



Agenda

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
WEDNESDAY, APRIL 3, 2019
2:00 P.M. – 4:00 P.M.**

AMENDED AGENDA

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. APPROVAL OF AGENDA**
- 4. APPROVAL OF AUDIT COMMITTEE MINUTES
March 6, 2019**
- 5. NEW BUSINESS**
 - **Progress report on Internal Audit contract and Procurement Audit, John F. Olenberger, CPA, Colorado Independent Consultants Network, LLC**
 - **Site Visits by Committee Members**
- 6. OLD BUSINESS**
 - **Continue discussion on Distribute and Discuss risk assessment documents approved by audit committee – 3 year plan**
 - **Continue discussion on Presentation of FY2018 Comprehensive Annual Financial Report – (Georgia Ortiz available via phone if any questions)**
 - **Continue discussion on 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**

**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: March 27, 2019

TIME: 11:11 AM



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RECEIVED AT THE CITY CLERK'S OFFICE

DATE: March 25, 2019

TIME: 11:23 AM

SUMMARY INDEX
CITY OF SANTA FE AUDIT COMMITTEE
April 3, 2019

| <u>ITEM</u> | <u>ACTION TAKEN</u> | <u>PAGE(S)</u> |
|--|---------------------------------|----------------|
| 1. CALL TO ORDER | | |
| 2. ROLL CALL | Quorum Present | 1 |
| 3. APPROVAL OF AGENDA | Approved as presented | 1 |
| 4. APPROVAL OF MINUTES March 6, 2019 | Approved as presented | 2 |
| 5. NEW BUSINESS | | |
| a. Internal Audit/Procurement Audit Update | Discussion 2-7 | |
| b. ERP Timeline 5-7 | Presentation/Discussion | |
| 6. OLD BUSINESS | | |
| a. Risk Assessment Discussion (continued) | Discussion | 7-10 |
| b. CAFR Discussion (continued) | Discussion | 10 |
| c. Enabling Ordinance (continued) | Postponed to next meeting 10 | |
| 7. PUBLIC COMMENT | | |
| General Discussion | Discussion | 10-11 |
| 8. NEXT MEETING DATE: | May 8, 2019 | 11 |
| 9. ADJOURNMENT | Adjourned at 4:07 p.m. | 12 |

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

April 3, 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
Cristina Mulcahy
Stephanie Woodruff

Members Absent:

Paul Margetson [excused]

Staff Attending

Erik Litzenberg, City Manager
Cristina Keyes, Treasurer/Officer
Debra Harris-Garmendia, Controller
Mary McCoy, Finance Director.
Shirley Rodriguez, Chief Procurement Officer

Others Attending:

John Olenberger, CIGN
Carl Boaz, Stenographer

3. APPROVAL OF AGENDA

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

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

4. APPROVAL OF MINUTES:

February 6, 2019 - not on the agenda.

March 6, 2019

MOTION: Member Woodruff moved, seconded by Member Erpelding-Chacón to approve the minutes of March 6, 2019 as presented.

VOTE: The motion was approved on a majority (3-1) voice vote. Member Mulcahy abstained because she was not present.

Those present introduced themselves.

5. NEW BUSINESS

- **Progress Report on Internal Audit Contract and Procurement Audit - John F. Olenberger, C.P.A. Colorado Independent Consultants Network, LLC**

Mr. Olenberger indicated the risk assessment had been completed and CICN is currently in the process of a Procurement Audit.

He explained the standard audit status report he passed out to members is normally provided to site personnel and staff and then finalized, before it is presented to the Audit Committee, and many of the things they would discuss are still in progress.

He noted the key contacts list and stated the purpose of the audit: to look at the current purchasing practices of the City and conduct standard testing to find where efficiency and controls could be improved. The scope of the audit looks at current practices and the most recent year's transactions.

Some onsite and off-site work has been done and Santa Fe based personnel have been interviewing in departments. Mr. Olenberger has been conducting tests and wrapping up interviews and discussions.

The audit is divided into procedures performed and areas to look at next and the Policies and Procedures were reviewed, and notes were made.

Mr. Olenberger noted the audit is interesting in that the City has a draft purchasing manual in addition to a purchasing manual that has existed for some time. The first set of recommendations CICN has pointed out some things that the City may already have considered.

