



# Agenda

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**CITY OF SANTA FE AUDIT COMMITTEE MEETING  
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM  
Wednesday, July 12, 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**  
June 14, 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 Financial Statements (**Al Castillo**)
    - iii.* 2016 Airport Annual Assessment (**Cheryl Sommer**)
    - iv.* 2016 Santa Fe Railyard Financial Statement Presentation (**Richard Czoski, Executive Director**)
  - b. Lodger's Tax (**Cheryl Sommer**)
  - c. Entrance Conference for External Auditors (**Carolyn Gonzales, and Barbara Borrego**)
- 9. INTERNAL AUDIT MATTERS (Liza Kerr)**  
Presentation of GCCC Cash Handling Performance Audit (*Item 6*)
- 10. UNFINISHED BUSINESS**  
None at this time
- 11. NEW BUSINESS**  
None at this time
- 12. PUBLIC COMMENT – (5 MINUTES)**
- 13. NEXT MEETING DATE**  
August 1, 2017
- 14. ADJOURNMENT**

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**SUMMARY INDEX**  
**CITY OF SANTA FE AUDIT COMMITTEE**  
**July 12, 2017**

<b>ITEM</b>	<b>ACTION TAKEN</b>	<b>PAGE(S)</b>
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3. APPROVAL OF AGENDA	Approved as presented	1
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a. External Audits - Completed Audits within the Last Four Years with Open Findings		
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ii. 2016 Housing Financial Statements	Al Castillo reported	5
iii. 2016 Airport Annual Assessment	Cheryl Sommer reported	5
iv. 2016 Railyard Financial Statement	Presentation by Mr. Czoski	2-5
b. Lodger's Tax	No report	2
c. Entrance Conference for External Audit	Reported	2
9. INDEPENDENCE ISSUES AND ORDINANCES		
a. GCCC Cash Handling Performance Audit	Discussion	5-8
10. UNFINISHED BUSINESS	None	8
11. NEW BUSINESS	None	8
12. PUBLIC COMMENT	None	8
14. NEXT MEETING DATE:	August 2, 2017	8
15. ADJOURNMENT	Adjourned at 3:45 p.m.	9

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

March 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  
Barbara Borrego  
Al Castillo  
Carolyn Gonzales, CPA  
Cheryl Pick Sommer

**Members Absent:**

**Others Attending:**

Liza Kerr, Internal Auditor  
Adam Johnson, Finance Manager  
Richard Czoski, Railyard Manager  
Kim Han, Railyard Accountant  
Renee Martínez, Deputy City Manager  
Mr. Rob Carter, Parks Director  
Ms. Christina Keyes, Treasurer  
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**

Chair de Schweinitz suggested amending the agenda by moving 8 iv - Railyard to go first and spend time on Ms. Kerr's report.

Ms. Kerr said the next Audit Committee meeting is August 2.

**MOTION: Member Sommer moved to approve the agenda as amended. Member Gonzales seconded the motion and it passed by unanimous voice vote.**

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

**MOTION: Member Sommer moved to approve the Consent Calendar as presented. Member Borrego seconded the motion and it passed by unanimous voice vote.**

#### **5. APPROVAL OF MINUTES:**

June 14, 2017

**MOTION: Member Gonzales moved to approve the minutes of June 14, 2017 as presented. Member Sommer seconded the motion and it passed by unanimous voice vote.**

#### **6. CONSENT CALENDAR**

- a. External Audits - Completed Audits within the Last 4 Years with Open Findings (Liza Kerr)
- 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**

Mr. Johnson had nothing to report.

#### **8. EXTERNAL AUDIT MATTERS**

- a. Discussion of Audits reviewed by committee:
  - iv. 2016 Santa Fe Railyard Financial Statement Presentation (*Richard Czoski, Executive Director*)

Mr. Richard Czoski reported and handed out copies of the report. He said it became apparent that we needed more comment. Kim Han, our CPA is present to also answer questions and when we are finished, wrap up any details.

