meeting and is the reason for putting them on the consent calendar to keep the meeting short. But anyone has the right to pull something off if they want to discuss it at that meeting. So, theoretically, the members should have the information for review before the meeting and know if they want to discuss it.

Ms. Kerr agreed and said that is why it is also on the web site.

However, Member Sommer related that Chair de Schweinitz had asked about the Railyard audit later in last month's meeting, which was on the consent calendar last month and the Committee approved the consent calendar but someone wanted to discuss it later. So when Chair de Schweinitz asked her to review it, that item had already been approved in the consent calendar. So she asked if members are not getting the information early enough and whether it should be on consent two months later.

Member Tupler liked having a consent calendar.

Member Romero said she couldn't review it on the computer. It was too hard to do that.

Ms. Kerr said she and Chair de Schweinitz decided that when she receives a report, to put it on consent to acknowledge receiving the report and approving the consent calendar is just acknowledging the receipt of the report. This month she received the SWMA and AAA reports. If that isn't acceptable, she would put them under External Audit Matters rather than on consent.

Member Sommer thought if it is just for receiving the report, it could be on the consent calendar the following month.

Chair de Schweinitz clarified that it was not so much to discuss the Railyard report but just to review it. Member Sommer did a great job going over it. If there are findings, the Committee needs to review each year.

Member Gonzales asked that the Committee look at all of those audits because that is the Committee's obligation.

Ms. Kerr preferred to present them under External Audits so they can be discussed but administratively, it is hard for her to run all the copies.

Member Sommer asked if it had to be in the packet.

Ms. Garcia suggested marking it as discussion first and act on it the following month. It could be under other matters.

Member Sommer said even if it is on consent, the Committee is still responsible for reviewing it. If there

are no findings, it would not need to be discussed. If an audit is received, the Committee needs to discuss it.

Chair de Schweinitz reasoned that the Committee should pull the first item off the agenda to consider it next month and should put the second item under External Audits. He asked if the budget report should be pulled also.

Ms. Kerr explained that she didn't get the budget report until Monday and she had to have it the Tuesday before to get it into the packet.

Mr. Rodriguez said the budget report went to the Finance Committee for their meeting on Monday.

Ms. Kerr said she had to have agenda items to the City Clerk by the Tuesday before the week of the meeting and she was out of the office on Friday.

Mr. Rodriguez said it was in the Finance Committee packet 72 hours before their meeting on Monday. He added that not much changed from the previous month.

Mr. Hopkins said there was an issue raised at Council that reflects on the CAFR figures. There was some adjustment to cash in the state revenue outlook. The main issue as it impacts GRT concerns oil and gas revenues. It is less a concern for Santa Fe as it is for the state. There was some talk in the Legislature about either reducing the hold harmless or eliminating it. So the City might have some state funding.

Mr. Rodriguez clarified that they have a deficit and all the talk is about holding the deficit in check.

Mr. Hopkins said it is an issue of concern but it is not definitive yet.

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

Mr. Hopkins excused himself from the meeting.

## **5. APPROVAL OF MINUTES - January 6, 2015**

**Member Sommer moved to approve the minutes of January 6, 2015 as presented. 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)**
- b. External Audits - Schedule and Status**

- i. Santa Fe Solid Waste Management Agency 2015**
- ii. Airport FAA Annual Inspection**
- c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr)**
- d. Internal Audits - Schedule and Status**
- e. Budget Report (Andrew Hopkins)**

## **7. EXTERNAL AUDIT MATTERS**

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

Mr. Mathisen provided a discussion sheet for the Committee.

Ms. Garcia noted that the sheet had probable findings which shouldn't be discussed by the Committee.

Member Gonzales agreed and the discussion sheets were returned to Mr. Mathisen.

Mr. Mathisen said the last day of field work was Monday and he interviewed several former staff members, including Judith Amer and Geno Zamora and former bond counsel, Duane Brown. He had a draft of the legal opinion from David Buchholz (external bond counsel). Mr. Mathisen said he has his statement about 40% drafted. Each of those who were interviewed requested an opportunity to see the legal opinion before it is published and he didn't see any reason not to allow that. The Audit Committee will see draft reports and responses to findings so there will be a period of final due diligence.

Mr. Mathisen said their contract expires February 15 and maybe that date is okay. That was their expectation and there won't be much work except to present it after that. That was a tight deadline.

He was not sure what he could say substantively today.