The flowchart of processes is almost complete. They will review their comments on the accounts payable process and plan to interview the department heads for feedback. They will then review data analytics; ask questions, look at potential duplicate payments and where a PO was not used, but should have been and at vendors that should have gone to bid.

People that were interviewed and those they plan to interview are listed.

Discrepancies between practice and policy in the purchasing manual were pointed out and those not reflective of standard practice are noted.

Member Mulcahy asked if the old manual was still in place.

Mr. Olenberger responded he thought the new draft was not yet official and understood there were no drastic differences between the two manuals other than dollar thresholds and changes due to the adoption of the State Procurement Code.

Ms. Rodriguez explained the City adopted the State Procurement Code in January 2018 and is following it, but they have not fully adopted the manual yet.

Mr. Olenberger added the hope is that the manual, when finalized, would be user-friendly. He has suggested a decision tree be included that takes people through the procurement code process and how they can best comply. The simpler they make that, the better the compliance.

Training is highlighted as a fundamental component of rolling out any new policy or procedure, etc. and includes specific items that should be included; the importance of communication, i.e., which could have been a previous issue of users.

Mr. Litzenberg arrived at 2:16 p.m.

The key problems titled: Overburdensome Approval Requirements, Delayed Purchases that Contribute to Frustrations with the Process, were revealed during interviews and the creating the flowchart of processes.

Currently the Procurement Office, with the exception of the P-card transactions, approves every purchase order, as small as \$150, which takes a lot of time. CICN provided recommendations for purchasing, which could be a challenge to implement with the current workload. CICN has suggested removing some procurement office responsibilities to make room for more value-added purchasing.

Chair Castillo asked Ms. Rodriguez why the threshold was so low for approval.

Ms. Rodriguez explained that had always been the process for a P.O. to be in place regardless of the dollar amount. She agreed \$150 was too low. The current small purchase amount is \$20k and is something they could consider.

Member Woodruff reported seeing levels of \$5k - \$10,000 with then higher-level tiers.

Mr. Olenberger noted in addition to taxing the staff in procurement, the purchases are delayed because they have to go through a review. He recommended everyone take responsibility for compliance with the policy when making purchases and shifting some responsibility from Purchasing to the department level.

He suggested they select samples to ensure compliance is followed rather than reviewing every purchase, similar to what they do in the audit, and to provide training when finding noncompliance.

Member Woodruff asked if P-Cards had been abused to get around having to issue a purchase order.

Ms. Keyes replied there was no abuse, the P-card had helped streamline the process for approvals and payments for small purchases, cutting down the processing time.

Member Woodruff suggested requiring purchases at a certain level be made through the P-card.

Mr. Olenberger agreed. He noted that was included in the recommendations.

The issue in regard to the need to make a purchase (B) appears to have excessive levels of approval through multiple committees before the final approval by City Council. CICN recommends streamlining the process and proposed a simplified matrix for specific approval levels. Items going out to bid would be evaluated by a selection committee who would recommend a vendor, etc. to the authority responsible for approval. That would eliminate the need for all current committee approvals.

Recommendations were made regarding the number of approvals required within different departments (C) and discrepancies were noted. For example, Senior Services requires four approvals on a REC and the Library only two, which is understandable in a grant situation, but generally for simplicity and to streamline the process, should be standard as much as possible.

Change orders (D) should have a happy medium between approving a \$100k contract (that had previously been approved) with a \$5k change order. They want to avoid someone making a \$20k purchase that can balloon to \$150k through change orders, but CICN recommends establishing guidelines. Only if a certain percentage over the original approval amount would require going back to the original approver.

Mr. Olenberger indicated he learned from the interviews with departments that people were purchasing without formally executing, so the more user-friendly the process, the more compliance they will have.

Circumvention of purchase order controls: CICN saw in testing selections and in
Audit Committee

April 3, 2019

Page 4

discussion with Ms. Rodriguez, that people were circumventing the purchase order requirements by asking for a P.O. after the purchase. CIGN recommends using the P-cards for those things because it has controls built in, but they should ensure that when the purchasing requirements code requires 3 quotes, that is followed.

