



Agenda

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**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
Wednesday, June 14, 2017, 2:00 P.M. to 3:45 P.M.**

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. APPROVAL OF AGENDA**
- 4. APPROVAL OF CONSENT CALENDAR**
- 5. APPROVAL OF MINUTES**
May 3, 2017 (*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. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY**
3rd Quarter Financial Report as Presented To Finance May 1, 2017 (*Andrew Hopkins*) (*Item 6*)
- 8. EXTERNAL AUDIT MATTERS -**
 - a. Discussion of Audits for reviewed:
 - i. 2016 Buckman Diversion Project Financial Statements (*Clark de Schweinitz*)
 - ii. 2016 Civic Housing Authority Financial Statements (*Al Castillo*)
 - iii. 2016 Solid Waste Management Agency Financial Statements (*Carolyn Gonzalez*)
 - iv. 2016 Airport Annual Assessment (*Cheryl Sommer*)
 - v. 2016 Santa Fe Railyard Financial Statements (*Barbara Borrego*)
 - b. Lodger's Tax RFP Evaluations on 06/14/2017 and Interviews on 06/19/17 (*Cheryl Sommer*)
- 9. INTERNAL AUDIT MATTERS (Liza Kerr)**
 - a. FYE 2018 Audit Plan (*Item 7*)
 - b. Presentation of Public Utilities Performance Audit (*Item 8*)
 - c. Update on Troy and Banks Contingency Audit (*Item 9*)
 - d. Exit conference for GCCC requesting cash audit committee representative
- 10. UNFINISHED BUSINESS**
None at this time
- 11. NEW BUSINESS**
Election of New Committee Chair
- 12. PUBLIC COMMENT – (5 MINUTES)**
- 13. NEXT MEETING DATE**
July 5, 2017
- 14. ADJOURNMENT**

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CITY OF SANTA FE AUDIT COMMITTEE

June 14, 2017

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

June 14, 2017

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
Barbara Borrego
Carolyn Gonzales, CPA
Cheryl Pick Sommer (Arrived later)

Members Absent:

Al Castillo (Excused)

Others Attending:

Liza Kerr, Internal Auditor
Adam Johnson, Finance Director
Renee Martínez, Deputy City Manager
Andrew Hopkins, Financial Analyst
Charmaine Clair, 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.

3. APPROVAL OF AGENDA

Internal Audit, item b. Presentation of Public Utilities Performance Audit was moved to be heard after the Review of Financial Reports.

Under External Audit Matters a request by Teresita was added for discussion about having an Audit Committee member attend the entrance conference for the CAFR, Monday, June 26, 2017.

Ms. Sommer arrived at this time.

Ms. Gonzales moved to approve the agenda as amended. Ms. Sommer seconded the motion, which passed by unanimous voice vote.

Introductions were made.

4. APPROVAL OF CONSENT CALENDAR

Ms. Sommer moved approval of the consent calendar as published. Ms. Gonzales seconded the motion, which passed by unanimous voice vote.

5. APPROVAL OF MINUTES: May 3, 2017

Ms. Sommer moved to approve the minutes of May 3, 2017 as presented. Ms. Gonzales seconded the motion, which passed by unanimous voice vote.

6. CONSENT CALENDAR

- 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. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY 3rd Quarter Financial Report as Presented to Finance May 1, 2017 (Andrew Hopkins**)**

Mr. Hopkins reported on the Revenue/Expenditure forecast (page 7). The GRT receipts are strong, however, not as strong as they believed at the end of March they would be. There is still good surplus in the General Fund and the GRT revenue performance.

The Police and Fire Departments are expected to exceed their overall budgets in the General Fund, due to overtime cost issues. Much of the overtime is dictated by staffing or staff shortage and some by union contract factors that are unavoidable.

Mr. Johnson noted that the saving of the vacancies is offset by the overtime costs and numbers on the Financial Report (page 4) are lagging differently than in April. That time of year tends to dip before the tourist season and construction hiring, etc.

The Investment Report (page 12) shows the total Annualized Return doing well except for a small dip in March. The rate environment continues to increase and is currently 25% basis points higher. The City continues to be liquid and is buying money market funds, which makes up a small portion of the \$15 million portfolio.

Chair de Schweinitz asked if the Finance Committee has ever asked about policy issues.

Mr. Johnson explained the information is discussed in preparation for the budget and sets the stage for any research to support projections. The Investment Policy was updated in October and a complete overhaul of the Debt Management Policy is being worked on and should be approved by the end of July.

Chair de Schweinitz asked if the Finance Committee ever asked for updates on the remediation on findings.

Mr. Johnson said they do, but he thought there had not been follow-up to findings to the CAFR.

