



Agenda

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

Wednesday, May 3, 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**
March 1, 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. EXTERNAL AUDIT MATTERS -**
 - a. "Award of Request for Proposal #17/42/P - Financial and Compliance-Audit Services Fiscal Year Ended June 30, 2017" Selection of External Auditor
 - b. Assignment of Audits for review:
 - i. 2016 Buckman Diversion Project Financial Statements (*Item 6*)
 - ii. 2016 Civic Housing Authority Financial Statements (*Item 7*)
 - iii. 2016 Solid Waste Management Agency Financial Statements (*Item 8*)
 - iv. 2016 Airport Annual Assessment (*Item 9*)
 - v. 2016 AAA Annual Assessment (*Item 10*)
 - vi. 2016 Santa Fe Railyard Financial Statements (*Item 11*)
 - c. Volunteer for Lodger's Tax RFP Evaluations on 06/01/2017 and Interviews on 06/06/17
- 8. INTERNAL AUDIT MATTERS (Liza Kerr)**
FYE 2018 Audit Plan (*Item 12*)
- 9. UNFINISHED BUSINESS**
None at this time
- 10. NEW BUSINESS**
- 11. PUBLIC COMMENT - (5 MINUTES)**
- 12. NEXT MEETING DATE**
June 7, 2017
- 13. ADJOURNMENT**

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SUMMARY INDEX
CITY OF SANTA FE AUDIT COMMITTEE

May 3, 2017

ITEM	ACTION TAKEN	PAGE(S)
1. CALL TO ORDER		
2. ROLL CALL	Quorum Present	1
3. APPROVAL OF AGENDA	Approved as presented	1
4. APPROVAL OF CONSENT CALENDAR	Approved as published	2
5. APPROVAL OF MINUTES - March 1, 2017	Approved as presented	2
6. CONSENT CALENDAR	Approved as presented	2
a. External Audits - Completed Audits within the Last Four Years with Open Findings		
b. External Audits - Schedule and Status		
c. Internal Audits - Completed Audits within the Last Four Years with Open Findings		
d. Internal Audits - Schedule and Status		
7. EXTERNAL AUDIT MATTERS		2-6
a. RFP #17/42/P - CAFR FY 17		
b. Assignment of Audits for review:		6-7
i. 2016 BDD Financial Statements		
ii. 2016 Civic Housing Financial Statements		
iii. 2016 SWMA Financial Statements		
iv. 2016 Airport Annual Assessment		
v. 2016 AAA Annual Assessment		
vi. 2016 Santa Fe Railyard Financial Statements		
c. Volunteer for Lodger's Tax RFP Eval. on 06/01/2017 and Interviews on 06/06/17		7
8. INTERNAL AUDIT MATTERS		
a. FYE 2018 Audit Plan	Reported by Ms. Kerr /Discussion	8-10
9. UNFINISHED BUSINESS	None	10
10. NEW BUSINESS	None	10
11. PUBLIC COMMENT	None	10
12. NEXT MEETING DATE:	June 7, 2017	11
13. ADJOURNMENT	Adjourned at 4:12 p.m.	11

MINUTES OF THE

CITY OF SANTA FÉ
AUDIT COMMITTEE

May 3, 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
Al Castillo
Carolyn Gonzales, CPA
Barbara Borrego

Members Absent:

Cheryl Pick Sommer [Excused]

Others Attending:

Liza Kerr, Internal Auditor
Adam Johnson, Finance Director
Renee Martínez, Deputy City Manager
Emily Pesuda, Financial Analyst
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 annual AAA audit was removed from assignments.

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

4. APPROVAL OF CONSENT CALENDAR

Member Gonzales moved to approve the Consent Calendar as presented. Member Castillo seconded the motion and it passed by unanimous voice vote.

5. APPROVAL OF MINUTES:

March 1, 2017

Member Gonzales moved to approve the minutes of March 1, 2017 as presented. Member Castillo seconded the motion and it passed by unanimous voice vote.

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

- a. "Award of Request for Proposal #17/42/P - Financial and Compliance-Audit Services Fiscal Year Ended June 30, 2017" Selection of External Auditor

Member Gonzales asked why the Audit Committee was not part of the selection until the end.

