



Agenda

DATE 4/26/18 TIME 4:42
PREPARED BY Celeste Valentin
APPROVED BY [Signature]

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER – MILAGRO ROOM
WEDNESDAY, MAY 2, 2018
2:00 P.M. – 4:00 P.M.**

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF AUDIT COMMITTEE MINUTES –(postponed till next meeting)
5. NEW BUSINESS
 - Presentations from potential outside audit firms as part of the Co-Sourcing Arrangement (TBD)
6. OLD BUSINESS
 - Brief update on status of the CAFR (Clark de Schweinitz)
 - Brief update on status of proposed Committee Ordinance
 - Discussion by Committee members on Next Steps
7. PUBLIC COMMENT (5 minutes)
8. NEXT MEETING DATE – JUNE 6, 2018
9. ADJOURNMENT

**Persons with disabilities in need of accommodations,
Contact the City Clerk's Office at (505) 955-6520 five (5) working days prior to the meeting date**

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

May 2, 2018
2:00 p.m.

1. CALL TO ORDER

A regular meeting of the City of Santa Fé Audit Committee was called to order by Member 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, Vice-Chair
Barbara Borrego
Al Castillo
Carolyn Gonzales

Members Absent:

Others Attending:

Councilor Roman "Tiger" Abeyta, City Councilor
Renee Martínez, Deputy City Manager
Jessica Bundy, CPA with REDW
Steve Cogan, CPA with REDW
Kent DeYoung, Acting Finance Director
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 City Clerk's Office.

3. APPROVAL OF AGENDA

MOTION: Member Sommer moved, seconded by Member Castillo, to approve the agenda as published.

VOTE: The motion passed on a unanimous voice vote with Members Borrego, Castillo, Gonzales,

and Sommer voting in the affirmative and none voting against.

Chair de Schweinitz explained the minutes have been postponed until the June meeting.

4. APPROVAL OF MINUTES

- a. March 7, 2018 - postponed to next meeting**
- b. April 4, 2018 - postponed to next meeting**

5. NEW BUSINESS

- a. Presentations from potential outside audit firms as part of the Co-Sourcing Arrangement (TBD)**
 - REDW**

Chair de Schweinitz noted the presentation was not an official part of the procurement process.

Member Borrego introduced Jessica Bundy and provided Ms. Bundy's background and that she was honored in 2015 as "the Woman to Watch" by the New Mexico State Society of CPAs.

She also introduced Mr. Cogan, a managing principal who has served some of the largest internal audits for nonprofits and healthcare.

Mr. Cogan indicated their style is more conversation than presentation and Ms. Bundy's points are on the web site about process and improvement. REDW views the process as a risk management methodology.

He has been Managing Principal/CEO for about two years and he and Ms. Bundy have worked together to create their internal audit practice. REDW has about 200 people; two thirds in Albuquerque and the rest in Phoenix. He is proud of his firm as the only large locally owned auditing firm and of his team and he has lived in New Mexico for 25 years and his firm is headquartered here.

REDW also has a dedicated internal audit and risk management practice unique in the market and is the 115th largest firm in the U.S. A typical firm has about 10% non-traditional services and REDW has about 35 percent and a significant amount of their work is in Human Resources Consulting, Compensation Study/Management, Cyber Security and IT, Wealth/Financial Management, Planning and Forensics and Business Evaluations. They have a benefits administration practice significant to the firm, meaning they have specialized experts in many important areas as resources.

Councilor Abeyta arrived at 2:10 and was introduced.

Ms. Bundy added REDW has been doing internal audit since 2002 and she started in 2006. Everyone on the team is passionate about internal audit and loves what they do and are committed to the profession.

Ms. Martínez asked about the typical profile of a team member and if hired for their experience or they are trained.

Ms. Bundy replied they do both they have found some of their best team members were internally grown. Some ask to be part of the audit team and receive specialized training to get them up to par. REDW has many projects occurring at the same time and being part of the team is different than as an internal auditor with one company. It takes a special person to function at that level.

She noted on page 5 she listed some clients they have served long-term such as the City of Glendale and small projects for the City and County of Santa Fe. The best experience is clients they can build long-term relationships with and can continue to serve.