Member Gonzales asked if they are done with the work audit work.

Mr. Mathisen agreed. They might ask for more information, but they are done with interviews and won't look at any new areas. They have all the patterns, etc.

Mr. Rodriguez recalled that originally the work plan was that the attorney was going to give an opinion. He asked how that worked out.

Mr. Mathisen said they worked well together. The State Auditor said in a meeting that they get that question often (what is a permissible expenditure for bond proceeds). The State Auditor wanted a legal hierarchy. There was a legal opinion written that should provide a guide for future matters of this type.

David Buchholz, in this engagement, had a letter from Judith Amer that was presented to the Council regarding a 1950 Supreme Court decision, also referred to a 2010 AG opinion and not much else. The AG said, with the school bond case, that it is okay to make changes in the way it is spent as long as you don't deviate from the original intention. The tentative conclusion here is that the changes are permissible. It would represent something new to focus on in these matters going forward. He expected a new draft in a few days.

In a nutshell, he pointed out that these are tax-free bonds. Therefore, people buying them don't pay federal income tax on them so there is a layer of federal requirements that are pretty much the same as Ms. Amer referred to. Santa Fe is a Home Rule entity but this is the best guidance we have. GO bond revenue should not be used for M&O (maintenance and operations).

The federal rules are more black and white. Bond proceeds should be spent on capital items and not working capital. He would put the definition of "capital items" in the report. It is a cost over \$5,000 and useful life of over one year.

Planting trees qualify as capital items in improving a park.

Mr. Mathisen added that the City was prepared and he got much help from Ms. Garcia, from Mr. Pino, and from Mr. Rodriguez. He is now considering the findings. Some money that was not spent for capital items are of concern to him. The evidence seems to indicate that some money was spent on maintenance. He endeavored to calculate an amount spent on non-capital purposes. However, the federal rule says you are okay with 95% on capital and 5% not spent on capital. But the maintenance amount might be greater than 5%.

One more thing to look at was that they have a good capital schedule tied to city financial reports. But the Public Works Department always gets money from the General Fund as well as small grants and some from CIP bonds. But if he assigned some amount to CIP (to maintain less than 5%), it might increase the unspent monies from the Park Bond.

The City right-of-way when deciding to do the work internally, set up time sheets to record activities but the time sheet design was insufficient to determine compliance with capital items. The good news was they tested 99 time sheets and only one-time sheet was lost and only one was out of compliance. There might be an issue with a close family member working as it violates the City's Procurement Code.

Ms. Kerr asked what the impact would be if more than 5% was spent on maintenance.

Mr. Mathisen said that is termed, "unspent funds for federal purposes." Hopefully it won't end up there.

Ms. Garcia said the definition is complicated. The expenses might have been less but there are matching funds with the CIP bond issue, so the project was greater and totally capitalized. They are just looking at bonds and she found another layer on definition of capitalization. The City might have spent less than \$5,000 from park bond funds but much more than \$5,000 on the whole project.

Mr. Rodriguez agreed. The implementation might have ended up bigger than \$30 million.

Mr. Mathisen said the decision is on non-capitalized items. He has schedules that come to \$30 million and he is very satisfied with that.

He noticed that maintenance of parks is important, once the City builds a park. He read an irrigation audit that was done and it covered less than half of the park area. The Council wanted an inventory of parks on bond spending. It was not successful but where they measured water efficiencies was for the most part, below average. For most of the parks, irrigation is automatic.

The LFC did an audit of the trails funding. It was \$3.5 million, beside the \$9 million from 2011 and they said to put it into the maintenance plan. They commented on that.

One of the good things in the audit is their testing of the BARs. They found that all of them were taken to Council without exception for the larger items. Council approved the use of internal labor, and the allocation among projects and maintenance was discussed by the Council. So their authority was not bypassed.

Mr. Mathisen said that from Mr. Pino, they found out there was a final schedule spreadsheet that is huge and on the web site. It is based on more than 300 line items that were completed but only 240 were budgeted.

Mr. Rodriguez said when the bonds were approved, it had a smaller list so they did more than were on the list. The question was asked, "What more could we have done?" That 300 minus 240 was what more was done.

Mr. Mathisen said that points to the fact that for the \$30 million, a lot of work was completed - a huge amount of work.

The Downtown Merchants Association talked about the electrical boxes not being put underground. But the analysis of the costs showed that was cost-prohibitive so it was reasonable not to do that.