Member Woodruff asked if purchase orders were being backdated. Ms. Rodriguez explained she denies them, and they have to go on a voucher.

Mr. Olenberger added they also observe the number of vouchers that have no associated P.O. with it and that is also reported.

The next page covers purchasing through a contract award items such as office/janitorial supplies, plumbing, hardware, furniture, etc. where a specific vendor is used. The hope is although that takes time to set up, some approval processes would be taken off of Purchasing's plate to free them to do recommendations made by CIGN.

Mr. Olenberger talked about time studies CIGN has conducted with other clients to track the amount of time and staff required for work activities. That is not in this scope of work.

Chair Castillo pointed out that Mr. Olenberger was suggesting another layer of record keeping for Purchasing, who is already busy all the time. He thought that analysis type of data was usually compiled by industries and wondered if the municipal league, etc. had what is available from different suppliers.

Director McCoy was not aware of anything but offered to look into it.

Mr. Olenberger added there is the State Procurement Contracts.

He clarified when he talked about the time study that generally the department only tracks their time and activities for a week. The data is then analyzed to see the amount of time, number of employees required, and potential activities that could be eliminated or shifted elsewhere.

Director McCoy added that Mr. Olenberger had recognized that the 3-person purchasing staff is inadequate. There is a proposal to add a fourth person in the new fiscal year in addition to making changes in management, which Ms. Rodriguez could address.

Member Woodruff asked with the new system if that would change in terms of streamlining and doing more by exception reporting.

Ms. Rodriguez replied it would still need to go through the same process.

Mr. Olenberger pointed out that the next section was on the automation of the bidding contracts and A/P processes.

Mr. Olenberger described the current process for A/P is very manual; print the invoice, attach that to the P.O. and physically take to Accounts Payable, who maintains the hard copy. His understanding is the intent is that the process will be all electronic and CICN recommends that as well.

He noted that the RFP process requires bids be submitted in hard copy and that results in large files. CICN has a bid issuance process and most of their proposals are required to be electronic only. They recommend electronic retention which makes compliance easier with records requests. He added that most of CICN's vendors could sign up for a service for any governmental entity through an email box, rather than the City's process of putting bids on the website and in newspapers.

Mr. Olenberger said the goal is how to make the process efficient and speed things up because they heard from every department that the process is cumbersome.

He added that they also received comments such about a cut off before the end of the year that made some departments feel rushed to spend the money before the cut-off date. CICN questioned if that could be reduced, or training could be provided, and they could eliminate the cut-off.

Director McCoy asked if that was standard, because everywhere she had worked had fiscal year-end deadlines.

Mr. Olenberger replied they usually see a deadline after end of year.

Director McCoy explained the need to close every area quickly after end of year to meet the deadline for the external CAFR and a lot of data conversion is going into the new system from the old, so they have added a couple of extra weeks as well.

Ms. Harris-Garmendia clarified that invoices that come in after the end of the year close is fine if you have the year-end close dates and no more invoices would go into that period. But in order to allow vendors the time needed to invoice, they have to have a cut-off for requisitions and P.O.s and materials/services end receipt that is rendered by June 30; it is a timing issue for all of those.

Mr. Olenberger understood. He stated the last comment was a problem with the reconciliation of the P-card system in J. E. Edwards. He offered to follow up further. He thought most likely this is a training issue on using the system because the person who commented stated they have their own tracking system because of their problems reconciling. He said that is inefficient for staff to do a workaround in Excel.

He noted the flow charts would be finalized and they would wrap up testing and data analytics and he expected to have a report by June's meeting. CICN will follow up on the internal audit function which is part of their work and then report back to the Audit Committee.

Chair Castillo asked if they had experienced no issues between the old and new manuals.

Mr. Olenberger replied there had not been many issues. Primarily they looked at if the things being done made sense in accordance with problems and some is if things are being done more to practice than to documented policies. Their concern is whether something is going to bid as it generally should.

6. OLD BUSINESS

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

Chair Castillo said he had wanted to delete “Distribute and Discuss” but they could still work with the agenda item.

Member Woodruff indicated from last month’s discussion they anticipated about \$30k left after the procurement and risk assessment audit. They need to have RFPs issued for audits for contract management and HR before June 30, 2019.

