



# Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING  
CITY COUNCILORS' CONFERENCE ROOM

Wednesday, July 10, 2013

2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
  - June 5, 2013
  - Comments about prior minutes
5. INTRODUCTION to Brian Snyder, City Manager
6. REPORT FROM EXTERNAL AUDITORS: Update on Timeline and Benchmarks
7. STATUS REPORT FROM CITY OF SANTA FE, AUDIT & FINANCE DEPARTMENTS:
  - Status of Audits (See Attachment)
  - Gross Receipts Tax Report
  - Lodger's Tax Report
8. SUB-COMMITTEE REPORTS:
  - Internal Audit –
    - Draft Report – Data Center Audit,
    - Notification Letter to State Auditor's Office.
  - External Auditor
9. OLD BUSINESS
10. NEW BUSINESS
  - Re-Appointment of Audit Committee Members
  - Repeal of Audit Committee Resolution
  - Working Draft of Proposed Audit Committee Ordinance
11. OTHER MATTERS FROM THE COMMITTEE
12. ITEMS TO REPORT TO THE CITY MANAGER
13. NEXT MEETING DATE:
  - Next meeting scheduled on August 7, 2013
14. ADJOURNMENT

Persons with disabilities in need of accommodations, contact the City Clerk's office at 955-6520 five (5) working days prior to the meeting date.

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**AUDIT COMMITTEE**  
**July 10, 2013**

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

July 10, 2013  
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 Chair Maurice A. Lierz on this date at approximately 2:00 p.m. in the City Councilors' Conference Room at City Hall, 200 Lincoln Avenue, Santa Fé, New Mexico.

**2. ROLL CALL**

Roll call indicated the presence of a quorum as follows:

**Members Present:**

Maurice A. Lierz, Chair  
Randy Randall  
Hazeldine Romero  
Clark de Schweinitz  
Marc A. Tupler

**Members Absent:**

**Others Attending:**

Marcos Tapia, Finance Director  
Liza Kerr, Internal Auditor  
Teresita Garcia, Finance Department  
Marty Mathisen, Atkinson Accountants  
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 Finance Department.

**3. APPROVAL OF AGENDA**

Chair Lierz said a series of people could be coming in and out of the meeting including the City Attorney, the City Manager and Councilor Peter Ives.

**Mr. Randall moved to approve the agenda as presented with changes as needed. Mr. Tupler seconded the motion.**

Ms. Kerr wanted to add an item for the Hitachi Storage Area Network.

**Mr. Randall accepted the amendment as friendly and put it under New Business. The motion passed by unanimous voice vote.**

#### **4. APPROVAL OF MINUTES – June 5, 2013**

Chair Lierz was astounded in reading the minutes with the inordinate amount of time the Committee spent on the minutes and they would have to change that going forward.

Mr. Randall agreed. Although he didn't attend, a third of the meeting was talking about the minutes. He asked if anyone needed to read the minutes. He said Ms. Romero's changes didn't affect the substance.

**Mr. de Schweinitz moved to approve the amendments Ms. Romero submitted. Ms. Romero seconded the motion and it passed by unanimous voice vote.** [The list is attached to these minutes as Exhibit 1].

**Ms. Romero moved to approve the minutes of June 5, 2013 as amended. Mr. de Schweinitz seconded the motion and it passed by unanimous voice vote.**

Mr. Tupler liked the new format with numbering.

- **Comments about prior minutes.**

There were no other comments.

#### **5. INTRODUCTION to Brian Snyder, City Manager**

Mr. Snyder was not present at the meeting.

#### **6. REPORT FROM EXTERNAL AUDITORS: Update on Timelines and Benchmarks**

Mr. Mathisen was not yet present and the Committee went on and would come back later.

#### **7. STATUS REPORT FROM CITY OF SANTA FÉ AUDIT & FINANCE DEPARTMENTS**

Mr. Tapia said he tried to compare the formats here. It was similar to our audit plan and was going to put the City's in yellow. Mr. Mathisen had only a couple of pages. Mr. Tapia had included 12 and 13 for BDD. For the Committee's information he announced that the BDD Board hired a financial manager yesterday and the person chosen was highly qualified.

Mr. Tapia said he wanted to email this plan to the members. He explained that it was update on a weekly basis. For estimated completion time, they moved up some dates. He had included SWMA and BDD. The dates across it were completion dates.

Ms. Kerr said she received some updates from Ms. Garcia.

Mr. Tapia said he could send it to the members.

Chair Lierz asked that all members get it.

Mr. Tapia agreed. He said he was meeting with Mr. Mathisen every Thursday and they were still closing June 30 books.

Mr. Randall asked if this would be a standard component of the agenda going forward. Ms. Kerr and Mr. Tapia agreed.

Mr. Tapia said he got up to the minute updates to get the Committee a fresh report. He asked if Audit Committee members got their packets in advance.

Mr. Randall said they only got the minutes of the previous meeting in advance.

Ms. Kerr said she had to have everything ready to send by the Friday before.

Mr. Tapia said he could provide changes at the meeting.

Mr. Tupler asked what changes they could expect.

Mr. Tapia said primarily dates and changes in events.

Chair Lierz said he had targeted tasks down to staff levels and that was the key.

Mr. Tapia explained that he did the plan down to department levels. "We are responsible for doing fixed assets for the other departments."

Chair Lierz didn't see a duplication but Mr. Tapia's was the drill down.

Mr. Tapia said it was required in the CAFR but he didn't get to the depth that Ms. Kerr does. She came up with things that were issues.

Chair Lierz pointed out that at this meeting today the Committee was early. He asked that for that report the Committee could go into more depth with Mr. Tapia at the August and September meetings. "We've got lots of words but not the action."

Mr. Randall agreed. He asked what the term "upon request" meant.

Mr. Tapia said if meant it would be provided if the auditor requested it.

Mr. Randall understood that the Committee would clarify that with Mr. Mathisen if he requested anything. He noted there were some deadlines without a department being assigned.

Mr. Tapia agreed and said they would be assigned.

Chair Lierz said he wanted to avoid the bottleneck with BDD and get something by August. That slowed things down and he wanted to keep BDD in focus.

Mr. Tapia said they would focus on that and the operations audit. The new person would assist but his own staff had that as an extra duty.

Chair Lierz asked if the new person could attend the next Audit Committee meeting.

Mr. Tapia agreed to check with her director for permission. He said BDD was not as much a problem as SWMA was. The City had a little more control over BDD. But SWMA has not had a financial director for 8 months. The acting BDD director, Shannon Jones knows it inside and out. We also got a procurement specialist over there who has 20 years' experience.

Chair Lierz said if SWMA was causing problems the Committee should go to their meeting if necessary to break that bottleneck.

Mr. Mathisen joined the meeting.

Mr. Tapia said the bottleneck was with county and it was a problem. Ms. Garcia was having to handle some of that stuff. At June 30 he said, "This is it. I think now we have a person to talk with it won't be a problem, especially with Mr. Mathisen here. I think she can come in definitely and with a financial manager she can come and talk with us. But we still have a lot of work here with staff to deal with BDD."

Chair Lierz explained to Mr. Mathisen what they were discussing with SWMA and BDD. The Committee was in an interim hiatus but "August and September would be critical so we would like both you (Mr. Mathisen) and Mr. Tapia to come to the next two meetings to see that we have resolved the bottlenecks and with hiring of staff at BDD to be going in the right direction."

## **6. External Auditor.**

Chair Lierz asked if the Committee could get highlights from Mr. Mathisen on the progress.

Mr. Mathisen handed out his milestone chart [attached as Exhibit 2]. He said, "We were here for a week and checked some things off the list. We got the engagement letter and the State Auditor said Elizabeth Brack's profile was not included. So I sent that to them but we don't have a contract yet. We got organized and built some of our programs in June, mailed cash confirmations and on program notes,

compliance and the test score. We won't be here (at City Hall) in July and August."

"If you look at the schedule, the research findings we have not received. We haven't built on the permanent file but will be asking for them. There were no red flags to raise now but there could be in the near future. The audit was 8-9% done."

Mr. Tapia said in going through some of the things needed for the schedule, there were some things that don't need much time and city was good at doing. From past experience, it helps. A lot of things Helene does on investments and she is very thorough.

Mr. Mathisen said he did try to schedule some earlier. Ms. Hausman was doing reconciliation of accounts.

He added that the hiring at BD sounded wonderful. He was not aware of problems at SWMA. They usually were on time and there was a competent person at SWMA.

Chair Lierz asked if there were staffing problems at SWMA.

Mr. Tapia said it was not staffing problems but they were a quasi-state agency so they had to comply with the state requirements.

Mr. Mathisen said he received an email from Ms. Garcia that said she was almost done with BDD.

Ms. Kerr clarified that was for the construction audit but asked what the status of operations was.

Mr. Mathisen said the final numbers for construction were final. Operations was in draft form and shouldn't be too hard. Prior numbers he would go through to make sure they didn't conflict.

Chair Lierz thanked Mr. Mathisen for his report.

Mr. de Schweinitz asked about alignment of the two schedules.

Mr. Tapia said his schedule was what he required for his comfort schedule but he identified the deliverables and gave them to Mr. Mathisen.

Chair Lierz said the Committee agreed to have two separate schedule reports.

Mr. Randall understood but said it was up to Mr. Mathisen and Mr. Tapia to make sure they were in sync.

Mr. Tapia agreed - that was the hope.

Mr. Randall said if they weren't in sync the Committee needed to be told.

Ms. Kerr agreed to start including his schedule report in the packet for Friday before the meeting and

asked for Mr. Mathisen's also.

Mr. Mathisen thought that was reasonable but explained that July 4<sup>th</sup> scrambled it for him.

## **7. STATUS REPORT FROM CITY OF SANTA FÉ AUDIT & FINANCE DEPARTMENTS (continued)**

- **Status of Audits (Attachment)**

Chair Lierz asked Ms. Kerr to give the Committee a summary.

Ms. Kerr handed out copies of her report [attached to these minutes as Exhibit 3]. Ms. Kerr said they got the CAFR report from Mr. Mathisen and there was no contract yet.

Chair Lierz referred to page 1 of 3 and noted the only thing there was the construction audits for BDD.

Ms. Kerr said she got an update from Ms. Garcia on her phone. She was finalizing 2012 and 2013 trial balances yesterday.

Mr. Tapia said staff was concerned with 2010 and 2011 on the construction audits.

Chair Lierz thought that must be operations and not construction.

Ms. Kerr continued reviewing the items on her audit status report.

The RFP on Lodger's Tax was submitted to Purchasing on July 3 for FY12, FY13 and FY14. She got names from this committee and also from Mr. Tapia. Ms. Romero and Mr. Randall were on the evaluation panel for that RFP.

There were no changes on the Housing Authority.

Chair Lierz saw a news article that said all of the land for senior housing was leased by the City to the Housing Authority. So he asked why they should keep it on the Committee's list.

Ms. Kerr said it was to make sure there were no problems. The Council re-approved all the leases with the Housing Authority and the Mayor appoints most of the board. So the City has ties with it and she was not sure the audit talked about those leases.

Mr. Tapia agreed the City had the leases but those were not subject to the audit.

Ms. Garcia said at one time the Housing Authority was issuing debt to build projects and considered that as contributions to the City of Santa Fé. They believed HUD would apply those to the City and the City would give authority for building them. They required the Housing Authority to have oversight. About ten years ago HUD forgave all the debt so the City doesn't have an obligation to pay any of it.



Chair Lierz challenged Ms. Garcia that the annual financial statements should disclose all material fact and you can say this was immaterial but ultimately one of our consumers was the bonding agency. He said he was always taught that with material fact, it should appear somewhere in the audit if only as a note. If it was material you should have a footnote disclosure.

Mr. Mathisen said it had not been that way for two years. At a dollar a year, it was not very material. There were various leases at a dollar a year. So there were leases that he considered not material. He acknowledged that the arrangements vary so perhaps they should look at that.

Mr. Tapia believed they were more complicated than that. They were doing a benefit for the City so there was a lot more to it. It would take a lot more work to determine the value for the City and the Housing Authority.

Mr. Mathisen said there were others as well. It might help the City to present these relationships qualitatively rather than quantitatively. The Housing Authority was a nonprofit.

Mr. Tapia said they were all adjudicated by our lawyers.

Chair Lierz said when he looked at the footnote that said the City had 4,000 acres and see nothing about it, it was a concern. He asked of that 4,000 acres, what the big chunks and the leases were.

Mr. Tapia said they could be in a document. They were all disclosed at Council.

Chair Lierz repeated that any material fact should be disclosed in the financial statement. It was evolutionary. "We need to challenge ourselves whether we have disclosed all material fact. This was the appropriate time to bring it up. And as a footnote it is not cumbersome."

Ms. Garcia said the lease agreements were very big.

Chair Lierz said if it was 10% of assets, it was material. He said he would take 2,600 acres and put \$500 per acre and that was more than 10% of assets. He asked if the bonding agency knew about these assets.

Mr. Mathisen said some land was impossible to value.

Chair Lierz suggested that with a little more fact, when the Finance Director was working with the bonding agencies and there was no mention to the analysts they wouldn't consider it a valuable asset. He still didn't know why Santa Fé was not rated AAA.

Mr. Tapia said no municipality was at AAA in these economic times. But he had asked what we need to do to get the AAA rating. Ms. Hausman went to them and asked them to provide documentation on what the City needed to do to receive AAA rating. One of the advisors came back and said Santa Fé has one of the best ratings among all municipalities. It doesn't hurt us being at AA+.

Mr. Mathisen suggested it could be put in a capital assets portion.

Chair Lierz agreed it could be in a capital assets portion.

Ms. Kerr went to the next item which was the Railyard.

Mr. Mathisen said he had to leave at 3:00. He said Ms. Garcia sent him the trial balances on two construction audits (BDD).

Ms. Garcia said she gave him operations for 2011 and was still working on construction for 2012 which was moving out the money from that fund.

Mr. Mathisen concluded there will be one more for 2012 construction and then the operations audit.

Ms. Garcia said there was no construction audit for 2013. There were only about \$100,000 expenses for 2012. They needed to move out the money for construction into a carve out and it would take two to three years to expend that money. Then they would have the disclosure on how much belongs to the city.

Mr. Mathisen said the first step was to get exactly what Ms. Garcia just described.

Ms. Kerr asked if 2011 construction was done.

Mr. Mathisen said no.

Ms. Garcia said 2011 operations for BDD was done.

Mr. Mathisen said he went to the BDD Board meeting in December and passed it out and thought they were done.

Chair Lierz asked whose court the ball was in on these five items.

Mr. Mathisen said he would go to the BDD Board to get it approved.

Mr. Tapia said they were meeting every two weeks.

Mr. Mathisen said he would do it in one month.

Mr. Tapia said the City wanted it to be done at a full board meeting.

Mr. Mathisen said he just wanted it in minutes that they formally accepted it.

Ms. Kerr understood then that operations 2011 was ready. She asked if Construction for 2010, 2011 and 2012 were ready.

Mr. Mathisen said there were a few changes to construction and then he would close it out for 2011

and then do both construction and operations for 2012.

Chair Lierz said with BDD, every month goes by and the Committee has heard this for two years.

Chair Lierz said the Forensic Audit was to be brought back in Old Business. He asked if Parking was going to follow up on the \$2,800 uncollected including an employee.

Ms. Kerr said they were following up on the findings.

Mr. Tapia said it was uncertain if the \$2,800 was owed or not.

Chair Lierz said it needed to be addressed in some way.

Mr. Tapia said if it was a requirement of this committee he would report that to the City Manager.

Mr. Randall asked if there was a follow-up response to the forensic audit.

Mr. Tapia said there was. There were other things that went on because of that audit.

Mr. Randall asked if it was a written report to Council.

Mr. Tapia said the Councilors got handouts.

Chair Lierz asked if the Audit Committee could have a copy.

Mr. Tapia agreed.

Ms. Kerr said she had meetings with Sevastian Gurulé on it. There were opportunities. He has been very active on it. She felt the focus was on where the internal controls were.

Chair Lierz was glad to hear that.

Chair Lierz said Ms. Kerr provided a copy of the FTA audit. A report has been issued but responses from administration was blank. There were two blank columns that required responses.

Mr. Tapia said they were provided.

Ms. Kerr agreed to provide them at the next meeting. She asked if the Committee wanted Mr. Gurulé at the next meeting or just a written response.

Mr. Tapia said Mr. Gurulé could come and tell the Committee what they were doing.

Mr. Randall thought that made sense.

Mr. Tapia pointed out that the Council spent \$37,000 to find a \$2,800 discrepancy.

Ms. Kerr said there was a huge gap between what happened at Parking and what happened at Municipal Court. But the fact that they only found 5 over five years was great.

Chair Lierz agreed.

- **Gross Receipts Tax Report**

Mr. Tapia said they were budgeting GRT at the same rate the City believed they were receiving. At the Convention Center, the increases have been positive. We aren't back to 2007 before the downturn. Not even close. But this shows you the trend. The City was climbing. The five-page GRT Report is attached to these minutes as Exhibit 4.

- **Lodger's Tax Report**

Regarding delinquencies, Mr. Tapia said he was pleased with the person who was doing the follow-up. He will actually adjudicate them. A lodger blew off the letter sent to him so we took him off the City web sites, etc. They were finding these hotels that were not submitting their taxes.

Chair Lierz asked how this year held up compared with last year.

Mr. Tapia apologized. He thought the report was in the packet and agreed to send it to the members.

## **8. SUB-COMMITTEE REPORTS:**

- **Internal Audit Subcommittee:**

- **Notification Letter to State Auditor's Office**

The Notification Letter to the State Auditor's Office is attached to these minutes as Exhibit 5.

- **Draft Report – Data Center Audit**

Ms. Kerr shared the Data Center Audit [attached as Exhibit 6]. It was a draft report done under a city resolution. The IPRA requires her to release the draft report. This was the first report, done about a week ago and it just talked about the conditions of the data center. It was a high level report and it also talked about the break off of the Hitachi report.

The option she sought was for the cost of retrofitting what they had and she was supporting that. She wanted to bring up the findings and then give the cost. So that was basically the report and it was in the press last Friday. Ms. Romero attended the exit conference.

Ms. Kerr said she found a questionable purchase with the Hitachi Unit.

Mr. Randall said the article on that was in today's paper.

Ms. Kerr said there were two different reports. The questionable purchase was in her memo for Hitachi [attached as Exhibit 7]. She didn't want to go into details because it was a personnel issue.

Mr. Tapia said on the Data Center report and management of ITT, the Department has until the 17<sup>th</sup> to respond to the findings. On the Hitachi issue there were responses. But it has turned into a personnel matter. It was also an IPRA matter. He thought what needed to come out were some protocols to follow in ordinances and resolutions and findings of state auditors and protecting confidentiality of personnel with the City. They have rights, no matter what. So protocol for protection was needed.

Chair Lierz accepted that.

Mr. de Schweinitz asked if a notification was sent to the State Auditor.

Ms. Kerr agreed and added that she met with the State Auditor and Chief Counsel yesterday.

Chair Lierz said this was an ongoing process and it might take time to work through it. He appreciated Ms. Kerr's hard work.

Mr. Tapia said he would present the findings next time.

Mr. Tapia said the ITT needs more responses. The City filed suit and raised it to the City Manager level. On July 11 he was appointed interim director of ITT until the hiring interviews were finished and a person hired.

Mr. Randall asked if this was a new position. Mr. Williams was the ITT Manager and this new position was titled ITT Director. So his ITT Committee would be like a Finance Committee. It could have City Councilors on it.

Chair Lierz considered the implications of this and thought it might be premature. "When I look at the risk factor at ITT, I look at this work as the tip of the iceberg. We might want to make a recommendation to the Council to do a complete investigation of this."

Mr. Tapia said it was already being done. Presidio has been hired and that was about a month ago. Because of the things found, we thought we needed a full assessment from an outside party.

Chair Lierz said, "Great. We heard about the closing in December and not being able to meet payroll. The chaos in the system was alarming. Hopefully their scope was not restricted."

Mr. Tapia agreed and said Ms. Kerr will pursue another direction on it that he had a huge concern about. With a purchase of \$5,000 or below they were told they didn't need to disclose that. But they still had to have a due diligence.

Chair Lierz said the Committee was told by Mel on some backup that one of them might have been a million dollars. There was concern about it but dealing with our system going down and not recovered was huge.

Mr. Randall remembered the discussion about it.

Mr. de Schweinitz agreed and recalled it was in one of the Committee's reports.

Mr. Tapia said right now there was no money allocated for the IT restructuring. There were requirements in the audit but that wasn't this.

Chair Lierz encouraged Mr. Tapia to pursue that. He felt they were on the right track.

Ms. Romero asked if the Committee could get a copy of the report.

Mr. Tapia agreed. He said, "A lot of what came out is that Atkinson didn't have a finding on this issue. They took it out and I want to make sure they take a good look at it."

Ms. Kerr said Mr. Mathisen was hiring Peter Chu as IT consultant. They only looked at 7 tests and they were supposed to do 35 tests, so it will get a little more focus.

Mr. Tapia said they would continue that focus until we get a good structure.

Ms. Kerr said Ms. Melissa Byers would be joining the meeting soon.

- **External Auditor Subcommittee:**

Chair Lierz didn't think the Committee needed a report from the External auditor subcommittee.

## **9. OLD BUSINESS**

- **Hitachi Storage Area Network**

This matter was discussed above.

## **10. NEW BUSINESS**

- **Reappointment of Audit Committee Members**

Chair Lierz asked if two members received reappointment letters.

Ms. Kerr said Mr. Randall and Mr. de Schweinitz received reappointment letters and copies were in the packet [attached as exhibits 8 and 9].

- **Repeal of Audit Committee Resolution**

This item was not considered.

