



Agenda DATE 9/26/17 TIME 10:40r

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**CITY OF SANTA FE AUDIT COMMITTEE MEETING  
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM  
Wednesday, October 4, 2017 - 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**  
September 6, 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**
- 8. EXTERNAL AUDIT MATTERS -**
  - a. Update of CAFR (External Auditor, Adam Johnson)
  - b. Report from Cheryl Somers on obtaining a list of all City Audits
  - c. BDD Discussion – (Clark de Schweinitz)
- 9. INTERNAL AUDIT MATTERS (Liza Kerr)**
- 10. UNFINISHED BUSINESS**  
Further discussion of Ordinance Review (Cheryl Somers and Carolyn Gonzales)
- 11. NEW BUSINESS**  
None at this time
- 12. PUBLIC COMMENT – (5 MINUTES)**
- 13. NEXT MEETING DATE**  
November 1, 2017
- 14. 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 FE AUDIT COMMITTEE**

**October 4, 2017**

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14. ADJOURNMENT	Adjourned at 3:45 p.m.	12

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

October 4, 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  
Cheryl Pick Sommer [Arriving Later]  
Barbara Borrego  
Al Castillo  
Carolyn Gonzales, CPA

**Members Absent:**

None

**Others Attending:**

Georgie Ortiz, CliftonLarsonAllen Auditor Firm  
Adam Johnson, Finance Director  
Renee Martinez, Deputy City Manager  
Karen Heldmeyer, Former City Councilor  
Carl Boaz, Stenographer

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

**3. APPROVAL OF AGENDA**

The conversation with the CAFR auditors was scheduled for 3:00 p.m.

Chair de Schweinitz reported that the City Attorney ruled that the Audit Committee could not go into executive session.

Mr. Johnson clarified he was not proposing going into executive session.

**Member Gonzales moved to approve the agenda as amended with the CAFR moved to 3:00 p.m. Member Castillo seconded the motion and it passed by unanimous voice vote. Member Sommer was not present for the vote.**

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

**Member Gonzales moved to approve all consent items. Member Borrego seconded the motion and it passed by unanimous voice vote. Member Sommer was not present for the vote.**

#### **5. APPROVAL OF MINUTES: September 6, 2017**

**Member Castillo moved to approve the minutes of September 6, 2017 as presented. Member Borrego seconded the motion and it passed by unanimous voice vote. Member Gonzales was not present for the 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**
- c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings**
- d. Internal Audits - Schedule and Status**

Member Sommer arrived and joined the meeting.

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

Mr. Johnson provided an executive summary of his report. He reported that four months into his position he had decided to identify red flags due to fraud or error and whether those were corroborated by third-party experts in the field. He asked the City Manager to take on a fraud prevention engagement with a consultant expert who would conduct interviews and observations and provide a report at completion.

This process predicated a request for further investigation related to personnel matters, which is confidential. He made a presentation to the Governing Body on Wednesday and met with the press the following day and the report was made public on the City website.

A result is a recommendation to do forensic accounting work and A. Anderson Consulting has been engaged to assist with keeping the audit on track and the ERP project; a significant finding of a major vulnerability.

Mr. Johnson indicated the Office of the State Auditor was engaged early on and has a copy of the report and there has been no finding of misappropriation of City assets. The City will work closely with Anderson and the auditors to recommend where forensic accounting might be needed.

Ms. Martínez added that departments with findings have been asked to provide a management response by today. Finance will follow up on the findings and respond w a request for clarification, a recommendation or additional information for the departments to address the issues.

Member Borrego asked when the investigation began.

Mr. Johnson explained he took over the interim Finance Director position the previous October and he started the fraud prevention engagement in March. The report is the City website under Transparency.

Member Castillo asked how the State Auditor had been informed about the engagement.

Mr. Johnson had sent a letter to the State Auditor on the advice of the Anderson firm, known for this type of work. Since this is not an audit but a prevention engagement, the State Auditor's approval was not requested. The City Manager can authorize this per the Procurement Manual because it is a service less than \$50,000.

Member Gonzales asked why the Audit Committee was not notified.

Mr. Johnson responded, "This is Staff driven and was kept at staff level, primarily between him and the City Manager early on." Secondly, it was critical to the process that few people knew.

Chair de Schweinitz asked if Mr. Johnson had considered that the Audit Committee might have information or observations that could be helpful.

