



Agenda

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
WEDNESDAY, SEPTEMBER 11, 2019
2:00 P.M. – 4:00 P.M.**

AGENDA

1. **CALL TO ORDER**
2. **ROLL CALL**
3. **APPROVAL OF AGENDA**
4. **APPROVAL OF AUDIT COMMITTEE MINUTES**
 - July 10, 2019 Meeting
 - August 7, 2019 Meeting
5. **EXECUTIVE SESSION (IF NECESSARY)**

In Accordance with the New Mexico Open Meetings Act, NMSA 1978, Section 10-15-1 (H)(6), Discussion in which the contents of competitive sealed proposals solicited pursuant to Procurement Code and discussed during the contract negotiation process
6. **NEW BUSINESS**
 - Internal Audit Presentation– John F. Olenberger, Colorado Independent Consultants Network
 - Recommendation for approval by the Finance Committee contractor performing FY20 Internal Audit function- Stephanie Woodruff, Chair and Al Castillo, Vice Chair
7. **OLD BUSINESS**
 - Continue discussion on 2019-2020 risk assessment approved by audit committee
8. **PUBLIC COMMENT**
9. **MATTERS FROM STAFF**
10. **MATTERS FROM COMMITTEE**
11. **NEXT MEETING DATE – To be determined**
12. **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: September 4, 2019
TIME: 2:31 PM

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CITY OF SANTA FE AUDIT COMMITTEE
September 11, 2019

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**MINUTES OF THE
CITY OF SANTA FÉ AUDIT COMMITTEE
SEPTEMBER 11, 2019**

1. CALL TO ORDER

A regular meeting of the City of Santa Fé Audit Committee was called to order by Stephanie Woodruff, Chair, on this date at approximately 2:03 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:

Stephanie Woodruff, Chair
Al Castillo
Mary Ellen Erpelding-Chacón

Members Absent:

Paul Margetson (excused)
Cristina Mulcahy (excused)

Staff Attending

Mary McCoy, Finance Director
Debra Harris Garmandia, Controller
Christina Keyes, Treasury Officer
Shirley Rodriguez, Purchasing Director
Erica Encinias, Purchasing
Jessica Chavez, Purchasing
Fran Dunaway, Purchasing

Others Attending:

Cindy Stetson, CIGN
John F. Olenberger, CIGN (by telephone)
Melissa Byers, Stenographer

3. APPROVAL OF AGENDA

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

VOTE: The motion was unanimously approved by voice vote.

4. APPROVAL OF MINUTES:

- **July 10, 2019 & August 7, 2019**

MOTION: Member Castillo moved, seconded by Member Erpelding-Chacon, to approve the minutes of July 10, 2019 and August 7, 2019, as presented.

VOTE: The motion was unanimously approved by voice vote.

5. EXECUTIVE SESSION (IF NECESSARY)

In Accordance with the New Mexico Open Meetings Act, NMSA 1978, Section 10-15-1 (H)(6), Discussion in which the contents of competitive sealed proposals solicited pursuant to Procurement Code and discussed during the contract negotiation process.

MOTION: Member Castillo moved to enter into executive session pursuant to the Open Meetings Act, §10-15-1(H)(6) for discussion regarding the competitive sealed proposals solicited pursuant to the City of Santa Fe Procurement Code. The motion was seconded by Member Erpelding-Chacon.

VOTE: The motion was unanimously approved by voice vote.

The Audit Committee went into executive session at 2:06 p.m.

The Audit Committee concluded the executive session and returned to open session at 2:24 p.m.

MOTION: Member Erpelding-Chacon, pursuant to the Open Meetings Act, §10-15-1(J)(6), moved that the Governing Body reconvene in open session and state for the record the matters discussed in the closed session were limited to those specified in the motion for closure.

The motion was seconded by Member Castillo with a friendly amendment that Governing Body be changed to Audit Committee.

Member Erpelding-Chacon accepted the amendment as friendly.

VOTE: The motion was unanimously approved by voice vote.

6. NEW BUSINESS

- **Internal Audit Presentation– John F. Olenberger, Colorado Independent Consultants Network (CICN)**

Chair Woodruff introduced Cindy Stetson of CICN. John Olenberger, CICN was present by telephone.

Mr. Olenberger thanked everyone from the City for working with them, all the interview time and documentation that was provided. He said he wanted to focus on areas where there's issues of alternative opinions between internal audit and the City.

