



Agenda

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**CITY OF SANTA FE AUDIT COMMITTEE MEETING  
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM  
Wednesday, November 1, 2017 - 2:00 P.M. to 4:00 P.M.**

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. APPROVAL OF AGENDA**
- 4. APPROVAL OF MINUTES**  
October 4, 2017 *(Item 1)*
- 5. EXTERNAL AUDIT MATTERS -**
  - a. Update of CAFR (External Auditor, Adam Johnson)
- 6. OTHER FINANCIAL MATTERS FROM THE CITY**
  - a. Report from the Finance Director Including Future Reporting Process to the Committee (Adam Johnson)
- 7. UPDATE ON STATUS OF PROPOSED REVISED COMMITTEE ORDINANCE**  
(Cheryl Somers and Clark de Schweinitz)
- 8. NEW BUSINESS**  
None at this time
- 9. PUBLIC COMMENT – (5 MINUTES)**
- 10. NEXT MEETING DATE**  
December 14, 2017
- 11. ADJOURNMENT**

Persons with disabilities in need of accommodations,  
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**CITY OF SANTA FE**  
**AUDIT COMMITTEE**

**November 1, 2017**

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

November 1, 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  
Barbara Borrego  
Al Castillo  
Carolyn Gonzales, CPA

**Members Absent:**

None

**Others Attending:**

Michael Harris, City Councilor  
Adam Johnson, Finance Director  
Renee Martinez, Deputy City Manager  
Neva Van Peski  
Karen Heldmeyer  
Mr. Tripp, reporter  
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**

Member Sommer asked to move Item 7 up on the agenda to accommodate Councilor Harris.

**Member Castillo moved to approve the agenda as amended with the change to Item #7. Member Borrego seconded the motion and it passed by unanimous voice vote.**

#### 4. APPROVAL OF MINUTES: October 4, 2017

Member Sommer noted the following:

Page 2, paragraph 7 second line: *"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"* was corrected to: "Mr. Johnson had identified red flags and wanted to ascertain whether those could be corroborated by a third-party expert".

In the last paragraph: *"...the audit on track and the ERP project; a significant finding of a major vulnerability..."* was unclear. To clarify the statement was changed to: "...the ERP needs to be done and is a major vulnerability".

Page 3, second paragraph, second line should read: *Finance will follow up on the findings and respond with...*

Page 4, two thirds down the paragraph is unclear as to what was being stated.

Member Gonzales recalled the discussion was the ERP had problems and were not sure how to address them and that was one of the findings from the report.

Mr. Johnson read the first sentence: *"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 of many different accesses"*. He suggested the language: "...resulting in roles of many different system accesses".

Ms. Martínez said they should be careful about their records to ERP and which one, the legacy system versus the new system. This refers to their current system and they have been using CDERP to suggest the modernized new software. She suggested language: "The City has a failed development of the current financial accounting system".

Member Borrego clarified that Ms. Martinez was saying that a big finding is that the City has failed the development of the ERP.

Ms. Martínez replied "Has failed the *implementation* of its current financial accounting system".

Chair de Schweinitz suggested Ms. Martinez or Mr. Johnson clarify distinctly between the CDERP and the current system so the record is clear.

Page 4, 8A, *"General disbursement NAT and the capital assets..."* is unclear what NAT is.

Chair de Schweinitz said that came from the internal auditor. Member Sommer suggested deleting NAT since no one knew what it was.

**Member Gonzales moved to approve the minutes as amended. Member Borrego seconded the motion and it passed by unanimous voice vote.**

Discussion on Minutes:

Member Sommer addressed Ms. Martínez and explained one reason the minutes are passed out in advance is so members can make changes and the minutes are accurate. She explained the way the City takes minutes is that the Board has a set of minutes and at the next meeting gives Carl the changes, which do not get interlineated into the minutes. If a citizen pulled the minutes from the last meeting they would not be aware of changes made at this meeting. Technically the Board approves changes made at this meeting at their next meeting and if the changes are not right, it seems the minutes are never accurate in the City record. She wondered why that process is not permitted.

Ms. Martínez she was not sure it was not permitted and is a valid question about transparency and draft minutes versus final minutes. She asked if the revised minutes were ever posted in the Finance Committee.

Chair de Schweinitz said Committee Rules do not say they cannot do what they did today before the meeting.

Carl Boaz offered to explain his process. He takes the minutes and then listens to the recording and transcribes the minutes as accurately as possible. What he has been doing with this Committee, because of what Member Sommer indicated is a problem for the Audit Committee's need to be accurate, is send a draft with his numbers on it to Liza Kerr. Liza asks members to comment if they find errors and return those errors to her and she then gives him the comments. He incorporates the corrections into the minutes before they are submitted to the City Clerk, but the process is not according to the City Clerk's directive.