Mr. Johnson replied that was an excellent point, but the consultant chose who to interview.

Member Sommer asked why Mr. Johnson felt the need to hire an outside firm when he can make determinations and take action, without engaging an outside firm.

Mr. Johnson explained, given his background and newness in the position, he thought it imperative to engage a third-party expert to confirm or deny his observations. When the City or a similar organization finds an issue and says they will handle it, that is not transparent. It also appeared the conditions had been happening for a long time.

Member Sommer noted financial misstatements were mentioned in the executive summary. She asked if Mr. Johnson had asked the previous auditors if they found misstatements, or found them and did not note them.

Mr. Johnson stated he had not. He thought the appropriate course was to complete this audit and then decide on a plan.

Member Sommer confirmed Mr. Johnson thought talking with the auditors on their findings or experiences was not relevant.

Mr. Johnson replied at that time it did not come up. The work of the auditor is to assess the operational conditions of the City finances, not how the external relationships intertwined. He thought those questions now need to be answered, but this was Staff driven and internally focused.

Member Castillo asked how Anderson arrived at their scope of work and if there was a format.

Ms. Ortiz explained Anderson is a CAFR audit firm and did not do the forensic audit.

Mr. Johnson explained the scope was related to the fraud prevention engagements and assessment of the conditions developed by him and McCard with the City Manager's approval. It began with Finance and as information came, they determined who to talk with, particularly regarding cash handling, Utilities, IT and capital related. The Chavez Center is another significant site, based on the conversations.

Member Sommer asked what Staff thought these people [the auditors] were doing.

Mr. Johnson indicated to his Staff that the firm was reviewing the City's financial processes and conducting interviews to understand their vulnerabilities. The implementation of the ERP was used as a reason for the processes being reviewed.

Chair de Schweinitz asked if the same significant questions were raised by the previous auditor.

Mr. Johnson responded, not to his knowledge. City management asserts they have comprehensive internal controls in place which the auditor assumes are in place and they look at a higher level. He is looking at opportunities that could occur at a lower level through an error or fraud.

One big finding is that the City has a failed development of the ERP, in particular, a lack of a process to develop user roles resulting in roles with many different accesses. The only reason many have probably not ventured into the different areas is because they did not know how, which leaves if some people *do* know how and leads to more questions.

Chair de Schweinitz confirmed consensus to return to the report later and start the CAFR Audit with Ms. Ortiz and her colleagues (Jeff Romero and Laura) by audio conference.

## **8. EXTERNAL AUDIT MATTERS**

### **a. Update of CAFR (External Auditor)**

Ms. Ortiz provided a list of items not received that are needed to complete the audit: entity level controls, the cash investment revenue and A/R, compensation and benefits, general disbursement NAT and the capital assets, long-term debt, or self-insurance.

They are waiting on reports for the single audits for the oversight agencies to address prior-year findings. Angela Anderson and Jason Graving were asked to contact her on what has been completed and when things are ready for her staff to return.

Member Gonzales asked the probability of having a timely audit.

Ms. Ortiz indicated that depends, because some items have been due since July and they are behind, although that did not mean they could not get up to date. She talked with Janet McCard when Anderson was first engaged and they need to be sure they can do planning procedures and test work to determine if the findings are valid. Their IT staff has seen some of the same issues, but is not finished.

Member Borrego asked if the report significantly changed the scope in planning.

Ms. Ortiz stated the report increases the scope and they put some controls in areas they were told about such as Lodgers Tax, Parking and IT and the internal controls the financial reporting lacks. There are already findings in Parking and IT and the entity level controls are needed to complete the work and look at each finding to determine whether the controls are valid. They will ask prior auditors how they came up with their determination if they find misstatements. Entity level controls have been outstanding since they began and they worked around it, but without them it is difficult to know if internal controls are used.

Member Gonzales asked Mr. Johnson why the controls were still outstanding.

Mr. Johnson indicated he had been told the items have been or were provided. They are reviewing the list to get the auditors the requested information and have taken care of some misunderstandings.

Member Sommer asked who was contacted for the information. She noted that entity level controls already exist and is not created every year.

Ms. Ortiz said Teresita was the contact given. They do not use the previous auditor.

