



Agenda

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
WEDNESDAY, DECEMBER 5, 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 –
August 1, 2018 - October 10, 2018**
- 5. NEW BUSINESS**
 - **Presentation of the contract internal auditor’s Audit Plan and determination of initial audit to be performed; discussion of need for other proposed audits.**
- 6. OLD BUSINESS**
 - **2018 CAFR: report of status and development of this year’s CAFR from external auditors (CLA Staff)**
 - **Finance Office report and update (Finance Staff)**
- 7. PUBLIC COMMENT – (5 Minutes)**
- 8. NEXT MEETING DATE – To be determined**
- 9. ADJOURNMENT**

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SUMMARY INDEX
CITY OF SANTA FE AUDIT COMMITTEE

December 5, 2018

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 MINUTES -		
• August 1, 2018	Approved as presented	2
• October 10, 2018	Approved as presented	2
5. NEW BUSINESS		
a. Presentation of the contract Internal Auditor's Audit Plan	Risk Assessment Approved	4-7
6. OLD BUSINESS		
• 2018 CAFR: report of status	Reported	2
• Finance Office report	Reported	3-4
6. PUBLIC COMMENT	None	7
7. NEXT MEETING DATE	January 9, 2019	7
8. ADJOURNMENT	Adjourned at 3:00 p.m.	7

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

October 10, 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 Pick Sommer, Vice-Chair 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:

Al Castillo
Cheryl Pick Sommer, Vice-Chair
Carolyn Gonzales

Members Absent:

Clark de Schweinitz, Chair

Others Attending:

Brad Fluetsch, Cash & Investments Manager
Debra Harris, Controller
Georgie Ortiz, CliftonLarsonAllen LLP
Andreas , CliftonLarsonAllen LLP
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 Castillo moved, seconded by Member Gonzales, to approve the agenda as amended with Old Business considered before New Business.

VOTE: The motion passed on a unanimous voice vote (3-0) with Members Castillo, Gonzales, and Sommer voting in the affirmative and none voting against.

4. APPROVAL OF MINUTES

a. August 1, 2018

b. October 10, 2018

MOTION: Member Gonzales moved, seconded by Member Castillo, to approve the minutes of August 1, 2018 and the minutes of October 10, 2018 as presented.

VOTE: The motion passed on a unanimous (3-0) voice vote with Members Castillo, Gonzales, and Sommer voting in the affirmative and none voting against.

Mr. Fluetsch entered the meeting.

6. OLD BUSINESS (Revised Agenda Order)

- 2018 CAFR: report of status

Ms. Ortiz reported on the status of the audit. The Office of the State Auditor deadline is December 17 and they are on track to meet the deadline. Accrued Liabilities, i.e. Payroll, has not yet been done but should not take much time. The Revenue and Expense analytical will be given to Debra Harris and Mary McCoy tomorrow and all others are 90% completed.

SWAMA received the Financial Statements draft today and second review is anticipated before the 17th of December. They have been working with Erica on Buckman to complete.

Things have gone better than last year and they have seen improvements, but there are still things they expect to be late such as the CAFR because it takes more time to fix the issues and they have had only six months. Repeat findings are still expected and over 108 items were looked at with Capital Assets. CIP has been looked at more closely and Staff has really done a great job cleaning the CIP up.

Ms. Ortiz thought they would not have a qualification this year but will be meeting with Emily again. Things look better than previous years and there is about a week left before the deadline and they are doing preparation. They should be able to provide the City with the Financial Statements on Friday with some notes this weekend.

She noted the deadline is December 17 and that they could set the exit conference that they or on the Friday before. They have set an exit date for SWAMA for Thursday.

Member Castillo noted he could attend and would put that on his calendar.

Mr. Fluetsch offered to inform Member Castillo when the date for the conference had been confirmed.

The Committee members congratulated the auditors and wished them a good holiday.

- Finance Office Report

Ms. Harris stated that Staff has been working hard and delivering on a timely basis and she has been pleased with how they are turning things around. She and Andreas talk multiple times a day and he has confirmed that timelines have been met.

She agreed with Ms. Ortiz that they expect to have repeat findings and there is also the potential for new findings. Andreas is keeping her up to date. He does not have the finalized listing but has the potential list.

Angela Anderson, the outside auditor is also helping with the audit requests. Her staff has been working on some of the areas of and now Ms. Anderson will be on site to help with deliverables.