Member Borrego explained the City is considering whether to hire a full-time internal auditor internally, co-source with a firm or outsource their work completely.

Ms. Bundy noted that page 6 lists organizations with an internal auditor and REDW has been working the past four years with both PERA and ERB that decided to outsource.

Some benefits of outsourcing are an experienced team with diverse knowledge gained from other areas and departments issues that can be used as a resource. That helps REDW provide practical recommendations that can be acted upon and to offer solutions.

Member Gonzales asked how REDW determines their projects; is it project-based or by recommendation.

Ms. Bundy explained they get to know the organization and perform a risk assessment, do interviews and research and develop an audit plan. The audit plan is approved by the client to ensure they agree on the audit focus for the next year. The first two years they usually stick to the plan unless there is a special audit, and then they can re-evaluate.

Member Gonzales confirmed the plan determines the frequency to do the work and the cost.

Ms. Martínez remarked a disadvantage of outsourcing is there may be inefficiency because the firm has to get to know the organization.

Ms. Bundy explained they always have an internal liaison to point them to questions that need to be answered and anyone working with a new organization has to learn the process. It is in the approach in working with management and reminding them the goal is to improve their processes not get them in trouble.

Mr. Cogan added they also use a two-tiered learning process and can learn a lot in interviews and reviewing documents. The second tier looks at the Human Resource process or Procurement, Operations,

etc. and then do another risk assessment.

Mr. Cogan indicated they do not need to learn everything at once, just enough to choose areas to examine.

Member Castillo asked how much time is saved in the evaluation if an employer has an internal auditor.

Member Borrego explained the City could have an internal auditor working on the same project for the entire year and REDW could come in and just focus on one thing.

Ms. Bundy responded it was easy for an internal auditor to get stuck and they have no one to run things by and may only do two or three audits in the amount of time REDW does 10 audits.

Their team is trained to assess the problem and determine whether to dig deeper or let management address the problem and do a follow up with management later.

Mr. Cogan added they often do 2 or 3 times as many audits in a year than an employee and are as effective in those 6 audits as the employee that does two audits. REDW focuses on the evaluation, test work and completing the audit but that is hard for the employee to do.

Also, when REDW hits a stumbling block, they finish their current work and report on that before going back to look at something; or they create another project or move it to another audit.

Ms. Bundy confirmed those on the list do not have an internal auditor and have fully outsourced that position and REDW functions as a department within those organizations. They schedule meetings because not being there every day they need to know what to follow up on. REDW does internal audits year-round and talks with clients daily and each relationship is different with a different contact with each.

They want to be sure the client is aware of their findings and that it is being communicated to the department. The exit meeting is more a formality because the organization knows the findings throughout the process.

Mr. Cogan stated other internal audits are done on a co-serve basis. He oversees the audit for the Mescalero Tribe and they have a full-time employee who coordinates with other departments and does some of the detailed test work. And some organizations they just do a project or two.

Chair de Schweinitz asked how they would determine responsibility with an internal auditor's independence.

Ms. Bundy replied their recommendation would be based on the Committee's process and every organization is different.

Mr. Cogan added they oversee the internal audit and work with the Mescalero person and REDW makes many of the decisions, but it must be a collaborative process. The ultimate decision-maker would be the Committee or City Council if that is Santa Fe's process.

Ms. Bundy described the process and the completion of the audit is within a month or 6 weeks and they are generally on-site for 3-4 days.

Ms. Martinez noted there are three models; outsource, helping to develop the inexperienced and handling peak activities when there is not enough staff.

Ms. Bundy stated another is they have lent their staff to work with the Internal Auditor to assist and they have done many different models and each one is different in their needs.

Mr. Cogan said Tri-Core is an example of an organization with an experienced Internal Auditor. She made all the presentations to the Audit Committee and REDW augmented her role by bringing in expertise she did not have.

He recommended the Committee develop an audit document of their process and their audit charter could include that the Internal Auditor reports directly to the Audit Committee, as well as REDW. He offered to assist the Committee in developing a charter document and has several examples.

