



Agenda

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
WEDNESDAY, JANUARY 9, 2019
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 – December 5, 2018**
- 5. NEW BUSINESS**
 - **Election of new Chair and Vice Chair of the Committee**
 - **Introduction/Welcome of New Committee Members**
 - **Stephanie Woodruff**
 - **Paul A.C. Margetson**
 - **Mary Ellen Erpelding-Chacon**
 - **Distribution and Discussion of enabling ordinance (i.e., the law that created the audit committee)**
- 6. OLD BUSINESS**
 - **Distribute and Discuss risk assessment documents approved by audit committee – 3 year plan**
- 7. PUBLIC COMMENT – (5 Minutes)**
- 8. NEXT MEETING DATE – To be determined**
- 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**

RECEIVED AT THE CITY CLERK'S OFFICE

DATE: 12/18/2018

TIME: 2:42 PM

SUMMARY INDEX
CITY OF SANTA FE AUDIT COMMITTEE
January 9, 2019

ITEM	ACTION TAKEN	PAGE(S)
1. CALL TO ORDER		
2. ROLL CALL	Quorum Present	1
3. APPROVAL OF AGENDA	Approved as presented	1
4. APPROVAL OF MINUTES - December 5, 2018	Approved as presented	2
5. NEW BUSINESS		
a. Election of Officers	Officers were elected	1-2
b. New Members Introductions	Introductions were made	2
c. Enabling Ordinance Discussion	Postponed to next meeting	3
6. OLD BUSINESS		
a. Risk Assessment Discussion	Discussion	3-7
7. PUBLIC COMMENT	None	7
8. NEXT MEETING DATE:	February 6, 2019	7
9. ADJOURNMENT	Adjourned at 3:15 p.m.	7

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

January 9, 2019
2:00 p.m. – 4:00 p.m.

1. CALL TO ORDER

A regular meeting of the City of Santa Fe Audit Committee was called to order by Member Al Castillo on this date at approximately 2:00 p.m. in the Convention Center Administrative Conference Room, Santa Fe, New Mexico.

2. ROLL CALL

Roll call indicated the presence of a quorum as follows:

Members Present:

Al Castillo
Paul Margetson
Stephanie Woodruff
Mary Ellen Erpelding-Chacón

Members Absent:

(One vacancy)

Staff Attending

Marcos Martínez, Assistant City Attorney
Brad Fluetsch, Cash and Bonds Manager
Christine Keyes, Deputy Finance Director
Debra Harris-Garmendia, Controller
Mary McCoy, Finance Director.

Others Attending:

John Olenberg, Colorado Independent Consultants Network (telephonically)
Carl Boaz, Stenographer

5. NEW BUSINESS

a. Election of new Chair and Vice-Chair of the Committee

MOTION: Member Margetson moved, seconded by Member Erpelding-Chacón, to elect Member
Castillo as Chair.

Member Castillo pointed out that he is out of town often. Membership involves homework and being present. But he could accept being Chair for six months to help in transition.

VOTE: The motion was approved by unanimous (3-0) voice vote.

Mr. John Olenberg was present telephonically.

Vice-Chair

MOTION: Member Margetson moved, seconded by Member Erpelding-Chacón, to elect Member Woodruff as Vice-Chair.

VOTE: The motion was approved by unanimous (3-0) voice vote.

3. APPROVAL OF AGENDA

MOTION: Member Margetson moved, seconded by Member Woodruff to approve the agenda as amended.

VOTE: The motion was approved by unanimous (3-0) voice vote.

4. APPROVAL OF MINUTES: December 5, 2018

MOTION: Member Woodruff moved, seconded by Member Erpelding-Chacón, to approve the minutes of December 5, 2018 as presented.

VOTE: The motion was approved on a unanimous (3-0) voice vote.

5. NEW BUSINESS

b. Introductions.

All Committee Members and Staff who were present introduced themselves to the group and shared their background and interest in the work of the Audit Committee.

Chair Castillo asked for a motion on approving the procedure used in selecting the Chair and Vice-Chair.

Mr. Martinez explained that Chair Castillo was suggesting that a new Chair and Vice-Chair were nominated properly and that the Committee's initial actions were appropriate to take.