Ms. Martinez offered to take this back to the City Clerk and City Manager. She thought what Carl was doing was not a problem unless there is a requirement that the request for revisions must happen in a committee meeting. That is probably not the case, but she would clarify the policy and procedure and bring that back to the Committee.

Member Sommer thought that seemed a better process to get a document the public could read. The changes made today will never get into those minutes.

Mr. Boaz replied the changes would be reflected in next month's minutes.

Member Sommer pointed out they would be in a different document and this document will always be inaccurate and unclear unless you know to go to the next meeting, etc.

Ms. Martinez thought the minutes should always clearly be marked as a "draft".

Chair de Schweinitz said the minutes are not marked draft, but the Committee always assumed they were.

Mr. Boaz added that the County has asked stenographers to resubmit a corrected set of minutes, which is what goes on their website.

Member Sommer thought that could be a solution or to wait to approve the second set of minutes, because it makes more sense to have a corrected set.

Councilor Michael Harris thanked them for asking the question because without knowing the mechanics, his assumption was that the corrected minutes were what were posted.

Chair de Schweinitz noted the auditor was not present. He suggested moving to Item 7 if there were no objections.

#### **7. UPDATE ON STATUS OF PROPOSED REVISED COMMITTEE ORDINANCE (Member Sommer and Chair de Schweinitz)**

Councilor Harris informed the Committee of his conversation with Member Sommer and Chair de Schweinitz a few weeks ago. They had explained to him they have the same concerns as in the Finance Department and the Governing Body and made suggestions about the role of the Audit Committee. He has discussed the suggestions with Kelly Brennan, the City Attorney.

The Mayor's role has to do with abolishing the internal auditor position, but his thought is more along the lines of creating a more powerful, independent Audit Committee. Those two efforts have come together in this ordinance.

He asked the Finance Committee to postpone consideration brought forward by Councilor Maestas' proposed resolution that would put a ballot question to voters in March as to whether an office of inspector general is needed.

Councilor Harris explained that he and the majority of the Finance Committee agreed that the discussion should go hand in hand and they are addressing a systemic issue that would be addressed in different ways. He described three elements: is it appropriate / necessary to have an internal auditor and if not, the need to turn to an external auditor. And then greatly enhance the role and responsibilities of the Audit Committee in terms of who they report to; and finally is the Office of the Inspector General.

He thought the discussion should occur simultaneously. Currently they are still on separate tracks and the idea is to put the various committees on a similar track, but they are not quite there. Both the ballot question and the ordinance will go to City Council on the sixth of December.

Member Gonzales added to the Councilor's comments that a Committee concern has always been the independence. They need for the internal auditor, department, etc. to be independent from the City to be effective and there should be a separate path they take in communication and accountability.

Councilor Harris clarified that he did not believe Member Sommer and Chair de Schweinitz had said this needs to be done because of any current situation or a particular personality, it was just a matter of best practice.

He had not discussed this a lot with other members of the Governing Body, but it is a question, as much as possible, of tracking them side by side.

Chair de Schweinitz noted that just that morning he had seen the article about the Mayor's desire to abolish the internal auditor position and it colored their discussion somewhat. He said Member Sommer worked on a re-draft to get more focus to determine whether the Audit Committee was working on issues they could actually influence.

Councilor Harris added that Kelly Brennan had taken all the parts and pulled them together and he reviewed her draft. He made one comment and that is what the Committee was reading.

Chair de Schweinitz confirmed the Councilor was open to comments on the ordinance today.

Member Castillo was concerned about having these things going on with the inspector general and the internal audit functions. The Council does not have the time to study in-depth and the Committee does not have the time or ordained for that purpose. It seems City Administration, the City Manager's Office, Finance and Legal Staff could put together something more cohesive for everyone to see the pros and cons of having the two entities as part of the City and to what degree they should be independent.

They talk about independence as being important and, yet they must be employed with the City and that is not a lot of independence. Also it recently surfaced that contractors would do the internal auditing and there is some cost analysis that must be done with that. Generally contractors are more expensive than staff. There was not enough effort in getting fundamental questions addressed and the Committee and Council is supposed to make decisions.

His discomfort is that he does not know enough about what the City's needs are and seems there are people in Finance, Administration and Legal that could do a study and make it comprehensive for those who must make the decisions.

