



CITY CLERK'S OFFICE
Agenda DATE 7/26/17 TIME 11:22a
SERVED BY Liza Kerr
RECEIVED BY [Signature]

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
Wednesday, August 2, 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**
July 12, 2017 (*Item 1*)
6. **CONSENT CALENDAR**
 - a. External Audits - Completed Audits within the Last 4 Years with Open Findings (**Liza Kerr**) (*Item 2*)
 - b. External Audits - Schedule and Status (**Liza Kerr**) (*Item 3*)
 - c. Internal Audits - Completed Audits within the Last 4 Years with Open Findings (**Liza Kerr**) (*Item 4*)
 - d. Internal Audits - Schedule and Status (**Liza Kerr**) (*Item 5*)
7. **REVIEW OF FINANCIAL REPORTS AND OTHER FINANCIAL MATTERS FROM CITY**
None at this time
8. **EXTERNAL AUDIT MATTERS -**
 - a. Discussion of Audits reviewed by committee:
 - i. 2016 Buckman Diversion Project Financial Statements (**Clark de Schweinitz**)
 - ii. 2016 Civic Housing Authority Component Unit Financial Statements (**Al Castillo**)
 - b. Update of CAFR (External Auditor, Adam Johnson)
9. **INTERNAL AUDIT MATTERS (Liza Kerr)**
 - a. Discussion of Use of Sub Committee
10. **UNFINISHED BUSINESS**
None at this time
11. **NEW BUSINESS**
None at this time
12. **PUBLIC COMMENT - (5 MINUTES)**
13. **NEXT MEETING DATE**
September 6, 2017
14. **ADJOURNMENT**

Persons with disabilities in need of accommodations,
contact the City Clerk's office at 955-6520 five (5) working days prior to the meeting date.

SUMMARY INDEX
CITY OF SANTA FE AUDIT COMMITTEE

August 2, 2017

ITEM	ACTION TAKEN	PAGE(S)
1. CALL TO ORDER		
2. ROLL CALL	Quorum Present	1
3. APPROVAL OF AGENDA	Approved as amended	1
4. APPROVAL OF CONSENT CALENDAR	Approved as presented	1
5. APPROVAL OF MINUTES - July 12, 2017	Postponed	2
6. CONSENT CALENDAR	Listed	2
a. External Audits - Completed within the Last Four Years with Open Findings		
b. External Audits - Schedule and Status		
c. Internal Audits - Completed within the Last Four Years with Open Findings		
d. Internal Audits - Schedule and Status		
7. FINANCIAL REPORTS FROM CITY	None reported	2
8. EXTERNAL AUDIT MATTERS		
a. Audits reviewed by committee:		
i. 2016 BDD Financial Statements	Presentation/ Discussion	2-3
ii. 2016 Civic Housing Statements	Presentation/ Discussion	5
b. Update of CAFR	Discussion with External Auditor	3-4
9. INTERNAL AUDIT MATTERS		
a. Discussion of Use of Sub Committee	Reported by Ms. Kerr/Discussion	5-7
b. Restructuring Annual Reports	Approved as presented	7-8
10. UNFINISHED BUSINESS	Discussion on Lodgers' Tax Audit	8
11. NEW BUSINESS	Discussion on False Alarms Reduction	8
12. PUBLIC COMMENT	None	9
13. NEXT MEETING DATE:	September 6, 2017	9
14. ADJOURNMENT	Adjourned at 3:53 p.m.	9

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

August 2, 2017
2:00 p.m. – 4:00 p.m.

1. CALL TO ORDER

A regular meeting of the City of Santa Fé Audit Committee was called to order by Mr. Clark de Schweinitz, Chair on this date at approximately 2:00 p.m. in the Convention Center Administrative Conference Room, Santa Fé, New Mexico.

2. ROLL CALL

Roll call indicated the presence of a quorum as follows:

Members Present:

Clark de Schweinitz, Chair
Barbara Borrego
Al Castillo
Carolyn Gonzales, CPA
Cheryl Pick Sommer

Members Absent:

None

Others Attending:

Liza Kerr, Internal Auditor
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

Discussion of restructuring annual reports was added to Item #9, Internal Audit Matters.

Member Castillo moved to approve the Agenda as amended. Member Gonzales as seconded the motion, which passed by unanimous voice vote.

4. APPROVAL OF CONSENT CALENDAR

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

5. APPROVAL OF MINUTES:

July 12, 2017

The correct spelling of CPA, Eun Hong's name was provided.

The minutes for July 12, 2017 were postponed until the next meeting.