We extended the Railyard - it is 50 acres plus 10 acres at Baca and Cerrillos. It has 37 acres of commercial and ultimately \$540,000 of construction. We do ground leases predominantly. The City owns

the land and leases to the Santa Fe Railyard Corporation and most development is privately owned.

Member Castillo asked if this is part of City fixed assets.

Mr. Johnson said it should be on the city bond sheet.

Mr. Czoski detailed the bonds that were floated – a total of \$14 million. The Corporation doesn't own anything except furniture and computers. So the depreciation numbers in the balance sheet are very small. The Corporation is a tenant that has a lot of responsibility. It is a 501c3 with 16 Board and 3.5 staff and entered its lease in 2010 which goes to 2030. The scope of work is entitlement of infrastructure and new buildings. They go through public processes. Tenants build the buildings with their own capital but all is subordinate to the ground lease by the City.

The Railyard is 90% leased and they do some other property management in the area, provide events and public management. There are 90 events/year on the Railyard.

Compensation to the city is about \$20 million to the City for acquisition costs and infrastructure and will be paid no later than 2030. The rent is tied to debt service on the bonds. He described the rent schedule and explained the deferrals that will be paid back in the future, starting in 2024. We make four payments/year to the city. The needed deferrals, because when it started, the City had certain responsibilities to perform and the Corporation had some. Nobody wants to lease where there is no infrastructure.

The parking garage was delivered 4 years late and we needed it to have enough parking for the development. It was delivered in 2008. In 2004-2007, construction was very costly and Katrina made materials in short supply and our rent basically doubled. We assumed an improved site to lease. The other was the Environment Assessment by City and that didn't happen until 2007. There are other reasons too. We looked for revenue to determine the deferrals. We never sought a credit. We lease and act as pass through to the City. We keep a reserve for enough to shut the business down if needed. Our only asset is our leasehold interest. So when you see negative equity in the balance sheet, it reflects the future liabilities and deferrals are carried as liabilities. We are not in business to make money but to complete the development, when it reverts directly to the City. Ground leases are typically 99 years.

Member Gonzales asked if city shows the receivable.

Mr. Johnson said they were accounted for in pass through to repay the bonds. The City looks at it as taking what is rent and calling it reimbursement. The lien is on the GRT and the Railyard passes it through. There may be a better way to do it. He told how he typically did it. The question is if we can come up with a value for the bonds statement.

Member Borrego said the Committee doesn't know that it is wrong or right in our review.

Mr. Czoski said that's why he provided the background and history on it. A major part of why we are there is to de-politicize the process. You can imagine the cumulative impact for Council. So we can negotiate the best deal possible. The developer who took it on couldn't get it done. We wanted the

apartment project going on right now. We want to achieve most revenue possible to pay off the bonds We have paid \$8 million of the \$20 million. We have the events and the ground. The revenue side achieves the revenue numbers and that is why they doubled infrastructure costs. He had the whole agreement with him if there are questions.

Chair de Schweinitz said Member Borrego did the analysis and saw the negative balance and apparent increasing liability. The Corporation is a nonprofit and it worried the Committee that the City is subsidizing this in violation of the anti-donation clause.

Mr. Czoski explained that the City gives them no money to operate and it is a City-owned asset. Even if we were out of the picture, the revenue and debt repayment would be the same. We are in the middle. I have been involved 13 years and worked closely with City Attorney. The original agreement expired in 2012 and we renewed it.

Member Castillo asked if his organization did anything other than work for the city. It dictates tightly what you can or cannot do. This is not a typical private organization because the city has exclusive rights to what it does so anti-donation is less of an issue.

Chair de Schweinitz asked if it is a private/public partnership.

Mr. Czoski said it is. The agreement doesn't allow the board or staff to invest in the Railyard. The idea was for the Board and Staff to always keep the best interests of the city. And we don't have an option to purchase. We are the tenant. We could use it as collateral but have no interest in that.

Member Borrego asked about a purchase option and Ms. Han agreed to look at that again.