- **Working Draft of Proposed Audit Committee Ordinance**

Ms. Melissa Byers joined the meeting. The proposed ordinance and her memo was shared with the Committee [attached as Exhibit 10].

Mr. de Schweinitz said he and Mr. Tupler were the subcommittee to look at the redraft of the Audit Committee Ordinance. He did the draft to include some things they experienced last year and to cover some areas the Audit Committee has moved into. They wanted to try to place these points in the ordinance. [A copy of their revision is attached as Exhibit 11].

Mr. Randall pointed out that what was in the packet was what Ms. Byers sent and this one with the changes was from Mr. de Schweinitz.

Mr. de Schweinitz agreed. He said they tried to cover the things the members had mentioned and would be glad to have comments.

Ms. Byers shared the overall process with the Committee. She said the intent of Councilor Ives was to make an ordinance. The final draft would come to the Committee as a working draft. The next step would be to accept the Committee's changes in the proposed ordinance and highlight them. It was scheduled to go to Finance Committee on the July 15<sup>th</sup> or be postponed to August 5<sup>th</sup>. Because it was an ordinance it goes to council for notice to publish and a month later hold the public hearing.

Mr. de Schweinitz said he and Mr. Tupler could meet with Councilor Ives to go over it. We think it covers the points of our business.

Chair Lierz said they had been an advisory committee and asked if they were trying to delete that and to become a permanent committee.

Ms. Byers explained that all committees of the City were advisory committees to the Governing Body.

Chair Lierz surmised that this would make the Audit Committee consistent with the rest of the City's structure when we say "advisory."

Ms. Byers agreed. She explained they were all advisory because City Council was the decision maker for the City. She added that some of the Land Use Committees like the Planning Commission and Historic Districts Review Board could make final decisions but were subject to appeal by the Governing Body.

Mr. Randall understood they could be appealed but their decisions didn't automatically go to Council.

Ms. Byers said that was correct.

Mr. Randall reasoned that unless they were appealed, their decisions were final. Ms. Byers agreed.

Chair Lierz asked, if that was covered elsewhere, if those were excess words to say "an advisory committee."

Ms. Byers said that most committees did have in the description an asterisk for them.

Chair Lierz said okay. He didn't want Audit Committee to be any different.

Mr. de Schweinitz said that was really a protection for the Committee and suggested they keep it the way it was stated. The Committee agreed.

Chair Lierz reminded the Committee that they had to be out of the room before 4:00 today.

Mr. de Schweinitz referred to the bottom of page 1 regarding Powers and Duties and said the Subcommittee wanted to ensure that the Committee had the duty to oversee audits from the point of view that they all conformed with the standards.

He mentioned that for the Internal Auditor's position, it was clear on some of these points so they wanted to align this ordinance with the ordinance for the Internal Auditor with these changes.

Ms. Kerr said her thoughts were that if they just said "conformed with generally accepted auditing standards, then when those standards changed the ordinance would not have to be changed too.

Mr. de Schweinitz hoped their new point B was something that everyone would agree to: "Ensure that the internal audit functions interconnect with City management as defined in generally accepted standards."

Ms. Kerr said it should say "government standards." She said when she got the changes in she would send them to the Committee.

Mr. de Schweinitz said point C would say, "Review applications and have membership appointed to the hiring committee for the appointment of the internal auditor." We recognize that the City Manager has that power but we would like to have a role in that. The first hiring already did that informally but maybe making it more formally would make that clear.

D said, "Provide review and comments to the internal auditor's evaluation." - from the City Manager - He assumed the City Manager would be doing that. He emphasized that it was review and comments and wouldn't be authoritative or required by the City Manager.

E said, "Provide comments to City Manager prior to any personnel actions taken regarding the internal



auditor.” He thought the Committee had the right, since they were going to be working to help maintain that position’s independence that the Committee would be alerted if there was a problem. And they would do that in executive session.

F said, “Review and approve the internal audit plan.” The Committee would be expected to look at that and he had “approve” there and that might be contrary to that of advice but it was approval within “our own little committee.”

Chair Lierz suggested adding the word “annual” to that statement.

Ms. Kerr thought it shouldn’t because she thought it would change from time to time. And if it was only annual, the Committee wouldn’t have been given authority to approve changes. She cautioned that they were getting into details that she felt shouldn’t be restricting the committee.

Ms. Byers agreed.

Mr. Randall asked if it should say “recommend approval” as opposed to approving. He thought that would cover the advisory component again.

Mr. de Schweinitz thought they should discuss that point but Mr. Randall’s suggestion was fine with him. It did put it more in the stance of being advisory.

Mr. Randall said it would then say, “Review and recommend approval of the annual internal audit plan.” He suggested they could add, “and modifications thereof.”

Ms. Kerr agreed.

Mr. de Schweinitz said Section G was actually from the initial draft that came out of the initial resolution. H said, “Monitor and make recommendations regarding the city’s annual external audit.”

Mr. Randall suggested making “audit” plural.

Mr. de Schweinitz agreed. He wondered if they should call out other audits. This one was primarily the CAFR but wondered if they should add the phrase “and other audits performed by the City.”

Mr. Randall thought making the word plural would cover any audits that were done.

Ms. Kerr thought it should not include “annual” then.

Mr. de Schweinitz said it shouldn’t include “performed by the City” because it would exclude contract audits.

Mr. Randall proposed it should say “regarding the City’s external audits.”

Chair Lierz agreed with that. He said a lot of these were the equivalent of an internal audit.

The Committee agreed to delete "annual."

Chair Lierz said it was a complex situation. The external audit was really driven by the State Auditor under the State Audit Act.

Ms. Kerr asked if they even needed that then.

Mr. Randall said there was still a selection process that done for the recommendation that went to the State Auditor. In that selection process the Audit Committee should have some role.

Chair Lierz said the State Auditor rule would determine which one he was going to do and if he selected the City of Santa Fé he would do it. The City wouldn't grant any auditor.

Mr. Randall countered that the word "recommendation" was in there. It didn't suggest there was any authority.

Ms. Kerr recommended here that the Committee didn't really want to review the RFP but rather to assist in the evaluation process in selecting the external auditor. The RFP was just a document that said the City was going to go out for a proposal. She thought the Committee was more interested in the selection.

Several members agreed.

Ms. Kerr suggested it say, "Participate on the evaluation committee."

Ms. Romero said they were just talking about the external auditor here but there were also the Lodgers' tax auditors and other contract auditors for the city.

Mr. Randall agreed but saying "external audits" would cover that.

Mr. Tapia pointed out that with the smaller audits, it would slow down the process to have to bring them all to the Committee before going forward.

Mr. Randall said they weren't really audits anyway. But when an RFP was required, the Committee could participate and without an RFP, the Committee wouldn't participate. Because it wouldn't be done quickly if there was an RFP. And if it was under \$50,000 it wouldn't need an RFP. The Audit Committee didn't want to be a hindrance but if there was a process, the Committee would like to participate in it.

Ms. Kerr said it would then say, "participate in the process for external audits, including assisting with the evaluation committee."

Mr. Randall suggested participation in the recommendation and selection. If they were not part of the evaluation committee they would not be able to participate in the recommendation or selection. So it should say, "Participate in the RFP process for external audits and the resulting recommendations for the selection

of city external auditors.”

Mr. Tapia said it could also say, “for those audits requiring City Council approval” because this one didn’t have to go to City Council.

Mr. Randall said there was no RFP either so it wouldn’t kick in. The ones that went to City Council were those with RFPs. It was just a semantic matter.

Mr. Tapia said with sole source procurement there was also no RFP.

Ms. Kerr read what she had from the discussion - “Participate in the RFP process for external audits and the resulting recommendations for the auditor.” Mr. Randall said at the end it should say, “and the selection of the City’s external auditors.”

Chair Lierz noted that it was almost 4:00 and asked if the Committee needed more time, if they could move to the Council Chambers.

Ms. Kerr said she had already asked and they could not move there because they were setting up for a Council meeting in there. She said they only had one more page to consider.

Mr. de Schweinitz continued. J was “review the financial reports from time to time. He was trying to make it clear that they were not quite reviewing the preliminary financial reports.

Chair Lierz said the reports they were relying on were Gross Receipts and Lodgers’ Tax but others too. Preliminary means less than annual.

Mr. Randall said they took out “annual.”

Mr. de Schweinitz said K was right out of the original one unchanged.

L said, “Monitor and make recommendations regarding the City’s cash, investment, and loan policies and procedures.”

M said, “Review the findings of the external auditor and the proposed plans for departments’ correction of the findings and monitor corrective actions taken.”

Mr. Romero asked if they needed to include internal audits here. Ms. Kerr would have findings in her audit reports and then things like the highway audit had findings.

Ms. Kerr suggested deleting “external.”

Mr. de Schweinitz agreed to do that.

N said, “Advise, review, and make recommendations for other matters as requested or assigned by the Finance Committee and/ or City Council.”

Mr. Randall asked if they should mention City Manager there or not.

Chair Lierz said he didn't support adding City Manager there.

Mr. de Schweinitz said the final thing was on the last page under B. Staff where it earlier said the finance department shall serve as the primary liaison to the Committee and the subcommittee changed finance to internal auditor department as the primary liaison.

He said if the Council wanted to meet with the Audit Committee, to please let the members know.

Ms. Byers offered to make the corrections and decided on by the Committee and bring back the amended proposed ordinance.

Chair Lierz proposed that the sub-group be delegated to get it. He reminded them that they needed to make sure Councilor Ives was okay with it too. If it got more involved, perhaps it could come back to the Committee. But otherwise, keep it moving.

#### **11. OTHER MATTERS FROM THE COMMITTEE**

There were no other matters from the Committee.

#### **12. ITEMS TO REPORT TO THE CITY MANAGER**

There were no items to report to the City Manager.


#### **13. NEXT MEETING DATE: August 7, 2013**

#### **14. ADJOURNMENT**

**Ms. Romero moved to adjourn the meeting. Mr. Randall seconded the motion and it passed by unanimous voice vote.**

The meeting was adjourned at 4:00 p.m.

Approved by:

  
Maurice Lierz, Chair

Submitted by:

  
Carl Boaz, Stenographer

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MEMORANDUM

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**TO:** CITY OF SANTA FE AUDIT COMMITTEE  
**FROM:** HAZELDINE ROMERO, AUDIT COMMITTEE MEMBER  
**SUBJECT:** CORRECTIONS TO JUNE 5, 2013 AUDIT COMMITTEE MINUTES  
**DATE:** 7/9/13

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I suggest the following changes to the Audit Committee meeting minutes of June 5, 2013:

1. Page 2, Line 128: Replace "Fun" with "Fund"
2. Page 6, Line 281: Delete "it was on page said that"
3. Page 7, Line 352: Insert "it" after "asked if ..."
4. Page 8, Line 383: Delete "ad" after "change from ..."
5. Page 9, Line 419: Delete duplicate "Ms."
6. Page 12, Line 551: Replace "SWAMA" with "SWMA"
7. Page 12, Line 577: Delete duplicate "got the"
8. Page 12, Line 583: Insert "to" after "been sent ..."
9. Page 13, Line 610: Insert "and" after "review done ..."
10. Page 17, Line 769: Insert "said" after "Mr. Tapia ..."
11. Page 18, Line 846: Insert "said" after "Chair Lierz ..."
12. Page 20, Line 899: Replace "CAFIR" with "CAFR"
13. Page 20, Line 201: Replace "CAFIR" with "CAFR"

**Audit progress – Through July 8, 2013**

ATCO worked at City Hall for about a week in June updating internal control memos, conducting interviews with staff, and performing compliance and control testwork.

The signed engagement letter has been received by ATCO.

ATCO requested a preliminary SEFA (Schedule of Expenditures of Federal Awards) to begin planning the single audit which we have been told by Erica Martinez will be ready by July 16<sup>th</sup>.

Some cash confirmations have been mailed; there are still a few that have not been returned by the finance department.

ATCO expects to start single audit fieldwork August 12 pending timely receipt of the SEFA and confirmation from finance staff that this will work.

An email was sent on June 28 to the Finance Director and Assistant Finance Director requesting confirmation of the next fieldwork date and follow-up on few other items discussed during the time ATCO was at City Hall and no response to that email has been received.

**Tentative Audit Schedule for City of Santa Fe**  
**Updated 7/8/13**

AUDIT PROCEDURES	ITEMS NEEDED FROM CLIENT (If applicable)	DATES	Done	New date if not 1st due date	Done	Staff //Notes
<b>PLANNING AND I/C TESTING</b>						
Prepare engagement letter		May	YES			
Prior audit research, last year findings, areas of adjustment	<ul style="list-style-type: none"> <li>Updated organizational chart</li> <li>Updated policies implemented FY13</li> <li>Corrective action plans for prior year findings</li> </ul>	By May 25	NO			Due to our close conversations, we know what the plans are in some cases, <b>no documentation has been received.</b>
Entrance conference and meet with Audit Committee		Discuss possible date				
E-1 Training	<ul style="list-style-type: none"> <li>Access to system</li> </ul>	By May 25	YES			
Review minutes for Finance Committee	<ul style="list-style-type: none"> <li>Minutes from July 1, 2012 – Current—ATKINSON has downloaded most minutes already</li> </ul>	By May 25	YES			
Develop audit plan and identify risk factors		May and June work for Atkinson-by June 30	YES			
Update permanent file	<ul style="list-style-type: none"> <li>Copies of all new lease for FY13</li> <li>Copies of all new water purchase agreements for FY13</li> <li>Copies of all new contracts for FY13</li> <li>Copies of all new bonds issued for FY13</li> </ul>	By June 30				
PBC list to client		This list can serve as PBCs-	YES			

		updates to be issued as necessary				
Update documentation of control environment, major transaction cycles	<ul style="list-style-type: none"> <li>Personnel available for interviews</li> </ul>	By June 30	YES			Started this week
Review and analysis of IT report	<ul style="list-style-type: none"> <li>IT report from internal auditor</li> </ul>	By July 31				
Compliance design and testing- including cash receipts and disbursements, procurement, per diem and other		By June 30	YES			
Documentation of controls surrounding federal awards	<ul style="list-style-type: none"> <li>Personnel available for interviews</li> </ul>	By June 30		By August 31		
Review of revenue recognition policies for grants and for user charges documentation of policies	<ul style="list-style-type: none"> <li>Personnel available for interviews</li> </ul>	By June 30		By August 31		
Review of budget system and preliminary test work		By June 30				
Revisions of programs as necessary to reflect and mitigate risk assessment		By August 31				
Confirmation populations and mailings	<ul style="list-style-type: none"> <li>Names and contact information for outside attorney</li> <li>Names and contact information for all board members</li> <li>Bank account confirm details as in prior years</li> </ul>	By July 31	YES – cash only			Legal information requested from Teresita last week of June – not yet received.
Examination of AJE's	<ul style="list-style-type: none"> <li>List of all JE's posted during FY13</li> <li>List of final AJEs to close</li> </ul>	August and November				
<b>Compliance</b>		By August 31				
-SAC Testing	<ul style="list-style-type: none"> <li>List of all bids and RFPs for FY13</li> <li>Access to all vendor contracts and associated procurement files</li> <li>Access to all contracts with outside counsels and associated</li> </ul>	June 19	YES			



	<ul style="list-style-type: none"> <li>procurement files</li> <li>List of travel and per diem expenses (detail of the expense accounts) for all funds</li> </ul>					
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AUDIT PROCEDURES	ITEMS NEEDED FROM CLIENT (If applicable)	DATES	Done	New due date if not 1 <sup>st</sup> due date	Done	Staff/Notes
<b>PLANNING AND I/C TESTING CONTINUED</b>						
<b>Budget</b>		By September 30				
-Examination of Budget and BAR's	<ul style="list-style-type: none"> <li>FY13 Budget Approved by City Council for all funds</li> </ul>					
	<ul style="list-style-type: none"> <li>Approved BARs</li> </ul>					
	<ul style="list-style-type: none"> <li>Budget to actual statements for all funds, including original and final budget</li> </ul>					
	<ul style="list-style-type: none"> <li>Explanation for any significant budget variances</li> </ul>					
<b>Trial Balance</b>	<ul style="list-style-type: none"> <li>Final Trial balance for all internal funds rolled up into reporting funds</li> </ul>	November 1				
<b>FIELDWORK</b>						
<b>Accounts Receivable</b>		By September 30				
-Grant subsequent receipt testing	<ul style="list-style-type: none"> <li>Grant receipt listing from July 1, 2013 - present</li> </ul>					
-Analyze aged accounts receivable	<ul style="list-style-type: none"> <li>Schedule of aged receivable for all applicable funds</li> </ul>					

-Examine all other receivables	<ul style="list-style-type: none"> <li>• Schedule of all enterprise receivables</li> <li>• Schedule of due from other agencies</li> <li>• Schedule of due from other funds and purpose</li> </ul>					
<b>Accounts Payable</b>		By September 30				
-Subsequent payable testing and analytics	<ul style="list-style-type: none"> <li>• Check listing from July 1, 2013 - present</li> </ul>					
<b>Single Audit</b>	<ul style="list-style-type: none"> <li>•</li> </ul>	By August 31				
-Determine major programs	<ul style="list-style-type: none"> <li>• Schedule of Federal Expenditures for FY13</li> </ul>					
-Major program testing	<ul style="list-style-type: none"> <li>• Access to all grant documentation for selected programs (determined after planning)</li> <li>• Amounts due from federal agencies at 6/30/13</li> <li>• Copy of federal monitoring reports FY13</li> </ul>					
<b>Cash and Investments</b>		By September 30				
-Cash and investment test work	<ul style="list-style-type: none"> <li>• June Reconciliations for all bank accounts</li> <li>• Statements for all bank accounts and investments as of 6/30/13</li> <li>• July 2013 statements for all bank accounts</li> <li>• Schedule of pledged collateral as of 6/30/13</li> <li>• Investment listing as of 6/30/13</li> </ul>					

-Reasonableness of interest income and accruals	<ul style="list-style-type: none"> <li>Investment income schedule as of 6/30/13</li> <li>Interest receivable accruals as of 6/30/13</li> </ul>					
-Restricted cash test work	<ul style="list-style-type: none"> <li>Schedule of all restricted cash amounts, including reason for restriction</li> </ul>					

AUDIT PROCEDURES	ITEMS NEEDED FROM CLIENT (If applicable)	DATES	Done	New due date if not 1 <sup>st</sup> due date	Done	Staff//Notes
Debt		By September 30				
-Debt testing/rollforward	<ul style="list-style-type: none"> <li>Copies of loan agreements for all new debt in FY13</li> <li>Master debt and loan schedules for 6/30/13</li> <li>Schedule of principal and interest payments and where they are reported in the G/L</li> <li>Interest payable on long-term debt at 6/30/12</li> <li>Detail of any conduit debt not included on the master schedules</li> </ul>					
Accrued Liabilities						
-Compensated absences testing	<ul style="list-style-type: none"> <li>Compensated Absences Report detailing accumulated sick, vacation, other hours and applicable rate per each employee.</li> </ul>	By September 30				

-Accrued payroll testing	<ul style="list-style-type: none"> <li>• Access to payroll registers for payroll periods during FY13.</li> <li>• Accrued payroll and p/r liabilities at 6/30/2013, along with the payroll registers for the year-end accrual (last FY13 and 1st FY14 registers)</li> <li>• Access to personnel files</li> <li>• Review of payroll tax filings</li> </ul>					
-Early retirement contract testing	<ul style="list-style-type: none"> <li>• Early retirement contracts liability report</li> </ul>					
<b>Prepaid Expenses</b>		By September 30				
-Analytics and updating memo	<ul style="list-style-type: none"> <li>• Update on Jicarilla water rights</li> <li>• Detail of prepaid water amounts as of 6/30/13</li> <li>• Detail of any other prepaid assets at 6/30/13</li> </ul>					
<b>Capital Assets</b>		By September 30				
-Capital asset roll forward	<ul style="list-style-type: none"> <li>• Rollforward of capital assets from 6/30/12 to 6/30/13 for all funds, by asset type</li> <li>• Schedule of assets that includes the following information: original cost of asset, current year depreciation amount, accumulated depreciation at 6/30/12 and 6/30/13, for all funds</li> </ul>					
-Testing of additions	<ul style="list-style-type: none"> <li>• Listing of all assets purchased greater than \$5000</li> </ul>					
-Testing of deletions	<ul style="list-style-type: none"> <li>• Listing of all assets disposed of</li> </ul>					

	during FY 13 and access to supporting documents.					
-Examination of capital outlay	<ul style="list-style-type: none"> <li>Reconciliation of capital outlay accounts to capital asset additions for governmental funds</li> </ul>					
-CIP Testing	<ul style="list-style-type: none"> <li>Schedule of construction in process for FY13 including additions, assets placed in service (deletions) and ending balances.</li> </ul>					

AUDIT PROCEDURES	ITEMS NEEDED FROM CLIENT (If applicable)	DATES	Done	New due date if not 1 <sup>st</sup> duedate	Done	Staff//Notes
Capital Assets continued						
-Other necessary procedures	<ul style="list-style-type: none"> <li>Copy of any physical inspections conducted during the year for all fixed assets.</li> <li>Detail G/L report showing all repairs and maintenance expenditures for FY13</li> </ul>					
Revenue		By September 30				Listings received from B. Boltrek and HR. Claims sample info received for WC 1 <sup>st</sup> week of July.
-Program revenue analytics	<ul style="list-style-type: none"> <li>Schedule of all rates for FY13, including utility rates, charges for services, parking, etc.</li> </ul>					
-GRT and Lodger's Testing	<ul style="list-style-type: none"> <li>GRT breakout for FY13</li> <li>Schedule of Lodgers Tax received, including receivable at 6/30/13</li> </ul>					

-Leased Revenue Testing	<ul style="list-style-type: none"> <li>Schedule of land sales</li> <li>Schedule of leased land including FY13 amounts assessed and collected</li> </ul>					
-Property tax testing	<ul style="list-style-type: none"> <li>Property tax rates relating to taxes collected in FY13</li> </ul>					
-Other Revenue Analytics	<ul style="list-style-type: none"> <li>Schedule of other financial assistance (grants)</li> </ul>					
<b>Expenditures</b>		By September 30				
-Expenditure Analytics	<ul style="list-style-type: none"> <li>Access to all expense account detail for fiscal year 2013</li> </ul>					
-Payroll Analytics	<ul style="list-style-type: none"> <li>Schedule of amounts paid to PERA, with identification of anyone exempt from PERA</li> <li>Schedule of amounts paid to RHCA, with identification of anyone exempt from RHCA</li> <li>Listing of payroll, PERA and RHC expense by business unit for the fiscal year</li> <li>List of all employees who worked for COSF during FY13</li> </ul>					
- Internal Service/Self-Insurance	<ul style="list-style-type: none"> <li>List of claims to select sample</li> <li>Supporting documentation to support claims selected for testing.</li> </ul>	By September 30				Listings received from B. Boltrek and HR. Claims sample info received for WC 1 <sup>st</sup> week of July.
<b>REVIEW AND REPORTING</b>	<b>NO MORE ENTIRES POSTED AFTER OCTOBER 15th</b>	By September 30				
-Reconciliations to CAFR	<ul style="list-style-type: none"> <li>FY13 CAFR and supporting docs</li> <li>Major fund determination</li> </ul>	By November 1				

-Review of workpapers	<ul style="list-style-type: none"> <li>Possible addition documentation</li> </ul>					
-Preliminary audit finding to management	<ul style="list-style-type: none"> <li>Management responses</li> </ul>					
-Net asset reclassification for GASB 54						
-Review draft						
-Exit conference						
-Submission to SAO		By November 22				

\*Preliminary schedule, additional detail of items needed provided with PBC list.

