



Agenda DATE 11/1/16 TIME 1:05 p

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

Wednesday, November 9, 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**
October 12, 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*)
 - c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings (**Liza Kerr**) (*Item 4*)
 - d. Internal Audits - Schedule and Status (**Liza Kerr**) (*Item 5*)
7. **EXTERNAL AUDIT MATTERS**
Status report from External Financial Auditors
8. **REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY**
Future Reporting (Adam Johnson)
9. **INTERNAL AUDIT MATTERS (Liza Kerr)**
 - a. Genoveva Chavez Community Center (**Update**)
 - b. Temporary and Seasonal Employees Audit Report (**Item 6**)
 - c. Public Works Report Regarding Park Bond Findings, assignment (**Item 7**)
 - d. Consideration and Discussion of Internal Audit Plan (**Cheryl Sommer**) (**Item 8**)
10. **FURTHER DISCUSSION ON INDEPENDENCE ISSUES AND ORDINANCES**
 - a. Update on revised Audit Committee Ordinance (**Clark de Schweinitz**)
 - b. Update on revised Internal Audit Ordinance (**Clark de Schweinitz**)
11. **UNFINISHED BUSINESS**
None at this time
12. **NEW BUSINESS**
None at this time
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, and in Conjunction with the Temporary and Seasonal Employees Audit. (Liza Kerr; Kelley Brennan)
15. **NEXT MEETING DATE**
Wednesday, December 7, 2016
16. **ADJOURNMENT**

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CITY OF SANTA FÉ AUDIT COMMITTEE
November 9, 2016

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b. External Audits - Schedule and Status		
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**MINUTES OF THE
CITY OF SANTA FÉ
AUDIT COMMITTEE**

November 9, 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
Al Castillo
Carolyn Gonzales, CPA
Hazeldine Romero [arriving later]
Cheryl Pick Sommer

Members Absent:

Others Attending:

Liza Kerr, Internal Auditor
Adam Johnson, Interim Finance Director
Lynette Trujillo, Human Resources Director
Morgan Browning
Carl Boaz, Stenographer

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

3. APPROVAL OF AGENDA

Chair de Schweinitz said the Committee needs to discuss the consent topics in January.

Ms. Kerr noted on item d, that 10 of the Lodger's Tax findings from 2015 were cleared. There were 15 left from 2014. She verified that they were actually cleared. In the Lodgers' Tax audit, he (David Tapia) cleared the findings by collecting money and sending her a receipt copy or a copy of voucher for refund. They were not reconciling so she needed to see what they are doing and might ask one of the members to help her with that. The auditor keeps citing this as a finding so it might not be an actual reconciliation.

She asked for an amendment to pull item 14, executive session, from this agenda and table it until the December meeting.

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

4. APPROVAL OF CONSENT CALENDAR

Member Gonzales moved to approve the consent calendar as published. Member Castillo seconded the motion and it passed by unanimous voice vote.

5. APPROVAL OF MINUTES:

October 12, 2016

Member Gonzales moved to approve the minutes of October 12, 2016 as presented. Member Sommer 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 (Liza Kerr)**
- c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr)**
- d. Internal Audits - Schedule and Status (Liza Kerr)**

7. EXTERNAL AUDIT MATTERS

- a. Status Report from External Financial Auditors.**

Mr. Browning reported that in October, they met on how to plan the audit. RPG planned the schedule in June along with other audits. In October, they had scheduled a week for the City as well as this week and next week with a gap in between. There are consequences of having a nonproductive week in October as the Finance Department was not ready. It is hard to alter that when we can't get other clients to reschedule.

He thought everyone saw the email with entries that were not met. A lot were in Ms. Hausman's area. Within 10 days of the email, most of the outstanding items were addressed and just a few outstanding. Reconciliations were received last week and he got a trial balance on November 2. They can do a lot by

email but would like to be here to get questions answered. The audit is a little behind. They are trying to match up the debt schedule and tie it out. The City has now provided all the information requested.

The original draft of his handout was November 1 and the new revised date is November 15 for a draft of the CAFR. Mr. Morgan said he would send an email if they got to the point where they did not think they could make the deadline.