He said CICN reviews all the management responses that are provided to make sure response meets all recommended actions. There's been back and forth with the City since the report was provided. If management doesn't agree with one or more of the internal audit recommendations, they want to make sure that that is evident in the report so that a reader of the report will see that management said one thing and internal audit said something different. He acknowledged that the City Audit Committee is a relatively new committee. It's been his experience (with other clients) that their Audit Committees will be the determining factor of which direction their client goes when there is a disagreement between internal audit and the client. They will either say they're okay with the City accepting that risk or they want the organization to make a change. He doesn't know if that's the way it's going to work with the City's Audit Committee.

He said CICN prefers that a single responsible party be assigned to each management action because that helps with accountability which means that the agreed upon action will be implemented. They also look at complete dates to ensure that they can be commensurate with the level of management actions. Typically, they don't see completion dates exceeding a year and completion dates exceeding a year have a great chance of not being completed.

He said CICN doesn't rank their items, but they generally put them in order of perceived importance. For Issue 1, they recommended some changes to approval procedures that would allow departments to approve their own purchases within an established threshold. Issue 1 was developed with 26 different City staff putting key buyers in several departments. CICN felt the purchasing process is a key priority issue. They heard complaints of long delays to accomplish procurement from multiple departments. A key component of some of the long delays is that all purchases go through the purchasing department and then there are multiple layers of approval within that. What they're seeing with other municipal clients is a tiered approval process which would allow smaller purchases to be made at the departmental level without the involvement of purchasing. They feel that if the City could free up the purchasing function from dealing with the small dollar purchases, that would allow them to spend more of their

time on more strategic activities such as data analytics. Additionally, when it comes to P-Cards it's reviewed three times: by the cardholder, the supervisor and Accounts Payable. Their recommendation is that Accounts Payable perform a spot check, rather than review 100% of the transactions. They asked Accounts Payable how many how many issues of non-compliance are being found when they were doing the 100% check. The response was not many. Because of that, CICN didn't feel it was necessary to have that third review in there. He said these are CICN's recommendations based on best practices and what they've seen with other municipal clients.

He said that the City needs to consider their own risk tolerance, which could be different and that's where some of the differences come in. He said in Response 1.1, the City is stating that they would like to keep their current process of all purchases going through the formal procurement function due to the perceived high fraud risk that were identified in the 2017 McHard Report.

He said in Response 1.3, the City agreed with the recommendation to have a tiered approval matrix but said in order to do this, they would "need to get City Council approval." It didn't say, "we will seek City Council approval." That's an example where an actionable item is something that internal audit would prefer, both to see that there is an action and for follow-up purposes.

He said in Response 1.5, the City would like to keep their current process of all change orders going through the formal procurement function as they believe it would be contrary to state law to do otherwise. One of the parties who reviewed the report was the City Attorney's Office. If he interpreted City Attorney's comment correctly, this may be more of a technicality involving the legal contracting process rather than a procurement prohibition.

He said in Response 1.6, regarding P-Cards, the City stated that they would like to keep their current process of reviewing 100% of P-Card transactions due to the perceived high fraud risks identified in the 2017 McHard Report.

He referred to Issue 1, where the City's responsible party is listed as the Finance Department, with four different positions listed. CICN said they would recommend a single responsible party.

He referred to Issue 2 on page 17, which is the P-Card usage recommendation. The management responses are on page 18. CICN recommended that periodic reports of P-Card spend be run by vendor to determine whether competitive procurement would be required. CICN did not find this component of the recommendation to be addressed in the management response. The second recommendation on Issue 2 is additional training on P-Card use around competitive bidding. The response was that training had already been provided.

He referred to Issues 5-9 regarding completion dates. Issue 5, starting on page 23, relates to broadening the City's reach in bid postings. Currently when something goes out to bid, any existing vendors are notified that it's going out to bid, it's posted on the City's website, it's posted in a couple of newspapers, but it's not posted on a bid website that has a broad reach. Bid Net is a prominent website for municipal organizations that's no cost. The management completion date on that one is June 30, 2021. If there was a cost associated with this, they would need to get budget approval as of June 30, 2020 and that gives them a year to do that. CICN pays particular attention to completion dates that are a year or longer out.