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City of Santa Fe  
Internal Audit

EXHIBIT 3  
AUDIT COMMITTEE  
JULY 10, 2013

Project	FYE	External Auditor	Status of Audit Report	Comments	Disp. of Audit Report	Due Date of Audit	Report Issued By Due Date	Received @ State Auditors	Date Presented to Finance Committee
City of Santa Fe									
Comprehensive Annual Financial Report (CAFR)	06/30/2011	Atkinson and CO. LTD.	Completed	Unqualified, 9 findings	Issued	12/01/2011	No	02/21/2012	08/20/2012
Comprehensive Annual Financial Report (CAFR)	06/30/2012	Atkinson and CO. LTD.	Completed	Unqualified, 9 findings	Issued	12/01/2012	No	03/05/2013	04/15/2013
Comprehensive Annual Financial Report (CAFR)	06/30/2013	TBD							
Santa Fe Solid Waste Management Agency (SWMA) COSF Fiscal Agent									
Financial Statements and Report of Independent Auditors	06/30/2011	Atkinson and CO. LTD.	Completed	Unqualified, 0 Findings	Issued	12/01/2012	Yes	11/22/2011	
Financial Statements and Report of Independent Auditors	06/30/2012	Atkinson and CO. LTD.	Completed	Unqualified, 1 Finding	Issued	12/01/2012	No	12/03/2012	
Financial Statements and Report of Independent Auditors	06/30/2013	TBD							
Santa Fe Buckman Diversion Project COFS Fiscal Agent - Not subject to the State Auditor's Act (NOTE - sent courtesy copy in 2009)									
Construction audit	06/30/2010	Atkinson and CO. LTD.	Completed By Atk., in review with City	In review w/City (exit 12/05/2012) and return to auditor with comments -  Per Teresita Garcia, Returning to auditors for correction on Friday the 5th					
Construction audit	06/30/2011	Atkinson and CO. LTD.	Completed By Atk., in review with City	In Review by City staff and return to auditor with comments - 12/05/2012  Per Teresita Garcia, Returning to auditors for correction on Friday the 5th					



City of Santa Fe  
Internal Audit

Project	FYE	External Auditor	Status of Audit Report	Comments	Disp. of Audit Report	Due Date of Audit	Report Issued By Due Date	Received @ State Auditors	Date Presented to Finance Committee
Construction audit	06/30/2012			Sending them the trial balance on 07/03/2013. Ready to start and finalize the audit  Per Teresita Garcia, Returning to auditors for correction on Friday the 5th					
Construction audit	06/30/2013			Per Teresita Garcia she is sending them the trial balance on 07/03/2013. Ready to start and finalize the audit					
Operations	06/30/2011	Atkinson and CO. LTD.	Completed	Unqualified, 1 Finding - late filing	In Review	09/30/2011	No	N/A	
Operations	06/30/2012	Atkinson and CO. LTD.	Not yet started	Per discussion with Atkinson, plans are to do the 2012 audit at the same time as the 2013 audit.  Terisita Garcia to send them a trial balance the week of July 8, 2013.					
Operations	06/30/2013	TBD		Terisita Garcia to send them a trial balance the week of July 8, 2013.					

City of Santa Fe								
Lodger's Tax - Limited Scope Review	07/01/2007 to 06/30/2011	Barracough & Associates, P.C.	Complete		Issued			Yes

City of Santa Fe  
Internal Audit

Project	FYE	External Auditor	Status of Audit Report	Comments	Disp. of Audit Report	Due Date of Audit	Report Issued By Due Date	Received @ State Auditors	Date Presented to Finance Committee
Lodger's Tax - Limited Scope Review	06/30/2012			RFP Submitted to Purchasing 07/03/2013. The RFP will cover FYE 2012, 2013, and 2014.					
Lodger's Tax - Limited Scope Review	06/30/2013			RFP Submitted to Purchasing 07/03/2013. The RFP will cover FYE 2012, 2013, and 2014.					
<b>Santa Fe Civic Housing Authority - (Not a component of the City of Santa Fe)</b>									
Financial Statements	06/30/2011	Ricci & Company	Complete	Unqualified, 10 Findings	Issued	12/01/2012	Yes	12/01/2011	
Financial Statements	06/30/2012	Ricci & Company	Complete	Unqualified, 9 Findings	Issued	12/01/2012	No	12/18/2012	
Financial Statements	06/30/2013	TBD							
<b>The Santa Fe Railyard Community Corporation and Subsidiary (For the COSF's oversight and review)</b>									
Financial Statements	06/30/2011	Barracough & Associates, P.C.	Complete	Unqualified, No Findings	Issued	12/31/2011		N/A	
Financial Statements	06/30/2012	Barracough & Associates, P.C.	Complete	Unqualified, No Findings	Issued	12/31/2012		N/A	
Financial Statements	06/30/2013	TBD							

City of Santa Fe  
Status of Contractor Audits

Project	FYE	Auditor	Date Field Work Started	Status of Audit	Comments	Disp. of Audit Report	Date Report Issued/Copy Received
City of Santa Fe - Lodger's Tax							
Lodger's Tax - Limited Scope Review	07/01/2007 to 06/30/2011	Barraclough & Associates, P.C.	unknown	complete	Complete	complete	Yes
Lodger's Tax - Limited Scope Review	06/30/2012	TBD			RFP sent to Purchasing for fine tuning and approval through 06/30/2014		
Lodger's Tax - Limited Scope Review	06/30/2013	TBD					
Forensic Audit of Parking							
Forensic Audit of Parking	02/07/2013	Moss Adams	02/18/2013	complete	Unable to substantiate any wrongdoing by CM, 2 employees were cited as have tickets removed	Final 04/30/2013	Yes

City of Santa Fe  
Status of Contractor Audits

Project	FYE	Auditor	Date Field Work Started	Status of Audit	Comments	Disp. of Audit Report	Date Report Issued/Copy Received
Transit Department							
Federal Transit Administration's Financial Oversight Follow-Up Review Agreed Upon Procedure	unknown	FTA - via Financial Business Solutions, LLC and Holmes +Company, LLC	unknown	complete	3 material weaknesses, 5 significant deficiencies	complete dated 07/20/2012	Yes
Federal Transit Administration's Financial Oversight Review Agreed Upon Procedure	02/19/2013	FTA - via Reid Consulting, LLC	02/19/2013	complete	2 material weaknesses, 3 significant deficiencies, 2 advisory comments	Draft Report Submitted 04/22/13	Yes
Senior Program Area Agency Aging							
Area Agency Aging "Assessment" of Senior Program at COSF	04/22/2013	Area Agency Aging	02/20/2013	complete	Have not reviewed report as of 05/29/13	pending	No

City of Santa Fe  
Internal Audit

Project	FYE	Auditor	Date Field Work Started	Status of Audit	Comments	Disp. of Audit Report	Date Report Issued
ITT Data Center Operations and IT General Controls Performance Audit	06/30/2013	Liza Kerr	Entrance Conf - 03/6/13, Fieldwork 03/08/2013 Exit 07/01/2013	Draft Issued 07/01/2013 Mgmt's Comments due 07/17/2013	Phase 1 - Completed Phase 2 - Completed Phase 3 - Draft Report Issued to Management 07/01/2013	In Progress	Draft - 07/01/2013
Report to Management	06/30/2013	Liza Kerr	03/08/2013		Provided to management on 07/01/2013  Presented to Audit Committee on 07/10/13		07/01/2013

**City of Santa Fe**  
**Gross Receipts Taxes Collected (less Water 1/4%)**

MONTH	FY Actual 2007/08	% Inc/Dec	FY Actual 2008/09	% Inc/Dec	FY Actual 2009/10	% Inc/Dec	FY Actual 2010/11	% Inc/Dec	FY Actual 2011/12	% Inc/Dec	FY Actual 2012/13	% Inc/Dec	\$ Diff to PY	FY Budget 2012-13	% Actual to Budget	Over/Under Budget
JUL	7,375,729	15.39%	7,522,492	1.99%	6,801,875	-9.58%	6,253,785	-8.06%	6,868,168	9.82%	6,839,744	-0.41%	(28,424)	6,868,168	-0.41%	(28,424)
AUG	8,237,747	-2.16%	8,126,772	-1.35%	7,373,937	-9.26%	7,692,859	4.32%	7,651,436	-0.54%	7,557,228	-1.23%	(94,208)	7,651,436	-1.23%	(94,208)
SEPT	7,534,469	9.30%	7,711,349	2.35%	7,220,436	-6.37%	6,865,871	-4.91%	7,162,003	4.31%	7,251,040	1.24%	89,037	7,162,003	1.24%	89,037
OCT	7,792,052	4.44%	7,750,530	-0.53%	7,133,369	-7.96%	7,300,775	2.35%	7,456,520	2.13%	7,541,435	1.14%	84,916	7,456,520	1.14%	84,916
NOV	7,767,989	2.05%	7,590,931	-2.28%	6,887,336	-9.27%	6,788,772	-1.43%	7,169,747	5.61%	7,047,078	-1.71%	(122,669)	7,169,747	-1.71%	(122,669)
DEC	7,385,740	-2.52%	7,808,652	5.73%	6,665,415	-14.64%	6,492,101	-2.60%	6,576,396	1.30%	7,114,531	8.18%	538,134	6,576,396	8.18%	538,134
JAN	6,986,767	4.62%	6,511,739	-6.80%	6,118,876	-6.03%	6,284,002	2.70%	6,653,844	5.89%	6,672,604	0.28%	18,760	6,653,844	0.28%	18,760
FEB	8,725,121	8.61%	7,679,717	-11.98%	7,568,323	-1.45%	7,786,459	2.88%	8,240,913	5.84%	7,731,934	-6.18%	(508,979)	8,240,913	-6.18%	(508,979)
MAR	6,680,180	-4.15%	6,307,310	-5.58%	5,774,583	-8.45%	5,705,183	-1.20%	6,242,865	9.42%	6,728,219	7.77%	485,354	6,242,865	7.77%	485,354
APR	5,957,049	-4.68%	6,038,594	1.37%	5,685,314	-5.85%	5,775,585	1.59%	6,318,974	9.41%	5,828,888	-7.76%	(490,086)	6,318,974	-7.76%	(490,086)
MAY	6,903,178	-34.00%	6,517,131	-5.59%	6,580,129	0.97%	6,821,323	3.67%	7,132,860	4.57%	7,364,997	3.25%	232,137	7,132,860	3.25%	232,137
JUN	7,201,012	-4.48%	6,123,927	-14.96%	6,212,278	1.44%	6,687,665	7.65%	6,249,687	-6.55%	6,584,103	5.35%	334,416	6,249,687	5.35%	334,416
<b>TOTALS</b>	<b>\$88,547,033</b>	<b>2.07%</b>	<b>\$85,689,145</b>	<b>-3.23%</b>	<b>\$80,021,871</b>	<b>-6.61%</b>	<b>\$80,454,380</b>	<b>0.54%</b>	<b>\$83,723,413</b>	<b>4.06%</b>	<b>\$84,261,803</b>		<b>\$ 538,389</b>	<b>\$83,723,413</b>		<b>\$ 538,389</b>
<b>Prior Years' Comparison:</b>																
July - June	\$88,547,033	2.07%	\$85,689,145	-3.23%	\$80,021,871	-6.61%	\$80,454,380	0.54%	\$83,723,413	4.06%	\$84,261,803	\$ 538,389	\$ 83,723,413	\$ 538,389	0.64%	538,389.19
															<b>Amount over(under) budget</b>	
															<b>Cumulative year-to-date comparison to prior year-to-date</b>	
															<b>4.73%</b>	
															<b>Cumulative year-to-date comparison to FY 07-08 year-to-date</b>	
															<b>-4.84%</b>	

**July 2005 1/4% GRT increase: WATER**

MONTH	FY Actual 2007/08	% Inc/Dec	FY Actual 2008/09	% Inc/Dec	FY Actual 2009/10	% Inc/Dec	FY Actual 2010/11	% Inc/Dec	FISCAL YR 2011/12	% Incr/Decr	FISCAL YR 2012/13	% Incr/Decr	\$ Diff to PY	FY Budget 2012-13	% Actual to Budget	Over/Under Budget
JUL	633,957	14.35%	654,025	3.17%	592,723	-9.37%	545,951	-7.89%	598,654	9.65%	600,324	0.28%	1,670	598,654	0.28%	1,670
AUG	714,599	-95.00%	710,669	-0.55%	641,975	-9.67%	671,821	4.65%	667,629	-0.62%	659,002	-1.29%	(8,627)	667,629	-1.29%	(8,627)
SEPT	653,432	9.04%	670,318	2.58%	629,159	-6.14%	597,858	-4.98%	625,006	4.54%	634,132	1.46%	9,125	625,006	1.46%	9,125
OCT	676,530	3.87%	679,674	0.46%	622,467	-8.42%	636,744	2.29%	648,133	1.79%	659,894	1.81%	11,761	648,133	1.81%	11,761
NOV	679,250	4.49%	662,766	-2.43%	596,377	-10.02%	590,905	-0.92%	625,532	5.86%	616,187	-1.49%	(9,345)	625,532	-1.49%	(9,345)
DEC	647,257	2.30%	683,888	5.66%	580,333	-15.14%	566,931	-2.31%	573,490	1.16%	622,564	8.56%	49,074	573,490	8.56%	49,074
JAN	612,303	2.59%	570,156	-6.88%	534,889	-6.19%	549,104	2.66%	580,657	5.75%	583,650	0.52%	2,993	580,657	0.52%	2,993
FEB	765,368	9.23%	672,413	-12.15%	661,900	-1.56%	680,339	2.79%	722,984	6.27%	676,802	-6.39%	(46,182)	722,984	-6.39%	(46,182)
MAR	585,468	-0.35%	550,145	-6.03%	503,595	-8.46%	499,794	-0.75%	543,902	8.83%	589,701	8.42%	45,800	543,902	8.42%	45,800
APR	546,057	4.90%	527,862	-3.33%	496,228	-5.99%	499,776	0.71%	551,043	10.26%	509,652	-7.51%	(41,391)	551,043	-7.51%	(41,391)
MAY	951,790	57.65%	570,683	-40.04%	572,672	0.35%	594,603	3.83%	622,468	4.69%	643,878	3.44%	21,410	622,468	3.44%	21,410
JUN	631,448	4.36%	534,251	-15.39%	541,828	1.42%	580,691	7.17%	543,012	-6.49%	574,631	5.82%	31,620	543,012	5.82%	31,620
<b>TOTALS</b>	<b>\$8,097,459</b>	<b>8.74%</b>	<b>\$7,486,850</b>	<b>-7.54%</b>	<b>\$6,974,146</b>	<b>-6.85%</b>	<b>\$7,014,517</b>	<b>-1.37%</b>	<b>7,302,510</b>	<b>3.55%</b>	<b>\$ 7,370,419</b>		<b>\$ 67,908</b>	<b>\$7,302,510</b>		<b>\$ 67,908</b>
<b>Prior Years' Comparison:</b>																
July - June	8,097,459	8.74%	7,486,850	-7.54%	6,974,146	-6.85%	7,014,517	0.58%	7,302,510	4.11%	7,370,419	0.93%	67,908	7,302,510	0.93%	67,908
															<b>Budget vs Actual year-to-date comparison</b>	
															<b>67,908</b>	
															<b>Current year-to-date comparison to prior year-to-date:</b>	
															<b>67,908</b>	
															<b>Current year-to-date comparison to FY 07-08 year-to-date:</b>	
															<b>(727,041)</b>	

**City of Santa Fe**  
**GRT Analysis By Category**  
**Fiscal Years 2012-13 vs. 2011-2012 and 2007-2008**

**Cumulative July - June**  
**(May - March Activity)**

Category	July-June 2012-2013	July-June 2011-2012	July-June 2007-2008	Dollar Dif FY 12-13 vs FY 11-12	Percent Dif FY 12-13 vs FY 11-12	Dollar Dif FY 12-13 vs FY 07-08	Percent Dif FY 12-13 vs FY 07-08
Agriculture, forestry, hunting, fishing	174,895	194,399	425,121	(19,504)	-10.03%	(250,227)	-58.86%
Mining	3,965	1,043	112	2,923	280.36%	3,853	0.00%
Utilities	2,617,159	2,522,070	2,312,988	95,089	3.77%	304,171	13.15%
Construction	8,253,074	8,998,791	13,329,669	(745,717)	-8.29%	(5,076,595)	-38.08%
Manufacturing	1,444,405	1,627,109	1,972,299	(182,704)	-11.23%	(527,894)	-26.77%
Wholesale	1,330,238	1,570,391	1,923,131	(240,153)	-15.29%	(592,893)	-30.83%
Retail	26,460,409	26,879,336	29,388,707	(418,927)	-1.56%	(2,928,297)	-9.96%
Transportation & warehousing	206,613	483,968	625,939	(277,356)	-57.31%	(419,327)	-66.99%
Information and Cultural Indust	3,466,394	3,462,083	1,631,339	4,311	0.12%	1,835,055	112.49%
Finance & Insurance	1,173,133	951,188	1,168,871	221,944	23.33%	4,262	0.36%
Real estate, rental & leasing	1,848,496	1,681,003	2,094,448	167,493	9.96%	(245,952)	-11.74%
Professional, Scientific, Tech	7,298,655	7,104,311	6,356,095	194,344	2.74%	942,560	14.83%
Management of companies	215,287	206,535	344,512	8,751	4.24%	(129,225)	-37.51%
Admin & Support, Waste Mgt	703,779	881,953	442,406	(178,174)	-20.20%	261,373	59.08%
Educational Services	538,566	545,389	254,901	(6,823)	-1.25%	283,665	111.28%
Health care and social assist	4,275,389	4,425,595	3,969,203	(150,206)	-3.39%	306,186	7.71%
Arts, Entertainment & Recr	437,735	424,582	387,837	13,153	3.10%	49,898	12.87%
Accommodation & Food	10,470,734	9,931,588	10,134,875	539,146	5.43%	335,860	3.31%
Other Services	9,273,288	8,556,070	9,940,018	717,218	8.38%	(666,730)	-6.71%
Public Administration	1,444	1,168	274	276	0.00%	1,170	0.00%
Unclassified	288,399	199,384	1,199,556	89,016	44.65%	(911,157)	-75.96%
State reimb-food/med tax**	10,842,817	10,386,097	12,605,194	456,719	4.40%	(1,762,377)	-13.98%
Muni. Equivalent Distribution	307,349	357,906	0	(50,557)	-14.13%	307,349	100.00%
<b>Total Distribution</b>	<b>91,632,221</b>	<b>91,391,960</b>	<b>100,507,494</b>	<b>240,261</b>	<b>0.26%</b>	<b>(8,875,273)</b>	<b>-8.83%</b>

**City of Santa Fe  
Gross Receipts by Category  
Fiscal Years 2012-13 vs. 2011-12**

**June  
(March Activity)**

Category	June 2012-13	June 2011-12	Dollar Difference	Percent Difference
Agriculture, forestry, hunting	12,597	28,099	(15,503)	-55.17%
Mining	0	0	0	0.00%
Utilities	202,486	191,416	11,070	5.78%
Construction	516,867	371,087	145,780	39.28%
Manufacturing	144,963	99,664	45,299	45.45%
Wholesale	96,853	110,908	(14,054)	-12.67%
Retail	2,048,620	1,959,594	89,026	4.54%
Transportation & warehousing	19,069	17,760	1,309	7.37%
Information & Cultural Indust.	297,840	277,033	20,807	7.51%
Finance & insurance	106,874	99,720	7,154	7.17%
Real estate, rental & leasing	144,634	137,460	7,173	5.22%
Prof, Scientific, Technical	655,834	554,803	101,032	18.21%
Management of companies	14,189	16,216	(2,027)	-12.50%
Admin & Support, Waste Mgt	48,983	52,722	(3,739)	-7.09%
Educational Services	48,504	48,353	152	0.31%
Health Care & Social Assist	372,194	372,356	(162)	-0.04%
Arts, Entertainment & Recr	25,828	23,248	2,580	11.10%
Accommodation & Food	814,834	808,964	5,870	0.73%
Other Services	709,720	746,859	(37,139)	-4.97%
Public Administration	0	0	0	0.00%
Unclassified	18,254	28,660	(10,406)	-36.31%
State reimb-food/med tax	832,771	821,525	11,246	1.37%
Muni. Equivalent Distribution	26,821	26,251	569	2.17%
<b>Total Distribution</b>	<b>7,158,734.86</b>	<b>6,792,698.59</b>	<b>366,036.27</b>	<b>5.39%</b>