6. CONSENT CALENDAR

- a. **External Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr)**
- b. **External Audits - Schedule and Status (Liza Kerr)**
- c. **Internal Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr)**
- d. **Internal Audits - Schedule and Status (Liza Kerr)**

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

Adam Johnson was not present at this time.

8. EXTERNAL AUDIT MATTERS

- a. **Discussion of Audits reviewed by Committee:**
 - i. **2016 Buckman Diversion Project Financial Statements (Clark de Schweinitz)**

Chair de Schweinitz reported on the project statements from June 30, 2016. The audit was an unmodified opinion and a joint City/County entity that has its own Board. Page 11 states that management did not provide the management discussion and analysis letter required. The auditor said although they did not have the letter, it had no effect on their opinion.

Chair Schweinitz thought the Committee should follow-up. Member Gonzales pointed out it may not have an effect on the *financials*.

The disclaimer language was disconcerting. The auditors were not willing to comment on the internal control, financial reporting or compliance, or the effectiveness in how management wants to make corrections.

Accounts Payable has over \$630,000 and seems high in relation to other figures. It is questionable whether an allocation of over \$200 million to business activities and only \$195,000 to government activities, is appropriate.

Member Castillo asked if there was a letter about their Board being a separate entity. Chair de Schweinitz replied that was not included.

- The repair line item at \$178k might be insufficient for an emergency fund.
- Also it would be wise for their attorney to address potential litigation that could affect their financial statement.

Ms. Borrego noted that the audit requires the attorney to have a legal representation letter stating if something in a litigation matter is going on, but that would not be in the financial statement.

Ms. Kerr added there would be a footnote when someone is sued and there is a contingency. She offered to check whether there were MD&A statements from prior years.

- The depreciation of over \$24 million seemed high to the Chair, but Ms. Kerr found the amount logical if the depreciation was accumulated and Mr. Castillo agreed.

Chair de Schweinitz suggested another member look at the audit and for the Committee to consider whether to invite the RPC auditor or executive director to a meeting.

Member Gonzales suggested the Committee meet there. Ms. Kerr offered to contact Mackie Romero and determine whether the visit needs to be posted.

Member Borrego said there were loose ends from the audits and follow-up seems to get dropped and there are questions that the Finance Committee might be concerned about.

Chair de Schweinitz and Member Sommer agreed answers should be provided at the next meeting or by email.

Members discussed the process and whether after review, this should move forward to Finance or the Committee should wrap it up.

Member Sommer was concerned the Committee was not in a position to make a recommendation to Finance based on what they had heard and the questions left unanswered. The matter should remain with the Committee until they were ready to make a recommendation.

Member Gonzales suggested Adam Johnson provide answers at the next meeting.

Chair de Schweinitz agreed and suggested the list of unanswered questions be sent to Mr. Johnson.

b. Update of CAFR (External Auditor, Adam Johnson) [out of agenda order]

The Committee members introduced themselves followed by Mr. Jeff Roybal, Auditor, who introduced himself and Laura Beltron-Schmidt, who was also on the phone.

Chair de Schweinitz explained the Committee wanted an update and to hear about any issues.

Ms. Beltron-Schmidt said initially they scheduled planning for the week of July 23, but now the assessment and control work is planned the week of August 6, 2017. Auditors received on-site training for the system July 31st that will enable them to access the needed information.

Still pending is the completion of their internal control and the forms that will help them understand City operations and internal controls in their walk-through. Also pending is items from the City's audit plan that will help with the audit and testing procedures.

Member Gonzales asked what the year-end close looks like for the CAFR completion date.

Ms. Beltron-Schmidt replied it was too early to say, but she did not expect that to be a problem. They were able to recover the time quickly and did not have to push the dates for their substantive work, which is scheduled the end of August or early September.

Member Gonzales asked if they had received documents on the PBC (Prepared by Client) schedule.

Ms. Beltron-Schmidt replied the week of the 23rd is the deadline for the return of the internal control questionnaires and there are some questions, but to date nothing has been received. All of their communications have been sent to Teresita with copies to Adam, Becky and Casper.

Ms. Kerr asked that the Committee be kept in the loop if they get too far behind. She offered to check if Brian wants to be emailed directly.

Ms. Beltron-Schmidt indicated the report is due December 15th, but their goal is to submit by November 30 to the State Auditor. She did not foresee any impact to the deadline at this point.

Ms. Kerr said she has not received a questionnaire regarding open audit findings, etc. that she typically receives. Ms. Beltron-Schmidt explained that auditors prefer to meet with her in person.

Chair de Schweinitz invited Mr. Roybal and Ms. Beltron-Schmidt to the next meeting, if available.