He said Issue 6, beginning on page 25, has to do with director level P-Card purchases approved by subordinates. The recommendation was to have the City Manager approve P-Cards of department directors. What you don't want to do is have directors purchase things that are not appropriate and then have a subordinate be put in a position to approve the director's P-Card. It seems that that could be an immediate implementation; but management responded that it would be a June 30, 2020 completion date.

He said it's a similar issue with Issue 7, on page 27, which talks about opportunities to develop bulk purchasing contracts and improve cross-departmental purchasing. That was a completion date of June 30, 2020.

He said Issue 8, on page 29, CICN recommended to look at duplicate vendor and duplicate employees. This is something that requires further investigation. That had a completion date of June 30, 2020 as did Issue 9 on page 30, finalization of procurement manual and appropriated training. CICN looks at completion dates with more than a year out and up to a year out as having less of chance of getting implemented.

Mr. Castillo referred to the flow chart on page 9. He asked if that is City generated or was it generated by CICN.

Mr. Olenberger said CICN put that together.

Mr. Castillo asked City staff if they have something similar.

Ms. Rodriguez said "no," they have a procurement checklist.

Mr. Castillo said there are several recommendations. Misspelled word on page 29, "Management aggress" he thinks it's "management agrees". He referred to page 23 and stated that Mr. Olenberger mentioned that a particular website is free and that he further mentioned that implementing it is where the problem might be. It seems that it's

a biggie because it would be nice to have the information on a website. He asked how that could be placed in the City system.

Mr. Olenberger said he called a company to see what it would take to be able to use their services, it sounded like it is an easy process. Anytime there is an RFP or bid, you would just upload the document.

Mr. Castillo referred to some of the other recommendations and asked if CICN they had discussed with the City what the cost would be.

Ms. McCoy referred to Item 3, on page 21. The response is that "Management agrees with an automation of the procurement process for bids and RFPs and Accounts Payable." Just to clarify the automation of accounts payable was done with the new system. The City decided not to go with the Tyler module for bids and RFPs because of some technical issues. She said if the City were to go with a different software to automate the process for bids and proposals, they would need to go out to RFP and establish a budget. That's why they have a completion date of next fiscal year.

Mr. Castillo said the recommendations seem worthy but at the ground level, there's substantial budget impact.

Mr. Olenberger said one of their goals is a cost benefit analysis. Of all the issues in the report, Item 3 carries the budget impact. It seems that some of that may have already been accomplished through the new system implementation.

Cindy Stetson, CICN, referred to the first recommendation. When interviews were conducted with purchasers for the City, they had positive things to say about the Finance Department staff and the procurement function. They feel that these folks do the best they can, to work hard for them and do what they can with the limited staff they have. The number one burning issue is that it takes too long because everything has to get approved by the Purchasing Office. There's not a delegation of authority that delegates responsibility, which is a best practice for most municipalities. CICN feels a real sensitivity of concern from the City because of the fraud report that came out in 2017.

Ms. McCoy said one of the recommendations in the CICN report that the City has taken to heart is the addition in the job descriptions. There will be a few bullet points about understanding and upholding the State Procurement Code. She also said they have implemented the Tyler Munis System. She passed out the Three-Way Match document, attached as Exhibit "1" that shows a system with checks and balances.

Chair Woodruff said the City has come a long way to make strides and providing those controls.

- **Recommendation for approval by the Finance Committee for the contractor performing FY20 Internal Audit function- Stephanie Woodruff, Chair and Al Castillo, Vice Chair**

Chair Woodruff recommended, per the procurement process and assessment, that REDW be selected as the internal audit outsource partner for FY20, Internal Audit function.

MOTION: Member Castillo moved, seconded by Member Erpelding-Chacon, to recommend REDW as the internal audit outsource partner for FY20 Internal Audit Function.

VOTE: The motion was unanimously approved by voice vote.

7. OLD BUSINESS

- **Continue discussion on 2019-2020 risk assessment approved by audit committee**

Member Castillo said the previous motion took care of this item.

Chair Woodruff said this could be dropped from the agenda for the next meeting.

8. PUBLIC COMMENT

There were no public comments.

9. MATTERS FROM STAFF

There were no matters from staff.