Member Gonzales asked if the firm came in last year and did the same things.

Mr. Fluetsch replied they actually did more last year, but Staff has learned quite a bit since and has been able to do more themselves. Having a controller in place has been beneficial and the learning process for Ms. Harris who has been involved in auditing over the year on an audit she was not a participant in. The process has opened their eyes and they plan to go to Caseware (new software) this year and have been running in parallel. They like the auditor's software much better than the City's.

Mr. Fluetsch noted that Ms. Harris has done a great job gathering data and would be valuable in the month-end close anticipated to rollout in January.

Ms. Harris indicated her communication to Staff was to start looking at processes, journal entries and billing and be prepared to start month-end close at the beginning of the year. However, she also made her expectation known that even though financial staff is working on the audit, they should have July through December closed.

Member Castillo asked if there were many adjustments needed.

Ms. Harris did not know yet because journal entries are still coming in but she expects some at the off-sites, because they have not been through monthly closings.

Member Castillo thought monthly reporting was a good idea. He said they should go with what they have by December 31 because he was afraid since they have been busy with the CAFR...

Mr. Fluetsch assured member Castillo that Staff is currently maintaining and is current.

Ms. Harris explained she was referring to off-site like the Police Department, etc. that does not have billing and their monthly close processes will be more streamlined and condensed.

Member Castillo noted the process is new and they should have something in because they would get into the practice of doing monthly closes. Then in January or March they could get better data.

Ms. Harris replied she anticipates a slow roll out and that the month end closes will have a crossing of data until Staff understands the process. Even if the periods are crossing mid-year, Staff will be getting into the practice and more prepared for annual close. The month-end close is scheduled by the 15th of the next month, mainly because of GRT and State revenues and Staff is taught to follow the GRT deadline.

Ms. Harris said she wants Staff to get used to the process of an end date (for month end closes) and as data is received make a journal entry for the current month. Once they are more seasoned after the next CAFR, she plans to build in accruals for items when possible and push the date closer to an 8 day instead of a 15-day window.

5. NEW BUSINESS

a. Presentation of the contract/ Internal Auditor's Audit Plan

Member Gonzales explained she did not have the audit plan last time and she and Chair de Schweinitz and Ms. Borrego met with the auditor and went through the plan and asked questions . She asked Mr. Fluetsch his thoughts on the auditor.

Mr. Fluetsch indicated he had met the auditor and participated in the risk assessments and sat in on the second day in Finances. Not everyone knew what he was looking for in the risk assessment and the departments did a good job of perceiving their risks.

He noted that the auditor is very attentive to Staff and what they need. They talked about the State Auditors rules and the finding they know they will receive because the State Auditors rules were not followed when McHard was hired. It violated State Auditors rules when the City went public.

Ms. Harris indicated if it had been more internal there probably would not have been a problem but it was published and made public that violated the rules.

Mr. Fluetsch added he understood if they had been looking for fraud when Adam Johnson executed the contract with McHard but the State Auditor has insisted that CLA give the City that finding.

He had discussed the rules with CLA and talked with Andreas and John Olenberger who felt there was no violation of the State Auditor rules because the scope of the audit did not include fraud, waste and abuse. The audit was more about efficiency and process.

Mr. Fluetsch added that the contract with Mr. Olenberger is for the assessment and one audit, but the City needs to be cognizant of the State Auditor rules when hiring and pay attention to the scope of the audit. They need to follow the State Auditor rules specifically on audits for fraud, compliance and performance.

Member Gonzales stated there will always be higher risk areas but does not necessarily mean there is fraud. A fraud audit looks at specific details. Her hope is after the internal audit plan for the next three years is completed they could possibly minimize the City having to go down the path of following State Auditor

rules.

Mr. Fluetsch indicated that would be up to Mayor Webber. He is the driving force between the three audits.

Member Gonzales thought they should step back rather than say there is fraud because they now have an internal auditor. The auditor is working on things that could have minimized a high risk area potential for fraud, without necessarily searching for fraud.

Mr. Fluetsch felt that the Mayor wanted specifically to look at whether there is fraud, waste, and abuse in the city has budgeted \$200,000 for the three audits.

Vice-Chair Sommer asked if the rules would have been violated if an internal auditor had been hired as an employee to look at things instead of McHard.

