



Agenda

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
WEDNESDAY, MARCH 6, 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**
February 6, 2019
- 5. NEW BUSINESS**
 - **Presentation of FY2018 Comprehensive Annual Financial Report, Georgie Ortiz, Managing Principal, Clifton Larson Allen LLP**
 - **Progress report on Internal Audit contract and Procurement Audit, John F. Olenberger, CPA, Colorado Independent Consultants Network, LLC**
- 6. OLD BUSINESS**
 - **Continue discussion on Distribute and Discuss risk assessment documents approved by audit committee – 3 year plan**
 - **Continue discussion on Distribution and Discussion of enabling ordinance (i.e., the law that created the Audit Committee)**
- 7. PUBLIC COMMENT – (5 Minutes)**
- 8. NEXT MEETING DATE – To be determined**
- 9. ADJOURNMENT**

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CITY OF SANTA FE AUDIT COMMITTEE
March 6, 2019

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

March 6, 2019
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 Member Al Castillo 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, Chair
Mary Ellen Erpelding-Chacón
Paul Margetson
Stephanie Woodruff

Members Absent:

Cristina Mulcahy

Staff Attending

Erik Litzenberg, City Manager
Brad Fluetsch, Cash and Bonds Manager
Debra Harris-Garmendia, Controller
Mary McCoy, Finance Director.

Others Attending:

Councilor Carol Romero-Wirth
Georgie Ortiz, Clifton Allen Larson LLP
John Olenberger, CICN [telephonically]
Carl Boaz, Stenographer

3. APPROVAL OF AGENDA

Director McCoy asked the Committee to consider Mr. Olenberger's report first.

MOTION: Member Margetson moved, seconded by Member Erpelding-Chacón to approve the agenda as amended.

VOTE The motion was approved on a unanimous (4-0) voice vote.

4. APPROVAL OF MINUTES:

February 6, 2019

This was passed over until next month.

5. NEW BUSINESS

- **Progress report on Internal Audit contract and Procurement Audit, Mr. Olenberger
Olenberger, CPA, Colorado Independent Consultants Network, LLC**

Mr. Olenberger walked through the internal audit plan spreadsheet. We decided to go forward with the audit. What are the policies that were in place during the proposed audit period and we can go back further, if you wish. We have to start it from March 1 2018 to Feb 28, 2019 with the policies that were in place at that time. And look at all of the purchases that were made then and do data analytics at a high level for trends that might indicate duplicate payment or duplicate invoices and transaction controls for anything over \$10,000 or maybe at \$6,000 on the same day, etc. or an inappropriate purchase when it seems overly burdensome. That is what we are proposing. Director McCoy was going to look at the timing of it when you are ready. We included looking at the purchasing policies at the time and the ones that will be put in place and speaking with the users throughout the City for their experience with purchasing. There were negative experiences to consider - what they have been and why and if the new policies being put in place will help with quality of controls and efficiency. Also, finding exceptions to the rules and cases we come across that need something more.

That is our proposed work program. The other program is the PBC list (provided by client) with purchasing involved and the invoices approval documents.

Member Woodruff asked if the budget was 250 hours.

Mr. Olenberger thought it was 202 hours. We wanted to be around that threshold.

Member Woodruff said it had been 250 hours and we talked about a more limited scope because of the new policies and procedures. That will leave some hours left over.

Chair Castillo noticed on the last page that no tasks are started and asked what that meant.

Mr. Olenberger explained that they have not received clearance to start. And what is going on there now. We don't want to get in when another project is being done.

Chair Castillo asked what the completion date is.

Mr. Olenberger thought it was June 30. We could move forward with the start and it should be finished by June 30.

Member Margetson asked for how that would be spent.

Mr. Olenberger said they would start by reviewing the policy and then set up a meeting. There are three of us but we will not all be on site at the same time. A lot of it would be by hard copy. A lot of invoices are available on-line. So it is a combination of on-site and at our office. There might be some gaps in between.

Member Margetson asked if the plan is 81 hours on-site.