He tested 163 non-payroll items and found just two POs that were dated after the invoice so, although that is a no-no, the results are good overall. He observed 20 parks. POSAC gave him a flash drive showing how the parks looked before they were worked on. He didn't study that in detail. There were several brand new parks started. It was very favorable.

In the recommendations from the first audit, REDW's report had a lot of exceptions and issues. The City agreed to make the changes and he wanted to see what was changed. The BARs were put on an individual basis.

The City's new capital policy was adopted in the summer of 2015. He said the reallocation of bonds in June 2015 complies with the checklist to make sure it was done properly. Public Works was organized before by districts and the work teams to do maintenance and it was uneven, done by observation. By the fall of 2015 Public Works had an irrigation team, etc who get specialized training.

So there are favorable things and there are unfavorable things also. He will have a list of cost



allocations that could be questionable, based on the Master Plan and what it was supposed to do. The final plan on the web site has an inventory taken and POSAC was there for the creation of that list for most of that.

They looked at lots of invoices, laptops and screens and those are badly needed in the Public Works Department. He heard that laptops could be used to monitor irrigation systems in order to find out how many gallons were pumped or if a failure happened overnight.

There was only one letter in all of this – by Judith Amer. Lawyers were consulted but nothing is in writing. Bond compliance was not so bad in theory but no one thought about federal regulations. It is a hierarchy thing but some say they all have to be satisfied. The federal piece will be of more value for his report.

Member Tupler asked if Council actions supersede federal regulations.

Mr. Mathisen said no. The City has to sign off on compliance with federal regulations.

Member Gonzales asked what happens from this point. Will you have a meeting to present it before it goes public?

Mr. Mathisen said he needs to finish the draft and it should be seen by people in advance. He assumed there will be a Council review in February or March. He wants people to read it so they will be informed in advance. The City needs to know what is in it.

Ms. Kerr asked Mr. Rodriguez if she needs to extend their contract.

Mr. Rodriguez said management is arm's-length from it but if there is no fiscal impact, there should be no problem.

Ms. Garcia said if the State Auditor reviews the report and says additional work is needed, it would be extended.

Mr. Mathisen said they have done a good job. The State Auditor always reviews his work so we will see if he wants more work done.

Mr. Rodriguez said if it is simply extending a date, it is an administrative decision.

Member Sommer said the Audit Committee was tasked with going forward with this. Should we see it before it is released to the Council or the public.

Mr. Mathisen asked if the Task Force was responsible.

Ms. Kerr said the Task Force was to determine the scope and agreed-upon procedures. So that work is done. So the Task Force is no longer in effect.

Whether this Committee reviews it or not, she didn't know.

Chair de Schweinitz didn't recall the Committee being involved. Ms. Kerr was the project director.

Member Romero thought the Committee would be involved with the exit conference.

Ms. Garcia said the Committee would need to go into executive session and then come out since it is not a public document.

Ms. Kerr thought it will probably be public by the next Audit Committee meeting.

Member Tupler said the Committee should probably be involved with the final review of it.

Member Gonzales agreed.

Ms. Kerr asked Mr. Mathisen to let them know when the draft is available.

Mr. Mathisen said it will be ready in the next couple of weeks.

Ms. Kerr noted a concern that the first audit report skirted around some sensitive issues. He assumed that if this report is positive, that it will clearly say that and in sufficiently worded terms so as to minimize questions, i.e., not vaguely worded.

Mr. Mathisen said he has to give an opinion. And it will assert that the City complies with all applicable bond regulations, statutes, etc. So he will give an opinion that, "It was compliance in this, this and this and non-compliant in that, that and that." Clarity is certainly the goal. He was sure some people will not be satisfied, no matter what.

Mr. Rodriguez asked about compliance with GRT and Mr. Mathisen said that was not included in his contract. He commented that for GRT bonds, the public doesn't have to vote on it but obviously the City is using debt to fund operations. That opinion was already given.

Ms. Garcia felt this will be a usable tool for the whole State in dealing with bonds.

The Committee thanked Mr. Mathisen for his services in this audit.

Mr. Mathisen said he would let the Committee know when he was ready to present.

Mr. Mathisen excused himself from the meeting.

**b. Presentation of CAFR (Bobby Cordova, Morgan Browning, Teresita Garcia)**

Ms. Kerr got Mr. Browning on the phone bridge to report.