Councilor Harris addressed the cost issue and thought what Mr. Castillo was asking was how the various threads would get woven together, if at all. He agreed an external auditor would cost more than a single internal auditor, but he heard McHard stated that a City of this size, activities and revenue streams, etc. should have an internal auditor department of 3 or 4 individuals to do the job. His view is that whether it is an expanded, more robust internal auditor group or external auditor, they should anticipate it will cost more.

His inclination was to get a more robust response immediately because they would bring in experienced external auditors who would work as a team and divide their responsibilities. They could produce more valuable results than just having one or a couple of auditors.

Mr. Johnson agreed but thought the challenge would be dependent upon the scope of a more robust internal audit function or an out-source function, and that could change. He gave an example of something he thought was needed - a top to bottom analysis and an ongoing inventory and report on all the internal controls throughout the City. That is key to this group and those who do the actual work. It could be a large scope in the beginning and become smaller over time.

They could do some fundamental analysis and functions above the cost, but until they get there they will not know what is needed and how much that will cost.

Mr. Johnson continued that from the perspective of enterprise risk management the organization has far-reaching arms. If they just focus on financial internal controls, which he recommends taking off the list first, they would have all types of other internal controls City wide with the different departments that over time would all need to be assessed.

*The auditor arrived at 2:30.*

Ms. Martínez said she has been supporting the internal auditor for a period of time and agreed they need to be clear on the scope of the responsibilities. She has seen times where the current internal auditor had too much to do and other times not enough to do. One benefit of an outsourcing model – maybe not completely outsourced; there could be one internally and one outsourced – is that they could expand and contract as the workload prescribes.

They need to be clear about the responsibilities of an internal auditor. The McHard Report and other expectations mentioned that the internal auditor establishes and implements policies and procedures. She asked if that was really the expectation or did they just call out the absence of, or the deficiencies of the current policies and procedures and then those go to other parts of the City to get done.

Member Castillo asked who she suggested to do the scope.

Ms. Martínez replied she always tries to discuss what the needs are with management from the historical perspective and what is in front of them. They could also talk to other cities about best practices around how they had organized their internal audit function, but there should be an assessment of needs, of resources and then alternatives to satisfy those needs so they could suggest the best model for Santa Fe.

Member Borrego commented that she was glad to see the change on page 3, item I which seemed to put a lot of responsibility on the Audit Committee [reading]: *“review and make recommendations to the Finance Committee regarding the City’s financial policies, procedures, practices, internal controls”*. That is a lot for a very part-time Audit Committee and she was glad that was revised.

The Committee is supposed to meet quarterly but meet monthly and she has questioned how the Committee could go in to look at the City’s internal controls. It is impossible.

Councilor Harris asked if the revisions were consistent with what their draft had in mind.

Chair de Schweinitz thought they were consistent but had some thoughts. First the ordinance talks about the independence of the Committee and the issue of how much independence an internal or contract auditor has is still an open question. He was concerned about what that would look like down the line.

On page 2, an independent Audit Advisory Committee - (b) is very helpful. There are two parts - page 4 under the Appointment of the Committee at the bottom of page 3, *with the advice and consent of the Governing Body* - even before he and Member Sommer began work on the revisions he did a revision and



took it to Ms. Brennan.

He has always been worried that if you want the judge to make this appointment, you want the City Council, the Governing Body to have the right to say no.

Chair de Schweinitz said he had included language: "*appointed by the municipal judge with the confirmation by the Governing Body*", which may raise other issues. This is the only City committee mentioned in the City Charter, so it has a stronger shield from political influence than most committees. The Committee has never had a problem with the appointments they made, but in the long run they want this Committee to be appointed in a more distancing way from the Governing Body and the Council.

Councilor Harris agreed he did not know of another committee with an involvement of a municipal judge.

Chair de Schweinitz added, also the Chairperson on page 4, with "*the approval of the Governing Body*" he again thought they would want to use "confirmation". That would create a separation from the Committee's function and its independence.

Councilor Harris offered to bring that up with Ms. Brennan.

Member Sommer suggested that was the initial chairperson and they were long past that and future chairpersons would have no involvement of the Governing Body. They probably do not need the statement.

Chair de Schweinitz agreed. The Committee was always unsure how to implement that provision in the initial audit ordinance but never had the wherewithal to investigate like they later had to do.

Councilor Harris thought it important in any group, to create something that was not designed to fail. In line with what Mr. Johnson and Ms. Martinez talked about, they should work through this now in terms of the discussion and come to a head by the sixth. Then move forward and look at the roles and responsibilities of what they really need and develop a process acceptable to the Committee that does not create such a burden that they cannot do the job.