MOTION: Member Woodruff moved, seconded by Member Woodruff, to ratify the actions taken to elect a new Chair and Vice-Chair of the Audit Committee.

VOTE: The motion was approved on a unanimous (3-0) voice vote.

c. Distribution and Discussion of enabling ordinance

Mr. Fluetsch had a copy of the ordinance, but it was apparent that not everyone had a copy.

By consensus, the Committee postponed this discussion until the next meeting.

6. OLD BUSINESS

a. Risk Assessment Discussion

Member Margetson was impressed by the use of colors in the report. He understood that not all members of the Audit Committee were on the Committee when the risk assessment was done. He said he was searching for where the risks existed and where the Commission should focus attention for the internal audit.

Mr. Olenberg said the Risk Assessment is a tool for the Committee to determine its work. He referred to page 5 for the identification of responsibility and explained the color coding for the Committee. He shared the rank order he established for level of risk.

Member Margetson asked if there are just two potential responses.

Mr. Olenberg said there are four and he put them in ranked order in his document. He added that it is important to think about what to do with it. He shared the priorities for the audit process as he proposed it.

Member Woodruff asked if the City has budgeted \$200,000 for the three audits.

Mr. Fluetsch said that was correct. The City will do about ten audits this year. And the CLA Firm just completed the first (CAFR). Audits 2, 3, and 4 are the result of the McHard Fraud Report and the City targeted the performance audit and compliance audit, plus six internal audits. One of those was awarded to Mr. Olenberg's firm and the other five are yet to be awarded. Mr. Olenberg is to do one those internal audits on a budget just under \$50,000.

Member Woodruff referred to page 7 where the audit plan says \$162,000 for audit. She asked what the actual budget is and how much of the 1050 estimated hours would use of the \$162,000.

Mr. Fluetsch said the CLA contract is for \$160,000. The \$200,000 is to start the three McHard audits and \$162,000 is for the internal audit. \$60,000 was used for Mr. Olenberg and the remaining \$100,000 is for the remaining five internal audits.

Mr. Fluetsch asked Mr. Olenberg if he had an estimate on the cost of the six audits.

Mr. Olenberg said he was not sure how many hours it will take but budgeted around 250 hours each. He thought it would take roughly \$35,000 each but understood that would be more than what was budgeted.

Member Woodruff agreed. The \$100,000 would only cover 2.5 audits. She said that to have a risk-based approach, you figure out the risks and target the highest priorities as a kind of hybrid. If there is any wiggle room, we might get five audits, but not six audits.

She pointed out in reviewing October's notes and comparing with other cities, that a city of this size usually has two FTEs to address 1500 to 1800 hours of auditing. She asked if there is a goal down the road to hire an auditor again or to have more money to staff at least two FTEs? There were no audits that she could find in 2018. She didn't see anything posted

Chair Castillo agreed, they didn't have any.

Member Woodruff reasoned that the risk explodes then. Having much red means we have our work cut out for us. But the Mayor and Council need to understand it takes money to get things under control and follow up to make sure the controls are there.

Chair Castillo pointed out that the budget was approved before the risk assessment was done and was just best guess. Your point is well taken. We will need to go back for more funding.

Member Woodruff agreed. And we want to make sure Mr. Olenberg is successful. HR and Contract Management are all big.

Director McCoy arrived at 2:43. She asked if Mr. Olenberg had finished.

Mr. Olenberg said he was not. He commented that audits rarely work out to so many hours. Here is the budget for internal audit and one should ask what you can do with it. So that is the way we typically must plan for it. So the Committee needs to figure out what needs to be done. In reality, that never comes from an outsource perspective, but something is better than nothing.

Mr. Olenberg shared what one of his in Colorado had done and shared that Denver's Audit Department has 30-35 FTEs.

Member Woodruff said she wanted the Committee to let the Mayor know of the budget shortage. There is not enough money to do the rest of the audits

Member Margetson asked how much in the report involves Ms. Harris. Does Public Works come and talk with us? There are things for them to take care of. What is our role in this? Are we supposed to question the invoices or is there something we don't get into?

Director McCoy introduced herself. She said Mr. Olenberg has done an excellent job. This is something we will use to identify our highest priorities. She explained that this has been collaborative with all the departments and they have had good representation city-wide. We would ask the Public works Director to come in to present to you regarding the Public Works risks. Ms. Harris-Garmendia, as Controller, would be involved and whether it involves city finances or not.