Mr. Litzenberg explained they were trying to start with Mr. Olenberger’s contract and whether that could be extended to capture additional audits. His assistant was crafting that, and it is ready to issue, and he had talked with Mr. Olenberger about capacity, if the Committee chooses to do that.

Chair Castillo asked when they could expect the addendum for the contract.

Mr. Litzenberg replied he wanted to have it today, but his assistant was out.

Mr. Olenberger thought he might be the hold up. Legal wanted detailed work plans which is something they normally do at the beginning of each audit. Usually they develop a work plan as they go along and present that to the liaison, and already have a master services agreement that is not tied to specific work. This is a little different than normal and he had not had the time to put that together.

He pointed out last year when CIGN was selected, the procurement process was called a Request for Qualifications (RFQ) but was treated as an RFP and followed everything usually done for an RFP. He discussed with Mr. Litzenberg, that because of that process the Committee should be able to extend the contract. They would have followed the same process if the procurement had been above the \$60k threshold.

Member Woodruff found, based on the Risk Assessment and the proposed hours it was best to continue that for continuity and then back into the anticipated work plan to get the P.O. to finish the contract, or roll it over, etc.

Mr. Olenberger was uncertain whether the Audit Committee could say they would just get a contract with CICN to do the internal audit work, or if they would need specific sub tasks - instead of HR Audit - 250 hours, for example.

Ms. Rodriguez thought that would be required because the original contract had that information and an exhibit was included in the contract.

Mr. Olenberger clarified at the time CICN did not know what the first audit would be until the Audit Committee approved the plan. The contract is specified, the number of allowable hours.

Ms. Rodriguez replied that could be viewed, but Legal showed her a contract with the scope broken down. Mr. Olenberger thought it might be the draft contract they are putting together.

Mr. Litzenberg offered to follow up.

Mr. Olenberger added typically the Audit Committee approves the audit plan but not each individual audit.

Chair Castillo asked Member Woodruff to review and give the Committee guidance.

Member Woodruff agreed. She thought when this was first discussed in January and the contract was for the entire 1,050 hours. She learned the \$60k was only for the risk assessment and one audit, procurement and last month the committee decided to get the next two projects on the docket.

She agreed it is easier for the Audit committee to turn their estimates of the hours and dollars to execute the work that was approved over to the Internal Audit Department to execute.

Chair Castillo noted the same items under Old Business would remain on the agenda but include a category on 2019-2020 audit engagements. He suggested discussing that to be proactive for 2020.

Mr. Olenberger noted changes could be made at any time.

Member Mulcahy asked how it was determined to focus on procurement first.

Mr. Olenberger explained it was risk-based. The risk assessment CICN does is to make the process interactive with the City and every department is interviewed about their perceived risk. Risks are then listed and ranked high, medium, or low by magnitude of impact and probability of occurrence in four categories; financial, regulatory/legal, operational and reputation. When ranking priorities, they consider the controls that are currently in place that could mitigate risk and each ranking is assigned a weight.

Risks from all departments are sorted at the end based on the relative ranking and assigned a potential audit; some are inherent risks and not auditable.

Under *Selected for Audit* is the potential list for assessment: HR, Preventative Maintenance, Building Code, etc. At the top is Purchasing and HR that everyone uses compared to preventative maintenance, i.e. and the numerical ranking was driven by the high/medium/low remote potential and a formula of the average magnitude by probability.

In addition to having the department fill out the assessment they meet with everyone to discuss their reasons for listing risks as high, low, etc. CICN also uses their experience with risks in other cities and municipalities.

Director McCoy asked if CICN only asked the questions at the department director level or if a sample was done. In her experience in big organizations, the department director is not always informed.

Mr. Olenberger replied directors were asked to include their staff in their discussion when determining the list of risks and were invited to bring anyone they wished to the discussion. The hope was for people at all levels to be involved. They also talked to the Mayor and a member of the Finance Committee.

Director McCoy asked if internal versus constituent concerns were weighted.

Mr. Olenberger said there was none, it was treated as a risk. He indicated not much came from the meeting with the Mayor and Finance Committee member because what they had to say had already been reflected in the risk list.

Director McCoy found internal risks different than risks to constituents and when talking about the main points where the City provides services, that is not captured within this risk assessment.