Chair de Schweinitz thought the Chair had worked to focus the Committee's work on just working with audits. The Committee gets audits to review and gives comments that are done by either Liza or the external auditor. Then they go to the Finance Committee to discuss further if there were real issues, which is not very often. The Committee is here to look at audits.

Member Sommer thanked Councilor Harris. She found his draft was consistent with what they had given him. She noted a couple of specific provisions under 6.52 (a): "*to ensure that all audits conform to the generally accepted governmental auditing standards*". The Committee had discussed how they could carry out the provision as drafted and determined the best they could do was to conclude that the auditor who presented the report confirm that to them in the report. The draft language said, "*ensure that the internal auditor certifies*", and it would not be internal now, but it would be whoever prepares it certifies to the City that they conform.

Councilor Harris said that made sense and writing his own contracts as a construction manager, he never wanted to ensure.

Member Sommer continued that the other discussion at some length was in terms of gaining the greatest independence; what their interaction should be with City Staff, i.e. the City Manager's office. They took out *reporting/consulting with the City Manager* in a couple of places but that has been put back into the draft. The Committee thought that would enhance their independence - to go directly to either the Finance Committee or the Governing Body.

Councilor Harris indicated he had discussed that with Ms. Brennan and she felt that a critical role of the City Manager was to be aware of what is going on and why she put the City manager back in. The Governing Body wants to hear the opinion of the Audit Committee and they can discuss the issue with the City Manager, the Finance Director and Ms. Brennan to see if appropriate.

Member Sommer said that may make sense, but when the Committee discussed how they do their work that includes reviewing an audit and coming up with suggestions and where to take it, they discussed the most appropriate would be for the Chair of the Audit Committee to go directly to the Chair of the Finance Committee. She thought Councilor Harris when discussing this with Ms. Brennan could conclude that as the most direct route. The City Manager would ultimately become informed, but that would leave no opportunity for interference.

Councilor Harris thought that was legitimate and needs to be talked about.

Chair de Schweinitz concluded he had no problem with Mr. Johnson as their liaison, but the same issue is there; whether the Committee should have a liaison. He did notice the Committee Rules allow for secretarial help and getting ready for this meeting he panicked about getting the agenda done. Ms. Martínez stepped in and did the agenda in about fifteen minutes. That is the kind of assistance the Committee sometimes needs. He added he did not want to burden Ms. Martínez, although she said, "any time".

Councilor Harris agreed the support is important.

Ms. Martínez said they could determine if Celeste or someone from the Finance Division or administrative support could be available to support the Committee.

Mr. Johnson suggested they leave the Finance Department out of it to remove the perception of a relationship with the auditor. It would be healthier to hold Finance, along with the other departments accountable to all of these things. Other committees have been assigned to Finance and if they drop the ball on one thing people think they are trying to prevent something from happening. He would not want that to be the public's perception.

Councilor Harris thought that was a fair request and offered to talk with Ms. Martínez.

Member Castillo thought it important in the matter of staffing is to have technicians who understand finance rather than a secretarial or administrative assistant. His only caveat is someone who understands debits

and credits that can interact with the Committee. He leaned toward having some reliance from Finance because it is important to the process.

Ms. Martínez clarified that the Committee wanted assistance that is more than a representative from the Finance Division attending the meetings.

Member Castillo thought it should be as needed and not a regular assignment. This is highly technical work but if the person does not know much about debits and credits it does not help much.

Councilor Harris saw this as two different roles and two different individuals.

Ms. Martínez agreed and thought not many of the administrative staff is even at the basic level of accounting. Celeste sets up the budget for the internal auditor but that is different than having to clarify an accounting question related to an audit.

Mr. Johnson asked if they should include language that compels the Finance Director they need to attend at least quarterly and it would become fluid once they have a permanent reporting process.

Member Gonzales replied at this time of the year they want Mr. Johnson at every meeting when the external auditor is here. And it is important that a higher level in the Accounting Department participates with the Committee more so than a lower level, because there are technical questions that are critical.

Mr. Boaz noted that Helene Hausman used to give the quarterly investment report and Andy Hopkins gave the budget report.

Chair de Schweinitz said he hoped the Committee's ideas helped Councilor Harris.

Councilor Harris replied he will organize the information and put it into one statement and give to the Committee and Ms. Brennan and if needed, they could discuss it as a group. He had no problems with what was being discussed and the most substantial would be the discussion of the role of the City Manager.