They want to insert language into the Investment Policy about optimizing the Certificate of Deposit Program with local banks. They found that banks are required to provide at least the equivalent yield of the two-year Treasury to a municipality and often they do not do that. They have updated the Certificates of Deposit to align with State statute and collateralize at 50% rather than the previous Investment Policy at 102 percent.

The City was responsible, for many years, for all the trades in the investment portfolio. The relationship should be that you are either 100% responsible for the trades and an outside benchmark service would grade you on that or the reverse, where you do the benchmarking and grade the advisor. All investment decisions are made in-house now after discussions on market factors, etc. and the benchmarking side will be contracted. That will also be added to the Investment Policy.

Chair de Schweinitz thanked Mr. Johnson and Mr. Hopkins for their presentation.

9. INTERNAL AUDIT MATTERS: (Revised Agenda Order)

b. Presentation of Public Utilities Performance Audit

Ms. Kerr introduced Karen Fiorina, Utility Division Director and Shannon Jones, Interim Director at Public Utilities.

The audit concluded last March but could not be released until now due to charges filed by the District Attorney's Office. There were 8 findings of the audit summarized starting on page 7 and the details of the findings are included in the report.

- There were 138 accounts reviewed appearing to have deposits diverted and 46 were conclusive with supporting documentation.
 - ... The 46 diverted deposit accounts will be added back by taking the money from a special fund being created by the Finance Department.
 - ... A Standard Operating Procedure has been implemented that divides duties within the Customer Service billing area and requires multiple levels of approval.

- A lack of the segregation of duties and / or excessive access to the system was a primary contributing factor regarding the diverted deposits. The same person handled the cash, posted adjustments, initiated accounts and there was no one reviewing their work.

... A role-based access has been implemented within the system and each has a different access.

Mr. Johnson voiced concern on how the City would come up with the deposit money and that the money might need to come from an insurance claim.

Ms. Kerr offered to contact Risk Management prior to sending the report to Finance.

Ms. Kerr and Ms. Fiorina talked about the way the discrepancies were found and the inadequate file management system that contributed to the deposits being easily diverted.

They had discussed the need for a City policy for those who handle cash.

Mr. Johnson offered to look at the City's Fraud Prevention Policy. They should at least explore the required practice that people with access must take a two-week vacation.

Ms. Kerr continued with additional findings: inadequate system controls, no reconciliation of the UCIS Billing system which is public utilities, and the cashiering and having minimal interface between the two systems. Also, deposits were not always collected and the reason was not given.

Ms. Fiorina explained there is now a deposit record for every account and a drop-down option saying the person has a line of credit and the deposits can be reconciled to ensure each account has a deposit record. They now follow PNM's industry standards for deposits.

Ms. Kerr acknowledged Ms. Fiorina's help and her position in the audit that allowed large files to be downloaded for data analysis and looking at patterns. Ms. Kerr reviewed 13,002 accounts set up by staff and found 613 accounts with no deposit collected (\$61,000) and no reason recorded.

The report will go to the Finance Committee two weeks from Monday. The Cash Handling Report from the audit at the GCCC will be released at the next meeting of the Audit Committee. The 23 findings are mostly related to a lack of segregation of duties.

Ms. Sommer said this was good work, but unfortunate that it took a long time to get out, because in the interim it could have helped other departments.

8. EXTERNAL AUDIT MATTERS

a. Discussion of Audits Reviewed:

- i. 2016 BDD Financial Statements – Deferred until the next meeting
- ii. 2016 Civic Housing Financial Statements – Deferred until the next meeting

- iii. 2016 SWMA Financial Statements – Reported by Ms. Gonzales
- The audit received an unmodified opinion (the highest) and there were no internal control comments, also good.
 - The lease became effective October 1, 2016 and is in effect for 8 years.
 - Cash is up this year, but capital assets are down a little because of depreciation and they are spending a lot. The collection of revenue is down in some areas and costs are up.
 - In June 2017, the Railyard received their 20-year permit renewal from the New Mexico Environmental Department.
 - A lot of money is being spent on capital purchases for replacement of equipment and a fleet for the landfill. Mr. Johnson pointed out this is just to run Caja del Rio and the Transfer Station.
 - Ms. Sommer inquired about the re-sale of recyclable waste and was told there were sales of \$173,000 out of \$7 million.
 - Upgrades are being done such as replacing a water line and installing a misting system. The closure and post closure care estimates are expected to increase up to \$7 million due to inflation.

Ms. Gonzales summed up that the audit was good and the facility is operating in an effective and efficient manner. She pointed out the note that was included stating the agency is involved in legal actions arising from the ordinary course of operations. The agency's counsel believes the outcome would not have a material impact on the Financial Statement.