Chair de Schweinitz thanked him for his time. The Committee had time to review the report from last

month and has a few questions to ask.

Ms. Gonzales wanted to start with a discussion of the findings. The first is the reconciliation deficiency. She asked how he arrived at that deficiency in his analysis.

Mr. Browning said there needs to be better communication between the Finance Department and the Accounting Department as well as the individual contract managers who don't always report when the project is completed. More specifically, better communication from the project manager to the Accounting Department is needed. He said they look for changes in the account and that includes percentages of completion and what the ending and progress related to. What happens when the project is completed is that it gets capitalized and taken out of construction accounts and put in a regular capital assets account and depreciates.

This year when they did the analysis they looked at the changes in construction and did not see progress and decreases in those accounts. That should happen in the project is complete. It looked like projects were completed this year but there is no decrease in construction in progress. It just didn't make any sense. There are going to be new projects and others get completed and need to be capitalized.

In talking with Ms. Garcia, she thought the staff were doing that but apparently there has been no communication from the project manager to accounting on the status of the projects. So the problem was reconciliation of the account. He considered it a significant issue. When the project is complete, depreciation should begin. So it is possible that some projects were completed during the fiscal year 2015 but depreciation did not begin. It does not have a significant impact and he thought the city hired somebody specifically to work on this issue. So the city has taken action to remediate this problem. So his problem with it is that depreciation should've been recorded that was not. In addition, the construction account may not be entirely accurate.

Mr. Browning said they gave a modified opinion. They think the numbers are materially correct but they are worried if it is not addressed. And if not, the numbers may not be correct in the future. That is why they elevated the significance in severity. They are calling it a significant deficiency because it has a direct impact on the auditing of those numbers.

Mr. Cordova examined the construction progress accounts and nothing seemed to be completed. They thought it was a significant deficiency so they reported it that way.

Ms. Sommer asked if it didn't rise to the level of a material weakness just because of the amount of money or if something else led to that conclusion.

Mr. Browning said they did discuss that that did not have any solid evidence. They just noticed lack of reconciliation. They couldn't say for certain what that number is. So it will probably not be material for depreciation. It should have been deleted from the construction account and put into an asset. It is just a matter of classification. The depreciation could be adjusted in 2016. He didn't think that adjustment would be material but certainly has that potential if it is not addressed.

He clarified that they did not want to give the impression that the numbers will be materially incorrect. A

lot of time, when the State Auditor looks at these reports and see that the auditor is giving a clean opinion, and see a bunch of material weaknesses and begin to question the findings. So they didn't want to give the public the opinion that they felt the numbers were materially misstated.

Ms. Gonzales asked if by the time they completed their fieldwork this was not reconciled.

Mr. Browning said it was in the course of their fieldwork that they were looking at it and then they put the CAFR together and were asking questions. Ms. Garcia agreed that they were not doing it. So there was a consensus among management and his company that it needs to be reconciled. It just fell through the cracks.

Ms. Gonzales understood wait no longer since the fieldwork was about done.

Mr. Browning agreed. They did not want to delay the audit.

Ms. Romero asked if this was not something found in the prior year.

Mr. Browning agreed. He noted that there was staff turnover during the course of the year. And the staff member who was responsible left during the course of fieldwork. Maybe that was the issue. Also, he didn't think they were checking that work as hard last year.

Ms. Gonzales asked him to touch briefly on the other finding that were not considered a significant deficiency.

Mr. Browning went to the first finding which was from 2006. There was some discussion about this last year as well. He didn't know that the dollar amounts would ever be 100% on this budget finding. But did not think the dollar amount for significant here to warrant getting anything higher than another noncompliance. The City can have a budget overage fund and that doesn't mean the numbers are materially incorrect. So when they classify these findings, they have a specific lens to look through to determine if this finding could cause a material misstatement on the account balances that are on the statement. This was just a case when the actual expenditure exceeded the budgeted expenditure amount. That has to be reported but does not, in itself, mean that any numbers in the CAFR are materially incorrect. They did go through the BARs and the expenditures and worked on compliance this year. The State Auditor goes through this and cross check against the budget, too. And they make sure that if there is an overage in the budget and make sure it is listed as a finding. So they want to follow that rule and bring it to the City's attention. In this case, it doesn't cause a material misstatement so it is not classified as significant deficiency or material weakness. They simply called it "Other Noncompliant."