**5. EXTERNAL AUDIT MATTERS (Revised Agenda Order)**  
**a. Update of CAFR (External Auditor, Adam Johnson)**

Mr. Jeff Roybal contacted Laura, the engagement director, and she joined the meeting telephonically.

Mr. Roybal reported on the progress of the audit: progress had been made in the substantive and single audit areas. They recently received the client adjusting journal entries which will update the trial balance as it relates to the audit. The updated schedules will be tested against that after the journal entries are inserted.

A draft for testing purposes should be complete by November 13 and aligns with the implementation of case ware on the finance side. They will then progress with testing and once that wraps up it will go through

a detailed review by he and Laura, a principal review and then a quality review in their office. The plan is to deliver by December 15, 2017.

Anderson Consulting is working with them and has been helpful with the schedules they provided. Their discussions have been positive, and Anderson has been very willing to help and has done a good job to create some of the schedules for them to test against.

Mr. Roybal stood for questions.

Chair de Schweinitz confirmed that they have the current information they needed.

Mr. Roybal said they are and have all the client adjusting journal entries to date, which gives them an updated trial balance to test against.

Member Borrego asked about the items missing as far as questionnaires, etc. and if all of that was received.

Mr. Roybal confirmed they have received it and he talked with people at utility billing to walk them through the process and received their updated schedules.

Chair de Schweinitz noticed an article in the New Mexican last week where Mr. Johnson had asked for more time for the Anderson group. He inquired as to whether the time was needed for other things than the CAFR, or if there is an issue of needing more of Anderson's time to get ready for the CAFR.

Mr. Johnson replied it was both. Anderson will continue to work on the audit as a top priority until they get it turned over for the draft of the statements. Then Anderson will shift to other work until there are more adjusting entries and/or findings. They will definitely be involved in that but currently the request for additional budget or amendment to the contract for additional monies addressed the CAFR and to keep Anderson working through November.

Councilor Harris noted the Finance Committee approved being on the Council agenda on the eighth.

Member Gonzales said the Committee's next meeting is December 14. She asked if Mr. Roybal would be ready to discuss at that point, or if there would be a separate exit conference with the group.

Mr. Roybal was not sure if they would discuss the timeline for the exit conference yet, but at that time they should be in the final quality review process or close to submitting. When closer they would have to give the Committee an update on when the exit would be and that would be when they would present the results of the audit.

Member Castillo noted the delivery date is to the State Auditor.

Member Sommer asked if the City is allowed to see the results before the audit goes to the State Auditor.

Laura clarified that City personnel and City management and those charged with governance may see the audit, but they may not disclose the audit or any of its contents to the public until officially released by the State Auditor's Office.

Member Sommer asked if the Committee is permitted to have an executive session at their next meeting where the audit could be presented to them before going to the State Auditor.

Laura confirmed the next meeting date was December 14 and should align with using that as the exit conference date. If there is potential of quorum or the meeting is subject to the Open Meetings Act, the Committee would need to be sure to get the executive session on the agenda, so auditors could go through the full exit with the Committee. That includes discussion of matters that should not be disclosed to the public at that time.

Member Sommer was not sure for what purpose a committee could go into executive session and they would need to look at that to see if this is one of those reasons.

Laura replied if they determine that an executive session is not possible, a member of governance could attend the exit conference so there would not be a quorum.

Member Gonzales noted that had been done in the past with two members of the Audit Committee and staff and one member of the Finance Committee. The Committee will clarify their role and whether they could do this in executive session and if not, that is probably the way they will need to do it.

Laura said the timing of the second week in December is preferable and gives them time for a second review process. They would appreciate the Committee keeping that date in mind if their calendar allows.

Chair de Schweinitz mentioned in the past that the last meeting was usually to tell them the audit would go in on time and that is what they hope to hear on the fourteenth. The Committee has a flexible interpretation from Legal that they could get updated reports etc., but what was not covered is if the Committee could hear the findings before the audit goes to the State Auditor.

Member Sommer believed they could in an exit conference or an executive session, as long as it was not public.

Chair de Schweinitz said the Committee hopes to see them on the fourteenth.

Mr. Roybal and Laura departed the meeting at 3:04 p.m.

## **6. OTHER FINANCIAL MATTERS FROM THE CITY**

- a. Report from the Finance Director Including Future Reporting Process to the Committee (Adam Johnson)**

Mr. Johnson mentioned he had no handouts but would repeat some of his conversation with the Finance Committee. He hoped to strengthen the future reporting processes between Finance and the Audit Committee and continue reporting the quarterly financial report. On the processes with the CAFR and the additional work in the financial system by the Anderson team in addition to the ERP project, they have developed a matrix as to how the ERP addresses the many issues found in the McHard Report.