Mr. Czoski said when the bond is paid off the payments become an annuity for the city. The big difference is that the tenants own the buildings and the Corporation has no assets. We used city money and then deeded it to the City. This is the most conservative real estate activity you can imagine. A couple of them went bankrupt. The Market Station is in bankruptcy. If a tenant defaults on the ground lease, the City owns the building. The ground right will be there forever. So, the City is almost always being paid rent on the value of the dirt and the leases creep up with CPI and get reappraised. It is conservative and a solid income stream for the city. In the agreement, the preference is local businesses. We can have 12% for national tenants - REI, Violet Crown and Verizon have that. This was never designed for highest and best use real estate. The payback is ridiculously long. It was never envisioned as Uptown in Albuquerque. The Farmers' Market, for instance, is given a huge discount.

Member Gonzales suggested they need to train the auditor to provide more detail so the Committee would not have had questions. Maybe even in footnotes. That needs to be pulled out.

Member Sommer said it is a convoluted relationship but it could be explained.

Mr. Czoski asked if such a summary could be put in the beginning of the audit report.

Member Gonzales agreed. The auditors are working for you and could add to it.

Member Gonzales when the next one is scheduled.

Ms. Han said they are every other year and typically, January is when we deal with it.

**b. Lodger's Tax (Cheryl Sommer)**

Member Sommer had nothing to report.

**c. Entrance Conference for External Auditors (Carolyn Gonzales, and Member Borrego Borrego)**

Member Gonzales said they attended. This is first time for her. It was a basic discussion but more relevant that this committee needs to be involved and hear reports on a regular basis.

Mr. Johnson said they have started working on the calendar. They are trying to give full access to their portal and are also installing case ware software for communicating. It is happening concurrently. There is unusually extensive internal control for which he was pleased.

**9. INTERNAL AUDIT MATTERS**

**a. GCCC report on cash handling performance.**

Ms. Kerr reported and commented it is good to get this report off her desk. There are ramifications throughout the whole City. She went through the printed PPT for it. Estimated fraud would be \$90,000 per year and investing that money in controls would be beneficial. The summary hits on the biggest problem - lack of segregation of duties. Without degradation of duties, there are so many opportunities to circumvent whatever protections are in place. So segregation of duties helps prevent that fraud. Her last finding was the number of and severity of control environment and that leadership is lacking. The rest goes into the findings and up to the Committee on how to handle that.

Chair de Schweinitz noted there are 24 findings and perhaps some could be consolidated. A lot were issues around cash handling and segregation of duties. Does the city need to deal with those?

Ms. Kerr got feedback from Mr. Carter. Some of it could be consolidated but most of the others stand on their own.

Chair de Schweinitz noticed in some findings, Ms. Kerr had some management responses and a few didn't give an acceptable response. But in summary, she said everything was dealt with.

Ms. Kerr said that was from the earlier version. That report was relevant to the Public Utilities Audit and not this one. It came off her template and the packet you got had it removed.

Member Borrego found it in the first finding on page 8 that the whole focus was on segregation of

duties. It seemed to indicate that everything lacked proper leadership and oversight.

Ms. Kerr said perhaps that statement could have been cleaned up.

Member Gonzales asked what happens now.

Ms. Kerr said it goes to Finance. Mr. Carter cannot meet with Finance until August 21. We had an IPRA request and determined it is not final until presented to Finance. But we honored the IPRA.

Member Gonzales asked for Mr. Carter to respond.

Mr. Carter said it has been a long time coming and operating without standards or guidance. He developed the cash handling policy and it was approved as a way to try to train staff. He discovered the things they were doing should have been done another way. Up until his arrival, there were no policies in place. He said Ms. Kerr has helped him figure it out. Ms. Kerr had asked him to address each one and he did it once but it was not detailed enough so we met and worked on it.

We need to do this because nothing was written out. So, he couldn't say if money was missing or not. When he first went in, he observed that when it got busy they didn't put the money in the register but on the counter and no receipts were given. Mr. Johnson was very receptive in working on the cash handling policy.

Member Gonzales asked if he is implementing new policies.

Mr. Carter said they bought a safe for the marketing cards and a log for who is doing what. We are reorganizing the division and getting more oversight. Staff need to be trained regularly and discuss it in staff meetings. Or else they will forget.

Member Castillo asked if there is the coordination among the parks.