Mr. Olenberger said no. That is driven by the auditor we assign to it and we have not assigned the work out yet. A primary auditor will be on it.

Chair Castillo asked what the hold up is for providing the PBC.

Director McCoy said Finance Department is ready for it at the direction of the Committee.

Chair Castillo asked for a motion for approving the 202 hours.

MOTION: Member Woodruff moved to proceed with purchasing the audit at 202 hours for procurements, contingent on Director McCoy confirming the dates. Member Margetson seconded the motion and it passed by unanimous 3-0 voice vote.

Mr. Olenberger said he would wait to hear from Director McCoy, and assign the auditor and move forward on it.

Chair Castillo asked if he would be prepared to give an update one month from now.

Mr. Olenberger said he would and that would be a good time for being on-site and meet you in person. A lot depends on how quickly we get the information.

Chair Castillo said he would include that progress report on the next agenda.

Mr. Olenberger said okay.

Member Margetson asked if his team members were equally qualified.

Mr. Olenberger said they are an internal audit specialty firm and all staff have at least 10 years' experience but some much more. They are at the same rate.

There were no other questions and Mr. Olenberger signed off.

- **Presentation of FY2018 Comprehensive Annual Financial Report, Georgie Ortiz, Managing Principal, Clifton Larson Allen LLP**

Ms. Harris-Garmendia provided a handout to the members on the CAFR.

Chair Castillo said the contract was with City and auditor with the approval of the State Auditor. One problem we had before was for the auditor to talk with the Audit Committee before the audit was completed. He asked if there is a way that the Audit Committee could be informed while the audit is being prepared.

Ms. Ortiz said it is not open to the public so there are things we cannot say to the public.

Mr. Litzenberg said he will find out if OMA allows such an exception.

Chair Castillo said obviously it cannot be done in open session We need to overcome that conflict.

Mr. Litzenberg said that will be put on the next agenda.

Chair Castillo asked if the work had started yet.

Ms. Ortiz confirmed that it hasn't.

Director McCoy asked what frequency the Committee is interested in.

Chair Castillo asked if an update could be made at every meeting.

Ms. Ortiz said, "It depends, but we could be available."

Chair Castillo thought we could work out some communication with the auditor.

Member Woodruff suggested having the auditor available at it. But not necessarily on the agenda for when something comes up in the action plan. The back and forth - investigation or negotiation.

Chair Castillo wanted to make sure the Committee won't violate the State Auditor's rule.

Ms. Ortiz said her firm has done it in executive session before.

Chair Castillo agreed to address that at the next meeting.

Ms. Ortiz said "We are not part of internal control and not responsible for the statement but to give an opinion on it. GASB 75 requires post employment benefits - like Retiree Health Care. There are no new accounting disclosures other than GASB 75. She explained they had audit adjustments of \$169 million. There were no past audit adjustments, meaning we went ahead with any adjustments we encountered."

There are some management judgments and estimates in the CAFR like collection of A/R based on historical information and there are capital assets estimated. Self-insurance figures are also estimates. Not every number could be substantiated but they are in good form for historical information. There was really no trouble encountered except for the large adjustments.

She did not think the Finance Department met with other auditors. So that is all the required communications.

The audit was unqualified so we believe the financial statements were materially correct when going to the State Auditor and it was sent to him on time. There were 7 findings from the prior year that were cleaned up.

In the back on page 275 of the CAFR are the findings for 2018. The first, 2018-001, is a repeat finding that deals with the close process. That process for monthly closes is not quite there yet. She met with Director McCoy and Ms. Harris-Garmendia the other day and they now have a better system going forward.

There were things we did that should have been done before we came and is why there were material weaknesses.

2018-002 was on Accounts Receivable. There are old A/Rs that need to be cleaned up and she wanted to make sure that is done before the audit. They need to be done year-round instead of all at the end of the year.

One inefficiency was that the disaster recovery plan is not in place (IT). And users could access it at different levels and some accessed for more than they were approved.

The Single Audit was unqualified so we had no problems with it - just things found during course of the audit.

Chair Castillo pointed out that the Committee members are a bit handicapped, having just seen it.