Mr. Cogan indicated REDW is flexible and willing to change the roles, adjust the time, etc. in the contract as the Internal Auditor developed skills.

Member Gonzales asked the time frame for the initial start of work.

Ms. Bundy explained they would schedule interviews to understand the City and where they were heading and then look at how much time they would need to allocate throughout the year. The process is usually 2 to 3 weeks and then they would meet with management to propose their plan.

Mr. Cogan explained part of the interview process involves meeting with the City Council to get the governance perspective because they look at risk related to political, financial, staff turnover, etc. to see areas that are high risk and where the risk is low. They want to look first at high risk first and what impact there is if something goes wrong and then present that to City Council, the Committee etc.

Member Borrego said they have struggled to get the External Audit on the CAFR completed over the last year. She asked how REDW's involvement could help with that process.

Mr. Cogan responded you do not always know the root cause of problems and an internal audit identifies a problem and the potential risk. REDW can test the root cause of delays down to a detail level it can be fixed.

Ms. Bundy spoke about her work with Bernalillo County and their departments to resolve high risk observations and the internal audit helped them reduce findings.

Mr. Cogan added they interview external auditors as part of risk assessment to learn where they have delays and challenges.

Chair de Schweinitz stated for almost a year the Committee has been focused on the CAFR and there

is a history of dealing with these issues and it is problematic.

Mr. Cogan noted REDW's philosophy is it is better to get something done than a year later be in a situation where nothing had been done. They take little steps and feel it important to get some things done and see results. They can always adjust the steps later.

Ms. Bundy added that helps get buy-in from departments and her best interviews are every day employees because they talk about their issues and know we are helping make a bad situation better. That is the best approach.

Member Gonzales asked about the average hours and cost.

Ms. Bundy indicated an average outsourced option is 1500 hours - about 8-10 annually. The audit plan and follow up average is 120-260 hours with a few larger. They would have an initial plan and communicate if it would take longer and the amount of time they need and adjust the other work throughout the year.

Mr. Cogan indicated all of their hours were production hours and they could be flexible, and he could accommodate their budget within reason.

Ms. Bundy explained with every organization they tailor their approach and their hourly rate depends on the level of effort required of REDW. For a more complex client they would include more experienced people on the team and manage the project so the team functions and gets the work done.

Member Castillo said the External Auditor reports findings and makes recommendations, but they do not get involved in the internal processes. He asked to what extent REDW's scope would include assistance regarding recommendations, etc.

Ms. Bundy responded they are flexible but have to identify the root problem and that helps trigger the recommendation and how to move forward to resolve an issue.

Mr. Cogan spoke about doing a lot of internal audits over a two-year period for a client and made recommendations. They found during follow up the client had not changed anything, and the problem was not resolved. They shifted their scope of work and reduced their time spent in audits and worked directly with departments on issues.

Member Sommer asked who they recommend best to work with for an organization without an Internal Auditor.

Ms. Bundy pointed out the CFO at PERA pointed them in the right direction and was mostly to help them coordinate who to go to with a problem.

Mr. Cogan added if having problems getting an audit or complex problems they often interface with the County Manager at Bernalillo County.

Member Castillo suggested IT in any organization could probably assist them.

Mr. Cogan agreed they could, certainly with the data. They do a lot of data analytics and processes as well as IT internal audits.

Chair de Schweinitz said the City, and indirectly the Audit Committee, has been criticized for not having someone on site and he was confused how REDW would get information they would not have. The Committee is advisory and only meets monthly and could not help with that.

Secondly, he assumed REDW preferred to be the internal auditor and would not need the City to have someone in that role.

Ms. Bundy asked if there were specific concerns that the internal auditor would need to be on site.

Mr. Cogan explained they did not have a preference but have more clients where REDW has a major role. If the high-risk areas are identified and looked at and detailed, they find the problems and that can be done by an internal person or outsource. Their general experience has been they have more success with a larger or sole role, but it is no problem either way.

Ms. Bundy pointed out PERA and ERB recently chose to outsource and the employees appreciated that perspective and REDW's recommendation and help to work through the process.