Laura clarified that some entity level controls had been received, but they had to go back and forth for additional information because of incomplete answers. Angela and her team clarified some requests yesterday. She thought the conversations with Teresita were not well documented and was with someone who had not been involved from the beginning.

Ms. Ortiz said the firm is happy to work with them and walk City Staff through the forms and explain what is being asked, because the terminology can be different. She was hesitant about Angela's group on entity level controls because it should be someone in the accounting department with the experience.

Member Sommer asked if an outside accounting firm was doing day to day activities in the Finance Department in addition to activities relating to the audit.

Mr. Johnson replied they will help run day to day. He worked on the highest level of the report, but delegated filling out the details to those using the controls.

Ms. Ortiz confirmed that a representation letter is signed at the end of the audit certifying management had provided everything and information was not withheld. Ms. Ortiz pointed out it is possible to have a prior adjustment to a balance and an account that could be incorrect from the prior year and a misstatement does not always mean fraud.

Member Borrego asked if the Committee would be told if the December deadline could not be met.

Ms. Ortiz offered to send a weekly status with potential or actual findings.

Mr. Johnson questioned whether appropriate at this time, to share findings with the Committee.

Ms. Ortiz explained she usually kept audit committee members abreast of what is happening in a closed session. She thought it important they know findings that would be in the report, whether the State Auditor agreed or not, but would leave that up to Counsel.

Mr. Johnson was for it if above board with the State Auditor. Ms. Martinez would check that the City Attorney was also comfortable with that.

Chair de Schweinitz asked if Anderson worked on the assumption that city management has a good system and that other auditors will look at the materiality at a much higher level.

Ms. Ortiz explained their internal control and compliance test work had nothing to do with materiality. The test work shows if it is working and it would be a finding and the amount does not matter; it is a control issue regardless of size. They conduct between forty and sixty samplings that will show when something is lacking approval or should have two signatures, etc.

Chair de Schweinitz asked if the McCard report meant they are alert to more pervasive problems. He asked if they were aware McCard was working here and if so, if that altered their scope of work.

Ms. Ortiz said if McCard noted a problem with cash for example, that would make them look deeper than just doing a sample. Anderson became aware shortly after being engaged and talked with Janet McCard. They included things she found in their internal control test work and the Lodgers Tax is an example of something McCard mentioned. Although it may not be material to the financial statements, it could be a problem and there are some things as a misappropriation they might not have found that they would consider more closely.

Member Gonzales asked Ms. Ortiz at what point she had been informed. Ms. Ortiz replied a couple of weeks after being engaged, but they received the report when everyone else did.

Member Castillo asked if Ms. Ortiz felt blind-sided by the engagement of McCard.

Ms. Ortiz could not say because Anderson had not been involved beforehand, but she would always want to know as much as possible beforehand. She was shocked at the number of findings and may have approached the RFP differently, but would now do due diligence to ensure the findings are valid.



Member Castillo saw the responsibility of the CAFR audit as much bigger than the internal control or fraud detection and Anderson should not be obligated to follow McCard. Member Castillo noted Anderson's contract is markedly different.

Ms. Ortiz agreed. Anderson would want to know the outcome if another firm was doing a fraud detection audit and the report did not identify actual fraud; just control weaknesses. That will be incorporated and Anderson may recommend management look deeper at items they do not think rise to the level of having to do with the financial statement.

Member Castillo said the Audit Act made their job impossible because everything is a finding and the auditor must make a judgment. Materiality from a legal standpoint is different and they have to get a report out and McCard is making a statement, not rendering an opinion. Consulting by nature is distinct from a CAFR report.

Ms. Ortiz agreed. Their biggest concern is making sure the numbers are correct, but they also do internal control tests and compliance tests. They pass on adjustments that are not material and discuss the adjustments and amounts in their final exit.

Member Borrego asked Ms. Ortiz to explain Anderson's responsibility regarding fraud, etc.

Ms. Ortiz stated Anderson is not responsible for finding fraud. Their responsibility is to look at controls and compliance as part of their test work and with reports like these, do additional work until comfortable.

Member Borrego asked if they increased their fee based on the additional work required.

Ms. Ortiz stated they could, but that is usually discussed with management and the State Auditor. She and her colleagues do discuss how and what findings to incorporate into their test work and if additional time was required. That is not expected at this point, but if in-depth work was required she would explain that and qualify their findings.