He proposed to bring that regularly to the Audit Committee and the Finance Committee to show how the various modules check off the problems. Also developing the comprehensive internal control framework and identifying what is in place and not in place and reporting that to the Committee is ultimately a good relationship between the Audit Committee, the Finance Department and all departments.

Mr. Johnson provided an example that in the December Finance meeting they will bring forth a matrix of all work completed to date by Anderson as well as work proposed with the time it will take and cost. He proposed the same report on the Finance Committee agenda regularly also come to the Audit Committee moving forward.

In the same spirit following this year's CAFR audit, they would begin a process to report to the Committee on how they will resolve findings and the timeline for that during the year, rather than at the moment when the new CAFR comes out.

Member Borrego was happy to hear that. She asked if Anderson was involved in the whole process of looking at the City's internal controls because of the McHard; or what was happening with the internal controls process and policies.

Mr. Johnson replied that a lot of the internal controls will be addressed by the ERP. They want to understand how on accounts payable for instance, how something got to what it is and at those processes. They will also make recommendations; one is to have a unified directory for saving all the documents in the system and a common nomenclature for naming files. That is critical because they will need access to certain information to verify the processes or transactions and need addition/deletion, security rights, etc. within the system. Those are the kind of control items they will recommend.

Councilor Harris showed Ms. Borrego the scope attached to amendment #1 that had been approved by the Finance Committee. He invited her to read that and pass it around.

Member Borrego asked how the McHard firm is involved.

Mr. Johnson said they are not involved at the moment. The report was completed, and they have been available for questions, but they state their work stands on its own and do not respond to all types of questions. If there is a point where there are recommendations for a specific forensic accounting analysis, he may recommend using them for certain aspects of a project. They are very specialized and expensive and other firms like CLA could be engaged and provide more economies of scale. It will depend on the findings.

Member Gonzales thought that could still be a process that turns into some forensic potential.

Mr. Johnson said potentially and then whether a RFP or quote is required or a proposal, etc. depending on the level of speciality. One could make the case that it is an exempt procurement. They would want to be careful, but multiple audit firms could do that kind of work.

Mr. Johnson said possibly as the new auditor, Jeff Roybal and his team gets comfortable, it will help them understand the City's processes in the future and an opportunity to work with them on other projects.

Chair de Schweinitz asked given the background of the McHard Report and the hiring of Anderson, what happens if - and in relation to the audit they have for CAFR, which is a separate outfit - what happens if Anderson spots fraud. He asked if they would report that to the CAFR.

Mr. Johnson indicated Anderson would report to him and he would report to the auditor.

Chair de Schweinitz said he felt he should not ask Mr. Roybal questions because they are in a difficult position during the CAFR, given the background and that there is another big accounting firm involved.

Mr. Johnson said they don't share their level of materiality, so they do not know what that is. It could be low or more alert to risks than generally, but the City staff and Anderson could look at that when they see the results of the audit. Anderson has their own test work and a materiality level different than management and would test at very high numbers when looking at the general fund or across bigger funds. At management level it would be down to the transaction and possibly the auditors might be comfortable, and he would not be. He could report reasons why he is not, and both would be fair assessments.

Member Gonzales asked if Anderson would be available either at the exit conference in addition to the external auditor, or to this Committee.

Mr. Johnson replied similarly to the way they will report to the Finance Committee, he thought they would be happy to report to the Audit Committee. He does not expect them to be at the exit conference because at the moment they are an extension of staff and here almost every day.

Mr. Johnson thought whatever they report to the Finance Committee would be okay to report here.

Chair de Schweinitz asked if Finance would hear this in open session. He was told they would.

Mr. Johnson said they would take their own third party independent approach to the way they report. He has been transparent and asked them to let him know if they see something opposite than what he saw. They have many years of experience and the City is fortunate to have them help.

Chair de Schweinitz said it had been decided with the ordinance there would not be an internal auditor, but a sourcing-out of the internal audit functions. He questioned how that would be worked on from an independent standpoint and thought it ambiguous about the internal auditor position being City staff. He thought the peer review would find the position was not independent because it is City staff. He expressed concerns about the outsourcing of a City contract with Finance having control over it.

Mr. Johnson replied ultimately the Governing Board would have control.

Chair de Schweinitz agreed, but from a practical standpoint Mr. Johnson and the Finance Committee would.