Mr. Johnson said communication from the Finance Department to the Internal Auditor in the Audit Committee had been inadequate. He was not aware the ordinance called for a member of the Audit Committee to be part of the selection process and it was by no means intentional. Ms. Kerr was on the selection committee and once he became aware of the requirement they tried to invite Financial Analyst Emily Pesuda.

Member Gonzales said she had been contacted by Robert Rodarte the Tuesday before the selection. She accepted that Mr. Johnson was not privy to the information, but Mr. Rodarte was aware and is in charge of the RFP process. The ordinance language states that the Audit Committee is not just to be involved in the selection, but from the RFP process forward.

Member Gonzales said this is the biggest selection for an external auditor in three years and very critical. She did not blame anyone specifically, but she was involved with the Park Bond Audit and the process was clearly defined and followed from the start of the RFP to the end. She noted also there was nothing in the ordinance regarding Lisa Kerr as the Internal Auditor, to be part of the process.

She was concerned with the process and what the Audit Committee's job and responsibilities are. She asked why such a big part of the whole process was taken lightly. She asked if an auditor had been selected.

Mr. Johnson replied the final scoring was not done until Ms. Kerr's scores were included on Friday. The selection then goes to the Finance Committee for approval.

Member Gonzales asked if the Audit Committee would then be out of it.

Mr. Johnson said he was here to discuss the proposal and so they were not out of it. The RFP and what it includes is driven by the State Auditor and outside of the State Auditor's requirements, there is not much additional work in the RFP.

Member Gonzales noted the advertisement had been out since March 29, 2017 and nothing about the advertisement had been discussed with the Committee.

Mr. Johnson explained it was date driven by the City Auditor and is not issued until after the requirements for the RFP are posted and the State Auditor does not give much lead time. He said it is a standard process except this was Auditor Keller's first opportunity to update the rule. He also would have been incorporating changes for the first time.

Ms. Borrego said first, this is the Audit Committee and it made sense they should be involved and it is their responsibility to be involved. Secondly, as a new member this is a big-time commitment. This made her question the Committee's purpose and what they are here to do and she does not want to waste her time if the Committee is not taken seriously and respected.

Mr. Johnson said there was no intent to disrespect or waste anyone's time. Finance has been in the process of passing two budgets and that process is new to the head of the Finance Department. The Department had rendered an apology and attempted to get someone involved other than Ms. Kerr.

Member Gonzales said she understood that, but again, it goes back to the ordinance which was developed to create an independent transparency. The Committee represents the public and the result is that the selection of the auditor was all done internally. Ms. Kerr is not independent because she reports to the Governing Body and the concern is there was no independence in the City of Santa Fe's biggest audit.

She sees this committee's main job in the selection process as the CAFR, but was not sure what could be done now.

Chair de Schweinitz agreed with his colleagues. He said the Audit Committee has been around for six years. People in the Finance Department knew the Committee was supposed to be involved and could have informed Mr. Johnson.

Chair de Schweinitz said secondly, it shows not only a lack of respect for the process, but that the Committee has become institutionalized and, like any other part of the City, can be avoided if you have to. That worried him and that the Committee appears not to be particularly appreciated. He wanted to hear from the others but had ideas of what should be done about it.

Ms. Martínez said she could only restate this was not an intentional act on the part of the City and is unfortunate. She understood the members' perspectives and admitted her mistakes and would try to address that concern in the future. They now need to move forward and do the work in front of them.

She wanted to hear Chair de Schweinitz's thoughts on what could be done, as well as to hear from the team involved with the RFP. She apologized that this had hurt the Committee members and how they felt about their roles. The Committee has an important role and provides a lot of value to the City.

Member Castillo agreed. Now that the system failed, they need to know what is going to be done from here on out, because if this happens again, it would not be accidental.

Chair de Schweinitz suggested giving serious consideration to developing a policy on the process, the CAFR in particular, and other major audits. The Park Bond is a good example when the process was followed well.

He suggested the Committee send a statement to the Finance Committee saying the ordinance was not followed and the Committee had not been informed and therefore could not make a recommendation on the selection.

Member Gonzales agreed and added that something should be attached to the recommendation that the process was not followed per the ordinance.

Mr. Johnson said the ordinance does not have a defined process for the Committee. He noted that the previous years' minutes on the audits show recommendations but they appear to be after the RFP was sent. The minutes also do not show the role of Committee members in the RFP selection.