Ms. Kerr asked him to make sure to copy Brian Snyder and Adam Johnson so she didn't have to send it to them. Mr. Browning agreed.

Member Romero arrived at 2:10.

Mr. Browning said the final trial balance is done, but there is one outstanding entry to capitalize some bond assets. In regards to the park bond findings there is discussion regarding the issue of capitalized and non-capitalized amounts. Mr. Browning runs the report every week to look at costs not charged to capital outlay and didn't know the resolution on it yet. It is follow-up for the nine findings, most of which will go away. About \$500,000 in payroll was charged to the GRT bond. If they can capitalize it, that will be okay. It will require an adjustment to the trial balance and change the remediation of those issues. Ms. Garcia is aware of that.

Mr. Johnson arrived at 2:14

Mr. Browning referred to the milestones handout and explained that they are doing this week what they would have done in October. They had anticipated the draft CAFR by November 1, that time has now been changed to November 15. The exit conference was originally November 23 and now must be changed to December 9. They are 50% done with test work and he didn't feel they will be in exit mode by November 23.

It is a big CAFR and they like two levels of review and could have it by December 15 but wanted it by December 1 for a cushion. The partner review can be done by December 6. The follow-up on the park bond audit is still pending.

Ms. Kerr said she was grilled by Council about clearing the findings for the park bond.

Mr. Browning remembered the email and the issue was reporting the findings in a public setting. He said they could have a modified finding and that all of the findings are going away except for capitalizing the payroll cost. He described how they would report that as part of the CAFR. The State Auditor wants a particular format. Right now, it will go with all the other findings in the CAFR.

He agreed to send the letter to Ms. Kerr that he is sending to State Auditor. He was not sure about sending it to the Council.

Chair de Schweinitz said the Council asked Ms. Kerr about how the policies are being implemented.

Member Gonzales asked if there are any other findings with the park bond that the Audit Committee needs to deal with.

Mr. Browning didn't think so. For the canceling of projects, there was a lot of talk without progress on the construction. They had to write off quite a bit of construction in progress, which is good to see that get resolved. The person they hired is good and easy to work with so the City has certainly responded to that.

He said there may be 3-4 findings at this point but no big surprises.

Member Gonzales recalled construction progress was a concern for last year.

Mr. Browning said that is his update.

There were no other questions and Mr. Browning excused himself from the meeting.

8. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY

a. Future Reporting (Adam Johnson)

Mr. Johnson provided a handout on forecast of GRT and a memo on changes in investments. He noted that the City is moving \$1 million out of savings and into investments for the first time. Mostly, they are impacted by the rising rate and anticipate if a rate hike occurs, that it will earn 75 bps. That is great news and it is all within the current investment policy. We are required to have it collateralized at 50% but have been requiring 102% so it just sat there. It is far too much cash to have in savings accounts. He was very happy that they took the first step.

His handout without the "memo" title is a report to update some level of forecasting to the Council. It shows GRT for the first two months of the fiscal year up 2% over last year. The budget has been considerably less than money received so money is being put aside for capital. The budget, when they applied the 2% factor, was projecting \$98.7 million for this year, but is coming in at projected \$103 million so it is over budget. He showed a 15-year trend in GRT and seeing revenues higher than ever before. He didn't speculate why. He is looking to partner with BBER or a similar entity for statistical reporting.

Member Sommer asked about the "unclassified" sector.

Mr. Johnson explained that this report is the NMTRD categories and they didn't explain it. The remaining pages chart all of the grants.

Chair de Schweinitz observed that most of the money from the state is federal pass through.

Mr. Johnson said maybe not most. They do grant a severance tax bond. A common federal one is DOT that we get through the state.

Mr. Johnson said he would focus next time on the Lodgers' Tax.

Ms. Kerr said she read that Air BnB paid \$35,000 of money owed and asked if that helped. The Committee really pushed to have short term renters included in the Lodger's Tax RFP last time.

Mr. Johnson said the whole organization is a little behind. The City failed to install the software that would look for short term ads and cross check with reporting. A total of 1,100 permits were created by the resolution so we have a way to go. We can't report budget to actuals yet.