Member Margetson asked about the adjustments.

Ms. Ortiz explained that they usually don't see that many after coming in. They were across the board. We had to make an entry on contributions to PERA - had to clean it up. It was just the nature of these old entries.

Cleaning this up will reduce the number of adjustments and Mr. Olenberger had some stuff on procurement. All of the areas Mr. Olenberger will be doing will also touch this area to make sure all entries are done and should prevent the need for adjustments.

Chair Castillo asked how the City is doing on accounting for fixed assets.

Ms. Ortiz said they are doing okay. We looked at more than 100 and went out to see that they are there. We made sure the cars were on the list. So we did quite a bit of work on that.

Chair Castillo asked about debt.

Ms. Ortiz explained that is something that must be done all the time. They are working on the day-to-day stuff but those will be the bigger entries.

Member Margetson asked if there were bank accounts discovered.

Ms. Ortiz agreed there were some small ones.

Member Margetson asked if there were 600 or more.

Ms. Harris-Garmendia said there never were that many.

Member Margetson asked how much is written off for utility non payments.

Ms. Ortiz explained that they are not written off but we need to make sure they are correct. We just allow for it.

Member Margetson said there are many who pay utilities on time. There was a line for people to donate for people who could not afford to pay their bills.

Director McCoy clarified that they have to qualify as low-income and then there is support, depending on the population and she could verify that.

Chair Castillo asked about the monthly review.

Ms. Ortiz said there are some procedures that were inherited from long ago and they need to be verified and a decision made on what should be included on the financial statement. If the nonpayment is ten years old, the City probably won't collect it. Some are so old that no one knows what they are and allow for that.

Ms. Harris-Garmendia said during the audit process, she was doing account reconciliations and the ones that are older than 1996 are just a lump sum. She has been trying to find the original documentation to see if they are valid or need to be taken off. There is a small group she is still researching.

Part of it is not knowing the originating department. She made an assumption and found it like a treasure hunt.

Member Erpelding-Chacón asked what the percentage is.

Ms. Harris-Garmendia said there is not a high percentage. In A/R, like for parking, the staff is going back years to find out what those old items are. But she did not really have a percentage.

Member Erpelding-Chacón was curious about that.

Ms. Harris-Garmendia could not say.

Ms. Ortiz suspected utilities is probably higher.

Member Margetson asked if Parking decided to close it out and forget it.

Chair Castillo asked if there is a protocol. It seems to be very tedious. He questioned if it is worth it for all this effort. He asked Ms. Ortiz if that was due diligence/

Ms. Ortiz said the likelihood of recovery of those receivables that are more than ten years old are probably not recoverable. The City needs to make sure it is materially stated, and if it is something you want to see.

Chair Castillo thought there is a message to be made.

Ms. Ortiz said policy changes are easier when you get new people. Erica was the last of the old group, so putting the procedures in place will help.

Member Woodruff observed that the A/R is on page 18 which, as of June 30, was \$38 million. \$25.7 million is governmental.

Chair Castillo asked if allowances are made.

Ms. Ortiz agreed.

Councilor Romero-Wirth asked, if debt is an issue, and we just issued more debt, do we have new procedures in place?

Director McCoy said it is a little different.

Ms. Ortiz added that it is not an issue of having the debt but of recording the transactions correctly. Premium discount and P&I payments are all that need to be recorded correctly. The Finance Staff understand how to issue debt but recording has been a problem.

Director McCoy said the monthly closing is our goal for this year. The idea would be to know what we have to do on a monthly and quarterly basis so we don't have to make adjustments at the end for the whole year.

Ms. Harris-Garmendia is implementing the process so that on July 1, we can have a process where we don't have the high level of entries Ms. Ortiz mentioned. She created an AJE log and when she gets a JE request, she looks at the frequency and asks why it is being made and the log shows the generating activity and the off-site dept. As things are coming in, she is controlling the JE Log. Once created, it will be put on a share drive and they log in the JE batch number, entry number, JE date and amount. And as it goes through work flow, it comes to her for posting and it is an automated sheet that changes colors and should be all white at the end of the month, and if not, someone didn't do that full process. Some of the JEs were made and reversed and had to be corrected.