He suggested if they point out that the ordinance is broken, to also point out the weaknesses and not just that Finance had failed. He assumed everyone had been aware that the Audit Rule Training and selection process was going on. Also, the Committee has an extension of staff to stay abreast of the audit status.

Mr. Johnson added that Finance had requested a member of the Audit Committee be involved in the Lodgers' Tax RFP about six weeks ago and to date there had been no response from the Committee..

Ms. Kerr explained that is Item # 6 on today's agenda and there was no meeting in April and the advisement was March 1, 2017.

Chair de Schweinitz pointed out that the Finance Committee has full-time paid staff and the Audit Committee is all volunteers. Mr. Johnson's job is to ensure a clear process.

Ms. Kerr said a template from the previous RFP was used when the RFP to choose the external auditor was set up. The template included two Audit Committee members as part of the selection committee and Mr. Johnson's staff made the decision to take those members off.

Ms. Kerr said she came in at 8 o'clock Monday morning and the first thing she heard was that she was supposed to be in a 9:00 meeting. She talked with Mr. Johnson, Ms. Garcia, and Mr. Rodate to express

that she was deeply offended and that an Audit Committee member should be present. She quickly received an apology from Mr. Johnson accepting responsibility and asking what could be done to fix it. Mr. Johnson offered to set up a meeting to involve the Committee members, which seemed to her a workable plan.

She noted that the internal audit ordinance also does not address about half of what she does in her office.

Member Gonzales agreed with Chair de Schweinitz about the statement and determining a process moving forward.

Member Castillo said the statement should include that the ordinance requires this of the Committee.

Ms. Borrego understood there was a process to revise the ordinance to clearly delineate it and asked why that is not happening.

Chair de Schweinitz said revisions for the ordinance were drafted for several years but went nowhere. He suggested if the Committee makes changes, they get a champion on the City Council.

Ms. Martinez said she understood work was done with a Councilor on the changes and put on the Audit Committee agendas for discussion, but has never been discussed.

Chair de Schweinitz thought she referred to Councilor Maestas on the Inspector General and never getting around to those issues, as opposed to how to enhance the independent Audit Committee or clarify Ms. Kerr's duties in the ordinance. He said that will not happen without a Councilor to sponsor it.

He said the agenda seems to get pushed back by other things like the Park Bond and the personnel issues and a criminal issue at the GCCC, which they should not have been involved in.

Mr. Johnson said the turnover in City employees is the root cause.

Member Gonzales moved that the Audit Committee send communication to the Finance Department stating the requirements of the ordinance and that the Audit Committee was not informed about the RFP process and therefore makes no recommendation on the selection of the external auditor, and requests a policy process be developed for clarity. Member Borrego seconded the motion.

Mr. Johnson suggested drafting a memo by Friday for the members to sign.

Chair de Schweinitz said he would get a memo together as soon as possible.

The motion passed by unanimous voice vote.

Ms. Martinez asked if the Committee wanted to hear from Mr. Johnson about the selection.

Mr. Johnson handed out a memo and explained there were four respondents and there was a gap in the scoring. There was extensive discussion on the responses, mostly from Clifton Larson and Moss-

Adams, LLP. The distinction between them is in the commitment of hours from Clifton Larson, which is significantly higher without cost.

He recommended, as the new Finance Director, bringing in Clifton Larson, but ultimately the decision would be made by the State Auditor.

Mr. Johnson said he suggested \$135,000 for the first year of the three-year term, since it is subject to appropriations. The hope is to look for ways to become more efficient and lower the cost in the future. Finance is working on getting software to help with the CAFR process that should reduce the auditor's hours. His goal is to get the audit under \$100,000 dollars.

Ms. Kerr said she, Emily and Marie Lee rated Moss-Adams higher, but the scores were fairly interchangeable. Moss-Adams had a set rate for everyone working and that persuaded her.

She discussed the packets and firms that were not considered. Member Gonzales confirmed there were only two firms with a complete packet.

Ms. Kerr said a concern of the Audit Committee was that pressure was put on the auditors in prior years not to have findings. She asked for Mr. Johnson's stance on that.

Mr. Johnson said he wants findings; he just does not want repeat findings.

Ms. Martínez said especially since they are now doing things differently and better.

Chair de Schweinitz said three years is enough and he wants fresh eyes.

Member Gonzales reiterated that the Audit Committee from this point forward would be involved in the auditor process, updates and the external.

b. Assignment of Audits for review:

Chair de Schweinitz asked Member Gonzales to briefly describe the review process.