Member Castillo asked if a notice had been filed for the Internal Auditor position.

Ms. Martinez replied no, but the budget includes about \$185k for the position and could be adjusted if they need more.

Mr. Cogan suggested it might be easier to start with an outside provider and do a risk assessment and a few audits to get a sense of whether that would work.

Councilor Abeyta said regardless of the Committee's decision it would be helpful for the Committee to emphasize to the Governing Body that this be an area of focus for the Mayor or General Manager. Without an internal auditor they should also be sure someone is designated in each department as a contact and the department should provide full cooperation and it starts at the top with the Mayor making this a priority.

Member Borrego thanked the group for their presentation and wealth of information.

Ms. Bundy offered to help in any way. Mr. Cogan offered to assist with the charters and return for further conversations to discuss the charter and plan.

Chair de Schweinitz thanked them for their time and said the Committee will get back in touch with them.

CICN (Colorado Independent Consultants Network)

Member Gonzales said she had reached out to two firms and on did not pass the City's criteria. John

Olenberger's firm CICN does only internal audits, primarily for government agencies.

She provided members with material from CICN's web site and explained that Mr. Olenberger was not able to be present but was able to talk by telephone and she would contact him now.

Member Gonzales told Mr. Olenberger she had provided the Committee with material from his website. She introduced those present at the meeting.

Mr. Olenberger started with information about his background and firm. When he started CICN in 2008, it was because he thought he could provide better service at lower rates than larger firms because of less overhead costs. As a small firm, they are able to focus efforts on the client and price the work at about what an organization would pay for first-year staff. The difference is that all of his people are at the management partner level.

Member Gonzales asked to confirm "staff level" would be about \$55-\$60 for a major firm salary.

Mr. Olenberger indicated his research of a major firm in a city like Denver is closer to \$120-\$130. CICN specializes in internal audits and another advantage for using his firm is 90-95% of their work is state and local government. Some of the larger on his list of clients are the City and County of Denver, the Denver International Airport. Adams County used them as outsourced internal auditor and they ran a hotline for them.

Ms. Martínez noted Santa Fe has a hotline currently available only to employees but the Mayor wants to open it to the public.

Mr. Olenberger pointed out an advantage is that anyone can call with issues that affects the County when open to the public and the downside is nuisance calls where people call about matters not related to audits.

CICN uses only experienced staff and he has looked at his staff that could be a good fit for this project. One of his staff members moved to Santa Fe a few weeks ago and is interested in assisting and that could mitigate some of the travel costs.

In addition, he and another staff member used to work for the County of Denver Auditor's Office.

Member Gonzales asked Mr. Olenberger to elaborate on how he would start the project and his thoughts on co-sourcing versus 100% outsourcing the work.

Mr. Olenberger replied co-sourcing is one of the three options and his understanding was the City had ruled out having only a single internal auditor. Member Gonzales agreed.

Mr. Olenberger continued his firm does both and, in this case, he would look at what is currently in place in the internal audit department to determine whether to use that or start from scratch. Co-sourcing would be a matter of justifying having someone on site full-time and the biggest advantage of that would be cost savings. His firm per hour would be more expensive than an in-house function.

With co-sourcing, Santa Fe might not be able to justify two FTEs (Full-Time Employees) and it would make sense to do both. An advantage is they would have an outside firm's expertise and perspective from learning from their other clients and they could apply that knowledge where applicable.

The biggest advantage to completely outsource is if issues happen internally, reporting conflicts could be a concern for someone reporting an issue that would cost them their job.

Mr. Olenberger thought an external firm would be more accountable and there is a higher expectation of quality.

Their reports mostly depend on the entity; some clients post reports on their web site and some want them presented in executive session and they are willing to do either.

Member Sommer asked Mr. Olenberger his philosophy in terms of the internal audit and whether it was to collaborate with management or more to investigate issues. Secondly, she wanted to know how he deals with findings and his process of follow up.

Mr. Olenberger replied the firm says what they need to say, and their philosophy is definitely a partnership with management which is a better strategy than being the police. If there is fraud, they would like to find it, but his primary goal is to improve processes so that fraud does not occur in the first place.