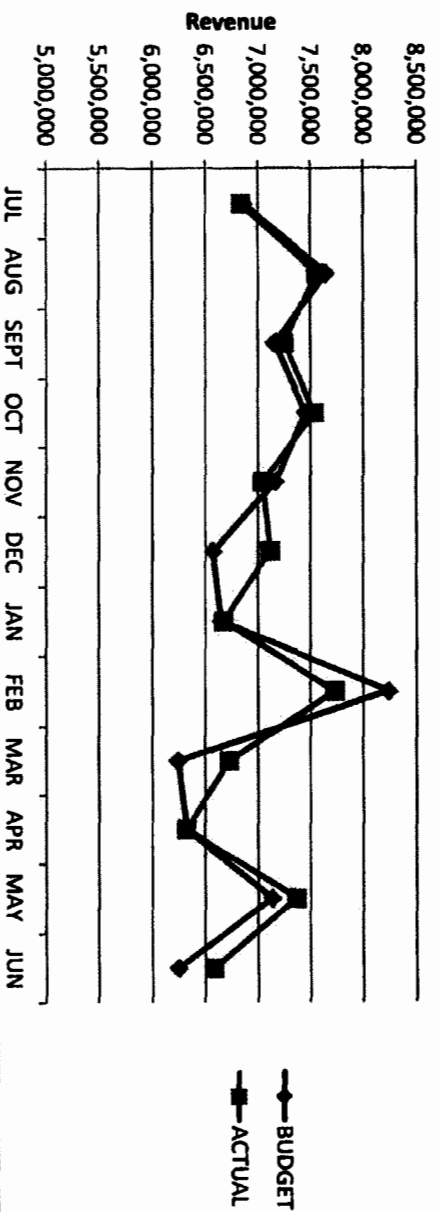
**City of Santa Fe  
GRT Analysis By Category  
Fiscal Years 2012-13 vs. 2011-12**

**Cumulative 2012-13 vs. Cumulative 2011-12  
(May - April Activity)**

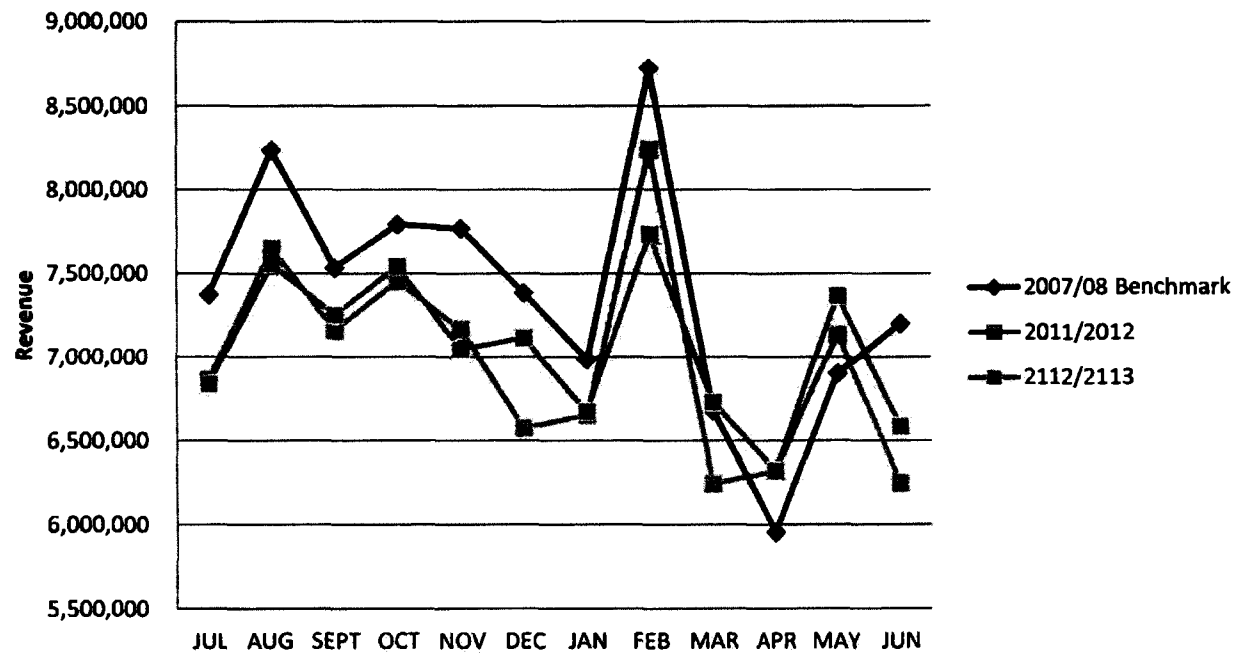
Category	July-June 2012-13	July-June 2011-12	Dollar Difference	Percent Difference
Agriculture, forestry, hunting, fishing	174,895	194,399	(19,504)	-10.03%
Mining	3,965	1,043	2,923	0.00%
Utilities	2,617,159	2,522,070	95,089	3.77%
Construction	8,253,074	8,998,791	(745,717)	-8.29%
Manufacturing	1,444,405	1,627,109	(182,704)	-11.23%
Wholesale	1,330,238	1,570,391	(240,153)	-15.29%
Retail	26,460,409	26,879,336	(418,927)	-1.56%
Transportation & warehousing	206,613	483,968	(277,356)	-57.31%
Information and Cultural Indust	3,466,394	3,462,083	4,311	0.12%
Finance & Insurance	1,173,133	951,188	221,944	23.33%
Real estate, rental & leasing	1,848,496	1,681,003	167,493	9.96%
Professional, Scientific, Tech	7,298,655	7,104,311	194,344	2.74%
Management of companies	215,287	206,535	8,751	4.24%
Admin & Support, Waste Mgt	703,779	881,953	(178,174)	-20.20%
Educational Services	538,566	545,389	(6,823)	-1.25%
Health care and social assist	4,275,389	4,425,595	(150,206)	-3.39%
Arts, Entertainment & Recr	437,735	424,582	13,153	3.10%
Accommodation & Food	10,470,734	9,931,588	539,146	5.43%
Other Services	9,273,288	8,556,070	717,218	8.38%
Public Administration	1,444	1,168	276	0.00%
Unclassified	288,399	199,384	89,016	44.65%
State reimb-food/med tax	10,842,817	10,386,097	456,719	4.40%
Muni. Equivalent Distribution	307,349	357,906	(50,557)	-14.13%
<b>Total Distribution</b>	<b>91,632,221</b>	<b>91,391,960</b>	<b>240,261</b>	<b>0.26%</b>



# Comparison of Budget vs Actual FY 12-13



### Comparison of 2 YRS to Benchmark





## *City of Santa Fe – Internal Audit*

200 Lincoln Ave, Santa Fe, NM 87504-0909  
Liza A. Kerr, Internal Auditor

(505) 955-5728, cell (505) 490-3372

July 2, 2013

Hector H. Balderas  
New Mexico State Auditor  
Office of the State Auditor

2540 Camino Edward Ortiz, Ste #A  
Santa Fe, NM 87507

Dear Mr. Balderas:

In accordance with State Statute 12-6-6 NMSA 1978, and State Auditor's Rule 2.2.2.10K(3), the City of Santa Fe Internal Audit Department is providing notification of possible criminal statute violation.

The City of Santa Fe identified possible fraud, waste or abuse involving the purchase of a Hitachi Storage Area Network in November 2007.

The estimated value of the purchase is \$535,000.

An investigation is currently being conducted by Internal Audit with an estimated date of completion of August 31, 2013.

Please call me at (505) 955-5728 or email me at [lakerr@ci.santa-fe@nm.us](mailto:lakerr@ci.santa-fe@nm.us) if you have any questions regarding this notification.

Respectfully yours,

Liza Kerr, CPA, CIA, CISA  
Internal Auditor

cc: Brian Snyder, City Manager  
Marcos Tapia, Finance Department Head  
David Coss, Mayor  
Geno Zamora, City Attorney  
Members of the Governing Body  
Atkinson and Company, External Auditor  
Members of the Audit Committee

# City of Santa Fe, New Mexico

## memo

EXHIBIT 6  
AUDIT COMMITTEE  
JULY 10, 2013

DATE: July 1, 2013

TO: Brian Snyder, City Manager

FROM: Liza Kerr, Internal Auditor

RE: Data Center Audit – Draft Report

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*This report is not final and is being presented for discussion purposes only.*

City Ordinance 2012-32 §6 2.-22.5 C directs the internal auditor to adhere to generally accepted governmental auditing standard in conducting audits.

In accordance with generally accepted governmental auditing standards, 7.33 "Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take."

The draft report is being shared with the Information Technology and Telecommunication management team today, July 1, 2013, and in accordance with the above stated standards will not be finalized until input from that team has been received and given consideration.

As stated above a response is required from management in regards to the findings. ITT management will have until Wednesday July 17, 2013 to respond to the findings in the report. Management's responses to the findings should include a corrective action plan that details how the issue is to be resolved, who is going to resolve it, and when it will be resolved. The plan should be realistic. Section 7.35 of the standards requires that the auditor include in the final report an evaluation of management's comments. The report will be considered after the comments are received and evaluated. Assuming management's responses are received by the due date of July 17, 2013 a final report will be completed by Friday July 19, 2013.

City Resolution 2012-35 states that 'Public policy reports and public audits shall not exist in draft form for more than two weeks without presentation to members of the relevant City committee or the Governing Body. If the report of audit is not presented after two weeks, then staff shall inform the committee or Governing Body, in writing, the specific date the report or audit shall be presented and basis for the additional time needed.' For this reason, the draft report will be presented to the Audit Committee and members of the Governing Body.

DRAFT

INTERNAL  
AUDIT  
DEPARTMENT  
CITY OF SANTA FE



The Internal Audit Department and the role of Internal Auditor were created by City Ordinance NO. 2012-32 on October 30, 2012. A primary purpose of the Internal Auditor is to share a duty with the members of the governing body to insure that the actions of public officials, employees and contractors of the city are carried out in the most responsible manner possible and that city policies, budgets, goals and objectives are fully implemented. The Internal Auditor is also the City of Santa Fe's liaison to the Audit Committee.

The Audit Committee was created by Resolution 2010-83 on October 13, 2010. This committee is an advisory committee and consists of 5 members of the community. Of the five members one member shall be a certified public accountant, one member shall be a lawyer or have a law enforcement background and one member shall be a management consultant.

The Internal Auditor and the audit committee are structured in a manner to provide independent oversight of the City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

## AUDIT COMMITTEE

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Maurice A. Lierz, CPA, Chair

Randy Randall

Hazeldine Romero-Gonzales, Retired CIA, CPA, CGFM

Clark de Schweinitz, Esq.

Marc Tuppler

## INTERNAL AUDITOR

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Liza Kerr, CPA, CISA, CIA, MBA

## Mission Statement

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The mission of the City of Santa Fe Internal Audit Department is to provide independent, objective assurance and review services designed to promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of the City of Santa Fe.



## *City of Santa Fe – Internal Audit*

200 Lincoln Ave, Santa Fe, NM 87504-0909  
Liza A. Kerr, Internal Auditor

(505) 955-5728, cell (505) 490-3372

Date: July 1, 2013  
To: Thomas Williams, Director, ITT,  
From: Liza Kerr, Internal Auditor  
RE: Data Center Audit

Attached is the Internal Audit Department's report of the audit of the City of Santa Fe's data centers. The purpose of this audit was to determine that:

- 1) Adequate levels of physical security and fire protection, flood protection, and power protection are provided for computer equipment and data files.
- 2) Sufficient controls exist to protect data files and programs from accidental loss.
- 3) Protective measures are taken to ensure that operations of the location can continue without serious interruption in the event of a disaster that results in loss of the center.

Special thanks are given to all of the Information Technology and Telecommunication (ITT) staff for their cooperation during the course of the audit. The ITT department has exceptional staff that does an incredible amount of work with a very limited budget. Their candor and openness were much appreciated.

The audit presents findings in the area of environmental controls including temperature control, flood detection and monitoring, fire suppression, fire prevention, physical security of the data center, power supply, data backup and disaster recovery, as well as general matters such as lack of formal policies and procedures.

Vulnerabilities that may have existed for years can no longer be ignored as threats to information systems have become more prevalent. The ramifications for information security breaches, data loss, and the inability to continue operations due to systems failures are well within the public's awareness. Failures in these areas are preventable. The cost of regaining public confidence after a preventable disaster far outweighs the cost of prevention. Certainly the idiom "an ounce of prevention is worth a pound of cure" applies here.

A much needed analysis comparing the cost/benefit of retrofitting the current data centers to comply with industry standards versus moving to a hosted site is currently in process with an independent contractor.

Internal Audit strongly supports the efforts of ITT, and urges the support of the City Manager, Mayor, and the Governing Body in this endeavor.

If you have questions, please contact Liza Kerr, Internal Auditor, at (505) 955-5728.

cc: Brian Snyder, City Manager  
Marcos Tapia, Finance Department Head  
David Coss, Mayor  
Geno Zamora, City Attorney  
Members of the Audit Committee  
Members of the Governing Body  
Atkinson and Company, External Auditor





## *City of Santa Fe – Internal Audit*

200 Lincoln Ave, Santa Fe, NM 87504-0909  
Liza A. Kerr, Internal Auditor

(505) 955-5728, cell (505) 490-3372

### AUDITORS REPORT

The audit of the data centers has been completed. The purpose of this audit was to determine that adequate controls exist and are effective within the City's data centers to ensure that:

- 1) Adequate levels of physical security, fire protection, flood protection, and power protection are provided for computer equipment and data files.
- 2) Sufficient controls exist to protect data files and programs from accidental loss.
- 3) Protective measures are taken to ensure that operations of the location can continue without serious interruption in the event of a disaster that results in loss of the center.

This performance audit is authorized pursuant to City of Santa Fe Ordinance 2012-32, §2-22.6. This performance audit was conducted in accordance with generally accepted governmental auditing standards, except for a peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

Significant issues were found in the areas of environmental controls including temperature control, fire detection, fire suppression, fire prevention; as well as physical security of the data center, redundant power supply, data backup and disaster recovery, and general matters such as lack of formal policies and procedures.

Internal Audit concludes that identified deficiencies in internal control that are significant within the context of the audit objectives are the cause of deficient performance of the program or operations being audited.

Internal Audit extends its appreciation to the ITT Director and his staff who assisted and cooperated with us during the audit.

Specific information related to indications of potential fraud, waste and abuse are included in a separate report to the City Manager, and the Head of Finance to determine proper action. This separate report is not considered confidential and will also be provided to the Audit Committee, the Governing Body, and the Independent Public Accountant in accordance with governmental auditing standards and City of Santa Fe Ordinance 2012-32 § 6, 2-22.5 A.

Liza Kerr, CIA, CISA, CPA, MBA  
Internal Auditor

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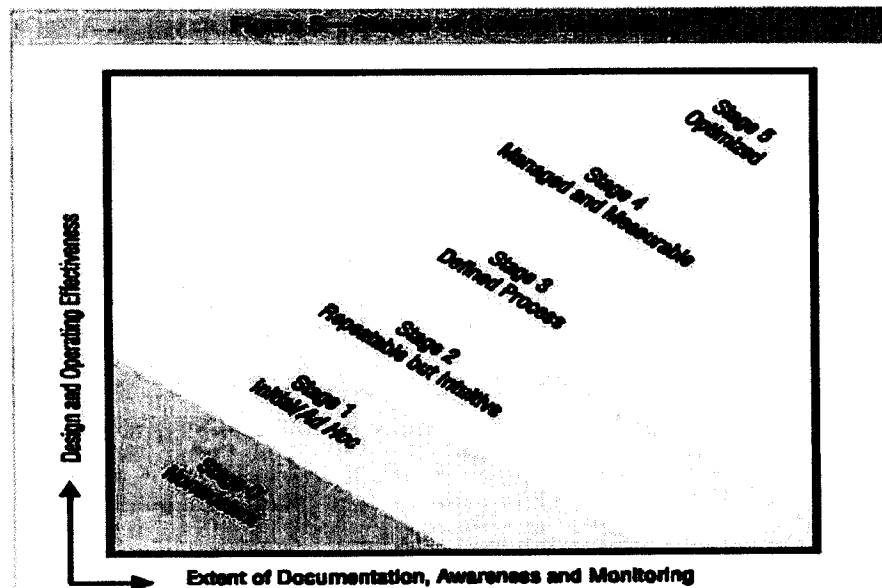
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## EXECUTIVE SUMMARY

The key findings in the report are related to insufficient internal controls. The internal control environment in any information technology (IT) environment is enhanced when entity level controls are formalized and a good foundation of policies and procedures exists. While the Information Technology and Telecommunications (ITT) division has an impressive amount of inherent knowledge between all of the staff, there is an opportunity to enrich the division by creating formal policies and procedures. This would enable the division to train new employees and would also help to ensure that the complex processes and procedures that they have to deal with on a daily, weekly, monthly, and annual basis are done consistently and efficiently.

The following chart illustrates a capability maturity model for an IT organization. This chart illustrates various stages of documentation starting with "Stage 0 Nonexistent", and "Stage 5 Optimized". The City's ITT division would best be characterized as falling somewhere between Stages 1 and 3. While some policies and procedures are well-defined, others are ad hoc and informal. Even well-defined procedures are not formalized. As the department matures, and starts formalizing policies and procedures they move along the continuum to the next stage of control reliability. The goal is not to move from Stage 1 to Stage 5, but rather to slowly move through each of the stages to an optimized state.



<sup>1</sup> IT Control Objectives for Sarbanes Oxley, The Role of IT in the Design and Implementation of Internal Control Over Financial Reporting, 2<sup>nd</sup> Edition, September 2006, IT Governance Institute, pg. 38.

## INTRODUCTION AND BACKGROUND

The primary focus of the ITT division is to provide end-users with effective and cost-efficient tools through the use of advanced technology. ITT continually strives to offer state-of-the-art hardware and software applications, which ultimately provide the foundation for e-government and e-commerce services.

The City is a large and complex organization and the protection of its IT assets is of critical importance to its continued operations. It is imperative that these assets are protected, adequate back-up and disaster recovery controls are in place, and data backup and disaster recovery is tested well in advance of a disaster. The computer operations of the City are connected through a data network. The network connects all City locations where agencies have offices or information technology systems thus enabling business systems, telephones, and email to connect to data centers across town and the internet.

City offices with network connections include libraries, recreation centers, police and fire stations, and senior centers. Network connections are also utilized by systems not contained within offices, such as traffic control and video surveillance systems. Some agencies, such as libraries, also provide network connections to enable the public to access the Internet. Nearly all City agencies depend on the availability of the network to conduct their business and to provide services to the public, thus making the network a critical component of the City's information infrastructure. The ITT division manages this network which is housed in the data center.

As part of this audit a series of site visits occurred at the data centers that house City data. The purpose of these site visits was to get a first-hand view of the control environment at the data centers. Pictures were taken to supplement the report and to give the reader a visual basis for understanding the information presented.

The data centers / server rooms at City Hall are outdated. The building itself is old and the cost of retrofitting the server rooms to industry standards needs to be weighed against the cost of having a third party host the servers. Thomas Williams, Director, ITT, is currently working with a consultant to evaluate these costs. The findings noted will be cited, as this information may help provide senior management and the Governing Body with an objective overview of the current conditions.

## SCOPE

The scope of the audit included:

- 1) Performing an internal control assessment of the environment and security of all City data centers including City Hall and the Santa Fe Police Department.
- 2) Testing of internal controls as related to:
  - a. Entity level controls,
  - b. Data back-up and disaster recovery, and
  - c. Policies and procedures impacting data back-up and recovery, and security.

## **OBJECTIVES**

The objectives of the audit were to:

- 1) Gain an understanding of the security and internal control environment within the City's data centers.
- 2) Determine if the internal controls identified by the external auditors and asserted to by ITT management exist, are designed effectively, and are operating as designed.

Our audit objectives were designed to ensure that:

- 1) Adequate levels of physical security, fire protection, flood protection, and power protection are provided for computer equipment and data files.
- 2) Sufficient controls exist to protect data files and programs from accidental loss.
- 3) Protective measures are taken to ensure that operations of the location can continue without serious interruption in the event of a disaster that results in loss of the center.

Accordingly, we used procedures including examination of records, voluntary interviews with appropriate personnel, vendors, and others, and other procedures as deemed necessary to accomplish our objectives.

## **METHODOLOGY**

The following methodology was used:

- 1) Phase 1 – Walkthrough & Information Gathering
  - a. During this phase a physical walkthrough was done at each site. Information was gathered and documented regarding current conditions,
  - b. Documentation was obtained regarding policies and procedures, alerts used, follow up on alerts, back-up and disaster recovery procedures.
- 2) Phase 2 - Field Work
  - a. During this phase of the audit, site visits occurred to physically see where back-up is being stored or mirrored,
  - b. Testing of effectiveness of backups was also done.
- 3) Phase 3 – Wrap up and Report
  - a. During this phase of the audit, all of the gathered information was analyzed for presentation in a report to management. A detailed list of findings is included.

## RESULTS

### Site Visits

The purpose of the site visits was to evaluate the internal control environment for physical security, fire protection, flood protection, and redundant power for computer equipment and data files.

