



Agenda

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CITY OF SANTA FE SPECIAL AUDIT COMMITTEE MEETING
Wednesday, November 29, 2017
3:30 p.m. – 5:30 p.m.
200 LINCOLN AVE – CITY COUNCIL CONFERENCE ROOM

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. APPROVAL OF AGENDA**

- 4. NEW BUSINESS**
 - a) Request for Approval of a Resolution Authorizing the Placement of a Question on the Ballot of the Regular Municipal Election, to be Held on March 6, 2018, To Ask the Voters of the City of Santa Fe Whether or Not the Santa Fe Municipal Charter Should be Amended to Include a Provision to Establish an Independent Office of Inspector General for the City of Santa Fe. (Councilor Maestas)(Renee Martinez)

 - b) Request for Approval of a Resolution Directing the City Manager to Develop a Plan to Outsource the Functions Currently Performed by the Internal Audit Department in Accordance with Said Recommendation Within 60 Days of the Adoption of this Resolution. (Mayor Gonzales and Councilor Harris)(Kelley Brennan)

 - c) Request for Approval of an Ordinance Repealing Section 2-22 SFCC 1987 Internal Audit Department in its Entirety; and Amending Section 6-5 SFCC 1987 to Charge the Audit Committee with the Management of an Independent Audit Contract to Perform the Functions Currently Performed by the Internal Auditor. (Mayor Gonzales and Councilor Harris)(Kelley Brennan)

- 5. PUBLIC COMMENT – (5 MINUTES)**

- 6. ADJOURNMENT**

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CITY OF SANTA FE AUDIT COMMITTEE
November 29, 2017

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3. APPROVAL OF AGENDA	Approved as presented	1
4. NEW BUSINESS		
a. Charter Ballot Amendment Resolution	Did not recommend approval	2-5
b. Out source Audit Functions Resolution	Recommended with amendment	5-8
c. <i>Repeal of Audit Department Ordinance</i>	Recommended with modifications	8-9
5. PUBLIC COMMENT	None/Discussion	9-10
6. NEXT MEETING DATE:	December 14, 2017	11
7. ADJOURNMENT	Adjourned at 5:05 p.m.	11

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

November 29, 2017
3:30 p.m.

1. CALL TO ORDER

A regular meeting of the City of Santa Fé Audit Committee was called to order by Member Cheryl Sommer, on this date at approximately 3:30 p.m. in the City Council Conference Room at City Hall, 200 Lincoln Avenue, Santa Fé, New Mexico.

2. ROLL CALL

Roll call indicated the presence of a quorum as follows:

Members Present:

Clark de Schweinitz, Chair [telephonically later]
Cheryl Pick Sommer
Barbara Borrego
Al Castillo
Carolyn Gonzales, CPA

Members Absent:

Others Attending:

Jesse Guillen, Legal Staff
Michael Harris, City Councilor
Adam Johnson, Finance Director [arriving later]
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 Gonzales moved to approve the agenda as presented. Member Borrego seconded the motion and it passed by unanimous voice vote.

4. NEW BUSINESS

a. Request for Approval of a Resolution Authorizing the Placement of a Question on the Ballot of the Regular Municipal Election, to be Held on March 6, 2018, To Ask the Voters of the City of Santa Fe Whether the Santa Fe Municipal Charter Should be Amended to Include a Provision to Establish an Independent Office of Inspector General for the City of Santa Fe. (Councilor Maestas) (Renee Martínez)

Councilor Maestas and Renee Martínez were not present for this consideration.

Member Gonzales had concerns at this point. She was not sure or would not support the resolution, based on the fact that there are other things that need to precede this resolution, such as the next resolution.

Member Castillo pointed out that there has been very little discussion on this.

Member Gonzales noted that Councilor Maestas came a few meetings ago and mentioned it.

Chair Sommer clarified that what he mentioned was about the Park Bond Audit.

Mr. Guillen said Councilor Maestas did propose establishing an Office of Inspector General two years ago, and it was not approved by Council. Time is the issue now with a deadline to get items on the ballot.

Member Castillo asked what the overriding concern is for Inspector General.

Councilor Harris said Councilor Maestas is making the case regarding possible fraud within the ranks of City Hall. Part of that is in response to the McHard report and a reminder that it is a fraud risk assessment. They are quick to say that there is an extremely high risk of fraud but that is not a legal opinion. Questions have come up in the past.