Some elected officials spend more time looking for fraudulent or miscoded etc., than his firm would think necessary. CICN is there to help the City and management be as efficient and effective as possible and with that attitude they would get a better partnership with management.

He noted CICN's reports are different in writing style and the language is not inflammatory and their goal is not to try to sell their service or attack people and people are more open.

Chair de Schweinitz asked Mr. Olenberger how he would select a person to alert him about issues at the City because he would not have someone on site.

Mr. Olenberger responded they do not plan to have someone on site. They start by doing a risk assessment and potentially could start with the McHard Report and do a follow-up on the report. There seems to be a lot of room for improvement.

Typically, they would start with soliciting risks from each major department and what they see preventing them from what they want to accomplish. They would compare those risks to others they see from other clients and sit with each department director and compare the risks and rank them.

Each risk would be ranked in priority of the chance it would occur and the top risks fall out. They would put a list of proposed audits and risks and present their proposal with their budget. Audits would be planned throughout the year and sometimes it is just getting feedback from many individuals including the audit committee and senior management of what they perceive as risks.

Member Borrego explained the City's struggle to get its External Audit finished. She asked if CICN would work with an external auditor or an organization to help improve the external audit function.

Mr. Olenberger explained they usually do not work with the external auditor with the exception open space when they are approached by them to communicate a serious issue that could affect them.

CICN could assist with external audit preparation if the City wanted help preparing for the External Audit.

Ms. Martínez asked about the size of the clients in Denver and Denver Water compared to Santa Fe with 1,500 employees.

Mr. Olenberger replied Adams County is around 1,200 employees and the City of Denver is larger, Denver International Airport operates like a small city and the Water Department has about 900 employees.

Ms. Martínez asked the total number of employees at CICN.

Mr. Olenberger reported the firm is based on an affiliate network concept. He is the only technical employee, but there are about 30 people they work with regularly who have their own firms and they pool staff to work on projects. The firm is not a traditional CPA model but CICN is in their 5th year and has functioned well.

He encouraged them to reach out to his clients and noted they had been featured in the 2011 edition of the Denver Business Journal because of their firm's structure.

Member Castillo asked if the firm has consulted with entities that should not be included in the City's financial statement. Santa Fe is involved with the Housing Authority and a water authority JPA and animal shelter that is questionable by some. He asked if CICN had done a study about what should and should not be included in the financial statement.

Mr. Olenberger responded they had not. Financial statement reporting is primarily the responsibility of the external audit firm and they would determine if revenue streams should be part of the City or separate.

CICN's general assumption is that the things that should be covered by the External Audit are covered, but they could change that to include areas not being covered effectively by the external auditor.

Member Borrego asked the number of hours CICN would put into the internal audit function if outsourced completely based on the size of Santa Fe.

Mr. Olenberger wanted to give that some thought. It should be driven by the risk assessment but is often driven by the budget. The risk assessment indicates high-risk items that should be covered every year and is partly determined by how long since their last audit. The total numbers of hours should be driven by the risk assessment but in terms of number of hours per audit, generally it is around 200 hours.

He sits on several committees in Denver and they agree 200 hours is an average estimate. CICN will

develop a detailed audit plan once they are ready to do the audit and based on that can give a more detailed estimate. An example doing the full outsource for Adams County; their annual budget was about \$200,000 and they were there mostly full time and some years they spent about \$160,000.

Member Borrego asked if a typical proposal was on an hourly or a contract basis.

Mr. Olenberger replied typically it is hourly. When co-sourcing, most of the work was driven by the Internal Auditor and the firm provided hours to assist. When outsourced all of the hours are outsourced and the audit plan and budget is developed around that.

Some things could be postponed to another year and have a provision for special audits. For fixed audits or not to exceed bids, they put together a work program and budget hours for each step of the program.

Member Gonzales asked who his contact person in governmental organizations is usually.

Mr. Olenberger said generally the top finance person or the top government or their deputy or legal counsel. He would recommend the Director of Finance, the City Manager or Deputy City Manager for accountability reasons.