Ms. Beltron-Schmidt thanked the Committee and offered to keep them informed. She will notify Ms. Kerr immediately if they have concerns. She has talked with Mr. Johnson and expressed their desire to stay on track in the future so he is aware.

Committee members suggested Ms. Kerr follow up with Ms. Beltron-Schmidt on Monday to ensure she received what was needed and if not, the Committee should take action.

ii. 2016 Civic Housing Authority Financial Statements (Al Castillo)

Member Castillo said the goal of reporting is to be as comprehensive as possible and the GASB 14 authority is the Committee's guide. He suggested the Committee consider ongoing [communication] with the Housing Authority.

Member Castillo expressed concern regarding the letter from Melville Morgan. He read the characteristics related to the City's jurisdiction: *'by popular election of officers or the appointment of a controlling majority'*. Research should be conducted on how the assets are held and reverted back to the City/County/State, etc. All are factors to consider when determining a component entity.

He suggested the Committee keep the issue alive. There are good rules for how to do eliminations and extract from entities dealing with themselves. He gave an example of the City wanting to make buying water from the Water Authority a component. To say these are not component entities is okay for now, but at some point the Committee might want a CAFR that gives a bigger picture.

Ms. Kerr noted the literature has a lot of leeway in the City considering whether to include something as a component unit or not, given the criteria.

Member Castillo thought the tendency is to sever the entity when there is a chance to do that, but questioned if that was the right thing to do. He offered to continue his conversations with Ed Romero (the head of Housing) and others at the City.

Ms. Kerr pointed out the letter by Mr. Morgan states if the checklist shows that none of the criteria comply, it is not a potential component unit, but questions 1 and 2 are both "yes" which contradicts what he said.

Mr. Castillo took issue with that and thought although neat and simple, it was possibly wrong.

Chair de Schweinitz said Judith Amer said it was not a component unit. He offered to check with Kelly Brennan in Legal.

Member Castillo said currently there is not enough data or research to counter Mr. Morgan's conclusion. The issue is bigger than it appears and too big to resolve in a meeting and the auditor should explain their determination. He offered to work with Ms. Kerr on the issue.

9. INTERNAL AUDIT MATTERS

a. Discussion of Use of Sub Committee

Ms. Kerr explained that Chair de Schweinitz had asked her to provide updates of different audits during the meeting and she did not feel comfortable sharing the details in a public meeting. That had been a function of the subcommittee and she had found them useful. She questioned however, if the Audit

Committee wanted the subcommittee to be involved in that way.

Chair de Schweinitz noted the subcommittee had reviewed a lot of Ms. Kerr's ongoing work. They want to be sure they follow up on findings, but let the external auditors and Ms. Kerr do their work.

Member Gonzales thought it more appropriate to have Renée as Ms. Kerr's direct supervisor, be more involved.

Ms. Kerr explained that she reports to Renée administratively, but Renée is not her supervisor. She has responsibility for her own work and receives input, but is not supervised by anyone.

Member Sommer asked if the ordinance states Ms. Kerr reports to the City Manager.

Ms. Kerr explained she has not reported to the City Manager since Renée came on board and reports administratively, but never to the extent of her substantive work or evaluation.

Member Sommer read from the ordinance "*review applications for and make recommendations to the City Manager for hiring of the Internal Auditor, a City employee*". She added that the copy she had of the ordinance stated "*The Governing Body established the Internal Audit Department, an independent City department of City Government reporting to the City Manager, which shall oversee the Internal Auditor and the functions thereby established*".

She said the language did not include the word "administratively," although that may be the practice and would make sense. She asked if Ms. Kerr's position was created after the Internal Audit [department].

Ms. Kerr said she started in 2012 and the original ordinance relating to the Audit Committee was replaced in 2013.

Member Sommer was trying to determine if changes were needed for things to work better and address issues that came up. That is not Ms. Kerr's responsibility to do that on behalf of the Audit Committee. The Committee should determine how to get support from the City with issues.

Ms. Kerr added that as the Staff Liaison for the Audit Committee going to staff on issues the Audit Committee has is part of her responsibility.

Ms. Sommer said Ms. Kerr has commented on the amount of time it takes as liaison. The question is whether that is an appropriate use of Ms. Kerr's time and if the City could supply other support to the Committee.

Ms. Kerr's time is spent in a monthly meeting with the Audit Committee in addition to two meetings with René. It is appropriate for her to report at the meetings, but not to take the brunt of the work. The external auditors that report to the City should report to the Committee.

Ms. Kerr had documented the time she spends on the Audit Committee; 131 hours last year.