There are three approaches. If we have an internal auditor, questions are raised about effectiveness. The Committee has seen the statement from the Association of Local Government Auditors. It makes the case for an internal auditor, that there was not enough time for peer review and that her efforts were channeled elsewhere and the CFE designation was not helpful. Basically, it makes a case for Ms. Kerr.

We can talk about whether to abolish that role and use an external audit company and that is not to discover fraud. The Office of Inspector General has three missions. It was Councilor Maestas who made arrangements for David Harper to help.

Councilor Harris said he met with Mr. Harper and didn't know how many others did. He liked Mr. Harper. He came out of being an Inspector General in the Air Force and it had been his whole career.

He is quick to say that in his own office, the Inspector General has three staff and the Internal Auditor has six, and he still feels under-staffed. He recommended to start with three people for the City of Santa Fe Audit Department for both Internal Auditor and Inspector General. We would be the smallest city in the country to have an Inspector General, if that is approved.

Mr. Harper suggested 0.5% the General Fund would be needed for budget. The City's General Fund is \$91,634,000. That means 0.5% would be \$458,170. Albuquerque has twice the number of staff in Internal Audit as in the Office of Inspector General.

Member Castillo asked what the budget is for the Internal Auditor now in Santa Fe.

Councilor Harris didn't have that information. McHard was asked how many the City would need for a fully functioning Internal Auditor Department. Their answer was 3-4 people.

Councilor Harris noted there would also be vehicles and office space and tools of the trade to be part of the budget besides personnel.

Member Castillo said it would be benefits for staff also.

Councilor Harris agreed. He posed the question what it costs for an external auditor to come in. He estimated it would probably be no less than \$450,000.

Member Gonzales said obviously, having an Office of Inspector General and an Internal Auditor would increase what is needed for the budget.

Councilor Harris said probably 4-5 people. David Harper says he doesn't have the resources to do what needs to be done. Those three individuals might encompass both functions - 2 for Internal Auditor and 1 for Office of Inspector General.

Member Gonzales presumed that would not be separate departments.

Councilor Harris said in Albuquerque, they office side by side and have a collaborative effort but he didn't know to what degree.

Chair Sommer asked if the City would need a modification to the charter to have an Office of Inspector General or if the Internal Auditor Department could perform the functions of an Inspector General.

Councilor Harris thought that would not necessarily be the scope of an Internal Auditor. They would turn over fraud to a forensic accountant.

Chair Sommer asked why the scope of work couldn't be defined by whatever setup we have for them to do.

Councilor Harris said Mr. Harper told him there are three different routes to get to Inspector General. He likes the charter approach which Baltimore does. But it could be by ordinance or by executive order. Albuquerque doesn't have a charter, so they do it by ordinance or executive order which is obviously easiest.

Chair Sommer asked to whom Mr. Harper reports.

Councilor Harris said Mr. Harper didn't say. He passed around Mr. Harper's card and thought he might come to Santa Fe to meet with the Committee.

Chair Sommer pointed out that the Finance Committee needs to make their decision before the 13th and we need to have a recommendation. She understood the difference in functions as fraud vs. internal controls and other issues.

Member Gonzales said that was her understanding.

Councilor Harris said the IG also is an inspection function. Investigation is one. He shared an article published in Journal North just before he met with Mr. Parker that said Albuquerque is doing a poor job on ADA. He said the mission is three-fold - mostly fraud and criminal behavior but inspections are also a large part of what they do.

In today's Journal, it was reported- the Air Force Inspector General is looking through personnel files at people like Lewis who killed a lot of people in a church and didn't get flagged in the system. So the Inspector General is digging to see how many have been missed.

Councilor Harris understood the Association makes a case for Ms. Kerr. He urged caution in pursuing this. Chair Sommer and Member de Schweinitz met and offered changes that reinforces their independence and authority and he thought that was appropriate. The Committee was working on this issue before McHard without any of these other developments. They are now joined in one ordinance. To start, it would be increasing the authority and independence of the Audit Committee, no matter whether we have an Internal Auditor or Office of Inspector General or both. That will be his position at the Finance Committee.