Member Margetson asked if they report to the Finance Director.

Director McCoy said they report to the City Manager,

Member Margetson asked how often this is updated.

Mr. Olenberg said for best practices, generally he recommended updates from high to medium, etc. and what is no longer a priority. There are changes there and it is not intended as a hit list.

Member Margetson said #1 is HR, which has outdated systems and processes. He asked if that is the job of this Committee.

Member Woodruff said he is recommending an audit be done. Once the audit is done, it comes to the Committee.

Mr. Olenberg explained the audit plan is for recommending the number and target of audits.

Member Margetson understood and pointed out there is a problem with HR in what this is saying. He asked if we need to fix it now or do we have to wait for the audit.

Member Woodruff proposed both.

Director McCoy said Procurement is second. We have been updating the procurement manual and it rose to the top. She and Mr. Olenberg talked about it a month ago and the fix is being drafted now for feedback. There may be other things that can be adopted. But we don't wait on it.

Member Margetson said that's good. Thank you.

Member Woodruff noted the risk assessment is high level and Mr. Olenberg has identified it as a high risk and next is to pull samples and assess it and produce a list of recommendations and will need a certain number of months and a commensurate budget/ The audit is done because we don't know all the issues.

Director McCoy said Staff report on what is being done and what else is needed to complete it, and

then do a follow up.

Member Erpelding-Chacón understood these processes in here have already started and asked if the Committee could expect a time line.

Director McCoy said she would work with Mr. Olenberg and his team on the order of audits for FY 19 and the next one is a procurement audit and after that is the ERP.

Mr. Fluetsch noted that only one of the six has been done. HR and Contract Management have yet to go out for RFP. He explained to the new members that the City had one FTE internal auditor and she resigned in April and Audit Committee moved to what to do for this year.

Chair Castillo added that an issue raised in the external audit is the problem with State Auditor's Office Rule. He understood that Mr. Olenberg will be asked to submit proposals on some of the six audits.

Mr. Fluetsch observed that it is up to the Audit Committee on how to request those audits.

Director McCoy agreed and would present the audit rule at the next meeting on what we have to flag for the State Auditor on process contracts. She will provide the specifics.

Chair Castillo asked if she thought with proper language, we can get past the audit rule.

Director McCoy said we can comply with the rule.

Chair Castillo asked Mr. Olenberg if his firm would be on the list.

Mr. Olenberg said no and explained that they don't do internal audits. They are not a CPA firm.

Member Margetson asked if the City was delinquent and now is okay.

Director McCoy said the CAFR was postmarked on December 17 and still under review. We have not received the final okay. CLA was the firm selected and CLA could be approved for one more year.

Chair Castillo asked, when we talk about the budget and various jobs going out to bid, who is going to work on the scope? That can be very important. He asked if any thought was given to limiting the scope? Testing could result in same findings over and over again.

Director McCoy said we have a good guide in what Mr. Olenberg produced to use in procurement of audit services and then will determine the others.

Chair Castillo thought they don't have to go with their recommendations entirely but deal with budget constraints also. The other comment is what Member Margetson mentioned earlier about the flag already raised in some of these areas for procurement. Some thought must be given to making adjustments prior to contracts let. You don't hinder the auditor but don't send him on wild goose changes, either.

7. PUBLIC COMMENT

There were no public comments.

8. NEXT MEETING AND SCHEDULE.

Chair Castillo asked how the first Wednesday of each month fits with everyone. The decision made last month was tentative. We could meet the first Wednesday of February.

The Committee agreed to hold the next meeting on Wednesday, February 6 at 2:00 p.m.

9. ADJOURNMENT

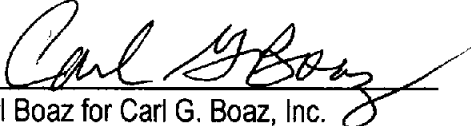
Having completed the agenda and with no further business to come before the Audit Committee, the meeting was adjourned upon motion by Member Margetson and second by Member Erpelding- Chacón at approximately 3:15 p.m.

Approved by:



Alvino Castillo, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.