In doing this, we will roll out reconciliations that are not done right now. And the tracking should all reconcile to the G/L and at close, we can give to the auditor on all processes done. There is a log number associated with every line that starts with scanned docs on the share drive. It ties to the share drive; electronic accounting system and whatever set of ledgers people are using - and a name will be found.

So it will allow things to be done quicker and not fall through the cracks. It will minimize auditor work.

Chair Castillo asked where we are on separation of monthly financial statements.

Ms. Harris-Garmendia explained that the E-1 system does not provide any financial statement. They must be manually made. But the system CLA was using is one we are trying to acquire ourselves and be able to talk apple to apple.

Ms. Ortiz said the software really is a trial balance software system. And that leads into financial statements.

Mr. Fluetsch said we do have CaseWare that produces financial statements but we cannot use it because we don't close monthly. We don't like Caseware.

Director McCoy said we want to use the same system as CLA uses. The first thing is to correct procedures and train the staff and that is our goal for this year.

Ms. Harris-Garmendia explained that the new software rolls out in July and we are still under the old E-1 system for this fiscal year. Once we are able to close monthly, we can spit out the monthly financial system reports.

Member Margetson said it appeared there were excess funds last year as shown on page 26. It was \$7 million in brackets.

Director McCoy said DFA has mandated 1/12 reserve and we met that in FY 18. And we now have a goal of 10%. We have complied with the 1/12 requirement. The goal is 10% in reserve for general funds and we did not meet that this past year.

Ms. Ortiz said page 18 has the statement of position. That takes all governmental funds and approves on modified accrual. So \$137 million was the balance left and \$475 million on the business side. A lot of that is due to capital assets which are not going to be sold. But on page 22, you can see all of the government funds and the debt service fund had a negative \$3 million.

Mr. Fluetsch said one should look at beginning of year and end of year to compare. The total government funds were \$13 million.

Member Margetson observed that we are in good shape with a balance of \$72 million.

Ms. Ortiz agreed. The total cash is on page 20. The City has about \$50 million in cash.

Member Margetson asked about the \$7 million shortfall.

Ms. Ortiz said that information is on page 23 and 24 and is just governmental funds on a modified accrual basis. On page 20, you don't see any capital assets or debt service. It is only on page 18. Page 26 is just budget to actual for the General Fund.

She summarized that the City has a ways to go but Ms. Harris-Garmendia and Director McCoy are on the right track. I want to sit with them on the PERA entries and could also go through them with debt. With a government of this size, we cannot do it for them, but we can help.

Chair Castillo understood that Ms. Harris-Garmendia is making the adjustments and at some point your trial balance will match with that of CLA.

Ms. Harris-Garmendia agreed, and they are going to be lined up side by side.

Member Margetson said that sounds good. Thank you.

Ms. Ortiz excused herself at 3:07.

Chair Castillo will have Ms. Ortiz on the agenda when we have had a chance to look further at it.

6. OLD BUSINESS

- **Continue discussion on Distribute and Discuss risk assessment documents approved by audit committee – 3 year plan**

Member Margetson asked Mr. Litzenberg if he has to sign every P.O.

Mr. Litzenberg said that was not true but he signs too many.

Mr. Litzenberg excused himself from the meeting.

There was no discussion remaining on risk assessment.

- **Continue discussion on Distribution and Discussion of enabling ordinance (i.e., the law that created the Audit Committee)**

Chair Castillo said the Committee needs to understand its role on this. He asked if there were any strong feelings about moving ahead and hiring an internal auditor. For the time being, we will continue with Mr. Olenberger.

He asked if Director McCoy was satisfied with the current arrangement.

Director McCoy pointed out that now would be the time to make that recommendation as long as the work is being done. This is the first step. The Risk Assessment went well and now go with the prioritization whether hiring a person or continuing the contractual arrangement.

Chair Castillo asked Councilor Romero-Wirth if Council had an issue with the way the Audit Committee is functioning with outsourcing of internal auditor work.