Under Tim Keller's administration, they want the other matters in certain categories and this one falls into the other noncompliant category.

Chair de Schweinitz read from this section of his report and asked if he meant "comprised" or "compromised."

Mr. Browning said it should have said "compromised." He apologized for not catching that typo.

Chair de Schweinitz asked if the responses were sufficient or if he was prepared to talk about responses on the budget performance report.

Mr. Browning said they were responding not only to this issue but others. That was fine. He understood the City was trying to change the behavior with respect to the budget and the response was speaking to that. It was well written and might be able to clear that finding. The response made it clear that the responsibility for monitoring expenditures is upon each department director. He added that the State Auditor may change the content of findings in general. They want to identify the people responsible for corrective action. And they want a date for implementation of the corrective action.

He said he believed that Mr. Rodriguez is really dedicated to remediating this and that is admirable.

Chair de Schweinitz asked for Mr. Browning's opinion on how the City is working on the reconciliation procedures – for monthly reconciliations of accounts.

Mr. Browning said Ms. Garcia talks about monthly reconciliation but that is a very general process and in his mind, it does not cover the budget process. It is a very specific issue and needs monthly reporting of reconciliation. One exception is Parking which they found not being timely reconciled.

Ms. Kerr asked about the 2013-004 finding. In his opinion, Mr. Browning said the evaluation of general controls over IT had a deficiency in IT policies for backup and information security and evaluation of outside contractors. They do have a Steering Committee in place at this point and are developing policies and getting ready to hire Cisco but this evaluation of outside contractors was then dropped throughout the rest of the findings. It is not addressed in the recommendations nor in the review of responsible officials. So this still remains an issue. She didn't see it being addressed in the recommendations about this evaluation of outside contractors.

Mr. Browning agreed. They probably should have put it in their recommendations. They were attempting to give background. The Information Systems auditor had left. But they should have put something in the findings for evaluation of contractors. He kind of pushed to take the finding out and Mr. Cordova pushed back. The city has a lot of policies in place. He has a whole file full of them. He thought they should have taken that finding out this year. Next year, they would hire someone to follow up on that evaluation of outside contractors and provide a solid recommendation.

Ms. Kerr agreed that IT has a lot of policies but she thought the finding was about comprehensive information security policy. And that is only two paragraphs long. They probably need about a 50-page policy. That needs to be addressed. A company came in and provided a draft policy and they are just waiting for their officer to come in so they can implement that.

Ms. Garcia said the contractor does understand the issue. There are consultants that come in and evaluate the software and they can log in and view the system.

Ms. Kerr said that is not the issue here.

Ms. Garcia said when the security officer comes in that will be their responsibility.

Ms. Kerr said she would talk to them about that. The issue is not with people coming in and looking at the data but that people could potentially get unauthorized access to our data outside contractors are processing. It is off-site and she questioned what kind of security controls they have to prevent people from stealing the data. That is the issue.

Ms. Garcia said they told her that was one of their responsibilities.

Mr. Rodriguez said there is nothing in place now.

Ms. Kerr said what they could address this issue in Procurement when they hire somebody that will be storing our data make sure they can provide the report called SSAE 16, which is an assurance that they have reliable security controls so the City doesn't have to go out and do the audit. It is for vendors that are going to be handling our data. It is a very simple procedure to put in place and very commonly used.

There are lots of departments storing data off-site. Some people are storing data in the Cloud but making it secure is what is important.

Member Sommer said it all comes down to having the Comprehensive Information Security Policy in place. That is why the policy is an exercise. She didn't think that evaluation of outside contractors needed to be carved out. It should be in that information security policy. In order to satisfy the issue, it needed to be in there.

Chair de Schweinitz said the final one was the parking permit issue.

Mr. Browning said parking permit receivables was one of the things that sort of lagged and delayed completion for them. They really wanted to complete the CAFR draft and the parking permit receivables had to be reconciled and issues arose. They had to go through management and it delayed the audit. It was the reason why the CAFR couldn't be completed as timely as they had hoped. It was a problem that they were doing reconciliation at year-end when they should have been doing monthly reconciliation all along. If the parking permits had been reconciled more periodically that would have made the whole year-end reconciliation happen quicker. The differences are about \$13,109 between the AG report and the General Ledger. It is not a material issue but it caused a lot of inefficiency and was a concern for getting it all done. The Parking Division needs to be more timely in the reconciliation of its accounts. That way, there would be no chance they would miss the deadline. It will make it easier on Ms. Garcia, on Erica, if the Parking is reconciled throughout the year on a monthly basis. Although not a significant deficiency, they did not want to ignore it. They didn't want to come back again and see that Parking had not been reconciled throughout the year and have to follow up on it. That is why there is a finding here. He didn't think it would be a repeat finding next year.