Ms. Sommer read from the ordinance "*The Internal Audit Department shall serve as the primary liaison to the Committee unless otherwise designated by the City Manager*". If the Committee is taking too much of Ms. Kerr's time it might be appropriate to say they need someone else to do some of the work. She read from the ordinance "*depending on the issue, other City Staff may also be required to assist the Committee*".

Ms. Kerr added that the Internal Auditor is typically the liaison to the Audit Committee.

Members discussed the role and responsibility of the subcommittee and the use of time.

Chair de Schweinitz thought it could be good to have Ms. Kerr's work be separate and work with her as the Committee does with other auditors. He suggested the discussion be continued at the next meeting.

b. Restructuring Annual Reports

Ms. Kerr explained the Annual Report has to be issued within 60 days of year-end and had to be on the agenda for this meeting to get it on the Finance Committee agenda. She referenced Attachment #1 with the official, approved audit plan and time variances.

The report helps her plan and is a tool to determine how many hours an audit will take and shows where her time and resources were spent. The attachment on the Hours Allocation Report shows time estimated versus the actual hours required.

She explained some of the hours and allocations of time. She recognized the need to focus more on tracking findings and follow-up and will make that stronger next year. The Hours by Category is close to the estimated times.

- The Knighton Award received by the Internal Audit Department was included in the report to ensure the Governing Body is aware of the award.
- The Troy and Banks contingency audit is mentioned also and the amount of money recouped this year is \$28,453.27 since started.
- The year was the most productive for audit reports; 4 reports were completed and attributed to the teammate software that helped her work more efficiently.
- All of the annual reports were included for the Committee, but for the Governing Body will state: "*available upon request*".
- On Open Findings, the format was a result of a conversation with the facilitator of a City conference who suggested putting the number of findings versus the number of open findings and percentage of cleared findings. She hopes to replace two of the reports on the consent calendar with this format.
- A repeat finding means the finding continues to happen every year. Many of the Lodger's Tax findings were similar and so were not counted as repeat findings.

Members discussed un-cleared findings and made suggestions.

- It is important to have follow-up on findings and that departments know there will be follow-up.
- A deadline is needed so the Committee can bring findings that have not cleared to the attention of the Governing Body and suggest they take action. Other City employees should resolve the issues of the un-cleared findings. It is incumbent that the Governing Body ask why, if the issues are not

resolved.

The Committee agreed on the format and made the following suggestions:

- Adding a column for findings that require long-term resolutions.
- Removing the columns and rows that have only zeros in the spreadsheet on attachment #1.
- Consolidating all leave into one column.

Member Gonzales moved to approve the Annual Report as presented. Member Sommer seconded the motion, which passed by unanimous voice vote.

Ms. Kerr noted changes to the Cash Handling Report: The date was corrected to April 15, not April 16 and the pages are listed; finding #5 was missing *cause and effect* and was added; Internal Audit where spelled out has been changed to *IA*, Parks and Recreation to *Parks* and Finance Department to *Finance*.

Ms. Kerr noted several responses received from Parks had to include her response. The Committee confirmed she could continue to work with Robert and remove her comments once they get adequate responses.

10. UNFINISHED BUSINESS

Member Sommer asked if the Lodger's Tax Audit has moved forward. Ms. Kerr offered to follow up on the status.

Member Sommer said, as part of the audit process, a list of hotels, motels and short-term rentals (STR) are sent a request to document the accuracy of what was paid. The Committee discussed what to do if there is no response is received and Barracrough, the prior audit firm, elected to take no further action and write up the lack of response in its report.

Member Sommer suggested the City's money might be better spent if it hired a company to determine the number of people that are subject to the tax who are not paying. The City should be more aggressive in that area and the Lodgers Tax ordinance could be amended to include penalties for noncompliance. She suggested the Committee consider the issue.

11. NEW BUSINESS

Member Sommer said her bill from the False Alarm Reduction Program is paid to a Denver company and she wondered how much the City receives and if the program is or should be audited. She plans to send an email to Mr. Johnson.

Ms. Kerr explained the audit is on PSC, the company that bills people who have a false alarm. The report is on her website.

12. PUBLIC COMMENT

There was no public comment.

13. NEXT MEETING DATE: Wednesday, September 6, 2017

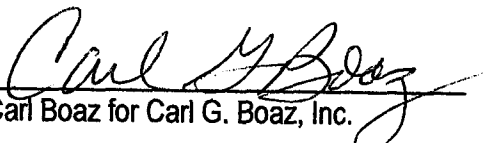
14. ADJOURNMENT

The meeting adjourned at 3:53 p.m.

Approved by:

Clark de Schweinitz, Chair

Submitted by:


Carl Boaz for Carl G. Boaz, Inc.