Member Gonzales said after the review they bring anything that should be disclosed to the attention of the Audit Committee. Their comments / recommendations are then sent to the Finance Committee.

Chair de Schweinitz said Member Gonzales caught a lease that had not been signed that the auditor had no finding on. They should look at the traditional things reviewed in an audit, as well as anything that auditors did not flush out or that looks amiss.

Mr. Johnson asked if there were tools like performance ratios, etc. that could help.

Member Gonzales said there is a format, but it comes down to reading the report in detail and looking at the financials to analyze the whole picture.

Chair de Schweinitz said auditors should at least say if the response of management to the findings is effective, opposed to merely efficient. That could be the Audit Committee's role.

Members discussed their choice for the audit review:

- i. 2016 Buckman Diversion Project Financial Statements - Chair de Schweinitz
- ii. 2016 Civic Housing Authority Financial Statements - Member Castillo
- iii. 2016 Solid Waste Management Agency Financial Statements- Member Gonzales
- iv. 2016 Airport Annual Assessment - given to Member Sommer
- (v. 2016 AAA Annual Assessment - removed.)
- vi. 2016 Santa Fe Railyard Financial Statements - Member Borrego

Mr. Johnson asked why Civic Housing was included when the City has no control. The Committee discussed the topic.

Ms. Kerr read that it was primarily funded with federal and tenant grants and determined that the Housing Authority is not a component unit of the City of Santa Fe and the City is not responsible for the Housing Authority's debt as a result of a HUD release.

Mr. Johnson said he would look into that.

Chair de Schweinitz asked for the reports at the next meeting.

c. Volunteer for Lodger's Tax RFP Evaluations on 06/01/2017 and Interviews on 06/06/17

Chair de Schweinitz asked for a volunteer for a Lodger's Tax RFP and Insurance Conference for the CAFR. Member Gonzales volunteered to do the CAFR.

Ms. Kerr said the RFP proposal had gone out and Committee members had provided input.

Chair de Schweinitz suggested Member Sommer do the Lodger's Tax.

Member Gonzales thought there were two members in the entrance and exit conference on the CAFR. Member Borrego agreed she would go also.

Ms. Kerr added that the entrance conferences for BDD and SWAMA are on the same day and the audit committee members often stay for both. It was agreed that Member Sommer could also attend.

8. INTERNAL AUDIT MATTERS (Liza Kerr)

a. FYE 2018 Audit Plan (Item 12)

Ms. Borrego suggested sticking more to the plan. The details seemed more a job description than a plan of what would happen during the year. Page 3 stated a requirement was to present the plan and their rationale on how they developed their selections. She wanted to see what they chose and how they decided to choose that. She questioned if the Scope of Audits was needed.

Ms. Kerr offered to move information to the Audit Plan and remove the Scope of Audit. She explained she does have to follow standards and is subject to a peer review. She thought leaving in the number of staff and the number of hours would not hurt and would emphasize to City Council that it is just a department of one person.

Ms. Borrego said it was listed a couple of times under certifications and could be consolidated.

Ms. Kerr said it could be included in the cover letter and removed at the end to show that staff was qualified to do the audits.

Ms. Borrego suggested the cover memo be addressed to the Audit Committee and the City Council. She asked how the Committee would know that objectives were met after completion of the plan.

Ms. Kerr said she would discuss with the Audit Committee a set of predetermined criteria that gives objectives and how they did in meeting those objectives. She created an annual report in the past and tracked her hours daily and reconciled them quarterly and annually to compare the budget with actual.

Ms. Borrego said she is looking, for instance, if the GCCC audit was completed and if it carried over to this year.

Chair de Schweinitz said there should be more detail on the number of audits Ms. Kerr is doing. The audits listed are audits she will be working on and the final section seems it should be a third audit.

Ms. Kerr said she could take out the procurement piece. She wants to work on the physical security and then the building leases, permits and accounts payable audits. She thought her long-term objectives were not adequately reflected and is getting more concerned about procurement.

She said at a conference with the AG and State Auditor, she talked with Mr. Keller. He told her 40% of the procurement tested has misused the State Price Agreements. She was not sure whether to include procurement because it could have a broader reach than just the GCCC.

Member Gonzales asked if that should be a city-wide procurement audit rather than only GCCC.