The Committee can expect to see the first quarterly report at the end of January. They actually got the City's first close. A lot of people know it is time. All HR and all budgeting will be part of the new schedule. A framework was established to get rid of the deficit and now it is around \$300,000 for the entire deficit in the operation budget. This report shows where we are in wiping out the deficit. It is a crude tool to balance the budget. When he proposed the budget, he recommended cutting out positions that were vacant for two years. He showed where it is on track or not for saving budget.

Ms. Kerr asked where is it for the entire \$15 million deficit.

Mr. Johnson said the deficit is gone. The framework was \$4 million in cuts and \$7 million in revenue increases. They eliminated the GRT allocation for the Water Division and assigned it to the City. There is \$1.5 million in land use fees. The General Fund is balanced.

Member Castillo asked if the Local Government Division approved it. Mr. Johnson agreed.

Member Sommer recalled on a report to the Committee that Finance could not get their work done because of vacant positions. She asked if the positions eliminated would exacerbate that.

Mr. Johnson said that issue remains. It is a competitive market. Right now, starting pay is \$12 per hour and the private market is \$19. The City is doing a compensation comparison study right now.

9. INTERNAL AUDIT MATTERS (Liza Kerr)

c. Public Works Report Regarding Park Bond Findings

Ms. Kerr reported she met with Mr. Johnson and Mr. Pino regarding Council's concerns and the Atkinson's report probably from a different perspective than the external auditors. Mr. Browning is going to share the work they did so she would not have to repeat it. She thought it would be okay to ask the Committee for help. Mr. Johnson sent her a copy of the capital policies, and Mr. Pino sent her spreadsheets used to capture project costs. She stated that it seems that the City is now capturing all necessary information to resolve the findings.

Ms. Kerr would like someone to look at the findings, the policy, and the spreadsheets to see if that will allow findings to be cleared.

Member Gonzales volunteered to help.

Ms. Kerr said Mr. Pino sent four spreadsheets and would share them with Member Gonzales.

Member Gonzales suggested meeting after November 15th to go through them. It should be their responsibility as part of their audit.

Ms. Kerr agreed. She will leverage off of Mr. Browning's work. She agreed to come up with a game plan for it.

Chair de Schweinitz said he would help when he gets back December 15th.

Ms. Lynette Trujillo arrived at 3:15.

b. Temporary and Seasonal Employees (Update)

Ms. Kerr said this came as a spinoff of the GCCC audit during an exit interview with one of the custodians. After looking at it, she realized the problem was bigger than just GCCC. She found that a key issue was HR policies that were not current and Ms. Trujillo has been working on it.

Ms. Trujillo said she has been working on them slowly since 2015. Hopefully by the end of this fiscal year it will be finished. Then she has to build in the union and directors.

Ms. Kerr said the other issue is lack of monitoring procedures in HR as to whether they are temporary or permanent employees. Any employee, after 9 months, is eligible for PERA benefits and after a year would be eligible for medical benefits.

Ms. Trujillo clarified that it was dependent on PERA sending paperwork to HR. Many people didn't do that and got under the radar so she looked at emergency temporary first and went to retroactive benefits back to when it should have been incorporated.

Chair de Schweinitz asked if that was a lot of money.

Ms. Trujillo said it was not bad but she didn't have the specific amount with her. Also, the ACA gave a way for people to get medical benefits, depending on their hours. Those employees have all been offered that benefit.

Ms. Kerr pointed out that in the auditor's report there is specific information on fraud, waste and abuse in a separate confidential personnel file. She hoped to present that in an executive session at the next meeting. There are important issues in there.

Use of temporary or seasonal employees has been beneficial to the City. Many are people who are very young or old and need to supplement their income. But when people have been here for years, it is no benefit to the City. More and more will be classified as permanent employees.

Ms. Trujillo agreed. They are changing them to classified FTEs.

Member Gonzales asked about education for department heads.

Ms. Trujillo agreed. They are making the department heads very aware of that and the budget management needed. Parks and Rec went back in August to ask for 13 positions to help take care of it.

Ms. Kerr thanked Ms. Trujillo for her help in the audit. It has good, positive results all around. Some of them were hired into positions that required a lot of training and the City Manager questioned if that made sense since there is no cost savings there anymore.

Ms. Trujillo said the City will still have seasonal staff in the summer with the Community Services Department and Parks maintenance - hired in March to October.