Mr. Fluetsch replied that was a question for CLA or the State Auditor. He gleaned from conversations with Mr. Olenberger and Andreas that the scope is what mainly drives the Auditor rules.

Member Castillo thought they should just use the Auditors Office list when hiring.

Mr. Fluetsch pointed out that Mr. Olenberger could not be on the list because he is not a CPA firm and not in New Mexico. There is specific criteria for who can be in the State Auditor pool. He pointed out they will have a new State Auditor in January.

Member Castillo said they could use all the right language but use the word "fraud" and would be back to square one, so they need to work closely with the State Auditor's Office.

Member Gonzales explained she wanted to make sure this gets to the point the Audit Committee could make a recommendation for the audit plan to go to the Finance Committee and Mr. Olenburger could get started on the first audit.

Member Castillo asked if Mr. Olenberger's company fell under the Auditor's rule.

Mr. Fluetsch said it would not and after giving Mr. Olenburger the statute of the State Audit Rule, 2.2.15 both he and Andreas agreed they do not fall within the parameters. Mr. Olenburger can continue the internal audit but the three audits are outside his scope of abilities and he does not meet the criteria.

Mr. Fluetsch said the City needs to be very cognizant of the Auditors rules and how they write the scope of the audit.

MOTION: Member Gonzales moved, seconded by Member Castillo, to approve the 2018 Risk Assessment prepared by Colorado Independent Consultants Network and recommends that the Finance Committee proceed with the plan to conduct the one audit.

Member Castillo asked if there had been any other dialogue from the State Auditor's Office about doing the Risk Assessment. He was told no.

Vice-Chair Sommer noted they have only outsourced the internal auditor function.

Member Castillo replied the State Auditor is involved with who they are contracting not hiring, for which there is nexus within the audit function.

Member Gonzales noted the contract is already in place with Mr. Olenberger and is compliant.

Mr. Fluetsch replied that both Andreas and Mr. Olenberger concur they have not violated the rules.

Member Gonzales and Vice-Chair Sommer discussed the contract. Both agreed they should recommend the audit performed should be the one with the highest risk.

Mr. Fluetsch pointed out the list was already in order of what Mr. Olenberger perceived to be the priorities. The contract would allow the risk assessment, an audit plan and one other audit that he assumed would exceed the 250 hours and 20,000 dollars. The City Manager can approve up to \$60,000 and look to the Audit Committee for a recommendation on how many RFPs are needed.

He suggested the Committee might want to wait until the results of this audit because after the session is complete he thought the Committee would be in a stronger place to make a recommendation.

Member Gonzales recalled a past conversation where the Committee was told the hourly rate of \$150 an hour and a standard 200 hours, which is about 26,000 dollars.

Mr. Fluetsch found that to be consistent with the RFP for REDW.

Member Gonzales expressed concern about getting the process moving and providing the City a plan to follow if they decide not to keep Mr. Olenberger.

Vice-Chair Sommer agreed. She noted by the time the audit gets started it would be into 2019 and if the plan is sound and based on the risk assessment, she would be comfortable with a recommendation to the Finance Committee to adopt the plan. The City could execute the plan and would be up to them what manner they use to get it done.

Member Gonzales asked the date of the next Finance Committee meeting.

Vice-Chair Sommer offered to send the motion to the Finance Committee. She asked that Mr. Fluetsch follow-up on getting the recommendation on the agenda.

Mr. Fluetsch offered to see if the recommendation could possibly be on the December 17 agenda, but if not it would be the first meeting in January. He will be sure members are notified.

Member Gonzales withdrew her previous motion.

MOTION: Member Gonzales moved, seconded by Member Castillo, to approve the 2018 Risk Assessment by Colorado Independent Consultants Network, LLC, and recommend the Finance Committee adopt and execute the audit plan for all three years.

VOTE: The motion passed on a unanimous (3-0) voice vote with Members Castillo, Gonzales, and Sommer voting in the affirmative and none voting against.

7. PUBLIC COMMENT

There were no public comments.

8. NEXT MEETING DATE

The Audit Committee agreed to meet January 9, 2019 at 2:00 p.m. for their first meeting in 2019 and thereafter meet on the first Wednesday of each month for the remainder of the year.

9. ADJOURNMENT

Having completed the agenda and with no further business to come before the Audit Committee, the meeting was adjourned at approximately 3:00 p.m.

Approved by:

Clark de Schweinitz, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.