Mr. Johnson thought it would depend on the review of the scope and if it comes through the Audit Committee and then to Finance Committee. He had the same concern that management could somehow influence the scope and is not looking at things that should be. The benefit would be that the external and internal approach would have liability, which will help the process.

Councilor Harris said as a member of the Governing Body of course they would be fair and above board, etc. and if that is not the case... Councilor Maestas would make the argument that would be the role of the inspector general and he has pointed to Albuquerque's office of inspector general as a model for Santa Fe to replicate. That is a response that the Committee may hear.

Ms. Martínez asked if Albuquerque also has an internal audit function and if they have both they could research the different responsibilities between the OIG and the internal audit.

Chair de Schweinitz was happy to see the word *management* was not used and that the Audit Committee would not be managing the outsourced contract. That raised concerns how the Committee as non-staff, volunteers could manage a big contract. They are not managers.

Member Sommer noted in the draft paragraph 6-5.2 (d) states the Committee "*will review and recommend for approval to the Finance Committee the annual internal audit plan*". That is the where the independence would come from rather than staff controlling what goes in and where the cost is controlled, and risk assessments are made. The details are not there, but there is enough language to address the issues raised about those things.

Ms. Martínez clarified that Member Sommer was thinking conceptually there would be some sort of risk assessment by an internal auditor that comes to the Committee to consider and adopt an audit plan. The Committee would be the only one that could change the plan.

Chair de Schweinitz agreed that was what the Committee always thought; they should go back to the Finance Committee because they have the ultimate authority to change the audit plan.

Councilor Harris summarized his task is direction from the Audit Committee to propose language changes and there are 3 elements. The first is rather than advise and consent, *confirmation* is suggested, and the chairperson language is moot. Second is the role of the City Manager in the ordinance and third is the reporting function on a quarterly basis from the Finance Department / Finance Director.

Chair de Schweinitz agreed. Underlying is the potential impressions about independence, but they should move forward for now.

## **7. UPDATE ON STATUS OF PROPOSED REVISED COMMITTEE ORDINANCE (Cheryl Sommer and Clark de Schweinitz)**



The Update was previously discussed.

## **8. NEW BUSINESS**

There was none.

## **9. PUBLIC COMMENT**

Chair de Schweinitz welcomed the visitors in attendance.

Ms. Neva Van Peski said she is a member of CIAC (Capital Improvements Advisory Committee). The major function is to make recommendations to Council on expenditures from the City Impact Fees Fund. When land is developed the developer pays impact fees to the City that goes into four separate accounts; Fire, Police, Parks and Roads. The fees are supposed to offset a proportionate share of infrastructure cost that new development imposes on the community.

The New Mexico Development Fees Act specifies a procedure to ensure impact fees are fair and not excessive and are spent only on growth related projects. A step in allocation is a review of the request for funds by the CIAC which would then make a recommendation to City Council. To do their job CIAC must know the amount of money in each of the funds and lately this has been a problem.

Earlier in the year Reed Liming, the staff person responsible for impact fee fund allocations, noticed that each month there was money taken from each fund; the same amount each month but a different amount for each fund. In three of the funds the amount seemed to be calibrated to the size of the account and was designed to move about ninety percent of the account out over the year. In the Roads account which contains the most money, the monthly deduction was over \$104k a month. For the Police account the amount taken was only \$10,579 a month. The Fire account was the exception where the amount removed each month would have drained the account in six months.

Mr. Liming pointed this out to Mr. Johnson and curiously according to a partial printout in the Roads account, money taken out in the first nine months of the fiscal year (July 2016 to March 2017) was restored, but the same monthly deductions of \$104k continued to be made. Later the deductions made in the last three months were also restored.

Mr. Liming has been told that money has been restored to the other accounts as well, but neither he nor personnel in the Finance Department have been able to document that.

The Committee sent a letter yesterday to the City Manager asking for an investigation. She is here to inform the Committee of what is happening and ask the Committee to take whatever action they consider appropriate.

Mr. Johnson offered to respond, but preferred to do some of the response in writing. He is aware that the impact fee funds can be used only for projects deemed for growth purposes, but needs to review and confirm the language "approved by the Committee". He has not reviewed the purpose of the CIAC or its authority with regard to City Council, but all the transfers were approved as part of the CIP by City Council. The reason they see an amount per month is because they budget a transfer for the whole amount for the year and allocate on a month by month and it occurs in twelfths for the year.

They want a closed loop with the CIP where all the sources and uses across all types of revenue, whether impact fees, GO Bonds, GRT bonds, etc. equal the same. If a million dollars of sources, it is a million dollars' worth of uses and they want to capture the entire thing.