#### Site Visit of City Hall Data Center

The walkthrough of the main data center/server room at City Hall was done over the course of several days starting on 03/07/2013 and ending on 03/15/2013. Numerous internal control deficiencies were noted in regards to the physical environment. During the initial walkthrough on 03/07/2013 the temperature in the data center was 81 degrees. The temperature in a data center should be approximately 72 degrees. Attempts were being made to circulate the air to bring down the temperature. A call was put in to building maintenance to have them come out and help with this issue. In a second site visit on 03/08/13 building maintenance had still not responded to the service call, and while temperatures were slightly cooler, they had not reached 72 degrees. The decrease in temperature was attributed to the ITT staff changing the air filters in the cooling system. Since the financial, email and network servers are all located in this room this is a critical issue. The loss of any of these servers could result in critical downtime for City operations, and the loss of financial and other data. The cost of replacing these servers and the downtime that might result due to data loss far exceeds the cost of preventive maintenance, and a redundant cooling system for the server room.

The following internal control deficiencies were noted during the City Hall data center walkthrough:

- 1) The temperature in the main server room was 81 degrees, **(See Finding 1)**,
  - a. The Carrier cooling system in the main data center at City Hall is not receiving routine maintenance.
  - b. The response time of building maintenance in regards to cooling issues in the server room is not adequate.
- 2) There is no fire suppression in the data center **(See Finding 1)**.
  - a. A hand held extinguisher is available.
- 3) The wiring in the City Hall data center is draped directly over the racks edge with combustible material placed beneath to protect the lines from fraying **(See Finding 1)**, **(See Appendix - Pictures #5)**.
- 4) On Monday 03/11/2013 it was found that the door to the ITT offices, which lead to the data center, was left open over the weekend **(See Finding 3)**. This was documented on a video tape. The tape clearly showed that the last person leaving the Friday before had not properly closed the door.
- 5) The Uninterrupted Power Supply (UPS) is not receiving routine preventive maintenance **(See Finding 2)**.
- 6) There is no back-up generator to provide redundant power **(See Finding 2)**.



### **Site Visit of City Hall Secondary Data Center (Communications Room)**

The following internal control deficiencies were noted:

- 1) On 3/8/13 the door to the basement data center (communications room) was found unlocked (See Finding 3), (See Appendix - Pictures #3).
- 2) There was significant clutter comprised of combustible material in the communications room, some of which was piled in front of an electrical panel (See Finding 1), (See Appendix - Pictures #2).
- 3) The three phase main feed in the communications room does not have a protective cover (See Finding 1), (See Appendix - Pictures #4).
- 4) There is no fire suppression in the communications room. Per Reynaldo Gonzales, Fire Marshall, City, if fire caulking were used to plug up the holes in the room it could be rated as a two hour fire room. In other words a fire could be contained for two hours before spreading. This would give fire crews plenty of time to respond in the event of a fire (See Finding 1).
- 5) There are no water sensors under the raised floors (See Finding 1).
- 6) Uninterrupted Power Supply (UPS) (See Finding 2).
  - a. The UPS system for the 911 data base has never had routine maintenance.

### **Site Visit of Santa Fe Police Department Data Center**

The following environmental control deficiencies were noted:

- 1) There are no water sensors under the raised floors (See Finding 1).
- 2) There is no fire suppression in the data center (See Finding 1).
- 3) The UPS is not receiving routine preventive maintenance (See Finding 2).
- 4) The generator is not receiving routine preventive maintenance (See Finding 2).
  - a. In an attempt to save money, management discontinued the contract for routine maintenance and has requested these services be provided by Fleet Management.
  - b. On 06/21/2013, Rich Bemis, Facilities and Evidence Manager at SFPD, stated that Fleet Management came out to service the generator and damaged it. Per Mr. Bemis, a radiator hose had cracked and needed to be replaced. The water was drained out of the generator so that they could replace the hose, but the heat pump was not turned off and ended up burning up. This part now needs to be replaced.
  - c. Load testing was not done.

### **Hitachi Storage Area Network (SAN)**

During the site visit of the City Hall data Center it was noted that there was a Hitachi SAN data backup system that was not being used. The City ultimately spent over \$500,000 on this system and we were told it was non-functional. This appeared to be a questionable purchase and resulted in a special investigation.

Results of this investigation are documented in a separate report to the City Manager, and to the Finance Department Head as the supervisor of ITT to determine proper action. As this information is not

considered confidential the results will also be provided to the Audit Committee, and the Governing Body, in regular session, and to the Independent Public Accountant in accordance with governmental auditing standards.

## **Data Backup and Disaster Recovery**

### **Backup of I-Series Financial Data**

Per discussion with Caryn Fiorina, Systems and Program Manager, ITT, the City currently uses an I-Series for its financial systems. **Note:** The I-Series was formerly referred to as the AS-400 financial system.

The I-Series currently houses:

1. Enterprise 1 Financials.
2. UCIS – Utility Information Water Refuse Utility Customer Information System (UCIS).
3. Sun Gard Community Development Applications,
  - a. Land Use,
  - b. Building Permits,
  - c. Business Licensing,
  - d. Code Enforcement.
4. Right now there are 4 LPARs<sup>2</sup>,
  - a. World LPAR – UCIS and SunGard applications,
  - b. Production LPAR – Enterprise 1 Production,
  - c. Web LPAR - which has the City's web application, this is the web server for the City's financials,
  - d. Test LPAR – Enterprise 1 test environment.

### **Tape Backups of Financial Data**

Tape backups are done at City Hall where the I-Series financial system is located.

1. Daily - Data and objects are backed up on all 4 LPARS:
  - a. Daily backups are run Monday through Thursday,
  - b. Tapes are loaded by ITT personnel,
  - c. Backup is automated and runs at 11:55pm,
  - d. Daily backups are saved for a four month time span.
2. Weekly – A full systems save is done on all 4 LPARS:
  - a. The weekly system saves are run on Friday nights,
  - b. Tapes are loaded and initialized by ITT personnel, Employee 1,
  - c. A system shutdown must occur prior to backing up the tapes,
    - i. System shutdown is done remotely by a second ITT employee, this shutdown is done in a very precise order,

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<sup>2</sup> LPAR – a logical partition (LPAR) is the division of a computer's processors, memory, and storage into multiple sets of resources so that each set of resources can be operated independently with its own operating system instance and application.

- d. Once confirmation is received that the systems are completely shut down back-up is initiated by Employee 1,
- e. Weekly backups are saved for 6 months,
- f. An annual backup is done on June 30<sup>th</sup>.

The daily and weekly back-up tapes are stored offsite. The daily backup tapes are stored in a cubicle which is behind a keyed entry door. The weekly systems saves are locked in Employee 1's office.

During the walkthrough of the data center it was observed that an error message appears that states "the daily saves are incomplete or are not successful". This was occurring on all 4 LPARs **(See Finding 7)**, **(See Appendix Pictures - #7a through 7d)**.

Regarding the error message for unsuccessful backups, Caryn Fiorina, Systems and Program Manager, ITT, stated that "The reason we are getting this error is because the daily save was not able to save certain objects. The backup is saving all our data libraries successfully. The objects that are not being saved are logs and journals. Marco had entered a support call with IBM to find if there was a way to exclude these objects from the save but has since been moved to work on the website." The Marco referred to in this quote is Marco De Waart, Network Specialist, ITT.

In a follow up with IBM, ITT was told that the error message was occurring because they are doing the backups in a non-restricted state. Therefore, any application that is open and running may not be saved fully. ITT is working to resolve this issue, but for now it remains an open item.

Ms. Fiorina confirmed that there are lots of billing issues with the Water Utility. For that reason she has made the decision to keep daily backups for a four month time span. She stated that 95% of the issues are related to user error. Based on historical precedence, Ms. Fiorina believes that weekly backups of anything older than four months are adequate. When asked if she was meeting the City and State data retention requirements Ms. Fiorina suggested meeting after the audit to discuss this issue further. She also suggested including someone from legal in that discussion to ensure compliance with any specific laws and regulations **(See Finding 8)**.

No exceptions were noted on testing the restoration of the tape backups of the daily saves of financial data. However, the restoration of the weekly and annual saves could not be tested due to system constraints and capacity issues. In an email from Ms. Fiorina dated 06/28/2013 she stated that "In July, we are scheduled to create a new test web Lpar (sic) and we will be performing a system restore to new the LPAR. If you would like to use that as your system restore test we would happy accommodate the system test for the audit." **(See Finding 8)**.

### **File Server Mirrored Backup**

The City has entered into a reciprocal arrangement with the Regional Emergency Command Center (RECC) to have a mirrored backup of the I-Series financial servers at their data center in exchange for them having a mirrored backup at a City data center. It should be noted that the server the mirrored backup is housed on is owned by RECC, and at this time we are not hosting a mirrored backup of RECC data. Access to the server room at RECC is restricted. Three of the four LPARS that reside at City Hall are replicated at RECC, they are:

- 1) World LPAR
- 2) Production LPAR – Enterprise 1 Production
- 3) Web LPAR

The Test LPAR residing at City Hall is not replicated at RECC.

The City has been replicating data at the RECC site for approximately 1 ½ to 2 years. To get a level of comfort that the system is replicating at 100% they use an iTera application as a tool for monitoring and reporting data replication for disaster recovery purposes. In order to fully test the system capabilities a roll swap needs to occur where one system switches off and the other switches on. ITT is in the process of negotiating a contract with Vision Solutions - iTera to test the mirrored site by doing a roll swap. At the time of this report, a roll swap has not occurred and the full capabilities of the mirrored backup have not been tested (See Finding 8).

#### **Tape Backup of Email, Word, Excel, and Share Drive Documents**

The City has a robotic tape backup that holds 32 tapes with 800 to 900 compressed gigabytes. The City uses a product called Backup Executive Software. This software enables the City to:

- Point to the servers to include in backup,
- Install remote software that shuts down unneeded services and performs backups,
- Monitor backups by reviewing a screen that shows if backups ran or failed,
- There are 24 tapes in rotation (the other 8 tapes are not being used in rotation). That is there is 24 tapes available, plus 8 being used for other purposes which equals 32 tapes total.
  - Daily
  - Weekly

#### **Testing of Internal Controls as Identified By External Auditors**

The objectives of this audit included testing of the internal controls identified by Atkinson and Company (Atkinson) the external financial auditors as asserted to by ITT management as being effective. As a result of management's assertions there were no identified findings for ITT as a result of the 2012 financial audit. Our goal was to test these controls to verify they exist, and to determine whether they are effective.

The testing of the following internal controls was included in this audit:

- 1) A management steering committee is responsible for reviewing and approving IT plans and priorities.
  - a) Results of Internal Audit test work indicate that there is no steering committee (See Finding 4).
- 2) ITT management conducts regular risk assessments and addresses noted risks appropriately.
  - a) The risk assessment process is ad hoc and informal.
  - b) There is also no formal policy or procedure for doing a risk assessment. In an email dated May 17, 2013 Mr. Williams stated he is in the process of drafting a risk assessment policy, the email included an attachment. The attachment was a draft of a policy titled Risk Assessment. However, in reading the draft it was really for incident management. When asked about this, Mr. Williams stated this was an error and that he will provide me with a more current draft.

- c) Results of Internal Audit test work indicate that a formal risk assessment process is not currently in place **(See Finding 4)**.
- 3) All outside service providers used by the entity are evaluated to determine those who provide material financial services that may impact controls.
  - a) According to Marty Mathison, Audit Director, Atkinson, a relevant example of this type of provider would be the administrator of the City's (sic) Health Plan. When asked for clarification of this control he states that "The controls of the outside service provider may impact the City's IC system where the outside service provider provides significant financial services to the City. Common examples are an outside payroll contractor or processing of transactions in the case of financial institutions, calculation of depreciation and maintenance of capital assets, or administration of insurance or self insured functions such as CSSF health plan (this one is relevant). "
  - b) Per email from Mr. Williams dated 05/17/2013 "We're not doing anything along those lines." Per this email no documentation of the internal controls of the outside service providers is being done at this time. Mr. Williams is beginning the process of identifying these providers.
  - c) Internal Audit test work indicates that this control is not in place **(See Finding 4)**.
- 4) A backup and data retention policy/schedule exists, specifying how often backups are to be performed, how long they are to be retained, and where the backup media are to be stored.
  - a) Atkinson cites "IT policies appear to be outdated" in the 2009 CAFR.
  - b) Atkinson cites "IT policies appear to be outdated" in the 2010 CAFR.
  - c) Atkinson does not cite this as a finding in either 2011 or 2012, although, policies are still not formalized or updated.
  - d) Atkinson indicates that this control does not exist, and is not effective, but did not cite it as a finding as the following was noted "There is a backup and retention policy for all financial system servers. Nightly program saves and weekly system backups, backups taken to Siringo location weekly for storage. Expected to complete in early summer locating critical networking to Century Link data center (Tier 3 or 4), should have a SOC1. Will also have a backup center at state ISD (probably a secondary location). Have a draft disaster recovery policy that is not yet finalized"
  - e) The referenced backup and retention policy is a draft. The 'draft policy' that was provided for data backups was at least 6 years old as it references the Net Apps data backup system that was replaced with the purchase of the Hitachi SAN system in 2007. The referenced backup schedules do exist, but are not part of a formal policy. Also, backup procedures for the I-Series financial data do exist, but are not formalized in a policy. Other policies/procedures are ad hoc and informal. A formal, current backup policy needs to be created. A formal disaster recovery and business continuity policy needs to be created.
  - f) Internal Audit test work indicates that although a backup schedule exists, there is no current formal policy **(See Finding 5)**.
- 5) Application data backups are performed to minimize the risk of lost or corrupted data. Backup tapes or other media are secure (accessible only by authorized personnel).
  - a) This control is effective and is not cited as a finding.

- 6) Application data recovery procedures are tested at least once annually to ensure data integrity and recovery.
- a) This control is effective for financial data,
  - b) In regards to non-financial data this control is not effective and will be cited as a finding.
    - i) On Monday 04/15/13 several internal audit documents including walkthroughs, and interviews were corrupted. An attempt was made with EJ Duran, Finance Project Leader, ITT, to restore the corrupted and /or missing files from the backups created for this purpose. While attempting to recover the files it was noted that the Data Center Audit folder had been removed from the saved backups going all the way back to 03/25/13. All other folders appeared to be intact. The data could not be recovered and had to be recreated. Approximately a week later it was observed that the missing folder had been returned to the backup files (See Finding 6).
- 7) File server backups are performed to minimize the risk of lost or corrupted data. Backup tapes or other media are secure (accessible only by authorized personnel).
- a) This control is effective for the financial servers,
  - b) This control is not effective for the non-financial servers (See Finding 9).
    - i) The Hitachi SAN units were purchased for this purpose in 2007, but are not functional.
- 8) File server recovery procedures are tested at least once annually to ensure data integrity and recovery.
- a) Internal Audit test work indicates that this control is not in place (See Finding 8).
  - b) Atkinson cited this as a finding in 2009 in the Comprehensive Annual Financial Report (CAFR).
  - c) Atkinson cited this as a finding in the 2010 CAFR.
  - d) Atkinson cited this as a finding in the 2011 CAFR.
  - e) Atkinson did not cite this as a finding in the 2012 CAFR.
  - f) Internal Audit test work indicates that recovery attempts are ad hoc and informal, for the financial data, and that recovery is done on a crisis basis. A formal, annual, testing process needs to be implemented to ensure completeness and integrity of data.
  - g) The Hitachi SAN system purchased in 2007 to provide redundant back-up for nonfinancial data, was initialized to begin doing backups in late May 2013.
    - i) In an update from William Smith, Network Operations Manager, ITT he states that:

"These are the milestones and their dates that I consider to be key:

      - We completed the SAN configuration around May 10th. At that point, it was utilizable as a storage medium.
      - We completed the DFS configuration and started replicating files around May 16th.
      - DFS synchronization of the "Departmental Shares" completed on May 21st.
      - DFS synchronization of the "User's My Documents Shares" completed on June 6th."

- h) Currently, a mirrored back-up is set up at the RECC for three of four LPARs for the iSeries financial data. A formal test involving a roll swap has never been done to assure the completeness and integrity of the data. ITT is in the process of setting up a formal testing procedure with a third party service provider.
  - i) Internal Audit was unable to do a full restore on either the weekly or the annual system saves due to capacity issues in the test environment. ITT is planning on building a test LPAR in July 2013 that will have sufficient capacity to allow them to do this.
  - j) File server recovery is not effective for non-financial server backup as the servers were not functional.
- 9) Appropriate environmental controls exist to ensure the security and reliability of equipment in data centers and other technical facilities. Such controls include fire/smoke detection and fire suppression, temperature and humidity controls, and an uninterruptible power supply and/or backup generators where required.
- a) Internal Audit test work indicates these controls are not in place **(See Findings 1 and 2)**.
- 10) An information security policy exists that defines information security objectives. This policy is supported by documents standards and procedures where necessary.
- a) Internal Audit test work indicates this control is not in place **(See Finding 5)**.
  - b) Atkinson cites "IT policies appear to be outdated" in the 2009 CAFR.
  - c) Atkinson cites "IT policies appear to be outdated" in the 2010 CAFR.
  - d) Atkinson does not cite this as a finding in either 2011 or 2012, although, policies are still not formalized or updated.
  - e) ITT has been cited in the last two US Department of Transportation Financial Management Oversight (FMO) reports dated July 2012 and March 2013 for "Lack of a Comprehensive IT Policies and Procedures Manual". They have characterized this finding as a significant deficiency. The original recommendation was to "prepare a comprehensive Information Technology Security Policies and Procedures Manual." The current status states that "The Grantee indicated that it was still in the process of updating its policies and procedures. Draft versions of the updated IT policies and procedures were provided that addressed some of the areas noted in the findings including access to the data center, and the terminated employees system access policy. The Grantee did not have any documentation to show that it had established a policy to address areas such as risk assessment, incident response, or security awareness. Current procedures are not adequate. This finding is still applicable."
- 11) Physical access to computer room, file/communication servers, off-line data storage, and other sensitive storage is appropriately restricted to authorized personnel. Access is reviewed for appropriateness on a periodic basis.
- a) Internal audit test work indicates this control is not in place **(See Finding 3)**.

## **FINDING 1**

### **Lack of environmental controls in data centers**

#### **Condition**

During the walkthrough phase of this audit several internal control deficiencies regarding the environment in the data centers were noted, including:

- 1) The temperature in the City Hall data center / server room was 81 degrees on the day of the walkthrough,
  - a. Cooling unit in the City Hall data center is not receiving routine maintenance by a technician certified on these types of units.
- 2) The SFPD data center, and the secondary data center at City Hall, (communications room) do not have water sensors or a monitoring system to alert ITT personnel of the presence of water. This is especially problematic for the communications room as there is a history of flooding due to burst pipes in the building.
- 3) None of the three data centers (SFPD, City Hall, and communications room) has fire suppression, although, hand held chemical extinguishers are available.
- 4) Wiring in the City Hall data center is not protected from fraying on edges of raceway / rack and poses a fire risk (See Appendix – Pictures #5).
- 5) There was significant clutter comprised of combustible material in the communications room, which is a fire code violation (See Appendix – Pictures #1).
- 6) The three phase main feed in the communications room does not have a protective cover and poses a fire risk (See Appendix – Pictures #4).

#### **Criteria**

Appropriate environmental controls should exist to ensure the security and reliability of equipment in data centers and other technical facilities. Such controls include fire/smoke detection and fire suppression, temperature and humidity controls, and an uninterruptible power supply and/or backup generators where required.

#### **Cause**

Internal controls pertaining to physical environment in the City's data centers are not effective. These deficiencies in the internal control environment can affect operations of the City. The specific internal controls deficiencies are 1) lack of a redundant cooling unit for the City Hall data center, 2) lack of water sensors or monitoring devices for flooding, 3) lack of fire suppression, and 4) lack of controls for fire prevention.

#### **Effect**

Fire in a data center is self-explanatory. The damage that is caused is typically irreparable and extensive. The damage can be from the fire itself, smoke or even from water based products used to contain or put out the fire. The axiom 'an ounce of prevention is worth a pound of cure' certainly applies here. It is best to prevent fires altogether and to take whatever precautions can be taken up front to ensure that



this issue never has to be dealt with. Fire prevention includes protecting wiring, removing clutter, and other safeguards that are typically low cost, but deliver high returns.

Another, less obvious risk is heat. Heat weakens electronic components like power supplies, motherboards, and memory chips, so even if they don't fail immediately, they become more susceptible to failure over time. This can result in node crashes, erratic, and weakened electronic parts that are more vulnerable to failure on a go forward basis. The true repercussions of overheating may not become apparent for several months down the road. Since the financial, email and network servers are all located in this room this is a critical issue. The loss of any of these servers could result in critical downtime for City operations, the loss of financial and other data, and may also impact the City's credibility and public image. The cost of replacing these servers, the downtime that might result due to data loss, and the restoration of public image far exceeds the cost of a redundant cooling system, and preventive maintenance.

### **Recommendation**

The ITT department is evaluating the cost/benefit of moving the data center to a hosted site. Whether or not the entire data center moves, if there are any remaining servers the following considerations need to be made:

- 1) The cooling system needs to be evaluated for capacity issues, and needs to have proper, routine maintenance done by internal or external specialists familiar with and certified on this type of unit.
- 2) Flood detection devices need to be added under the raised floors, and monitored.
- 3) A fire suppression system needs to be evaluated.
  - a. Consider adding fire caulking to the communications room to make it a two hour fire rated room.
- 4) A protective fire resistant barrier needs to be placed between the wiring and the raceway/rack at the edge.
- 5) Remove clutter and other combustible materials from the server rooms. Yellow tape can be used to clearly mark areas in front of fire alarms and panels that need to be free of clutter.
- 6) A protective fire resistant cover needs to be placed over the three phase main feed.