Ms. Kerr said she finds that everything she looks at has applications greater than GCCC and the more she gets into it, the extent of the problem is broader than she thought and is all over the City. There are barter contracts and people get through the doors at GCCC, but the revenue or advertising expense is not recorded.

Ms. Kerr said she also wants to do surprise cash counts at sites that handle cash.

Ms. Martinez said "scope creep" can be a problem for everyone. She suggested in managing Ms. Kerr's time that she wrap up GCCC. Ms. Kerr and the Committee could discuss other similar problems when they come up and those priorities to provide a clear direction on what should be done.

Mr. Johnson suggested the priority be by objective first, and then location. The cash handling is completely related to an inconsistent decentralized system and computer programs that do not communicate with each other. People have developed different processes in the absence of things working. Finance is working on making the process identical, whether at Animal Control or Salvador Perez.

Chair de Schweinitz asked if Ms. Kerr should defer the procurement issue until next year.

Ms. Kerr thought she should because of the amount of time it takes. She wanted to finish the report on physical security and move on to building permits and licenses.

Chair de Schweinitz said he and Member Sommer looked at the first draft, which was more like a spreadsheet. The figures were too much and this is more into the substantive, narrative based and explains what Ms. Kerr will be doing.

Ms. Kerr said she wants to list the number of hours in her annual report that she spends on different tasks.

Chair de Schweinitz suggested there could be conversions in the annual report. He hoped Ms. Kerr would eventually combine some of the annual report into this report along the lines Member Borrego suggested in how objectives were fulfilled.

Mr. Johnson suggested Ms. Kerr meet objectives based on her risk analysis and adjustments would be no problem if resources are needed to address a concern. He wanted to augment some of Ms. Kerr's work with contracts and have someone else do surprise audits. The City should do those, not Ms. Kerr.

Ms. Kerr wanted someone to do a procurement audit and a data analysis, using tools that she does not have, like a Binford's Analysis that shows fraud indicators. Also, she mentioned that all vendors per resolution are required to be paid electronically, but the City is still not doing all vendors electronically.

Chair de Schweinitz suggested that just be the first sentence.

Member Borrego asked why Ms. Kerr did training. As an internal auditor, she should do what her focus is and let Ms. Martinez know when someone needs to be trained.

Ms. Kerr said it is a tool and part of her job. Her job is to do the initial audit and show her findings and this would test the efficiency or effectiveness of that tool and she could then pass that on to management.

Ms. Martinez agreed Ms. Kerr could pilot an analytical method or technique and make a recommendation, but not implement the training.

It was suggested Ms. Kerr remove the word "training" and say *advise management* and remove "procurement" and add under Other Audits, *as time permits*.

Chair de Schweinitz asked about having a budget for training the Committee members. He thought specifics about the auditing process would be helpful. He noted under the Fraud, Waste and Abuse Hotline that a policy should be developed with management to determine the significance of a complaint beyond the usual.

Ms. Kerr said when a hotline complaint meets certain criteria, email notifications are sent to six people. Lynette delegates complaints to those who should take action on them. Ms. Kerr said she is not involved in many.

Ms. Borrego said it appeared from the report that Ms. Kerr responded to all of the hotline complaints. She suggested she only list what she responds to. She asked if that is needed in her audit plan.

Ms. Kerr said she will review the report with a new perspective and reword it to be more specific.

Ms. Martínez offered to work with Ms. Kerr and provide feedback on the draft.

Ms. Kerr wanted the plan to be on the Finance Committee agenda Friday, if possible. She asked under page 4, 5, if the detail added value regarding risk factors. She thought it important to include something about how the plan is developed.

Chair de Schweinitz said the more stock language she could take out, the better it would be.

Mr. Johnson asked who approves the plan. Ms. Kerr replied it is presented to City Council and the Finance Committee per the ordinance, but not really approved by anyone.

Additional suggestions were: audit plan *rationale* instead of audit plan development; remove the bullet points and governance; and summarize basic overall rationale in one paragraph or in the cover.

9. UNFINISHED BUSINESS

There was no unfinished business.

10. NEW BUSINESS

There was no new business.

11. PUBLIC COMMENT – (5 MINUTES)

There were no public comments.

12. NEXT MEETING DATE: June 7, 2017

13. ADJOURNMENT

The meeting was adjourned at 4:12 p.m.

Approved by:

Clark de Schweinitz, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.