One issue with this was a process breakdown in the list of projects that were approved by CIAC versus the total CIP, which is intended to capture all projects including the impact fees. Everything on the CIP that is impact fee funded should be exactly the same as what is on the list kept by Mr. Liming.

Mr. Johnson noted to date he has never received a submission (of all the projects approved) from Mr. Liming and was told that was given to his predecessor. That reconciliation needs to take place to ensure the CIP reflects the list approved by CIAC.

Two things then happened; from a budgeting perspective they decided the impact fees would go from the Impact Fee accounts through the CIP Reallocation Fund via a transfer and then to the approved project accounts, the capital accounts.

He said Mr. Liming caught that and indicated a preference for the funds to go directly to the approved project capital accounts. They then reversed all the transfers back to the Impact Fees to remain until the project is ready. That is the process he intends to ensure happens in the future. He agrees in the case of Impact Fees they should just remain in the Fund until ready to be transferred directly to the project.

He asked if Jan Snyder, Deputy Fire Chief had presented to CIAC.

Ms. Van Peski was not sure. She said she hasn't mentioned the \$77,000 but talked to Mr. Liming and it wasn't something that needed to come up.

Mr. Johnson said that is an example of a project they should ensure is on the CIAC list. The Fire Department attested that the work being done on Fire Station #6 is for growth reasons and Impact Fees are being used to fund \$77,000 of the \$215,000 total.

Ms. Van Peski pointed out there is a process to go through that is specified in State law. The CIAC has real estate developer representation that is required by state law and for that reason CIAC must approve those things and make sure the Impact Fees are not just exactions.

Mr. Johnson concurred, but will need to see a reconciliation between the State law interpretation and the Governing Body's abilities to appropriate the funds.

Ms. Van Peski explained the CIAC was only recommending that City Council appropriate the funds.

Mr. Johnson thought they were talking about the same thing - a change in process that occurred. He offered to show her a full accounting of the funds and the recommendation of the transfers and what had been restored. He recommended having someone from his budget office attend the CIAC meetings, not just Mr. Liming and for Mr. Liming to no longer keep his own Excel spreadsheet of Impact Fees. The amount in the accounting system is the funds available.

Ms. Van Peski replied she would like to see the accounting system line items as well, but when she added up the amounts removed every month in 2016/2017 and the big amount was \$1,144,000 that went to South Side Transit Center, if you add \$104,000 times 12 coming out every month it comes to more than that. And there is an extra \$9,000 a month removed. That is not the process Mr. Johnson just described.

Mr. Johnson replied he would have to pull the records to see the activity.

Ms. Van Peski continued that also in 2015-2016 an amount was pulled out every month of \$625 that was never restored, and she did not know what that was.

Mr. Johnson offered to figure that out. The transfers tie to each other and cannot just float around. He offered to provide a report generated by their financial reporting system that shows where all of it went. There could still be issues that need work, potentially, but the work he did on the Impact Fees has nothing to do with using the fees for anything other than their intended legal purpose.

Ms. Van Peski explained she was not accusing anyone of using it for whatever; she just did not know what happened to the money.

Mr. Johnson offered to work on the report and present that to both her committee and the Audit Committee.

Councilor Harris added that from the perspective of the Governing Body her use of the word *investigation* implies that something is going on. He thought Mr. Johnson provided a thorough response and should do the work he described and present to CIAC. He added he has more confidence in Mr. Johnson's numbers than Mr. Liming's.

Ms. Van Peski shared the documents she had with Mr. Johnson. His responded that did not come from him. She expressed confidence that Mr. Johnson would take care of this.

Ms. Heldmeyer commented that for those who did not know Ms. Van Peski is not just a member of the CIAC, she is a retired economist at the Federal Reserve and a person who found many interesting things in the government budgets in the past. The most notable being the finding that the County collected money for the SFCC but never gave the money to the college.

Ms. Van Peski corrected Ms. Heldmeyer; she actually found that the Committee on Higher Education was not calculating the property taxes for the community college correctly.

Ms. Heldmeyer said secondly, they talked a lot about Open Meetings and an audit is not one of the named exceptions. There could be a loophole and they should run that by the attorney if it is specified somewhere

else. The ACT itself does not require anything to be considered in executive session, but gives exceptions stating what you may consider. That is something they should check with Legal on.

**10. NEXT MEETING DATE - December 14, 2017**

**11. ADJOURNMENT**


**Member Gonzales moved to adjourn at 3:36 p.m. Member Castillo seconded the motion, which passed by unanimous voice vote.**

Approved by:



Clark de Schweinitz, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.