Estimates for these improvements need to be provided so that senior management can better assess the cost of the improvements versus the current risk.

### **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

### **Evaluation of Management's Response**

(Placeholder - will fill in when management's response is received)

## **FINDING 2**

During the walkthrough phase of this audit several internal control deficiencies regarding the redundant power supply in the data centers were noted, including:

- 1) Lack of a back-up generator for 2 of 3 data centers.
- 2) Lack of routine maintenance on back-up generator at SFPD.
- 3) Lack of routine maintenance on the Uninterruptable Power Supply (UPS) at 3 of 3 data centers,
  - a. The City Hall data center was receiving routine maintenance through June 30, 2012. The UPS in both the City Hall communications room and SFPD have never had routine maintenance.

### **Condition**

- 1) There is no backup generator at City Hall. This affects both the City Hall data center and the Communication's Room.
- 2) The backup generator at SFPD is not receiving routine maintenance.
  - a. In an effort to maintain a flat budget, the City opted to begin providing maintenance to the generator in-house.
  - b. On 06/21/2013, Rich Bemis, Facilities and Evidence Manager at SFPD, stated that Fleet Management came out to service the generator and damaged it. Per Mr. Bemis, a radiator hose had cracked and needed to be replaced. The water was drained out of the generator so that they could replace the hose, but the heat pump was not turned off and ended up burning up. This part now needs to be replaced.
  - c. Load testing was not done.
- 3) The UPS units at SFPD, City Hall data center and the communication's room are not receiving routine maintenance.

### **Criteria**

Appropriate environmental controls should exist to ensure the security and reliability of equipment in data centers and other technical facilities. Such controls include an uninterruptible power supply and/or backup generators where required.

Internal controls regarding redundant power are necessary to prevent single points of failure. This redundancy helps to assure continued operations in the case of a power failure.

### **Cause**

Internal controls pertaining to redundant power in the City's data centers are not effective. These deficiencies in the internal control environment can affect operations of the City.

### **Effect**

Not having a redundant power source in the data centers can result in costly down time in the event of a power failure.

A UPS is typically used to supply temporary power to critical applications and servers in the event of a power failure. There can be one or many in a datacenter. A UPS differs from an auxiliary or emergency power system or a standby generator in that it will provide near-instantaneous protection from input power interruptions by supplying energy stored in batteries or a flywheel. The on-battery runtime of most UPS sources is relatively short (typically, up to 45 minutes) but is sufficient time to start a standby power source or to properly shut down the protected equipment. If the UPS is not functioning properly IT systems may not be protected from the effects of power outages or fluctuations in electricity.

If there is a power failure at City Hall that lasts longer than the 30 to 45 minute cushion provided by the UPS, City operations that flow through the City Hall data center or communication's room are at risk of shutting down. This includes, but is not limited to financial operations, network activity, and email. In addition, the 911 emergency locator database would be inaccessible.

Also, it should be noted that City calls routed to the Regional Emergency Command Center (RECC) first go through the City data center as the initial entry point. A shutdown of the City Hall data center could affect emergency response. For example, Fire and Police mobile units would not be able to connect back to RECC, but would have to revert to manual communications. This especially impacts public safety as the Fire Department uploads vital signs to a mobile unit which then gets loaded to dispatch. The ability for Police to enter a driver's information and get immediate feedback or further updates on calls, would be impacted as well as the ability to place an Amber Alert on a missing child.

A power failure affecting the City Hall data center would also impact other City services including, but not limited to senior services, library services, and the recreation centers which would lose their ability to function at point of sale/membership terminals, etc.

### **Recommendation**

The ITT department is evaluating the cost/benefit of moving the data center to a hosted site. Whether or not the entire data center moves, if there are any remaining servers:

- 1) The UPS units at all three sites need to be evaluated for load capacity, and routine maintenance needs to be done either internally or externally by qualified technicians.
- 2) The backup generator at SFPD needs to have proper, routine maintenance done by internal or external specialists familiar with and certified on generators.
- 3) Estimates of the cost of a backup generator for City Hall need to be provided so that senior management can better assess the current risk versus the cost of the improvement.

### **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

### **Evaluation of Management's Response**

(Placeholder - will fill in when management's response is received)

## **FINDING 3**

Lack of adequate physical security in the data centers

### **Condition**

- 1) Door to the ITT offices at City Hall was left unlocked over the weekend starting Friday, 03/08/2013 and ending Monday morning 03/11/2013. This was captured on video tape. During the walkthrough on 03/08/2013, Internal Audit observed the door to the communications room at City Hall had not been locked.
- 2) Physical access to the server rooms is not always restricted to authorized personnel, and is not reviewed on a periodic basis.
  - a. At the time of this audit vendors were not required to fill out user authorization forms to gain access to the data center.
  - b. Entry to the data center at City Hall is through the use of a key pad. Anyone with the code may enter. Currently, the ability to track who has gone in is not available, just the times that they enter.

### **Criteria**

Physical access to computer room, file/communication servers, off-line data storage, and other sensitive storage should be appropriately restricted to authorized personnel. Access is reviewed for appropriateness on a periodic basis.

### **Cause**

Internal controls pertaining to physical security in the City's data centers are not effective. These deficiencies in the internal control environment can affect operations of the City.

### **Effect**

Not restricting access to who can enter a data center can result in an intentional or unintentional loss of data, or server downtime.

The ITT office is a barrier to the City Hall data center. Having this door left opened created the following risks:

- 1) Entry to the data center was possible given current vulnerabilities.
- 2) Additional strain was put on the cooling system as cool air was not contained. This was especially critical that weekend (Friday - March 8<sup>th</sup> to Monday - March 11<sup>th</sup>) as the temperature in the data center had been 81 degrees on Thursday, and was just starting to come down on Friday.
- 3) Computers and other assets stored in the ITT office were more susceptible to theft (See Appendix - Pictures #6a, b, c).

### **Recommendation**

- 1) Ensure that doors to the data centers are locked at all times.
- 2) Ensure that only authorized personnel have access to the data centers.

- a. If a key pad entry is used ensure that the key sequence is changed periodically to help prevent unauthorized access by past employees or by vendors who are no longer authorized to have access.
- 3) If swipe entry is used:
  - a. Disable swipe card when user no longer needs access.
- 4) Periodically review list of authorized personnel.

### **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

### **Evaluation of Management's Response**

(Placeholder - will fill in when management's response is received)

## **FINDING 4**

Lack of ITT entity level internal controls

### **Condition**

The following deficiencies were found in regards to ITT entity level controls.

- 1) Lack of a steering committee.
- 2) Lack of a formal, annual risk assessment.
- 3) Not assessing the security environment and internal controls of outside service providers who provide significant financial services to the City.

### **Criteria**

Internal controls are a combination of people, processes and tools that are put in place to prevent, detect or correct issues caused by unwanted events. The need is to create a carefully planned control framework that weaves the various types of controls together and protects the City from risks.

Entity level controls in ITT serve the purpose of providing direction and guidance to ITT and to senior management. A steering committee comprised of members from a cross section of senior management allows the ITT department to consider the timing of projects in order to maximize human and other ITT resources. Both the steering committee and the risk assessment process affect both short and long range planning opportunities and enhance budgeting decisions.

- An ITT planning or steering committee should exist that reports to an appropriate level of senior management and includes representation from senior management, user management and the ITT function.
- IT management should conduct regular risk assessments and address noted risks appropriately. The risk assessment should be used for short and long-range planning purposes and to help make budgetary decisions.

Outside service providers that are providing a material financial service to the City need to have adequate security and internal controls in place so that City data or services to the City are not compromised.

### **Cause**

Internal controls pertaining to ITT entity level activity are not effective. These deficiencies in the internal control environment can affect operations of the City.

### **Effect**

Not having a steering committee or a formal risk assessment process to aid in short and long term planning may result in an ineffective use of human and other resources and create bottlenecks when conflicting projects are competing for priority.

Not assessing the security and internal controls of outside service providers may result in unacceptable downtime to security breaches and loss of data and / or reputation to the City.

### **Recommendation**

The City's senior management should appoint a planning or steering committee to oversee the IT function and its activities. Committee membership should include representatives from senior management, user management and the IT function. The committee should meet regularly and report to senior management.

A formal risk assessment process should be in place to help ITT management with their short and long range planning process. A risk assessment is a tool to help focus attention to critical needs including, but not limited to use of technology, human resources, IT infrastructure, security threats, and legal and regulatory requirements.

Regarding outside service providers:

- Determine the City's major service providers.
- Assess the security and general control environment
- Determine that the provider develops and adheres to appropriate policies, procedures and standards.
- Rely on the work of their internal or external auditors if this assessment has been done through them,
  - If available, obtain a Service Organization Control report commonly referred to as an SSAE 16, SOC 1 or SOC 2.
    - SSAE 16 - Statement on Standards for Attestation Engagements number 16.
    - These reports document the results of the auditors test work regarding the security and internal control environment at the service provider's organization.

### **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

## Evaluation of Management's Response

(Placeholder - will fill in when management's response is received)

### FINDING 5

Lack of formal policies and procedures

#### Condition

The following was noted regarding ITT policies and procedures:

- 1) Risk assessment - There is no formal, annual risk assessment process, and there are no formal policies and procedures regarding the risk assessment process.
- 2) Back-up and data retention
  - a. There is a schedule of when backups are to be performed, and an understanding of how long they are to be retained, but this is not documented in a formal policy.
  - b. Also, retention of backups does not take into account City or State data retention requirements.
- 3) Security - ITT does not have a comprehensive formal information security policy or procedures manual. Lack of a comprehensive ITT security policy has been cited as a finding by different auditors for several years. This is a repeat finding, and stating that a draft is in process is no longer an acceptable response.
  - a. Atkinson cites "IT policies appear to be outdated" in the 2009 CAFR.
  - b. Atkinson cites "IT policies appear to be outdated" in the 2010 CAFR.
  - c. ITT has been cited in the last two US Department of Transportation Financial Management Oversight reports dated July 2012 and March 2013 for "Lack of a Comprehensive IT Policies and Procedures Manual". They have characterized this finding as a significant deficiency. The original recommendation was to "prepare a comprehensive Information Technology Security Policies and Procedures Manual." The current status states that "The Grantee indicated that it was still in the process of updating its policies and procedures. Draft versions of the updated IT policies and procedures were provided that addressed some of the areas noted in the findings including access to the data center, and the terminated employee's system access policy. The Grantee did not have any documentation to show that it had established a policy to address areas such as risk assessment, incident response, or security awareness. Current procedures are not adequate. This finding is still applicable."

#### Criteria

Internal controls are a combination of people, processes and tools that are put in place to prevent, detect or correct issues caused by unwanted events. The need is to create a carefully planned control framework that weaves the various types of controls together and protects the City from risks.

Formal policies need to exist regarding:

- Risk assessment and prioritization and how this impacts short and long term planning,
- Data back-up and disaster prevention and recovery, including
- ITT Security.

## Cause

An internal control environment that is clearly defined in policies and procedures does not exist. This is creating a weak internal control environment which can affect operations of the City.

## Effect

- 1) Not having a provision for a systematic risk assessment in line with control practices may result in missing opportunities for organizational synergy and avoidance of duplication of risk management effort gained through aligning the IT risk assessment framework with the broader corporate and IT governance process.
- 2) Not having formal policies creates a situation where each person may have a different understanding of how backups occur, what data is to be retained, and how it is to be recovered. Also, if a key person leaves, it creates a vulnerability that the procedures for a key process will leave with them.
  - a. The City faces the following increased risks by not having a formal backup and data retention policy:
    - i. Legal and regulatory data retention requirements may not be met,
    - ii. Consistency with backup strategies may not be maintained,
    - iii. The business impact of system failures or disasters that result in the destruction of data may not be minimized,
    - iv. Incomplete, inaccurate and untimely recovery of data in the event of a system failure or disaster may occur.
- 3) Not having clearly defined security policies and procedures may result in:
  - a. Information systems that are not available and useable when required (availability),
  - b. Data and information that are not disclosed only to those who have a right to know it (confidentiality), and
  - c. Data and information that are not protected against unauthorized modifications (integrity).
  - d. ***Most data and information in the City are not considered to be confidential due to the Inspection of Public Records Act (IPRA), but confidentiality does bear mentioning.***

## Recommendation

As the City grows and the IT environment becomes more complex, it is of increasing importance to move to a more formal, controlled environment. Historically, it may have been efficient and effective to not have formalized policies and procedures in ITT. However, as the environment has become increasingly complex and the repercussions more severe formality is no longer an option. ITT needs to formalize



their policies and procedures. Backup policies and procedures need to take into account the legal and regulatory environment.

### **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

### **Evaluation of Management's Response**

(Placeholder - will fill in when management's response is received)

## **FINDING 6**

Unable to restore corrupted files from backup media (non-financial data)

### **Condition**

On Monday 04/15/13 several internal audit Word documents including walkthroughs, and interviews were corrupted. An attempt was made with EJ Duran, Finance Project Leader, ITT to restore the corrupted and /or missing files from the backups done of non-financial data including Word documents. While attempting to recover the files it was noted that the Data Center Audit folder had been removed from the saved backups going all the way back to 03/25/13. All other folders appeared to be intact. The data could not be recovered and had to be recreated. Approximately a week later it was observed that the missing folder had been returned to the backup files.

### **Criteria**

Application data backups should be performed to minimize the risk of lost or corrupted data. Backup tapes or other media are secure (accessible only by authorized personnel).

### **Cause**

Missing folder in backup media

### **Effect**

Unable to restore files

### **Recommendation**

Ensure that backup media is not compromised.

### **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

### **Evaluation of Management's Response**

(Placeholder - will fill in when management's response is received)

## **FINDING 7**

Daily saves of financial data are unsuccessful or incomplete (See Appendix – Pictures #6)

### **Condition**

An error message stating the daily saves on the financial servers “are unsuccessful or incomplete” is occurring on all 4 LPARS.

In an email from Caryn Fiorina, Systems and Program Manager, ITT, dated 06/19/2013 she states that “the backup is saving all our data libraries successfully. The objects that are not being saved are logs and journals.” The problem with this is that an assumption is made that every time this message occurs it is only because non-essential logs and journals were not saved correctly. This might not always be a correct assumption.

In an email from Zeke Perea, Network Specialist, ITT he states that the error message has been occurring for three to four years.

### **Criteria**

In order for this internal control to operate as designed the message should state the save was complete and successful, unless there is a problem that ITT needs to be alerted to.

### **Cause**

Error messages are an internal control designed to alert management of potentially serious issues. This internal control is ineffective as management is assuming the message always relates to non-essential objects such as logs and journals.

### **Effect**

Assuming that the message is just referring to failed backups of unnecessary logs and journals may result in not actually knowing when a backup of critical financial data has failed and may result in a problem that is fairly easy to fix perpetuating itself day after day. The problem may not be recognized until a restore of the data fails.

### **Recommendation**

Evaluate the steps necessary to remediate this issue, and resolve.

### **Management’s Response and Implementation Date**

(Placeholder - will fill in when received)

### **Evaluation of Management’s Response**

(Placeholder - will fill in when management’s response is received)

## **FINDING 8**

Lack of formal annual testing of file server back-ups and recovery procedures

### **Condition**

- 1) A formal annual testing of the file servers doing mirrored backup of the I-Series financial data is not being done. ITT is in the process of negotiating a contract with Vision Solutions - iTera to provide this service, but it is not expected to occur until after July 1, 2013. The contract would include three virtual roll swaps and three actual backups over the course of a year.
- 2) A formal annual testing of the file servers doing mirrored backup of the non-financial data is not being done.
- 3) Internal Audit was unable to do a full restore on either the weekly or the annual system saves due to capacity issues in the test environment. ITT is planning on building a test LPAR in July 2013 that will have sufficient capacity to allow them to do this.
- 4) City and State data retention requirements for electronic data may not be retained for the appropriate time periods.

### **Criteria**

A formal annual test of file server recovery / procedures needs to occur to ensure data integrity and disaster recovery capabilities.

Data retention, including retention of electronic data, needs to adhere to legal and regulatory requirements including City ordinances and NM State Statute 1.18.341, Executive Records Retention and Disposition Schedules.

### **Cause**

Internal controls pertaining to annual testing of file server recovery / procedures are not effective. These deficiencies in the internal control environment can affect operations of the City.

### **Effect**

Not performing an annual test on file server recovery / procedures to ensure data integrity and disaster recovery capabilities may result in a failed recovery in the event of a disaster. This may impact the City's ability to continue with business operations. The City is vulnerable to not being able to recover in the event of a disaster.

### **Recommendation**

- 1) Continue contract negotiations with Vision Solutions - iTera to begin testing the mirrored backup at the RECC site.
- 2) Develop a plan for annual testing of financial and non-financial file server recovery..
- 3) Ensure that City and State data retention requirements adhere to legal and regulatory requirements.

## **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

## **Evaluation of Management's Response**

(Placeholder - will fill in when management's response is received)

### **FINDING 9**

File server backup is not occurring on non-financial data such as email, MS Word documents, Excel spreadsheets, and Share Drive documents.

#### **Condition**

The Hitachi SAN purchased in 2007 was intended to provide file server backup of non-financial data. The SAN was found to be non-functioning during the course of this audit.

#### **Criteria**

File server backup of non-financial data such as email, MS Word documents, Excel spreadsheets, and Share Drive documents needs to occur for disaster recovery purposes.

#### **Cause**

Failure to implement

#### **Effect**

The City is at risk in the event of disaster.

#### **Recommendation**

The Hitachi SAN units at the City Hall data center and the SFPD are at the end of their five year asset life and will no longer be supported by either the hardware or software vendor. ITT management needs to assess how best to move forward to ensure the increasingly important redundant backup of its non-financial data.

## **Management's Response and Implementation Date**

(Placeholder - will fill in when received)

## **Evaluation of Management's Response**

(Placeholder - will fill in when management's response is received)

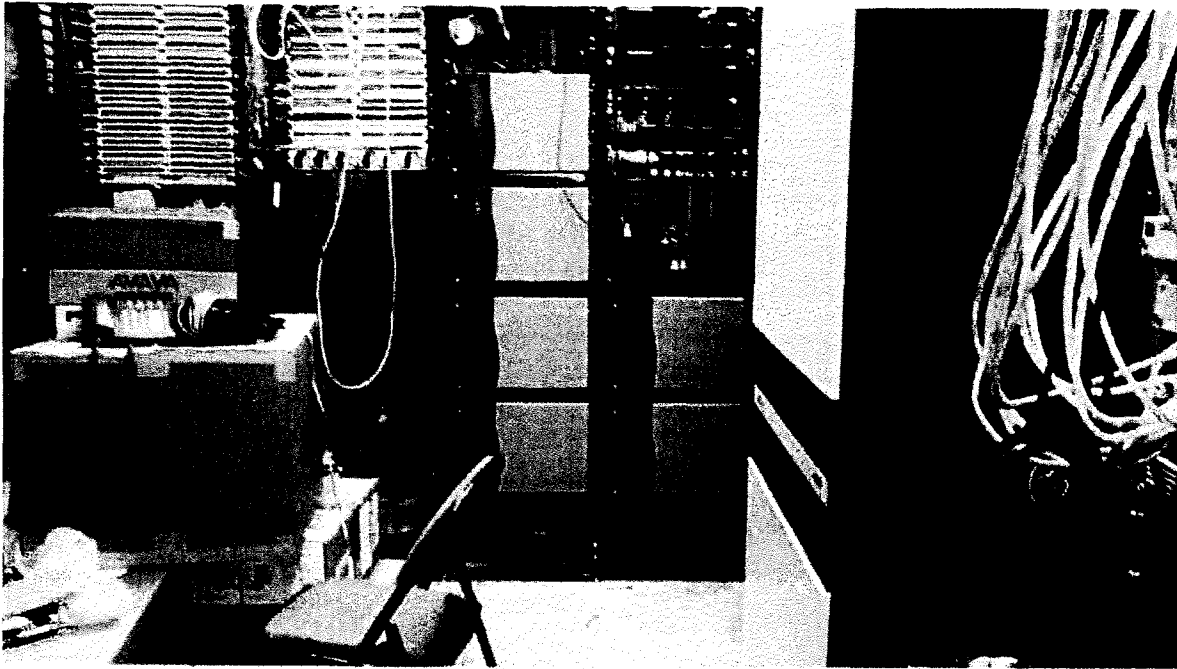
## APPENDIX

### Pictures

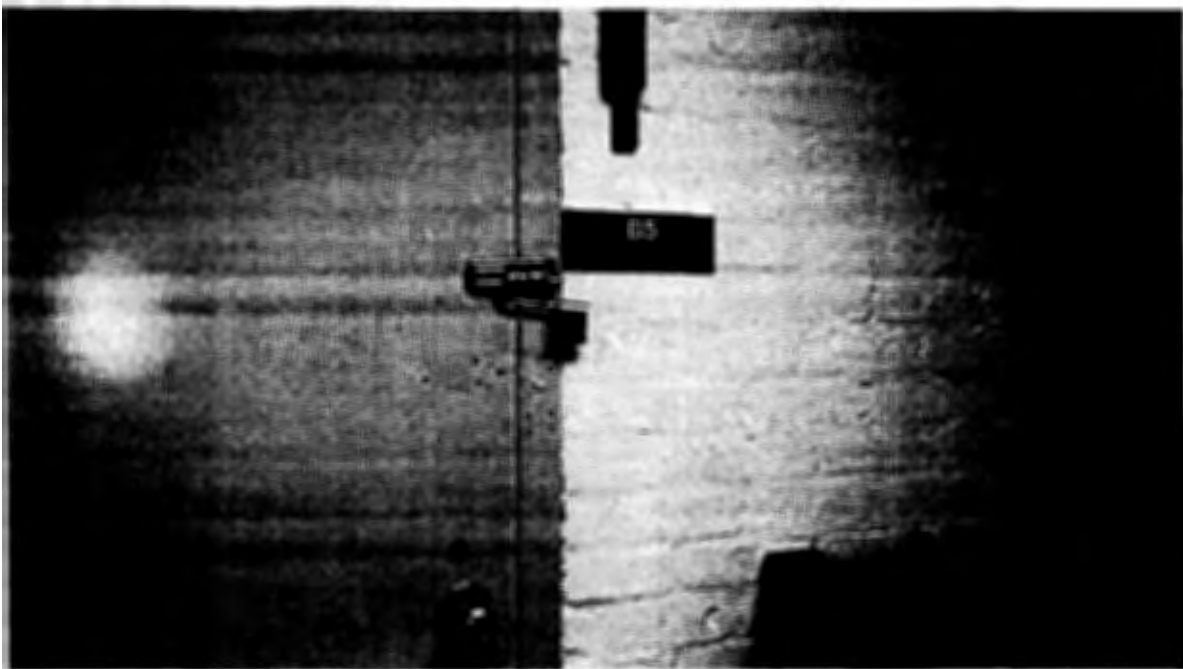
#1 - Combustible material in Communication's Room directly beneath the fire alarm.