Member Borrego thought the Committee should talk about Internal Auditor functions. She was not sure about Office of Inspector General function. She did her own research on the Internal Auditor's Department elsewhere and contacted a small local government in Petersburg Virginia with about 40,000 population. They just started using an external audit firm for Internal Auditor functions. In her research, she found that only about 9% of cities use an external auditor for Internal Auditor functions. So it is not very common. She talked with the Finance person in Petersburg and he said they felt they were getting better quality of work, more expertise. He thought it would be better on the budget, too.

Member de Schweinitz joined the meeting at 4:04 and Member Gonzales caught him up on the meeting progress.

Member Borrego said Petersburg budgeted \$90,000 to out-source the audit function and would be comparable but probably will have to increase the budget because it is requiring more time there. The downside is that they did not feel the external auditor was getting a good understanding and had to be guided by the finance person on what they were going to audit.

Councilor Harris agreed that an internal person would have greater familiarity with functions and is a

point the Association made.

Member Borrego found another article about cost. Their findings were that it could possibly cost ten times as much as their regular audit. It could be substantially much more expensive. The other issue was locating a qualified local vendor. She didn't know of any local firm that does that. They also suggested co-sourcing with a city employee and hired external company to co-function. She concluded that they need more information.

Member Castillo commented that the tension between internal and outsourcing will always be there. It is self-evident that it will be more expensive. He wondered if the charter would prohibit hiring an external auditor. The ordinance now proposed does not mention an external auditor.

Chair Sommer said the proposed ordinance is only for an external auditor.

Member Castillo said the cost may be prohibitively higher without benefits.

Member Borrego said she had not made an opinion either way. But if it isn't working, why not try the approach.

Councilor Harris said the only thing he was really comfortable with is expanding the powers for this Committee. The way this is written gets rid of the internal auditor position and instead of a relationship with Internal Auditor, it would be with an external auditor. He related his attendance at a conference of the National League of Cities Convention in Charlotte, North Carolina, and met David Izraelevitz, who chairs the Los Alamos County Council and just does politics now as a retired person. He said they have an external auditor that reports to the Audit Committee. The City Manager should be in that loop. All the members of their audit committee are on the Governing Body and don't have the expertise our Audit Committee members have. He thought being independent is more important.

Member Borrego said Petersburg has them come once a month and bring 3-4 people. So more people are involved.

Member Gonzales did the internal side research and contacted Las Cruces and Doña Ana County and talked to the Audit Department at Las Cruces. They have four people and do not have an Inspector General. Their reporting is interesting. They have no audit committee and report to the Assistant City Manager and administratively to the City Manager. So, there is no apparent independence. They have four people on staff for the internal audit function. She did not talk about budget but could contact them again.

Mr. Johnson came into the meeting at 4:16.

Member Gonzales said they just established an Audit Committee at Doña Ana County. A staff member told her that they just established an Internal Auditor and the Committee within the last month. He sent the charter that established it. They talked quite a while. He is the only internal auditor for the county. They have 215,000 population. The committee is independent but appointed by the Board of County Commissioners. They don't have an Office of Inspector General. They have an Internal Affairs Office which

is also legal counsel. Everything goes through the committee first and then to the Board. Any question of integrity is communicated to the County Manager, Board and Committees. So far, (very new) it has worked out well.

One of our Committee's biggest concerns is the independence issue. That is something we've toyed with for a long time.

Councilor Harris agreed. That is the starting point. There are lots of arguments to be made on both sides. He agreed with their advice to proceed cautiously. We can work on strengthening the independence with the same descriptors which would be more in line with the Committee's proposal. It strengthens and still has the reporting function to sort out. We still have an Internal Auditor now. He was hearing the Committee say there are arguments financially to keep up with what is going on in the Finance Department with the internal function. Some of the other issues related to External.

Mr. Johnson said the City usually pays \$100,000 to \$140,000 for the CAFR. He considered it high for the size of Santa Fe. The challenge is about scope. You could dig and dig and look to determine what the priority and objective is. From everything we've learned, the comprehensive structure needs to be put in place. An Internal or External structure understands the framework and goes through each step but that can't be done in a year or maybe even three years. So, he put the cost in context with what is to be done. Investigation is different.

Chair Sommer was not in favor of an Office of Inspector General for the reason he just said. She didn't think we know we are there yet. We don't have an internal comprehensive control set up. The Committee should clear up the independence issue and keep flexibility to do whatever is next after the controls are in place. And then, not only figure out how much money and what the structure is, but how the structure would function after it is in place.

Member Castillo understood this Committee needs to say yea or nay on both resolutions.