Ms. Kerr said she finally got access to the Hubble Access Reporting Tool that allowed her to look at all 100% of city employees to find the temporary or seasonal employees. She is also looking at A/P to find duplicate payments. Mr. Johnson was instrumental in getting that module set up.

Chair de Schweinitz noted on the cover sheet it said to improve internal controls but that is really policy.

Ms. Kerr said an audit looks at internal controls and the first part is policies and procedures. In this instance, it was policies and procedures and behind that, the monitoring. The referred to page 7 and quoted the definition of internal controls there.

Member Gonzales suggested language, "included in the report are recommendations to improve the internal control structure." She applauded Ms. Kerr and Ms. Trujillo for their work on this audit.

Ms. Kerr said the report is going to Finance and then on to City Council.

a. Genoveva Chávez Community Center (Update)

Ms. Kerr reported she is still working on this. There are some pieces that need to be addressed including volunteers, background checks, cash handling, etc. There are lots of moving parts. For volunteers, she contacted Risk Management who came up with a new volunteer handbook. It is a City-wide finding. She had no time to do volunteers from the rest of the City departments.

d. Consideration and Discussion of Internal Audit Plan (Cheryl Sommer)

Ms. Kerr said this was on the next to last page in the packet.

Member Sommer said she met with Member Romero and Ms. Kerr to prepare this. Obviously completing the GCCC audit is primary and then there is an issue for issuing building permits.

Ms. Kerr explained that an employee walked in her door to report that tip.

Member Sommer said the third was the A/P handling and the park bond was the fourth priority. We hope that a lot of the work will be done by external auditors.

Member Romero said with the way State Auditor wanted it, she would expect Mr. Browning to do more.

Chair de Schweinitz recalled that Mr. Browning felt it was not material but there is a pattern of behavior here.

Member Gonzales had a concern about how to make sure it gets approval by the State Auditor.

The Committee briefly discussed how the State Auditor wants it.

Chair de Schweinitz understood Atkinson assigned oversight on the policies on page 10. She asked if Ms. Kerr needs to monitor it to make sure the Public Works Director is doing the best practices in implementing the policies.

Ms. Kerr said they need to review the wording. She wasn't sure how it would play out. She asked if Member Gonzales could help to compare the new policy to the findings cited and also to the spreadsheets. She noted that Mr. Pino had told her the spreadsheets were already being provided to Public Works.

Member Romero agreed. Noting they are being provided is the monitoring.

Member Sommer asked for comments from the Committee on her report.

Ms. Kerr said she is looking for action on the modification of the audit plan. As we move through the year, we will see how realistic it is.

Member Romero thought the Committee could approve modification as an amendment unless an emergency arises.

Member Romero moved to approve the Audit Plan. Member Sommer seconded the motion and it passed by unanimous voice vote.

10. FURTHER DISCUSSION ON INDEPENDENCE ISSUES AND ORDINANCES

- a. Update on revised Audit Committee Ordinance (Clark de Schweinitz)**

- b. Update on revised Internal Audit Ordinance (Clark de Schweinitz)**

Chair de Schweinitz reported that they met with Mr. Snyder and the City Attorney was going to make revisions. He saw her two weeks ago and she said she hoped to give the Committee a Christmas present. If not, maybe the Committee will have to push harder.

11. UNFINISHED BUSINESS

There was no unfinished business.

12. NEW BUSINESS

Ms. Kerr announced that the Judge reappointed Member Castillo and Member Sommer and also appointed Barbara Borrego, a CPA, to the Committee. That will go to Council in December.

13. PUBLIC COMMENT

There was no public comment.

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, and in Conjunction with the Temporary and Seasonal Employees Audit. (Liza Kerr; Kelley Brennan)

This agenda item was pulled under Approval of Agenda to be considered at the December meeting.

15. NEXT MEETING DATE: December 7, 2016

16. ADJOURNMENT

Member Gonzales moved to adjourn the meeting. Member Sommer seconded the motion and it passed by unanimous voice vote.

The meeting was adjourned at 3:52 p.m.

[signatures on following page]

Approved by:


Clark de Schweinitz, Chair

Submitted by:


Carl Boaz for Carl G. Boaz, Inc.