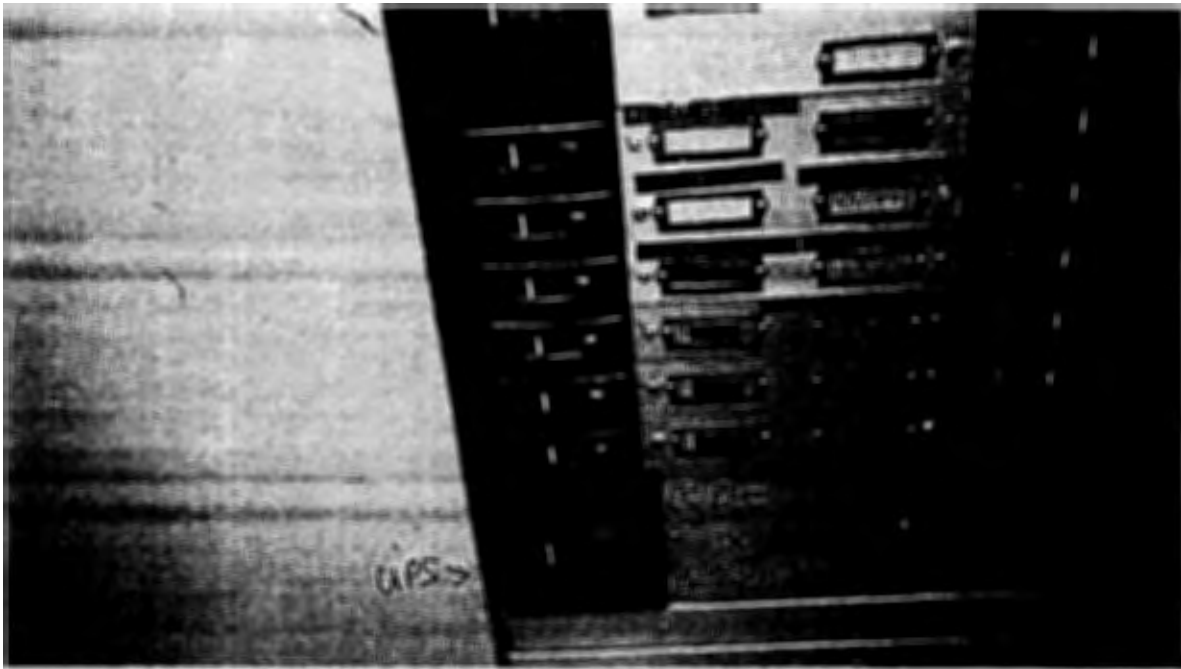
#2 - Combustible material/clutter in Communication's Room



#3 - Unlocked door to Communication's room



**#4 - Unprotected three phase power feed**



**#5 - Combustible material (cardboard) placed beneath power lines to protect them from fraying**



**#6a** Computers and other equipment stored in City Hall Data Center – at risk due to open door.

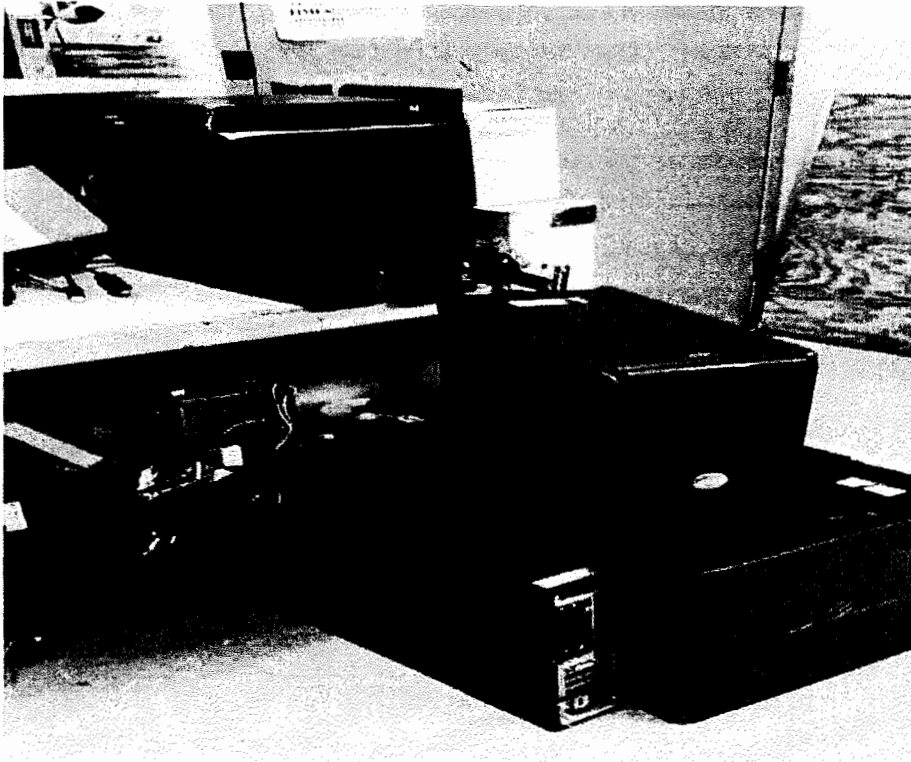


**#6b** ITT assets at risk due to open door.



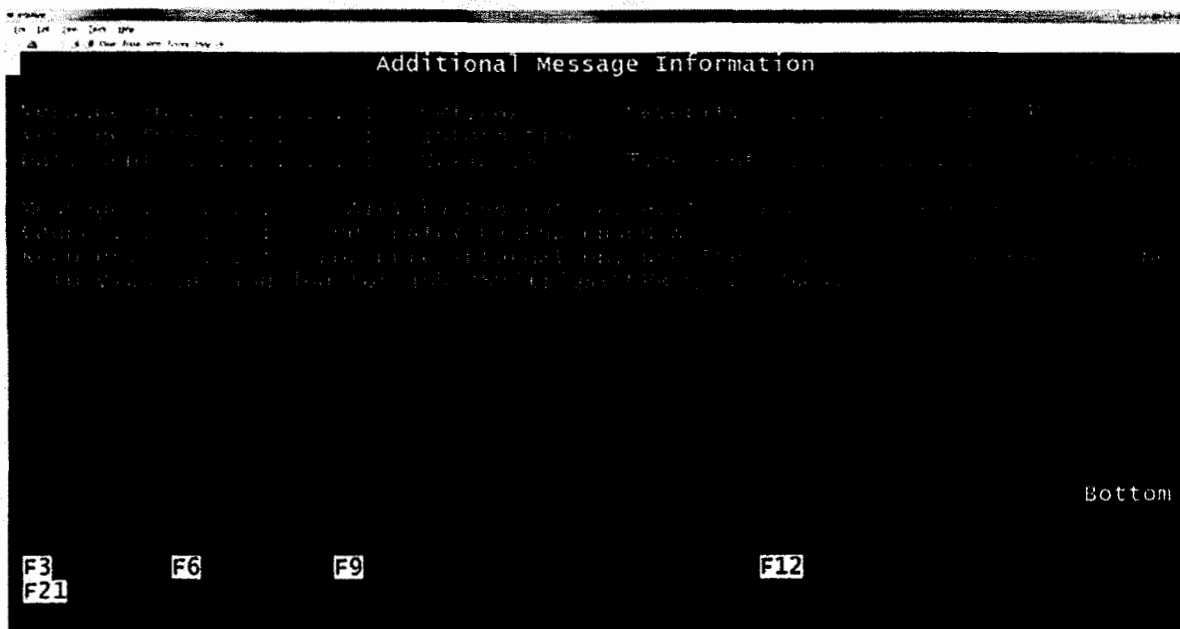


#6c More computer equipment stored in City Hall Data Center – at risk due to open door.

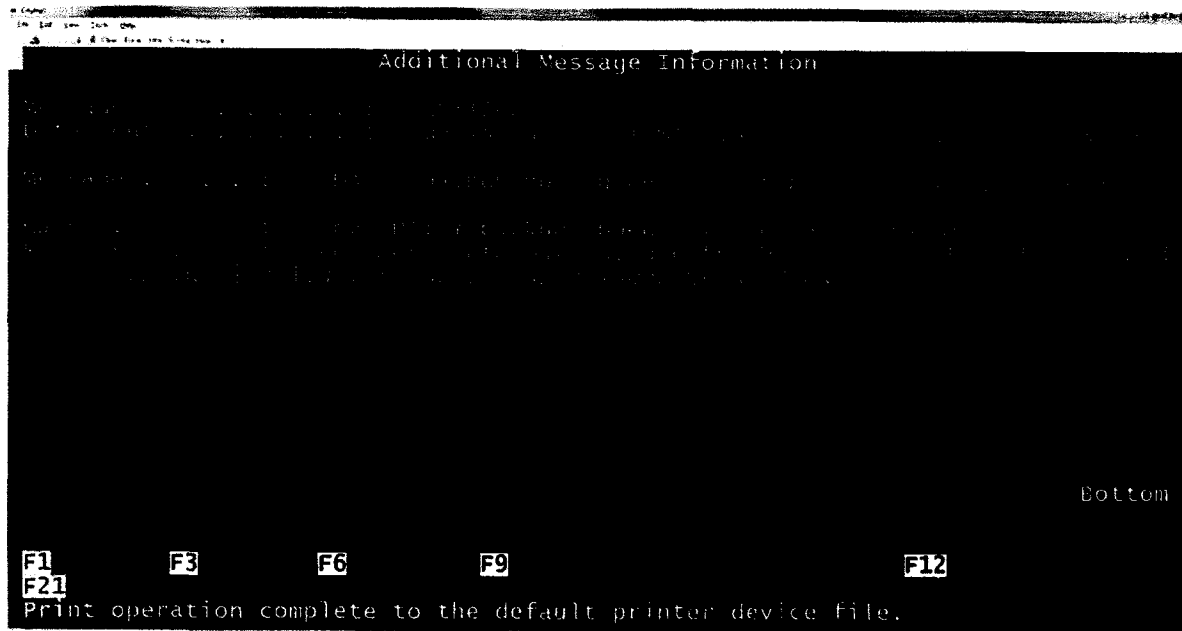


Data Back-up and Recovery

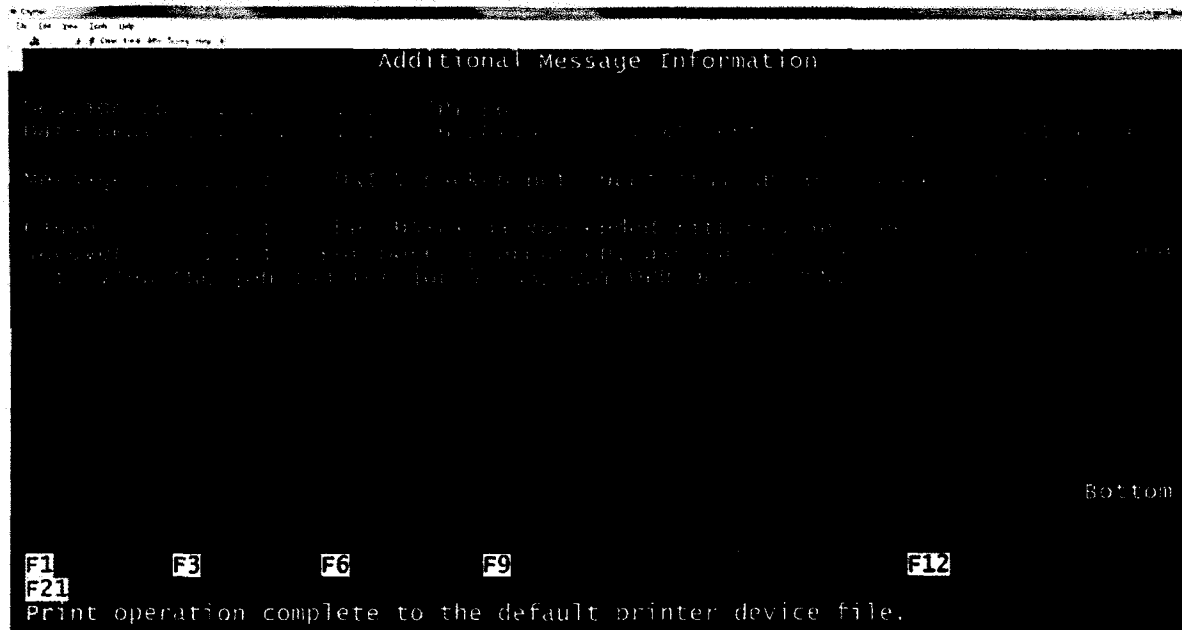
#7a Prod LPAR



## #7b Web LPAR



## #7c World LPAR



Additional Message Information

Bottom

F1  
F21

F3

F6

F9

F12

# City of Santa Fe, New Mexico

## memo

DATE: July 1, 2013  
TO: Brian Snyder, City Manager  
FROM: Liza Kerr, Internal Auditor  
RE: Hitachi Storage Area Network

EXHIBIT 7  
AUDIT COMMITTEE  
JULY 10, 2013

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### EXECUTIVE SUMMARY

During a routine data center audit it came to my attention that the City of Santa Fe, (City) owns a state-of-the-art Hitachi Storage Area Network, SAN, which is not being used for its intended purpose of redundant data back-up and disaster recovery. The City has been cited numerous times by the Federal Transit Administration Financial Management Oversight Review for not having a Disaster Recovery and Continuity Plan. The fact that a \$500,000 piece of equipment is not being used for data back-up and recovery given the audit findings flagged this as a questionable purchase. With the approval of the Audit Committee an investigation was done into this purchase and the subsequent failure to implement. A full report detailing the observations noted follows.

In summary, the key observations noted are:

- 1) Mismanagement of City financial and human resources resulting in:
  - a. Failure to implement the disaster recovery solution that included redundant data backup and recovery of network data,
  - b. Negligent misuse of City equipment, and failure to prevent the waste of City's resources.
- 2) Misrepresentation to the Governing Body and to the Director of Purchasing.
- 3) Inappropriate use of an existing state price agreement,
  - a. If this is proven upon further investigation, it could also result in civil and criminal penalties.
- 4) Assertions in regards to the IT control environment made to the external auditors during the course of the financial audit were not always correctly stated. These misrepresentations put the City at risk.

Thomas Williams, Director, Information Technology and Telecommunications (ITT) is the person responsible for purchasing the Hitachi SAN data back-up and disaster recovery system and ultimately for ensuring that once delivered it was set up to do data back-up and disaster recovery. Results of the investigation indicate that although the system was delivered, Mr. Williams failed to ensure the resources provided to him were used prudently. As Director of ITT, Mr. Williams is also responsible for representations made by himself and his staff to the external financial auditors.

Based on the observations documented in this report Mr. Williams is being referred to you as the City Manager, and to the Finance Department Head, as his immediate manager, to determine proper action.

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## INTRODUCTION AND BACKGROUND

As part of a routine audit of the City of Santa Fe's (City) data center(s) I did a walk-through of the data center(s) to get a visual perspective of the condition of the data center(s). This is a standard procedure used to evaluate the internal control environment. On Monday morning March 11, 2013, at approximately 8:00 am, when I arrived at the City Hall data center to do my walk-through, I found that the door to the Information Technology and Telecommunications (ITT) office, which leads to the City Hall data center, had been left open the entire weekend. This was due to an ITT employee not closing the door behind him when he left after doing a system back-up the preceding Friday. This incident was documented on video. It is mentioned here because it raised the level of awareness as to what was stored in the ITT office. This incident will be cited as a finding in a separate data center audit report. Items observed in the City Hall Data Center included four servers sitting on the counter, and 19 Ethernet cards still in the original boxes (See Appendix – Pictures #4 and #5). The approximate cost of each server is \$6,000, and each Ethernet card is \$1,000. When asked why they were sitting there Edward "EJ" Duran, Project Leader, ITT, stated that they were part of the Hitachi SAN system, and had been sitting there for years, unused. When asked why they weren't being used Mr. Duran remarked that the entire Hitachi SAN system was not being used. He explained the City purchased two Hitachi SAN units in late 2007, (See Appendix Pictures #1, #2, and #3) and that the additional two servers were purchased in approximately 2009. Mr. Duran stated that the first SAN unit is at City Hall and has been unplugged since approximately 2011 after several failed attempts were made to get it to work for data back-up and recovery purposes. The second unit is at the Santa Fe Police Department, SFPD, and was not uncrated for a full year after delivery due in part to a remodel at SFPD. The unit at SFPD is functional, and while plugged in is not set up to do anything.

During an earlier interview in January 2013, Thomas Williams, Director, (ITT) stated that he was in the process of gathering information in order to move the data center to a 3<sup>rd</sup> party provider of these services. At that time he cited the fact that there have been "multiple audit findings concerning data back-up and disaster recovery" and that the move would provide the needed service so that the City would not be at risk. In addition, William Smith, Network Operations Manager, ITT, remarked in a separate conversation on March 7, 2013, that the move to a new data center was being considered because the new site would be able to provide data back-up using SAN technology. In subsequent interviews, Mr. Williams and Mr. Smith have both stated that the Hitachi system is approaching end of life at five years and will be traded in as part of the move.

The bottom line is that the City owns a state-of-the-art system, costing in excess of \$500,000, intended to be used for data back-up and recovery. A need for the purchase was identified, the purchase was approved by the Governing Body, the purchase was made and the system delivered, but that's where it ended. This system is not being used for back-up and disaster recovery, and the ITT staff never took advantage of the training paid for by the City so that the staff could learn how to operate the system.

When Mr. Williams was asked why the system was never implemented one of the reasons he gave was that there were too many conflicting priorities. This started a discussion about the advantages of having a steering committee. One of the key ITT controls identified by the external financial auditors, Atkinson

and Company (Atkinson) is having a steering committee. Each year ITT has asserted that they have a steering committee. This is a misrepresentation. If ITT had correctly stated to Atkinson that they did not have a steering committee, they would have been cited with a finding and attention would have been drawn to this issue. This observation led me to a further investigation of ITT entity level controls.

(It bears mentioning that on 06/05/2013 Mr. Smith informed me that in May 2013 he had done the configuration to begin synchronization of certain non-financial data on the secondary Hitachi SAN at SFPD. It should also be noted that the City's support and maintenance agreement with Hitachi expired on 12/31/2010, and the unit is at end of life. These last minute efforts at deployment do not change the outcome of this investigation.)

## **SCOPE**

The scope of the investigation was focused on:

- 1) The initial and subsequent purchases of the Hitachi SAN data back-up and disaster recovery system:
  - a. Hardware,
  - b. Software,
  - c. Training,
  - d. Hardware maintenance and support, and
  - e. Software maintenance and support.
- 2) The assertions that ITT made to Atkinson regarding internal controls in ITT having to do with:
  - a. Entity level controls,
  - b. Data back-up and recovery, and
  - c. Policies and procedures impacting data back-up and recovery and security.

## **OBJECTIVES**

The objectives of this investigation were to:

- 1) Gain an understanding of the purchase of the Hitachi SAN System, and the failure to implement the system for data back-up and recovery,
  - a. Obtain and review the information as provided to the Governing Body to initiate this purchase,
  - b. Obtain copies of the state price agreement that was leveraged off of to make this purchase, and evaluate the propriety of using the agreement,
  - c. Document and evaluate additional expenditures made in an attempt to have the system work in the City environment,
  - d. Document and evaluate City funds spent on on-going maintenance and support for a system that was not being used.



- 2) Determine if the internal controls identified by the external auditors and asserted to by management exist, are designed effectively, and are operating as designed.

Accordingly, I used such examination procedures as deemed necessary to conduct the investigation and to accomplish the objectives including examination of records, and voluntary interviews with appropriate personnel, vendors, and others.

Our objectives were designed to ensure that:

- 1) City funds are used for the benefit of the City,
- 2) Internal controls that were identified as in place by ITT management were correctly represented to Atkinson.

The objectives were not designed to evaluate what it would take to get the system up and running as the hardware is at end of its five year life.