Councilor Harris said not necessarily, but they are looking for a path forward. He would like to have whatever comes out of this Committee to be expressed to the Finance Committee at their meeting.

Chair Sommer said she was not in favor of Councilor Maestas' resolution. The ordinance that abolishes the Internal Audit Department is appropriate at this time and then fix the structure of the internal audit.

Member Castillo asked if the Committee could say no the recommendation of putting the Inspector General issue on the ballot.

Chair Sommer said she was a no and Member Gonzales is a no.

Member Castillo asked if this is locking out an employee of City government.

Chair Sommer agreed and said that needs to be modified. We are not in favor of the ordinance as it is written to the extent that it excludes the option of an Internal Audit Office where there is not a single employee left.

Member Castillo favored having the ordinance include the possibility of an Internal Auditor employee and keeping the Internal Audit function. With only 9% using an external audit, that tells me something.

Councilor Harris mentioned to Mr. Johnson that the Committee members have looked at the Association memo and want to proceed cautiously. So perhaps having it in-house or a co-sourcing function.

Member Borrego and Member Gonzales agreed.

Member Castillo said he would convey that to the Finance Committee.

Member Gonzales asked if the Committee would want to actually dissolve the Internal Audit Department if it is changed to add co-source. She asked if this resolution is to abolish the department.

Chair Sommer said the Committee doesn't know the status of Ms. Kerr.

Councilor Harris said sometimes he has to bite his tongue. HR issues have rules and the smart thing for him is to stay out of it.

Councilor Harris asked if we could say that because we have now have heard from McHard, that for a City of our size, 3-4 people would be appropriate. Personalities aside, it is designed to fail with one person and might be a hiatus for that department.

Councilor Harris asked if Mr. Johnson had talked with David Parker.

Mr. Johnson said he had not.

Councilor Harris said Mr. Harper said the starting point should be 3 people. Albuquerque has 9. And a rule of thumb is one-half percent of General Fund budget and that would be about \$450,000. He didn't think the City could abolish and then co-source. We need to pursue the co-source and he had no idea what the personnel issues are, but we don't need a lawsuit.

Member Gonzales said they could then re-evaluate the whole structure of the Internal Audit Department.

Member Borrego asked Mr. Johnson if he knew of any firm that would participate in co-sourcing.

Mr. Johnson said McHard doesn't do it. Probably, there would be interest from the big four or three accounting firms in Albuquerque. Moss Adams, but probably not Clifton. But someone of that size.

Member de Schweinitz asked what the Committee should report to Finance on Monday.

Chair Sommer said it is important to emphasize independence and we think there is work to be done at the City for a comprehensive internal control structure before deciding the function of Internal Auditor and take whatever action now would allow most flexibility, whether an employee, outsource, or a combination.

Member de Schweinitz pointed out that the City is going through a lot with the McHard report and perhaps we should allow that to be worked out to decide what we need. Maybe we should emphasize the risk management more with policies and procedures for the department to function on its own and to implement the McHard report first.

Councilor Harris didn't see it as implementing McHard. They did their job and made specific recommendations, but we are not implementing the McHard report. He agreed that a lot is going on. He mentioned to Mr. Johnson earlier today, bringing up the status report on implementation of the ERP. He talked to Councilor Lindell about a corollary of what issues in McHard will be addressed by the steps that were anticipated over the last year and a half. It is still not complete until the end of June. He said all the members of the Governing Body want that update.

Mr. Johnson added that we must understand the framework is not just business applications and right access by staff in the system. It is from the Audit Committee, the Governing Body and the Division Directors about how the City operates and is developed outside of the business processes. As we move forward, it is how that fits into maintaining the ERP in light of the election and hopefully people would stay in place after the election. Without continuity of leadership, they all fall down over time.

Councilor Harris said that is fair. He and Councilor Lindell talked about that. She said when she was elected, it was six months of stagnation. He saw that as part of his role to carry on.

MOTION: Member Castillo moved to recommend delay to the Governing Body - to not put this matter on the ballot; to not approve the resolution to put it on the ballot. Member Gonzales seconded the motion and it passed by unanimous voice vote. Member de Schweinitz did not vote because he was not physically present.