Mr. Carter agreed. They are all in it together. Everything we addressed with Ms. Kerr will be done through the whole department.

Member Sommer thought the barter system was interesting.

Mr. Carter said that was inherited. But we discovered that certain aspects need to be changed and improved. He described them - the New Mexican printed the cards and we will start numbering them and putting on expiration dates.

Ms. Kerr said they are not using the POS system properly. The revenue is to be reported at the time of redemption. It needs to be recorded in the revenue statement.

Mr. Carter said they need to produce the passes and keep track of when they come back. It was the way it was always done and no one told us it was wrong. He didn't take it as a personal slight. It is a way for us to learn to do better. In 30 years in this business, this is the first time I've seen how this is done.



Mr. Johnson said he recognized the need across the City and it has been too long to get into a daily process. We are talking about a major overhaul. This issue is not just identifying the issues. There are significant other places where cash is handled. We need to look for the tools for automation and other risks that come into play. His perspective is that these centers just operate as businesses and be controlled by people experienced in handling cash.

Member Castillo agreed it is best to take time and do it right. But it needs to happen fairly quickly.

Mr. Johnson agreed and it would.

Ms. Kerr said they will get it done by August.

Ms. Martinez said the expectation will be frequent reports. Monthly is probably appropriate. And that substantial progress is being made. Staff need to be trained for how to do their jobs. We are making it easier to pay on line.

Mr. Johnson said they will discuss with the external auditors how to account for gift certificates and barter contracts.

Member Gonzales said it may not seem important to them but is important part of internal controls.

Mr. Johnson agreed.

Member Castillo asked how close they are on non-cash transactions.

Mr. Johnson said they have a long way to go. The question is whether we can tap into the technology.

Mr. Carter added that there are lots of small transactions - 5-6 dollars.

Chair de Schweinitz asked if we should have Ms. Kerr report in a month or two on the progress.

Member Gonzales said it should be on a regular basis.

Chair de Schweinitz thanked Mr. Carter for coming and went back to 8 - on the audit reviews.

**i. 2016 Buckman Diversion Project Financial Statements (Clark de Schweinitz)**

Chair de Schweinitz said this was very confusing.

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

Member Castillo said the Civic Housing Director felt it was not a city matter. And there is not a whole lot the city Audit committee can do about it. That led to ask what the other components of the City are not part of their responsibility.

Mr. Johnson said the Civic Housing audit is presented to the City. It is a public entity as opposed to private nonprofit.

Member Castillo suggested ultimately it is probably how much disclosure the Governing Body wants. It could be part of CAFR or not. It should be studied and look at the question.

Chair de Schweinitz thought maybe they should find out from the State Auditor's office.

Member Castillo pointed out it was City property and then turned over to the Housing Authority.

Mr. Johnson said it was earlier stated as part of the City but we are not the fiscal agent and not part of their revenue stream.

The Committee did not decide which it should be.

### **iii. 2016 Airport Annual Assessment (Cheryl Sommer)**

Member Sommer said it is FAA certification inspection of the airport and not an audit. Last year there were three deficiencies and all were corrected and all were operational. There were training issues and safety issues. This year there were none but several suggestions. Two were signage and painting and one was ceiling cracks. She was happy to report things are going very well out there.

## **10. UNFINISHED BUSINESS**

There was no unfinished business.

## **11. NEW BUSINESS**

There was no new business.

## **12. PUBLIC COMMENT**

There was no public comment.

## **13. NEXT MEETING DATE: August 2, 2017**

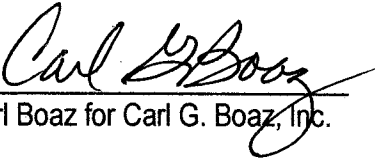
**14. ADJOURNMENT**

**Member Castillo moved to adjourn the meeting. Member Gonzales seconded the motion and the meeting was adjourned at 3:45 pm.**

Approved by:

\_\_\_\_\_  
Clark de Schweinitz, Chair

Submitted by:

  
\_\_\_\_\_  
Carl Boaz for Carl G. Boaz, Inc.