Ms. Martínez said Ms. Ortiz's practice to update the Committee on potential findings was a question, but there would be no issue with having an executive session. Mr. Johnson agreed.

Ms. Ortiz indicated she liked to update the Committee in executive session of findings that would be included in the report, but would leave that up to the City. She asked if possible to update them without a public meeting if management was made aware.

Member Castillo thought that violated the Open Meetings Act and could only be in executive session.

Members discussed a rolling quorum and the type of information that could be sent in an email.

Ms. Heldmeyer suggested they discuss the matter with the attorneys. She pointed out there are specific reasons to use an executive session.

Ms. Martínez offered to get feedback from the City Attorney. She was also concerned with members using their personal email addresses making them subject to a HIPAA request.

The auditors departed at this time.

## **7. REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY (Continued)**

Member Borrego asked Mr. Johnson his thoughts on the Audit Committee's role in internal control.

Member Gonzales added it was disheartening to hear that Anderson had not been informed about McCard for two weeks and the Committee was not informed.

Mr. Johnson said the situation is challenging and the Finance Committee was also not informed. He saw the Committee's role as working on these issues. He noted that as soon as he had information that could be made available, he did so and apologized for the information being made late. He strongly embraces the role of the Committee with finances and internal controls and recognized he could probably have handled the process better.

Member Borrego asked Ms. Martínez her perception of the Committee's role.

Ms. Martínez said the Committee has experience and expertise that could be helpful to the City and a role in reviewing work of the internal and external auditor and providing expertise and advice within that. They are looking at the ordinance to further clarify the role.

Mr. Johnson added the Committee and the internal auditor look at the same concerns and ensures the Finance Department is compliant at a more granular level than other auditors notice. That is the purpose of independence in the internal audit function.

Member Castillo expressed the shock of the Committee about all of this and respectfully disagreed with Mr. Johnson when he attempted to make a case that it was a "management thing." He asked if anything else was dangling out there they should know about or contracts touching on their responsibilities.

Mr. Johnson did not know of any, but offered to reflect on that.

Member Gonzales added that the Committee does not test the controls or look for problems and relies on the external auditor and Finance Department to keep them informed. A situation like this makes them feel blindsided by the Department. She pointed out they question those making presentations and yet no one indicated there may be a problem.

Mr. Johnson said he is now engaging many people to help fix this, including the Committee. Ms. Martínez added that to share suspicions with them without validation would not have been helpful.

Member Gonzales said it was not suspicions as much as real problems with internal controls.

Mr. Johnson indicated that red flags were the reason he went to the City Manager, not the internal control deficiencies and he did not initially have that knowledge.

Member Borrego said if important enough to inform the external auditor, it is also important at that point to let the Finance Committee and the Audit Committee know.

Ms. Martínez agreed, but from a practical level it could have impacted the external auditor's scope of work and it was important for them to know what was happening.

Member Sommer asked if this was something the internal auditor should have been tasked with or put on her radar as high risk, which is the purpose of the internal auditor.

Mr. Johnson did not know. He explained if he sees something it is his obligation to pursue it and that is how he went about this.

Member Borrego expressed he was glad Mr. Johnson had approached this and it was good that it happened, but Mr. Johnson still had a responsibility to inform the Finance and Audit Committees.

Member Sommer also appreciated the discovery of shortcomings and great to see action and is good that the outcome is that there is a problem that needs to be addressed.

Mr. Johnson said next would be to work together on the department responses to the issues. He has been working on shortcomings in the system using a process for role-based security for the new system.

Ms. Martínez explained the issues have been mapped to the implementation of the ERP system to ensure it is incorporated into the work plan and replacement is not just technology but processes, policies, procedures, job descriptions, skills and expertise, etc. The work will be done in concert with the implementation and phase one is focused on the core financials targeted for June 2018. Phase two is HR, including payroll in January 2018 and phase three is work orders and asset management October 2018.

Member Castillo asked the dollar amount of the Anderson contract.

Mr. Johnson stated \$10,000 currently, but after Anderson has the full scope of work they would come back with what that equates to in dollars, and that possibly includes training. Nine of his staff went through the first course of Certified Government Financial Management and Excel analytical is provided. He wants to prepare those doing manual data processing for a different environment with the new platform.

Member Castillo was happy to hear that and thought lack of training could be a fundamental issue.