- b. Request for Approval of a Resolution Directing the City Manager to Develop a Plan to Out source the Functions Currently Performed by the Internal Audit Department in Accordance with Said Recommendation Within 60 Days of the Adoption of this Resolution. (Mayor Gonzales and Councilor Harris) (Kelley Brennan)**

MOTION: Member Gonzales moved recommend approval as amended adding "out-source or co-source the functions of the internal auditor."

Chair Sommer asked Mr. Guillen if that was an appropriate motion.

Councilor Harris said he could cosponsor the amendment.

The Committee realized there were several versions.

Chair Sommer said the first one was just to abolish the internal audit department. The second one was the one the Audit Committee requested Councilor Harris to sponsor with the amended language that the Audit Committee would participate in the selection of the internal auditor contractor.

The Committee is in favor of the resolution that says, "to develop a plan to outsource..." We are in favor of that because it mandates that the City Manager outsource the function.

Councilor Harris said the Committee needs to respond to the language saying the department is abolished - to strike that part, or he would work with Mr. Guillen on a substitute resolution.

Mr. Guillen explained that the agenda was out of order.

Councilor Harris read the be it resolved language as it would be amended to say, "... outsource or co-source the functions solely performed" and would strike "in accordance with the recommendation."

Councilor Harris will work with Mr. Guillen to prepare it.

Mr. Guillen said he thought it could be done for Finance.

Member Borrego seconded the motion and it passed by unanimous voice vote.

- c. Request for Approval of an Ordinance Repealing Section 2-22 SFCC 1987 Internal Audit Department in its Entirety; and Amending Section 6-5 SFCC 1987 to Charge the Audit Committee with the Management of an Independent Audit Contract to Perform the Functions Currently Performed by the Internal Auditor. (Mayor Gonzales and Councilor Harris) (Kelley Brennan)**

MOTION: Member Borrego moved to recommend approval of the ordinance with a modification to remove the language about removing the internal audit function. Member Gonzales seconded the motion and it passed by unanimous voice vote.

6. PUBLIC COMMENT

There were no public comments.

Councilor Harris had some comments. At the last meeting, Neva Van Peski gave a statement of concerns with the Capital Improvements Advisory Committee. Mr. Johnson spoke to it briefly at that meeting and he asked that the Audit Committee put it on their agenda for discussion, the memo that Mr. Johnson already wrote to the CIAC that addressed those specific issues.

The other comment was about the Animal Shelter.

Member Gonzales said the Committee did get a copy of that audit.

Councilor Harris said the genesis was that Elise presented Ms. Nancy Jimenez, the Financial Director for the Police Department. She made a case of the lease with the animal shelter And, like most of the

leases, it required an audit every three years. So, he asked the status. Ms. Jimenez said she had never seen one. The result was that she probably got on it right away. He wanted the Audit Committee to really look at it because it is a lot of money. Their net assets are \$17 million, with \$5 million in revenue last year. But they showed a loss with sales of assets to compensate for it. He explained that he was not saying there is anything wrong. But the lease is a lot of money. Some of it has to do with collection on Lodgers' Tax.

Chair Sommer asked what the City's relationship is with the Animal Shelter.

Mr. Johnson said it was with both the County and the City.

Chair Sommer asked if the Committee wants to have someone explain that relationship or review the audit at the next meeting.

Mr. Johnson suggested they do like with the Railyard, to make a list of questions.

Member Gonzales proposed inviting the Director of Finance for the Animal Shelter to the next meeting.

Member Castillo asked who was to report on the Buckman audit. The Committee tabled that.

Member de Schweinitz said the Committee realized it was a couple of years old and needed to determine if that issue is still relevant.

Councilor Harris said he is an alternate to the Buckman Board and they have a new finance person. Perhaps the Committee could have a conversation or dig a little deeper.

Mr. Johnson said they are part of the external audit

Member Gonzales asked to add Buckman to the next meeting on December 13th.

Councilor Harris said Council meets that day.

Member Gonzales said Member de Schweinitz could attend.

Member Gonzales will invite Laura Parker for the Animal Shelter.

Member Borrego thought it would be better to make a list of questions first and then plan to have her come in January.

Chair Sommer said the Committee is supposed to receive the CAFR at that meeting also. They were going to come and talk about the audit.

Mr. Johnson reminded the Committee that it should be executive session. It cannot be made public yet.

6. NEXT MEETING - December 14, 2017 at 2:00

7. ADJOURNMENT

The meeting was adjourned at 5:05 p.m.

Approved by:

Clark de Schweinitz, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.