For each individual project, day to day contact would be the director of the department they are working in. They would only elevate to the City Manager/Deputy level if they were not getting what they needed.

Ms. Martínez asked how many of his network professionals have public accounting backgrounds in addition to an audit background.

Mr. Olenberger replied maybe a third.

Member Gonzales asked about his process for presentation.

Mr. Olenberger noted the main deliverable is the audit report and in some cases policies and procedures could be a deliverable, etc. The audit report gives the scope of the audit and sometimes what they did not look at and the findings are presented. Depending on the client they sometimes include an executive summary.

Issues and recommendations have several parts. There is an issue statement about what was found and that background and the risk statement and what could happen if recommendations are not followed. Recommendations are usually worked out with management to ensure they are actionable and of little cost and not difficult to achieve.

Management response from the director of the department would state if they agree with the recommendations and how they intend to address the issue. In rare situations when the director might disagree that with the rest of the report would be presented to the Audit Committee.

In addition to the management response there is a responsible party (the individual accountable for the

action that needs to be taken) and a completion date. That allows CICN to follow up on the procedures and track findings and return later and that is included in the budget. They also issue follow up audit reports, which is important in an internal audit function to hold management accountable.

Member Gonzales thanked Mr. Olenberger for his time and indicated the Committee would be in touch.

Mr. Olenberger said he had some questions. He asked if there was a project budget yet.

Member Sommer explained they were charged with investigating the options and reporting those to the City and then funding will be requested.

Mr. Olenberger noted an option in a co-source arrangement is the director of internal audit, but he had also seen the director be the firm with a less experienced person hired to do a lot of the audit work. That would offset the cost of an outside service doing the work.

Member Gonzales asked if the contracted auditor would then be the oversight for the hired employee.

Mr. Olenberger replied essentially yes. The closest he has come is the Director of Internal Audit is at the clients, but they were not engaged in the same work. They would be someone to do the bulk of the work under the direction of the outsourced director of the internal audit and a less expensive co-source option, although not the typical arrangement.

One challenge is that changes would be more difficult with an employee who is not with his staff.

Mr. Olenberger asked the time line for the City to select a firm.

Ms. Martinez explained the City's internal auditor resigned about a month ago and they waiting to fill the position until the Committee has a recommendation and receives input on how to proceed from the Governing Body. They want to move quickly and have a firm on board sometime in the summer or fall.

Mr. Olenberger indicated it appeared McHard, who did the risk assessment, would not be considered to do the internal work.

Member Castillo thought that was a different line of expertise.

Ms. Martinez noted that the procurement of services of more than \$60,000 requires an open procurement RFP process.

Mr. Olenberger asked if all of the McHard recommendations had been implemented.

Ms. Martinez explained not all, but some were implemented partially. She indicated the response from the City and the details would be available within the week on the City's website.

Mr. Olenberger asked if there was a reason why the Internal Auditor and the latest Finance Director also left.

Ms. Martínez said the City as of March has a new Mayor and is in transition to a new administration and some people leave during the transition. She thought all would be firmed up within a month.

Member Sommer added this is also the first time Santa Fe has had a full-time Mayor.

Mr. Olenberger asked if he should expect to hear back in the late summer/fall timeframe.

Member Gonzales thought by mid-summer. The next meeting is in June and they would probably make a recommendation by then and move forward. She said she would be in touch.

Mr. Olenberger thanked the Committee and had no further questions. He signed off at 3:59 p.m.

6. OLD BUSINESS

a. Brief update on status of the CAFR (Clark de Schweinitz)

Laura Beltran-Schmitz was brought into the meeting via telephone.

Ms. Beltran-Schmitz said she had a quick update. She received an updated draft on Friday the 27th and provided a response to the City last week and Georgie is continuing with her review.

Ms. Beltran-Schmitz continued, she has critiqued some of the sections for the second interviewer to start reviewing concurrently, but some sections still have changes. She did not send the entire version of the second review but are trying to do that as quickly as possible.

City personnel is drafting their responses to the findings. They do not have any test work left to do and the remaining work has to do with documentation and work papers to ensure the work supports the balances and disclosures in the CAFR and the opinions and findings.