Chair de Schweinitz asked Mr. Johnson to send his view of the role of the Committee in the implementation of the work plan. He questioned Mr. Johnson if a special meeting was needed for an executive session to discuss personnel matters and confirmed members were willing to meet earlier.

Mr. Johnson asked to first discuss that with the City Manager, Ms. Martínez and the City Attorney.

Member Gonzales asked how the internal auditor would be utilized to resolve some of the issues and secondly, where Mr. Johnson planned to go with the forensic audits.

Mr. Johnson said the recommendations would bring this back to the Audit and Finance Committees and the governing body to provide the details and things related to contract approvals and RFPs.

Ms. Martínez confirmed Member Gonzales' question had been regarding the role of the internal auditor in the follow up investigation of the issues and indicated that is part of their discussion and will be shared with the Committee.

Chair de Schweinitz had concerns with couching the issue in terms of "fraud".

Mr. Johnson agreed. He tried in messaging to be clear that error is as important as fraud regardless of whether a misstatement to the financial statements. If they go through all of it and find only an adjustment, it would not discount the importance of the process.

Ms. Martínez added that the opportunity of fraud is equal to actual fraud.

Mr. Johnson his message is how critical it is for the ERP project to be successful and that advocates are needed. They need momentum to push this through seven months to full implementation.

Ms. Heldmeyer commented having been the chair of Finance for a couple of years, people are freaked out and that suggests their message is not getting across. The public thinks everyone in City Hall has their hand in the till. She suggested giving thought to what is said because both the newspaper and Mr. Johnson's memo had the wrong message and the word "fraud" makes the general public focus on that.

Member Castillo added that the Committee could have helped with that had they been informed.

## **8. EXTERNAL AUDIT MATTERS**

### **a. Update of CAFR (External Auditor, Adam Johnson)**

Previously discussed.

### **b. Report from Cheryl Sommer on obtaining a list of all City Audits**

There was nothing further to report.

### **c. BDD Discussion – (Clark de Schweinitz)**

Chair de Schweinitz noted he raised an issue two months earlier that the BDD had not filed an important report and the auditors had let it go. The Committee was told on a visit that BDD had problems with their machinery and might sue and there was concern the emergency fund had enough money.

He suggested the Committee discuss the matter at the next meeting.

## **9. INTERNAL AUDIT MATTERS**

There were none.

## **10. UNFINISHED BUSINESS**

### **a. Further discussion of Ordinance Review (Cheryl Sommer and Carolyn Gonzales)**

Member Sommer noted the changes suggested by Ms. Kerr on page 3, letter J to read: *"independently review any type of audit or review conducted by an internal or external auditor regarding City operations, as well as any findings reported there-in and any corrective action plans proposed. This includes audits and reviews by federal and State agencies."*

The Committee discussed the proposed change and made suggestions.

Ms. Martínez suggested that a member of the Finance Committee is an appropriate sponsor. They would work with the City Attorney and develop a format and get the committee process started.

Member Sommer suggested they talk with Councilor Maestas who continues to introduce something relative to a solicitor general. The Committee should be part of, or replaced by that.

Mr. Johnson suggested approaching Councilor Harris. The Committee should get the administrative process going and make changes later.

Ms. Martínez offered to send the formatted document to Councilor Harris and Member Gonzales asked that changes be sent to Member Sommer within the week.

## **11. NEW BUSINESS**

There was no New Business.

## **12. PUBLIC COMMENT**

There were no public comments.

## **13. NEXT MEETING DATE**

**November 1, 2017**

Chair de Schweinitz said the 2018 meetings calendar needed to be approved for the City Clerk and dates were the first Wednesday of each month. Ms. Kerr mentioned in an email that a reduction in the number of Committee meetings would lessen her work. Chair de Schweinitz suggested they keep the meeting dates as proposed for now.

Chair de Schweinitz noted an issue with the December 2017 meeting and members agreed to reschedule the date to Thursday, December 14, 2017.

The Committee approved the 2018 meeting schedule by acclamation with the inclusion of an executive session added to the monthly agenda.

#### 14. ADJOURNMENT

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

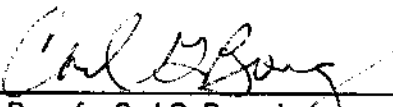
The meeting was adjourned at 3:45 p.m.

Approved by



Clark de Schweinitz, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.