- iv. 2016 Airport Annual Assessment – Deferred until the next meeting

- v. 2016 Railyard Financial Statements – Reported by Ms. Borrego

- The Railyard audit also received an unmodified opinion. Their fiscal year ran June 30, 2015 to June 30, 2016.
- The assets are minimal - \$381k, but they have a huge payable to the City in addition to deferred revenue and rent in relation to their total assets.
- Ms. Borrego questioned whether there should be a capital lease on the books. A footnote states that the Railyard leases property from the City and then subleases the property to tenants and the footnote has been amended many times.

Mr. Johnson explained the deferred rent. The Railyard restructured their payment, sold the bonds and the structure was supposed to be there, but the market tanked. A 3-year development project turned into a 15-year development project. The restructure allows the Railyard to pay back the entire amount, but at an accelerated rate over time.

Ms. Borrego believed the Corporation's liability to the City continues to increase based on the expenses being paid for the Railyard and questioned if that would ever be paid back and if there is risk of an anti-donation issue because of the liability continuing to increase.

Mr. Johnson agreed it increased when restructured. The Railyard is making payments, but they are smaller and it is increasing because the Railyard amended the lease and the payments are less than the payments made the year before.

Ms. Borrego noted with a \$3 million-dollar deficit in Net Assets and Assets at \$380,000, questioned whether the asset side should have something regarding a capital lease regarding the master lease.

Mr. Johnson recommended Ms. Borrego talk with Richard Czoski, the Executive Director of the Railyard Corporation.

Ms. Borrego continued her review:

- Operating Revenues – there are rents from the tenants, but no detail is provided on what Project Income or Project Cost is; both are lumped into one line item. In 2015, it was listed as a material item, but was not listed that way in 2016 and there is no footnote.
- Deferred Parking Cost is confusing as to why it is included on the Income Statement as Deferred Parking Cost. The footnote was also unclear.
- An opening paragraph starts with what the organization does, but includes an explanation of the lease the Railyard entered with the City. She questioned why they are explaining the lease.

The Committee members discussed the audit.

The Railyard Corporation files a 990 (nonprofit tax report) as a supporting organization to the City.

Ms. Sommer suggested the audit be reviewed by Barraclough and that Mr. Czoski be invited.

Ms. Gonzales suggested getting the report sooner so the information is fresh if they choose to call in an auditor.

Ms. Kerr asked Mr. Johnson to contact her as soon as he receives the report. She voiced concern over who would pay for Barraclough and Mr. Czoski to attend.

Mr. Johnson suggested voicing concerns about the Corporation's negative equity balance to the Railyard.

Ms. Martinez added that the Committee could also raise concerns to the Finance Committee.

Ms. Gonzales suggested a question to the City might be if this is realistically collectible with a liability on the Railyard's books and a receivable on the City's books.

Ms. Kerr offered to extend an invitation to Barraclough and Mr. Czoski.

Chair de Schweinitz asked Ms. Borrego to send a memo that lists the concerns to the Committee and they could then decide.

Ms. Borrego suggesting questioning the Executive Director because he knows the answers and he could then engage Barraclough for explanation, etc. She read the footnote: *The SFRCC, the Corporation,*

leases Railyard land and existing buildings from the City of Santa Fe and subleases to tenants of the Railyard property.

Ms. Borrego questioned whether there should be a lease on the books because that could be a large amount.

Mr. Johnson recollected being told that they - [the Corporation] - does not have the lease, they *manage* the master lease. He questioned whether the auditor understood the agreement. A master lease was created that has a lot of leases under it and the Corporation is acting as the manager.

Ms. Sommer suggested if the Corporation is providing a service to the City, the City might want to look at their rights regarding that performance.

The lease between the Corporation and the City is the master lease and then the Corporation also manages the leasing of property to tenants in the Railyard. The Corporation also created and governs all the leasing requirements regarding the number of local tenants, the makeup of the tenants, etc.

Ms. Borrego said the Railyard's subsidiary CFF Management was mentioned in the audit and has a different board. The subsidiary is not currently active, but the Corporation wants to keep them in the lease for possible future use. Consolidated financial statements were submitted with the single-member subsidiary, but there is no activity; General Revenue is \$1.2 million and they are paying a little over a million in lease to the City.

There is reference to a current recession that could affect consumer spending and the ability of potential tenants to obtain financing to lease in the Railyard and footnotes have disclosures about the new and upcoming audit procedures that could affect the organization. They also state that the new ASU provides guidance on reporting previously on recorded off balance sheet obligations as a lease liability on the balance sheet.