They have discussed at length the high risk because of all of the findings and the changes that required a higher level of scrutiny. They want to meet the 15th deadline and are pushing hard to get this done. They cannot continue to work on this and need to get it wrapped up.

Chair de Schweinitz asked what she meant by "*they can't continue to work on this*".

Ms. Beltran-Schmitz explained they are running into FY18 and that makes it more difficult for the City and the firm is getting into other FY18 engagements and their availability capacity is closing.

This is to document everything and ensure the principals feel comfortable with the work and the opinions rendered.

Member Borrego asked why there was another draft and if she expected that.

Ms. Beltran-Schmitz explained it was based on the last changes requested because the debt schedules and note was not correct. She expected the last draft because there had been challenges with the reconciliation and fund level changes, etc.

She indicated Georgie would be back in town tomorrow and she would be talking with her. She suggested they set an exit conference on the 14th or 15th and submit the audit the same day. She will contact them once she confirmed that with Georgie.

Ms. Beltran-Schmitz said they should be sure that Mayor Webber or an appointee could be in attendance as well and they are working on that calendar.

Member Borrego asked that Ms. Beltran-Schmitz continue to keep the Committee updated with her emails.

Ms. Beltran-Schmitz was happy to continue with that. She thanked the Committee for the time to provide an update.

There were no other questions and Ms. Beltran-Schmitz signed off.

Member Sommer asked if it is possible they might withdraw once the exit conference was set.

Member Castillo thought things were in such turmoil, anything could happen. He thought they did not know why they are starting the process over again when they get a new set of financial statements. Ms. Beltran-Schmitz never mentioned the risk level and if, e.g., the bond was off by a small or material amount.

The Audit Committee is not privy to that information and cannot make a recommendation to City Council or the Finance Committee because the Audit Committee does not know the audit firm's definition of materiality that may be causing the delay.

Ms. Martínez asked if the sequence of events would be an exit conference and if so, how the Finance Committee would be involved at that point.

Member Sommer indicated this would be given to the State Auditor. She asked, if CAFRs are for one year, how they could audit 2018 if they were not satisfied with 2017.

Chair de Schweinitz thought the reference to 2018 work was for other contracts for their firm.

Member Castillo asked how binding the contract is and, if they continue to be delayed, if they should ask if another audit firm could be hired to move forward with this.

Ms. Martínez was certain the contract had a termination clause. In the past they had a debriefing as to whether they wanted to continue a contract with a company or change to another firm. She was not sure that was a defined process but would recommend it should be.

Chair de Schweinitz did not think Ms. Beltran-Schmitz was saying they could not finish the audit, but that they were worried about getting the information. At some point, City procedures should be changed, and they were reluctant to do that this year, but Ms. Beltran-Schmitz had offered to draw that up.

He thought Ms. Beltran-Schmitz was frustrated and the audit had been difficult, and the burden was on her, but she was not blaming Ericka.

Members Borrego and Gonzales agreed.

Chair de Schweinitz recalled that the firm sent a letter over a month ago about pulling out.

Member Gonzales thought the firm may just say they are not going to finish.

Ms. Martínez was not sure of the contract terms and whether notice was required.

Mr. DeYoung offered his experience with audit firms and even with a multi-year contract a renewal document would be issued every year, referencing the RFP. He was not sure that was automatic.

Ms. Martínez said she and Mr. DeYoung could look at the contract. This was a new firm with fresh eyes and may be why this has taken longer.

c. Discussion by Committee members on Next Steps (Revised Agenda Order)

Member Sommer asked Councilor Abeyta what would be appropriate for the Committee to do in terms of the Internal Audit Department.

Councilor Abeyta suggested they make a recommendation as soon as possible and get on the City Council agenda. They already know the approximate budget and that should be considered.

Ms. Martínez noted the approval of the Finance Committee for about \$185,000 includes a staff person and their benefits and \$50,000 for an outsource contract.

She noted she made changes regarding the job description responsibilities and experience that she suggests prior to posting the position and there are various scenarios they can discuss.

Chair de Schweinitz asked if the \$185,000 could be moved into the contract.