Mr. Olenberger said it should be because services provided to an external party is a risk and people could be dissatisfied with service, frequency, or think service is inadequate, etc.

Director McCoy asked how the external service of potholes, for example, would weigh opposed to the internal of HR, IT, Fleet, etc.

Mr. Olenberger explained all for the most part all would fall under Reputation, or possibility Regulatory/Legal regarding liability. This is not an exact science and things that interface with the public more often would be a high reputational risk.

The members discussed the ranking on potholes versus life or death risks or major fraud and Mr. Olenberger pointed out the newspaper test. How something looks if it shows up in the newspaper.

- **Continue discussion on Presentation of FY2018 Comprehensive Annual Financial Report (Georgie Ortiz, by phone for questions)**

Ms. Ortiz was available by telephone should there be questions. There were none.

Chair Castillo suggested topics for the next agenda: site visits and possibly visiting city facilities.

He also thought it unwise for him to continue as chair because he travels and has planned major absences. He suggested in May or June the Committee elect a Chair and Vice Chair and suggested Member Woodruff as Vice Chair, would be a likely chair.

Chair Castillo asked about when they anticipate a CAFR update from Ms. Ortiz. Ms. Harris-Garmendia noted they would not be doing site work until late summer or fall.

The Chair suggested that be a potential agenda item in September.

Chair Castillo suggested Member Woodruff work with Ms. Valentine and send the agenda to the Committee for feedback well before the deadline, then distribute to the members with the minutes. He suggested adding Councilor Romero-Wirth who has been interested in the Committee on the mailing list since she has been attending.

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

Chair Castillo asked Member Mulcahy, as their in-house attorney, to guide the Committee on whether they are following the ordinance and she agreed to do that.

He suggested the bullet point remain on the agenda for another month.

7. PUBLIC COMMENT

There were no members of the public at the meeting.

Director McCoy stated they (Finance Department) will be posting and interviewing for an accounting officer and currently have additional support staff positions posted; two are senior analysts. They will also post positions for budget staff within the next month.

Chair Castillo commented about the current Reporter article on the Finance Department. The Committee should note they are aware of the article and that an investigation is underway but not comment further.

Director McCoy asked to address two inaccurate points made in the article.

Chair Castillo suggested they hold off until the next meeting to discuss that.

Member Mulcahy stated there is a process and they should speak with the City attorney about a potential liability to the City, should the inaccurate statements go unaddressed.

Director McCoy noted currently they do not have a PIO Director and Mr. Litzenberg's office would address that.

Member Mulcahy agreed the investigation should proceed but if the record is not corrected, would ask from a liability standpoint that it be corrected.

Ms. Harris-Garmendia stated the City does daily cash reconciliations but the article stated that cash has not been reconciled for five months, which is incorrect. The bank reconciliations are in arrears. She now has a P.O. and staff is assigned to get the bank reconciliations current. Once senior staff is hired, the temporary staff will be trained to take over the financial analyst position and the senior will take over bank reconciliation.

She noted that the members knew since the beginning of the year, there would be an audit finding on the bank reconciliation because Staff had been promoted and the staff replacement was taking time. The article specifically said daily cash was not reconciled and that is incorrect.

Member Mulcahy asked who is conducting the investigation.

Director McCoy replied it was HR and the Legal office. She agreed there is an investigation ongoing so they could not comment on it but wanted to clarify the inaccuracy stated about the City's processes and staff's work in the article.

Member Mulcahy asked if protocol is in place for something like this.

Director McCoy said there is a process. They were contacted by the Santa Fe Reporter, but not about the accounting processes, it was about the HR investigation, which they could not comment on, even when finalized.

8. NEXT MEETING DATE

After a brief discussion on possible dates to meet, the Committee agreed to change the May meeting date from May 15 to May 8, 2019.

Matters from the Chair and *Matters from Staff* would be added to the agenda after Public Comment.

9. ADJOURNMENT

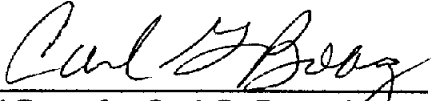
Member Woodruff moved, seconded by Member Mulcahy to adjourn.

The meeting adjourned at 4:07 p.m.

Approved by:

Alvino Castillo, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.