10. MATTERS FROM THE COMMITTEE

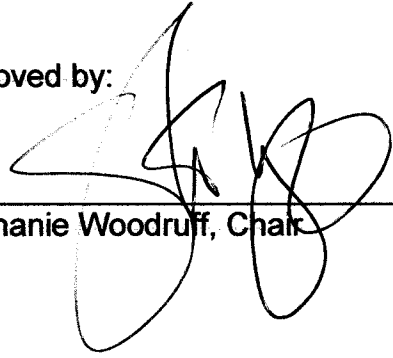
11. NEXT MEETING DATE

The next meeting date will be on October 9, 2019 at 2:00 p.m.

12. ADJOURNMENT

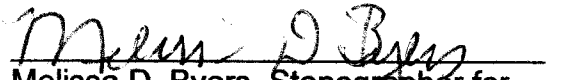
Upon motion by Member Castillo, and second by Member Erpelding-Chacon, the meeting was adjourned at 3:16 p.m.

Approved by:



Stephanie Woodruff, Chair

Submitted by:


Melissa D. Byers, Stenographer for
Byers Organizational Support Services



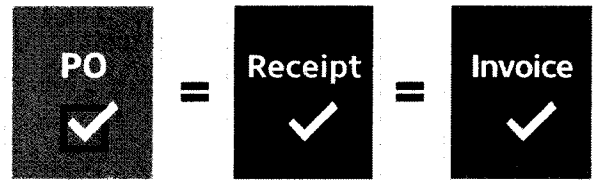
Implementing MUNIS® Financials Keeps Us Professional, Accountable & Efficient

The Three-Way Match: Making Sure We Get What We Order and Pay For

Our new Enterprise Resource Planning (ERP) System, MUNIS Financials, can prevent fraud and make sure invoices and payments are accurate.

There are three (3) basic components:

- 1 **Purchase Order** – an official confirmation that the City of Santa Fe has agreed to purchase goods or services from a vendor. It should include the name of the division, a description of the goods or services being purchased, a price, a mailing and/or electronic address for the vendor, payment information and a purchase order number.
- 2 **Receipt** – the proof of delivery. A receipt is included with goods or services delivered to the City and details exactly what is included in the shipment or order.
- 3 **Invoice** – An invoice is a request for payment, sent to the City of Santa Fe. It includes the same information as the purchase order, and an invoice number, vendor contact information, and the amount due.



Using the Three-Way Match

Before paying an invoice, the system and City staff match the following information:

- The quantities/amounts, prices and terms to ensure that what was ordered (**Purchase Order**)
- The goods or services received (**Receipt**)
- The request for payment (**Invoice**)

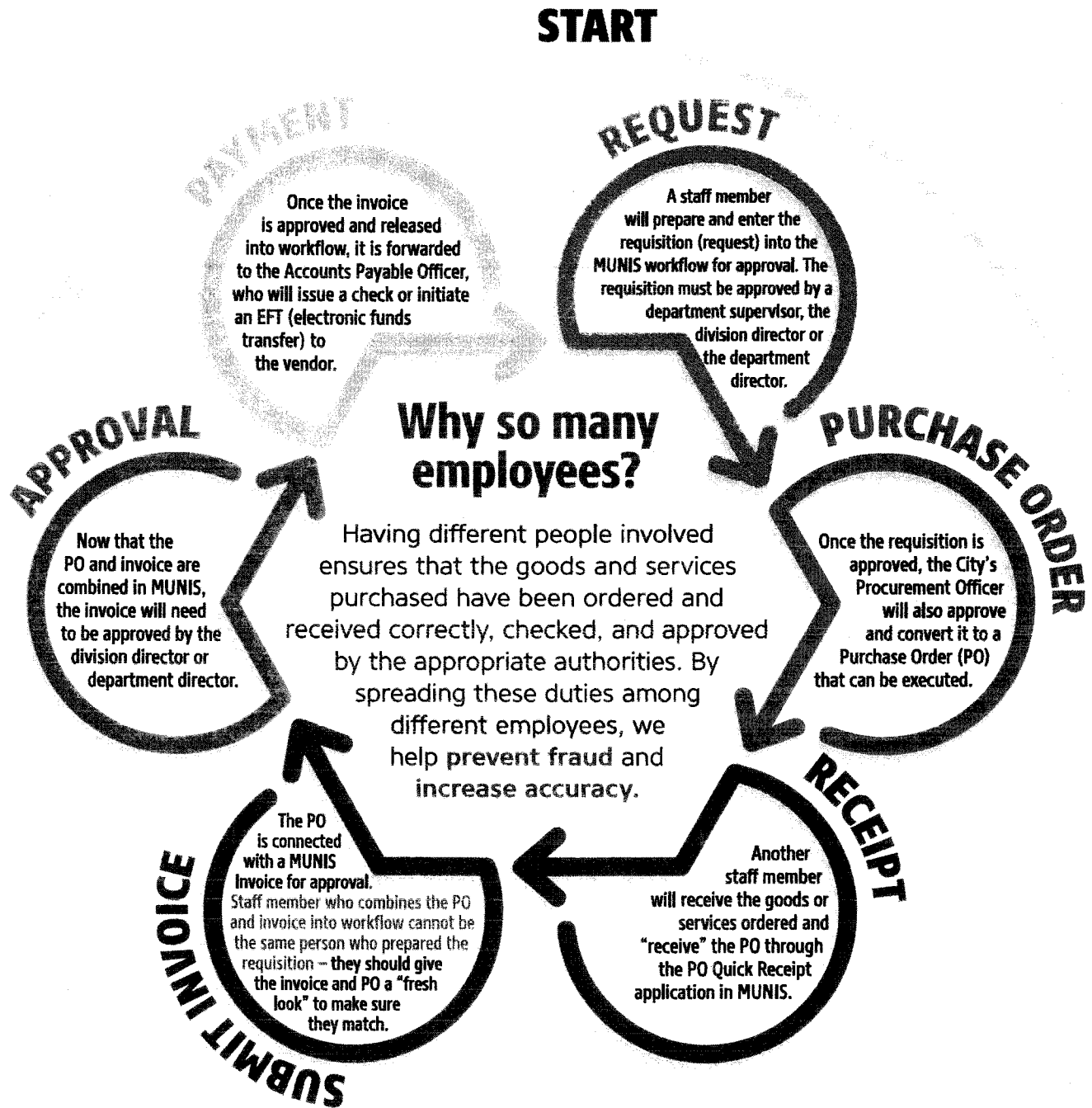
If any issues are found – wrong quantities, prices, damaged goods, etc. – payment is not sent until the issue is resolved. Since only authorized purchases are paid, losses due to fraud and carelessness are prevented.