Councilor Abeyta said he would consider that if the Committee makes that recommendation. He asked and was told the cost of an FTE is about \$100,000 (with some training). He suggested they also consider a part-time employee.

Member Castillo thought that had been recommended by Mr. Cogan, not licensed but someone who could do the work.

Ms. Martínez pointed out Jessica Bundy mentioned a key person to contact in their accounting department.

Member Gonzales asked about advertising.

Ms. Martínez explained they post for three weeks and would be about 9 weeks by the time they decide on someone, get approval and the person gives notice.

Members discussed out-sourcing and reasons to try that for the new fiscal year.

Councilor Abeyta added with outsourcing another reason to recommend sooner than later is for the new Finance Department Director to know which route they are going.

Chair de Schweinitz pointed out the original idea was for the internal auditor to be independent and not part of the Finance Department.

Mr. DeYoung thought outsourcing was a great idea but had never worked in an organization that did not have an internal auditor. The oversight of that person was always independent because much of what they do is looking at the work of the Finance Department.

He suggested the person report to the City Manager or the City Council or a committee of the Council and cautioned they not report to Budget and Finance.

Councilor Abeyta commented the person usually coordinates with Finance.

Chair de Schweinitz suggested they make a formal motion on the Committee's decision.

MOTION: Member Gonzales recommended the Audit Committee's next step would be to get on the Finance Committee agenda to recommend outsourcing for the next year. Member Sommer seconded the recommendation.

VOTE: The motion passed by unanimous voice vote with Members Borrego, Castillo, Gonzales and Sommer voting in the affirmative and (0) none against.

b. Brief update on status of proposed Committee Ordinance

Chair de Schweinitz noted he had a copy of the ordinance that passed.

Member Sommer asked the date of the next Finance Committee meeting and was told it was May 21 and the deadline for agenda items was this Friday by 10:00 a.m.

Ms. Martinez offered to write the caption and send a draft for approval to Chair de Schweinitz.

Member Sommer asked consensus that everyone agreed the person of contact should be the Chief of

Staff, City Manager or Deputy City Manager and not in Finance, and that the Audit Committee would coordinate the creation of an audit plan annually.

Chair de Schweinitz added that would be taken to Finance for their approval.

Councilor Abeyta noted the Committee would receive updates on regular basis.

Member Gonzales said there are two qualified prospects and Councilor Abeyta had offered to move the RFP forward.

7. PUBLIC COMMENT

Mr. DeYoung said he asked REDW after their presentation if the RFP contracts for PERA and ERB were written so Santa Fe could piggyback off of them because they are piggybacked in Bernalillo County. REDW offered to research that and get back to him because they did not know.

He explained piggyback meant the award made had language that allowed other government entities to tap into the award and bypass the entire RFP process and evaluation etc.

Mr. De Young said if the Committee was happy with REDW that could be considered. He suggested to be fair that someone contact CIGN to see if their organization is part of a state-wide pricing contract or a nationwide or regional group.

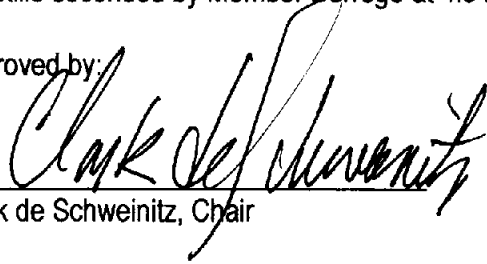
The members discussed the process and how the scope of services might differ. Ms. Gonzales offered to contact CIGN about the state-wide contract. The members discussed their thoughts on the two presentations.

8. NEXT MEETING DATE: June 6, 2018

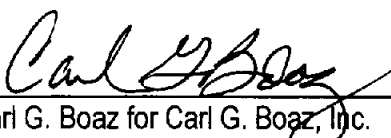
9. ADJOURNMENT

The meeting adjourned on motion by Member Castillo seconded by Member Barrego at 4:34 p.m.

Approved by:


Clark de Schweinitz, Chair

Submitted by:


Carl G. Boaz for Carl G. Boaz, Inc.