Member Sommer asked if that \$13,109 still has to be reconciled.

Mr. Browning agreed.

Member Sommer asked Ms. Garcia if they are doing monthly reconciliations now.

Mr. Garcia said they are still trying to hire staff. So they have not gotten to the reconciliations. It is also a matter for staff to understand the reconciliation. They are now trying to find an accountant that understands the whole concept. They are still monitoring those permits but at some point, the Department needs to assume the responsibility and not relying on Finance to reconcile at the last minute. They just need to follow up on the unreconciled difference. She didn't think they understood the system enough to be able to do that. So they know the invoices; they know the accounts receivable but don't know how to dispose of the differences. They need an accountant to do that. A qualified person is needed. The Director recognizes the seriousness of that position. If they are able to find an accountant, that person would not need special training. Finance does provide oversight so if they don't fully understand the system, Finance staff would provide training to them. Then they should be able to find where the errors are and do a journal entry to correct it.

Member Gonzales recalled meeting with Mr. Cordova and mentioned working on a couple of issues. One of them had to do with Payroll and the other was with Accounts Payable having direct bearing on employees. She asked what the results were.

Mr. Browning said they did meet with Ms. Garcia on that requirement. He thought there were compensating controls in place. He couldn't envision a scenario where a check would be cut where the employee could get the check picked up by someone. He didn't see it as a big deal. But they did follow up on those issues. They just didn't see them as a deficiency.

Mr. Rodriguez said they are following up with a policy to address that.

Ms. Kerr said the other issue is how long we are going to continue doing the bulk of payroll with the time sheets and doing them manually. It seemed like a huge inefficiency.

Mr. Browning said it does seem inefficient but from a control standpoint, they were okay with the use of manual time sheets and okay if they went to a fully automatic timekeeping system. They understood the burden but did not think it would impact the system.

Mr. Rodriguez said they do both manual and automatic systems. They issued an RFP last Friday for the new financial system and that is why there is a very specific request.

Ms. Kerr said employees input their hours on the time sheet and then there is an electronic approval.

Ms. Garcia said it is the same for purchase orders. But this system does not acknowledge the signatures of approval. The system only uploads the time sheets to Payroll and then Payroll completes it. It does not have the approval signature. But if we did not have that system, it would be much worse.

It is the same with accounts payable. She cannot validate that the money was given.

Mr. Rodriguez said other than that, the system is solid.

Mr. Browning said he did understand about the inefficiency of the system.

In response to the question of what could make it better, Mr. Browning said Personnel should hire good people – people who could review that CAFR and do a lot of the manual work. They have already hired a good person in capital assets. With good people, the City would not be stuck with doing it all in the last month. That would allow Teresita and Erica the opportunity to do more oversight in their role. That would make it far more efficient. He advised them not to fall behind in the bank reconciliation. That is a critical thing.

The Committee thanked Mr. Browning and he signed off.

Ms. Gonzales asked Mr. Rodriguez how the monthly close outs were progressing.

Mr. Rodriguez said they are doing monthly reconciliations.

Ms. Kerr said they are not doing monthly close outs and asked him when that would happen.

Mr. Rodriguez said they might be able to do quarterly close outs.

Ms. Garcia said they would do budget to actual reports. They should be doing a cash closeout. Then at the end of the year, they do the accrual closeout. They need to get the Department used to doing a cash closeout which means all of the transactions recorded and reconciliations done. The departments need to be doing that on a month-to-month basis and not wait until we ask for their quarterly report. Everyone is short-handed so they wait to the end of the year when they have to do their budget.

Ms. Kerr thought they were making good progress.

Ms. Garcia said that this year, they had to do five-year turnover for retirements and changes. There has been a lot of turnover. It overwhelmed them. They didn't want to change the culture of the department.

Mr. Rodriguez excused himself from the meeting. As Ms. Garcia began to leave, Chair de Schweinitz noted that she was on the agenda to talk about Buckman Diversion.