Councilor Romero-Wirth said she would not want to speak on behalf of the Council. But personally, having an external auditor is good for trust. She did not know that the Council is open to that question other than passage of this resolution.

Member Margetson agreed with Councilor Romero-Wirth's opinion. For the time

being, we have a great place to start here and should continue.

Chair Castillo proposed to continue the budget without an internal auditor included.

Director McCoy said she would incorporate that into the plan.

Member Woodruff added that in looking at the the number of hours, it is six of one and half dozen of the other. You plug and play for the skill set needed for that project vs. an \$80,000 salary and 30% benefit package with no assurance of the proper skill set. At end of day, as long as the hours flush out equal with the budget, it is a combination of both, in terms of how projects are determined.

There is some benefit of having an internal auditor because they are here every day establishing relationships and close to knowing what is going on. From what she read in the past, it was very dysfunctional and now is truly independent. But down the road, we might want an internal auditor/manager. And staff can focus on the monthly close and the internal auditor is more day-to-day stuff.

Chair Castillo asked for Staff to guide the Committee if any of the items in the risk assessment are underbudgeted to adjust the budget. If, at some point, we might need an adjustment of hours, the Committee can't do it. But Director McCoy could let the Committee know if those hours are too much or not enough. We don't want to get to that point.

Director McCoy wanted that input on the next agenda and the next steps in the audit plan.

Chair Castillo agreed to do that next time. And Member Woodruff would be very helpful with that.

Member Woodruff said she has already started on that. You can leverage a lot in procurement and it flows into contract management. There is lots of cross over in those two.

7. PUBLIC COMMENT

There was no public comment.

8. NEXT MEETING DATE April 3, 2019 and May 8, 2019

Member Margetson cannot attend on April 3.

Chair Castillo noted that Director McCoy has a conflict with the budget hearing on

May 1 and proposed meeting on May 8.

The Committee agreed with May 8 and April 3 for the next meetings.

Budget Recommendation

Member Margetson thought that down the road, we will need both outsourced and internal auditor.

Director McCoy had checked the ordinance for any official motions on this and read from the ordinance.

Mr. Fluetsch explained that last year we budgeted \$163,000. With part of that, we purchased Mr. Olenberger at just under \$69,000 for the risk assessment and the procurement audit. For next year, no money will roll over. When you look at the list for five audits, that is the number we are looking at. It probably would be less than \$162,000 because there would be no risk assessment, about \$30,000. So it should be about \$132,000 for the budget next year.

Member Woodruff thought the procurement audit would be about \$30,000. We should do HR and contract management audits to use the rest of the money.

MOTION: Member Woodruff moved, seconded by Member Erpelding-Chacón to request \$132,000 for the FY 20 budget. The motion passed by unanimous voice vote.

Member Woodruff wanted to ask for an RFP to be issued for contract management for FY 19 and not lose the money and stay with the same firm to leverage the funds.

Mr. Fluetsch said the City has to issue the RFP and they can respond to it.

Director McCoy recommended, at the guidance of the Committee, to complete the \$162,000 before June 30.

Member Woodruff thought Mr. Olenberger's firm could probably do the contract management audit and should use a different firm for the HR audit.

Mr. Fluetsch said last time, three of the Audit Committee members made up the review committee. So, they were very involved in who was hired.

Councilor Romero-Wirth asked about a forensic audit.

Director McCoy explained that the Finance Committee is undertaking that. She was not sure how far it will go. It might involve CLA. We have to meet with State Auditor

regarding the McHard investigation. We disagreed that it was a fraud investigation; it was a risk assessment. Last year, we budgeted \$200,000 for the McHard report.

Director McCoy clarified that we have to negotiate that with the State Auditor.

Member Margetson asked if the Committee has a role in that.

Director McCoy said the Committee could have one.

9. ADJOURNMENT

The meeting was adjourned at 3:40 p.m.

Approved by:


Alvino Castillo, Chair

Submitted by:


Carl Boaz for Carl G. Boaz, Inc.