Chair de Schweinitz asked Ms. Borrego to submit a memo of the issues so the Committee could bring those to the attention of the Finance Committee.

- b. Lodger's Tax RFP Evaluations (6/14/2017) and Interviews (06/14/2017)

Ms. Sommer said they discussed the proposals and a candidate will be interviewed on Monday.

- c. Entrance conference for the CAFR on June 26, 2017

Ms. Kerr asked for a volunteer to attend the conference. Ms. Borrego and Ms. Gonzales agreed to do the conference together.

9. INTERNAL AUDIT MATTERS

- a. FYE 2018 Audit Plan

Ms. Kerr said she added the rationale, but left the objective in because it helps her. She removed most of the things at the end and inserted a note that more information is available upon request.

Ms. Gonzales moved to approve the 2018 Audit Plan as presented. Ms. Borrego seconded the motion, which passed by unanimous voice vote.

c. Update on Troy and Banks Contingency Audit (Revised Agenda Order)

Ms. Kerr received an invoice of \$17,551 savings over the last 12 months based on the work and has verified the amount. Troy and Banks requested \$4,387 and the supporting documentation and the City's comments were submitted to Finance. The agreement was for the initial savings plus going out for one year at 25 percent, so this is the last year Troy and Banks will collect.

d. Exit Conference for GCCC Cash Handling Audit - Request for Cash Audit Committee Representative

Ms. Kerr reported the exit conference is next week and she and Ms. Martinez met with Rob to review the findings and provide the opportunity for him to ask questions prior to the group meeting. She also shared a template with Rob with basic instructions on how to respond to an audit finding.

The report will be included in the packet for the next Audit Committee meeting to ensure everyone is on the same page. Editorial suggestions are welcome at this point but the report will be in the final format once presented at the Audit Committee meeting.

Ms. Sommer suggested the Committee review the findings in final format to maintain independence and avoid an issue. Since Ms. Kerr is employed by the City, for the Committee to attend meetings and review the documents in the interim puts members in the process of supervising Ms. Kerr's work while her work is still in process. The role of the Audit Committee is to supervise end results rather than process and assuming Internal Audit continues as a city position, there should not be independent review but not supervision by the audit committee.

Chair de Schweinitz said Mr. Johnson had mentioned a process for the CAFR in the future and there could be other knock-off audits and the Committee should consider exceptions.

Ms. Kerr said she would let the Committee know the date of the conference, but confirmed there was not a need to attend.

Ms. Gonzales said the Committee should analyze and their role is to decide whether to make recommendations to the Finance Committee.

Chair de Schweinitz asked if Ms. Kerr's peer review gave a sense of what her independence should look like.

Ms. Kerr explained she is independent by ALGA (Association of Local Government Auditors)

standards, which is very specific. Annually there are five points she should address and any threats identified are mitigated and the Internal Audit Department is independent. The first requirement is to report to the head or deputy head administratively and she also reports to the Governing Body and the Audit Committee.

Ms. Kerr offered to include her annual report in the packet for next month's meeting.

Ms. Martinez and Mr. Johnson left the meeting at 3:33 p.m.

10. UNFINISHED BUSINESS

Chair de Schweinitz mentioned an email he received regarding the alleged criminal violations at the GCCC. The email said the statute of limitations had run out and the crime did not rise to the level beyond a misdemeanor and the District Attorney does not pursue misdemeanors.

Chair de Schweinitz believed that city management did not handle the situation at GCCC in the best manner. The Committee should have told Ms. Brennan to shut the audit down and bring in Ms. Kerr to audit everything.

Ms. Kerr said the Attorney General and the State Auditor both told her they do not have a dollar limit when someone commits fraud, especially in management, and they do investigate.

11. NEW BUSINESS

Election of New Committee Chair

Chair de Schweinitz said he has been the chair for three years and would love to relinquish the position, but would continue if needed. He nominated Ms. Borrego.

Ms. Borrego said she could not be the chair, but Chair de Schweinitz had done such a wonderful job she suggested he remain the chair.

Chair de Schweinitz agreed to stay until December. The Committee by unanimous acclamation, elected Clark de Schweinitz to continue as chair.

12. PUBLIC COMMENT

There was no public comment.


13. NEXT MEETING DATE: Change in date from July 5, 2017 to Wednesday, July 12, 2017

The consensus of the Committee was to change the next meeting date to July 12, 2017.

14. ADJOURNMENT

Ms. Gonzales moved to adjourn the meeting at 3:39 p.m. Ms. Borrego seconded the motion, which passed by unanimous voice vote.

Approved by:


Clark de Schweinitz, Chair

Submitted by:


Carl Boaz for Carl G. Boaz, Inc.