### **c. Buckman Direct Diversion (Teresita Garcia)**

Ms. Garcia said they are struggling with the allocations. Right now Buckman is trying to establish an emergency fund for repair and maintenance. They are finding structural design flaws within Buckman so they are trying to figure out the ration of allocation. They want to be clear at the beginning so they don't have to carry two sets of ratios. So right now they are trying to decide what the proper ratio is. She thought they were anticipating 47, 47, plus Las Campanas because it is really a structural design which is part of the construction.

Member Tupler asked how that was discovered.



Ms. Garcia understood that after the summer, they were getting debris in the water. They found that the screens were damaged and not doing what they were supposed to do. So now they think that it was a design flaw. They are determining how severe the design flaw is and who is responsible for it.

Ms. Kerr asked if there was any estimation how long it would be until the audit report goes out.

Ms. Garcia said she went to the meeting last night. All she has to do is the journal entry. They just need to determine what portion of each investor's amount is into the emergency fund. She needed to know what that allocation was in relation to what was contributed. With the design flaw they wanted to keep track of it but she needed to know the additions and deletions in the expenditures. Now they have to create a new fund to properly report that funding so it is not included in the operating account. So she created the fund for them. The BDD people are in agreement on the percentages. The numbers are valid. It is just how they want to see it in the financial reports. She is now creating a revenue account in that fund so they can track the expenditures and who contributed to it.

Ms. Kerr asked if it might be ready by the end of the month.

Ms. Garcia agreed.

Chair de Schweinitz recalled they previously talked about the three funders not agreeing to what they were supposed to pay.

Ms. Garcia said they had a category they called "project-wide" with something such as administrative fees that could not be tied to one or the other. That percentage was presented at the time the budget was presented so they did approve that. So they approved the percentage but just didn't realize that was what they were approving. Now, they have all come to the table and agreed upon the percentage and will be presenting that to the Board on Thursday.

#### **d. Santa Fe Railyard 2015 (Cheryl Sommer)**

Member Sommer said she was asked to review the Santa Fe Railyard audit for 2014 and 2015 – a two-year review. She didn't know if it really mattered but last year at this time, the external subcommittee was working the RFP to do the audit for two years. She didn't know if that had been done before or if this was the first time for a two-year audit. Barraclough and Associates did the audit and it was a clean audit report. There were no findings included in the audit report.

Regarding the operation of the Railyard, she observed that it loses money and she didn't fully understand the background that the Santa Fe Community Corporation was formed to oversee the implementation of the Railyard project. It is a 501(c)3 organization. It subsequently formed a wholly owned subsidiary that has the responsibility of managing and overseeing the College of Santa Fe property. It lost about \$481,000 in 2014, \$627,000 in 2015, and there was a 22% increase in expenditures in 2015 over 2014.

It appeared to her that there is a lease between the City and the SFRCC that is responsible for paying lease payments to the City as well as covering the agreement for the infrastructure. In the audit report, there are two loans referenced – the bonds which she didn't believe the SFRCC was responsible for repaying but a loan from New Mexico Finance Authority which perhaps they are responsible for repaying but there is not enough money to cover bond payments.

Member Tupler asked if they are in default.

Member Sommer said they are behind and she didn't know how long this has accumulated but as of 2015, the outstanding payable to the City is \$2.9 million.

She was not quite sure why this structure is in place and why the City doesn't unwind it. Because eventually, the amount of true operating expenses for that corporation is basically a loss. She didn't know where the \$2.9 million went because there is nothing on the balance sheet of the organization that would indicate why the money was not paid to the City. There are line items in the financials that are project income and project costs. And they appear to be an offset but she didn't know what they were.

The rent that is received by the corporation is essentially close to what they paid to the City, but the corporation needs to pay itself which is why they have had an operating loss over the years.

Ms. Kerr thanked her for a good analysis.

Member Gonzales asked if others had read the article in the paper about them recently about justice to the City.

Member Tupler said it was the Chamber of Commerce article.

Chair de Schweinitz noted that there were no findings here so maybe it was resolved.

Member Gonzales said it is just the reality. They are operating at a loss. She wondered if they felt the money was free. Since they don't have to pay it back at any particular time.

Member Romero referenced a letter in the report that had really good information about if there were any errors in the report.

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

### **a. Financial Update (Oscar Rodriguez)**

Mr. Rodriguez had already left the meeting so there was no report.