The three-way match ensures the City of Santa Fe:

- ✓ Receives what is ordered in goods or services
- ✓ Pays the agreed-upon price for those goods or services

Follow These Steps to Purchase Goods and Services

To prevent fraud and have checks and balances in our financial system, it is important to assign **five different employees** in each department to perform different roles. Each user has a defined role in MUNIS, which provides them with authorization for different parts of the purchasing process and modules, following the steps outlined below.



Why MUNIS Financials and an ERP?

In 2017, a fraud risk assessment was conducted by McHard Accounting Consulting, LLC for the City of Santa Fe. ***The assessment found the City had extremely high risks of fraud, due to:***

- ***an almost complete lack of internal controls in our accounting and financial systems***
- ***very old and ineffective accounting and financial software***
- ***outdated or nonexistent policies and procedures, and***
- ***a lack of training and support for staff members performing accounting and financial tasks within departments.***

The City was already in the process of selecting an ERP (Enterprise Resource Planning) System. Tyler Technologies MUNIS Financials was selected, and we began launching MUNIS in July 2019.

We are also developing policies and procedures and conducting ongoing training for MUNIS as well as creating stronger internal controls.

While MUNIS represents a big change in the way we do business, we believe it will make sure the City of Santa Fe and our staff members are:

- **Professional** – Modern and updated in the way we do our jobs, handle our finances, and serve our community.
- **Accountable** – Able to confidently track and report what we spend taxpayer funds on, why we spent those funds, and what the results were.
- **Efficient** – As we become more accustomed to using MUNIS, accounting and finance will become more efficient, with no need for hand re-entering of information, backing out financial entries and re-entering them or other rework, leading to better use of everyone's time.

We recognize this change is challenging, and encourage you to:

- ✓ **Contact munishelp@santafenm.gov with general questions**
- ✓ **Ask your supervisor for refresher training if needed**
- ✓ **Visit Tyler University:
<https://www.tylertech.com/welcome/tyler-university>**
- ✓ **Download or refer to your online manual**
- ✓ **Contact one of these individuals with your ideas, suggestions or concerns:**

- Manuel Gonzales (505) 795-4519 mmgonzales@santafenm.gov
- Patrick Lucero (505) 955-6675 palucero@santafenm.gov

Thank you for helping us create a better, stronger government for the City of Santa Fe!