Member Sommer said what is going to happen how is, somebody is going to ask the City Clerk to give the Audit Committee whatever is being sent to the Finance Committee as soon as it is available.

Ms. Kerr was really confused about what they were talking about. Finance Committee gets hundreds of items. We don't want hundreds of items.

Member Sommer agreed. We only want this Budget report.

Ms. Kerr wondered how that would speed it up. He only got that report ready last Friday. The way it is presented on the agenda will not change. She asked if that should be under External audit or leave it on where it is under Consent Calendar. She thought it would be better just to let Mr. Hopkins email it to the members. Putting it on Yolanda's desk is not best.

Member Sommer thought the committee did not get anything different from Mr. Hopkins. It didn't include the things Mr. Rodriguez would have talked about in item 8.

Ms. Kerr said under item 8 we wanted to leave that open to discuss this whole close process. He said he had some items. He was getting that from Mr. Hopkins so now he is having Mr. Hopkins come to the meeting.

Member Sommer pointed out that this is from November 30 so it is really old.

Ms. Kerr said they just need to make sure the Committee receives it by that Friday.

The Committee agreed. It didn't need to be printed out.

Ms. Kerr said she would ask Mr. Hopkins to add all members to his email list. And she would move the report from Consent to item 8.

Member Sommer said she preferred that Mr. Hopkins would give the financial report as emailed to members; not the budget report.

The Committee discussed further the problem of not having timely reports. They also discussed further the CAFR regarding what is material and what is not.

Member Gonzales said they should devote a whole meeting to the CAFR with the auditor, Mr. Rodriguez and Ms. Garcia present. There were pretty important findings in it and questioned how they would get that resolved without them present.

Ms. Kerr said the problem is not having written policies and procedures. She agreed that it is "the blind leading the blind" without them. She said she would make a note of all that.

Chair de Schweinitz suggested they make a list of all the questions they have about it.

Member Gonzales said they should follow up on all the findings so the Committee needs to ask them for the status of their follow up now. It is mid-year. Are those reconciled? The committee should tell them we need a report before the end of the year on those findings.

Ms. Kerr thought it would be impractical to ask these guys to come in at mid-year and asked them where they are on the findings.

Ms. Gonzales clarified that she was not asking for a report but just to ask Mr. Rodriguez and Ms. Garcia what they were doing on the reconciliations. It is part of accountability and is the Committees responsibility to ask for accountability.

Ms. Kerr agreed.

Member Sommer said they still need to work on the agenda. It is too long for them to be effective in doing anything.

Ms. Kerr concurred. That was why she was concerned about moving the budget report back down under Financial Reports.

Member Sommer said that is why she would advocate for all the audits to go back under the Consent Agenda. Each member is responsible for reviewing them by the following meeting. If we only talk about them if there is something we need to pursue. If it is in the packet, the members can do that. We might find it doesn't work but it is worth trying.

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

- a. **Update on revised Audit Committee Ordinance (Kelley Brennan, Liza Kerr)**
- b. **Update on revised Internal Audit Ordinance (Kelley Brennan, Liza Kerr)**

Ms. Brennan was not present to address these items. So these items are postponed.

## **10. INTERNAL AUDIT MATTERS**

Ms. Kerr said she has the draft for the public utilities phase one just about ready. She agreed to send it out to the Committee by email or members could come by to pick up a copy.

Member Tupler suggested the internal subcommittee should review it first.

Ms. Kerr agreed to bring it to the members of the internal subcommittee tomorrow.

Member Sommer agreed to contact Ms. Brennan for clarification on whether a meeting with the auditor could be in executive session prior to release publicly of the audit un the Open Meetings Act provisions.

Chair de Schweinitz agreed.

**11. UNFINISHED BUSINESS**

There was no unfinished business.

**12. NEW BUSINESS**

There was no new business.

**13. PUBLIC COMMENT**

**14. NEXT MEETING DATE – Wednesday, March 2, 2016**

Ms. Kerr said April 6<sup>th</sup> might need to be changed.

Member Sommer said she might not be able to attend the May meeting unless the date is changed. She added that if the meetings were on the second Wednesday of the month, there would be more time to get the finance reports. She asked the members to think about that.

**15. ADJOURNMENT**

**Member Romero moved to adjourn the meeting and it was adjourned at 4:30**

Approved by:

  
Clark de Schweinitz, Chair

Submitted by:

  
Carl Boaz for Carl G. Boaz, Inc.