## **METHODOLOGY**

The following methodology was used to ensure that the above stated objectives were met:

- 1) Obtained and reviewed the proposal submitted to the Finance Committee and the Governing Body for the "Purchase of a Disaster Recovery Back-Up System from New Mexico State University Price Agreement # 0014584: J&J Technical Services, Inc." as submitted to the Governing Body on September 25, 2007.
- 2) Based on the review of the proposal referenced in #1 above, the following procedures were performed:
  - a. Obtained and reviewed the referenced state price agreement from New Mexico State University (NMSU),
  - b. Obtained and reviewed the referenced Request for Proposal (RFP) from NMSU state price agreement, to determine if:
    - i. J&J Technical Services (J and J) was listed as a bidder on the RFP,
    - ii. Evaluated the terms of the RFP with Robert Rodarte, Director Purchasing, City, and with Jack Provencio, Senior Buyer, NMSU, 04/03/2013.
  - c. Interviewed the following relevant personnel from J and J, Hitachi Data Systems Maintenance and Support, (Hitachi), InMage Simplified Data and Data Recovery, (InMage), and Mainline Information Systems (Mainline):
    - i. John Freienmuth, J and J, 04/01/2013, 04/05/2013
    - ii. Rick Longbothum, Hitachi, 04/01/2013.
    - iii. Chad Mraz, Hitachi, billing office, 04/04/2013
    - iv. Amy Beeson, Mainline, 04/12/2013,
    - v. Gina Tabbara, InMage, Account Representative, 04/12/2013,
  - d. Interviewed relevant employees regarding the Hitachi SAN System and the failure to implement:
    - i. Thomas Williams, Director, ITT, City, 03/20/13,
    - ii. William Smith, Network Operations Manager, ITT, City, various dates starting 3/20/2013,
    - iii. Edward "EJ" Duran, Project Leader, ITT, City, various dates starting 03/07/2013,
  - e. Obtained and reviewed the Requests for Quote (RFQ) and related documents referenced in the proposal.

- 3) Performed a physical inspection of Hitachi units, the unused servers and Ethernet Cards,
  - a. Documented the physical inspection with pictures.
- 4) Inspection of other records as deemed necessary including but not limited to:
  - a. The fixed asset module in the E-1 financial system to determine the cost of the additional servers,
  - b. Internet searches to determine an approximate value for the Ethernet Cards,
  - c. E-mail searches regarding the Hitachi SAN system.
- 5) **Note:** At times hand written notes are added by the auditor for clarification.
- 6) Interviewed relevant employees regarding the assertions made to Atkinson regarding the information technology (IT) internal control environment.
  - a. Thomas Williams, Director, ITT, City, various dates starting 03/20/2013,
  - b. Caryn Fiorina, Systems and Program Manager, ITT, City, various dates starting 03/08/2013,
  - c. Edward "EJ" Duran, Project Leader, ITT, City, various dates starting 03/07/2013,
  - d. Zeke Perea, Network Specialist, ITT, 03/11/2013.

## **RESULTS**

### **Proposal Submitted to the Governing Body on September 25, 2007**

**(See Attachment 1)**

On September 25, 2007, Mr. Williams, presented a proposal to the Governing Body **(See Attachment 1, pg. 3)** for the "Purchase of a Disaster Recovery Back-Up System from New Mexico State University Price Agreement # 0014584: J&J Technical Services, Inc."

Excerpts from this proposal follow:

"ITT has received two consecutive audit findings due to lack of a disaster recovery solution for network data. In order to address this finding, a redundant back-up and storage system is required."

"... ITT issued a Request for Quotes (RFQ) in April 2007 (copy attached) to which three vendors responded. After careful deliberation and consideration, ITT has chosen Hitachi Storage Attached Network (SAN) to fulfill this requirement. Of the RFQ respondents, Hitachi offered the best combination of fulfilling the City's storage and disaster recovery requirements with a state-of-the-art solution; at an amount close to the budget approved for the project. This system will ensure that the City's non-AS400 data (email, MS Word documents, MS Excel documents, share drive documents, etc) is safely and securely stored in two primary locations that are geographically separated by at least several miles. It will also ensure that network data at remote offices is regularly backed up, and easily recoverable. Therefore, I respectfully request approval to purchase this system through J&J Technical Services, Inc., a Hitachi business partner, in the amount of \$405,309. The amount over the approved budget (\$5,309) will be taken from the portion of CIP funds that were approved for ITT Network Upgrades (\$100,000). Additionally, I request approval to leverage J&J Technical Services pricing agreement with New Mexico State University (copy attached), which was part of a formal RFP process."

The Governing Body did approve this purchase (**See Attachment 1, pg. 1**) and the system was delivered in November 2007. However, once delivered ITT failed to follow through and actually set up the system for the intended purpose of data back-up and recovery (**See Observation 1**). Based on discussions with the staff and with Mr. Williams, the failure to implement is due to 1) lack of training, 2) the complexity of the system, 3) conflicting projects, and 4) insufficient power load to plug in the system.

It is also noted that Mr. Williams references two prior audit findings to support the purchase. The findings from the Federal Transit Administration Financial Management Oversight Review referred to in the Executive Summary are in addition to these findings.

### **Review of RFQ's Referenced in Proposal**

Mr. Williams submitted a Request for Quote (RFQ) on 03/27/2007 for "Storage and Infrastructure Requirements for City Disaster Recovery Project" (**See Attachment 2**). Quotes were due 04/27/2007.

Mr. Williams provided internal audit the three RFQ's mentioned in the letter to the Governing Body. A summary of the RFQ's follows:

- J and J, dated 04/24/2007 (**See Attachment 1, pgs. 6 and 7**), for a total of \$405,309, for a Hitachi SAN. The following was noted:
  - There is a letter from J and J (**See Attachment 1, pg. 6**) that references the NMSU State Price Agreement. However, the letter never refers to a quote on a Hitachi system.
  - An undated quote is provided on a separate page, (**See Attachment 1, pg. 7**) but does not show the 35% discount that the NMSU state price agreement offers (**See Attachment 6, pg. 17**)
  - The detailed support for the quote summary is dated 09/10/2007 and also does not show the 35% discount (**See Attachment 1, pg. 8**).
- INX Net App – dated 04/30/2007 (3 days after quotes were due), totaling \$596,262 (**See Attachment 3, pg. 38**), for a Net App system, which would have replaced an outdated system the City already owned. The following was noted:
  - The list price and the discount price are noted.
- Integrity Networking Systems (Integrity) dated 08/05/2005 (**See Attachment 4 pg. 8**) ranging in price from \$234,042 (**See Attachment 4 pg. 16**) to \$401,634 (**See Attachment 4 pg. 1**) for a Hitachi SAN. The following was noted:
  - The bids from Integrity clearly state list price, discount, and offered price.

The J and J and Integrity quotes are not an exact comparison.

- J and J quote was for an AMS-200 (City Hall) and an WMS-100 (SFPD),
- Integrity was for an AMS-500 (City Hall) and an AMS 200 (SFPD).
  - If Integrity had Quoted the price for the AMS-200 and the WMS-100 would likely have been less as it is different system.

When asked why the date on the Integrity system was from 2005, Mr. Williams replied that he had gotten a previous quote from Ms. Kerry Sanchez, Sales Representative, Integrity for the Hitachi SAN

system. He stated that Ms. Sanchez left Integrity and went to work for J and J in April of 2007. Mr. Williams stated that he trusted Ms. Sanchez and felt he had a good working relationship with her so he was comfortable getting a quote from J and J. He further stated that he was not required to go out to bid as he leveraged off of a state price agreement through NMSU. Mr. Williams stated that the bid quotes referred to in the letter to the Governing Body were received as a way of assessing the needs of the "City". Per Mr. Williams, for this reason a second, more current bid was not requested or required from Integrity. This appears to be a misrepresentation to the Governing Body and the Director of Purchasing in that only two bids were actually received with the RFQ dated April 2007 (**See Observation 2**).

Included in the documentation for the bid quotes is an evaluation done by the ITT staff comparing the Net App system to the Hitachi system (**See Attachment 5**).

Pro's and Con's from the evaluations are listed below:

- J & J / Hitachi, 4 Pro's, 9 Con's
- INX / Net App, 10 Pro's, 5 Con's

Although the Net App system was more heavily favored the Hitachi system was chosen.

### **NMSU State Price Agreement**

The proposal provided to the Governing Body referenced leveraging off of a state price agreement (**See Attachment 6**) which was part of a formal RFP process at NMSU. Direct contact was made with Jack Provencio, Senior Buyer, NMSU Purchasing Department, to request a complete copy of the bidding documents and the pricing agreement referenced in the letter to the Governing Body. There were two price agreements included. The first is for "Audio Visual Equipment/Supplies" (**See Attachment 6, pgs. 3, and 8**). This portion of the price agreement had nothing to do with the Hitachi purchase.

The second price agreement references "IBM Compatible Computers & Peripherals" (**See Attachment 6, pg. 11**). J and J is listed as a vendor. A further description indicates "Percentage off of Catalog Price", and J and J quoted 35% off of catalog price (**See Attachment 6, pg. 17**). In a discussion with Robert Rodarte, Director of Purchasing, City, this is interpreted to mean that J and J has placed a bid for IBM compatible computers and peripheral equipment at 35% off of catalog price. J and J does list Hitachi as an Authorized Product Line (**See Attachment 6, pg. 18**).

It is the understanding of Mr. Rodarte, and Mr. Provencio, Senior Buyer, NMSU, that even though the Hitachi SAN and component parts are not specifically listed they may still be considered IBM compatible computers. Mr. Rodarte stated that as long as the units were sold to the City at 35% off of catalog price the use of the NMSU state price agreement might be valid for the purchase of the hardware. I was unable to validate whether the purchase price was 35% off of catalog price as only one price is listed on the bid quote documents received from J and J (**See Attachment 1, pg. 7**).

In addition to the Hitachi hardware purchased via the state price agreement, the following amounts were quoted for the software purchase from InMage:

1. \$89,888 for the software,
2. \$25,000 for installation/Implementation, and
3. \$22,472 for a one year service agreement (**See Attachment 1, pg. 7**) totaling,
4. \$137,360.

The state price agreement from NMSU did not include any software, installation/implementation or service agreements (**See Attachment 6, pgs. 1 - 51**). InMage, is not listed as an Authorized Product Line for J and J (**See Attachment 6, pg. 18**). In a discussion with Mr. Rodarte, it is his belief that this purchase would not qualify for leveraging off of the NMSU state price agreement (**See Observation 3**). Also, the Integrity quote lists "Topio Data Protection Suite software " (**See Attachment 4, pg. 18**) as the software to use in the Hitachi SAN. Since InMage is not the only available vendor or software for use in the Hitachi SAN the sole source exception does not apply. It appears that this purchase should have gone out to bid.

### **J and J Technical Services**

In a discussion with John Freienmuth, CEO, J and J, on 04/05/2013, he stated that J and J had never before or has never since done business with Hitachi or sold a similar unit. Mr. Freienmuth also stated that Kerry Sanchez, the sales representative that was involved in the sale was only at J and J for a short period of time. Review of Ms. Sanchez's Linked-In web page indicates that she was with J and J from May 2007 to July 2008 (**See Observations 2 & 3**). Mr. Freienmuth stated that this transaction occurred years ago and he could not remember all of the details, but he thought that the company went out to bid on the system as either a bid or a bid pull. When asked about the state price agreement as NMSU, Mr. Freienmuth remarked he thought that the agreement was for desktop and laptop computers, not for a SAN system; although, he later stated that he believed the pricing agreement could be modified later in the year. No evidence of modification of the NMSU price agreement was found during this review.

In a letter from William Smith, Network Operations Manager, ITT, City, to J and J dated February 7, 2008 (**See Attachment 7**) Mr. Smith quotes the original RFQ regarding this project as follows (please note that italics below are as shown in the original document):

#### **"Project Summary:**

Currently, the City of Santa Fe operates in 35 separate locations, 11 of which house server grade assets (20 remote servers total). The primary data center at City Hall houses 40 servers. The total data footprint for all sites is about 10TB. All sites are connected to the City Hall location by T1 circuits, ranging from 1.5 to 3.0Mbps in bandwidth. We wish to implement a storage solution that allows us to easily and flexibly increase available storage space for our operations, increase the granularity of our data backups, and provide the additional security of having data archived in multiple locations.

In brief, we would like to mirror the offsite data back to a storage solution at our City Hall location and perform snapshot style backups for data archiving and recovery purposes. For the servers that are already located at City Hall, we would like the option to either mirror them in the same fashion, or allow the direct attachment of some servers to the SAN via fiber channel connections. We would want to utilize snapshot backups for any of these methodologies. Once this has been accomplished, we would like to mirror the entire storage solution located at City Hall to our secondary site located at the Police Department. Future objectives include leveraging this infrastructure to provide a comprehensive disaster recovery solution.” (See Attachment 7, pg. 1).

The above summary clearly indicates what was asked for in original RFQ. The memo Mr. Smith wrote details issues the City is having with the deployment of the purchase as recommended by J and J. For example, the City was experiencing problems with the direct attachment of servers to the SANs due to bandwidth problems. In order to try and make what was purchased work in the City environment Mr. Smith proposes a solution that would have provided backup to 19 servers instead of the original 40 mentioned above, and suggested bypassing the direct attachment to avoid the bandwidth issues the City experienced. Mr. Smith states:

*“Due to concerns raised recently by Eddie from Inmage, I have re-deployed servers in our environment as to avoid the necessity of direct attachment (for the time being). I will address those concerns at the end of this document, and hopefully a solution will be found that will allow us to utilize direct attachment in the future.” (See Attachment 7, pg. 4).*

In regards to mirroring via the InMage DR Scout he says the following (See Attachment 7, pg. 5):

*“Due to concerns raised recently by Eddie from Inmage, I understand that the performance of the CX servers may be an issue as to how many servers can be mirrored or snapshotted. There is also a question as to whether bandwidth throttling will function as originally proposed. Again, I will address those concerns later in this document.”*

*“Due to concerns raised recently by Eddie from Inmage, this design may not be viable with the DR-Scout software. I have also spoken with Rich Longbotham from Hitachi, and he has stated that we have not purchased any Hitachi software to achieve the mirroring of the SAN’s.”*

In an interview with Mr. Smith on 06/05/2013 regarding Mr. Longbotham stating “that we have not purchased any Hitachi software to achieve the mirroring of the SAN’s” Mr. Smith clarified that the system that was sold to us did not perform in the way that it was presented. In regards to the Hitachi comment he further clarified that the City was not missing a piece of software that Hitachi could provide, but rather Mr. Longbotham was suggesting that alternative solutions were available. Mr. Smith stated that the vendors (Hitachi and InMage) were frustrated as J & J did not consult with them regarding the original proposal (See attachment 7, pg. 5).

*“At this point, the City of Santa Fe is very concerned as to the viability of the solution proposed by J&J and I recommend that we set up a meeting with Thomas Williams so that these matters can be discussed.”*

Mr. Smith also included in the letter a list of concerns to be addressed:

**"List of questions and concerns to be addressed"**

- 1) We need to discuss our options regarding the ability to perform snapshot backups on volumes that are directly attached to either the AMS-200 or WMS-100. As far as I am concerned, snapshot functionality is extremely important, and a main reason that we are undertaking this project in the first place. We also purchased a lot of fiber equipment; I don't like the idea that this will be gathering dust.
- 2) We also need to discuss the DR-Scout CX server design, as it appears that we may be underpowered to achieve the stated design goals. It is possible that our recent scope reduction as to the number of servers may change this stance, but I would still like to know how much expansion capability will be in the final design.
- 3) It appears that the bandwidth throttling mechanism was misrepresented. As I understand it, we would need a CX server at every remote site for this to function as advertised.
- 4) The mirroring between the AMS-200 and WMS-100 is at question if utilizing the DR-Scout software as the mechanism. This is a loss of core functionality that is unacceptable. We need to have a solution to this problem before proceeding any further with the deployment."

In the interview with Mr. Smith on 06/05/2013 he commented that although he sent this letter, he did not follow up on it as other projects came up that demanded his time. He also commented that as of May 2013 he has been able to get the Hitachi SAN at the SFPD to start doing backups of User Shares, My Documents, and all primary documents for the City. He stated that he was able to do this by bypassing the InMage software and utilizing Microsoft's Distributed File System built in solution. I have not verified this statement, nor does it change the outcome of this review.

## **Hitachi**

The hardware maintenance on the Hitachi SAN system was done through Hitachi. The maintenance was done by Rich Longbothum. Mr. Longbothum confirmed that the City initially had a one year maintenance and support contract which included training. He stated that the City never took advantage of the training opportunity (**See Observation 1**). He came to initially set up the system, and agrees that it was functional, but was not being used for data back-up or disaster recovery. He came out at the end of the initial contract term, which would have been approximately November 2009, or early 2010, and states that the secondary unit at the SFPD was still in its crate. The unit was uncrated, and was made functional, but again was never set up to actually do data back-up or the intended disaster recovery. It was simply plugged in and was deemed functional. Mr. Longbothum did no further work on the unit at SFPD. Also, to the best of his knowledge the unit at City Hall was/is fully functional, it just wasn't being used.

Mr. Longbothum referred me to Chad Mraz, Sales Account Representative, Hitachi Data Systems, for verification of maintenance contract renewals. In an email from Mr. Mraz, he states that the maintenance contract expired December 31, 2010 (**See Attachment 8**).

The Hitachi SAN system referenced in this report has sat unused from November 2007 to the present time. The Hitachi SAN system is now at end-of-life (**See Observation 1**).

## **InMage**

InMage is the software vendor. As mentioned above J and J worked as an intermediary between the vendor and the City.

A review of the City's financial records indicated that \$111,000 was paid to Mainline, as an intermediary to InMage, for maintenance and support of the Hitachi System. This amount is in addition to the original bid price of \$405,309. Documents supporting the payment of the invoices indicate that the payments are being made for the "SIN 132\_12 – Maintenance of Equipment, Repair Service, and Repair Parts, SIN 132-34 – Maintenance of Software" (**See attachment 11, pg. 8**), (SIN is defined as special item number). This implies that the Hitachi hardware had ongoing support which is what I was told by Mr. Williams and Paul Campos, Application Software Specialist, ITT, City. However, when a call was made to Mainline to confirm this, I was told that the support was only for the software.

Amy Beeson, Sales Support Representative, Mainline referred me to Gina Tabbara, the City's sales representative at InMage. Ms. Tabbara stated that the software support and maintenance was available through 06/30/2013 (**See Attachment 9**) and that there are free upgrades available to the City if we get them before the contract expires. She stated that the software worked on many different platforms and highly recommended the City get the upgrades they paid for before the expiration date (**See Observation 1**).

## **Additional Hardware Purchases, and Hardware and Software Maintenance**

In 2009, \$13,415 was spent to purchase two additional servers. According to Mr. Duran the extra servers were needed to help make the system function properly (**See Attachment 10**).

In approximately 2010, 19 Ethernet cards intended for use with this system were also purchased. These cards cost approximately \$965 each. The Ethernet cards were not capitalized (i.e. they were not recorded in the City's fixed asset records) so an exact cost could not be determined. An estimate of the cost was made by Googling the current cost.

These additional purchases were never used and are still sitting on a shelf in the ITT office. This is a further misuse of City resources (**See Observation 1**).



## Total Costs

The cost of purchasing this system and the subsequent components, support and maintenance are as follows:

Description	Date	Amount Each	Amount Total
Hitachi SAN System (See Attachment 1, pg. 7)	11/29/2007		\$405,309
Servers – additional, bought subsequently (2) (See Attachment 10)	2009	\$ 6,707.50	\$ 13,415
Ethernet Cards (19) (Based on estimate as stated in Additional Hardware Purchases, and Hardware and Software Maintenance)	2010	\$ 965.00	\$ 18,335
Software Support and Maintenance (See Attachment 11, pg. 1)	12/2008 to 06/30/2012	\$2,000/month	\$ 87,000
Software Support and Maintenance (See Attachment 11, pg. 16).	07/01/2012 to 06/30/2013	\$2,000/month	\$ 24,000
Hardware Support and Maintenance (See Attachment 8 which is an email from Hitachi indicating a renewal of services through 12/31/2010 – this is additional support estimated at \$2,000 per month).	To 12/2008 to 12/31/2010	Estimate based on \$2,000 per month * 25 months	\$50,000
<b>Total</b>			<b>\$573,059</b>

## Correspondence with City Manager

Robert Romero, City Manager, also made inquiries via email regarding the SAN system in April 2011. To summarize the email string dated April 12, 2011, Mr. Romero asked about the SAN system, and was told by Mr. Williams that the SAN system underwent major hardware and software upgrades and maintenance in 2010 and was functional. However, Mr. Williams states that it was not being used for disaster recovery. He states that his staff had not had time to implement this project due to conflicting priorities. When pressed about the system being functional Mr. Williams confirms that the system is “not yet being utilized anywhere”, that it was “made functional in October 2010”. Mr. Williams further states that “Bill intended to focus his staff on completing the project in late 2010, but was not able to fit it in due to other projects that took precedence”. The “Bill” referenced here is William Smith, Network Operations Manager, ITT, City and (See Attachment 12, pgs. 1-2).

A schedule of ITT projects was also provided to me by Mr. Romero. The schedule clearly indicates “Upgrade City’s Storage Attached Network”, “Upgrade the software release for the SAN storage system, and deploy hardware to several remote facilities,” and “November 30, 2010” which is an estimated date, it should be noted that the schedule includes a column for status which for this item has been left blank (See Attachment 13, pg. 3). This schedule conflicts with the statement above which states that the system was made functional in October, 2010 (See Observation 1).

## Assertions made to Atkinson

While discussing the purchase and failure to implement the back-up system with Mr. Williams, he emphasized that it would be helpful to have a Steering Committee so that conflicting priorities did not interfere with the implementation of key ITT projects. During the financial audit conducted by Atkinson, ITT had asserted that this control existed and was effective. The auditor's relied on these statements believing that an adequate internal control environment existed in the ITT arena. These misrepresentations put the City at risk. This statement by Mr. Williams regarding ITT not having a steering committee led to my testing of the ITT controls as identified by Atkinson against the assertions made by ITT management (**See Observation 4**). The scope for testing the Atkinson defined controls was limited to entity level controls and controls regarding data back-up and recovery. Further testing of the remainder of the ITT controls defined by Atkinson will occur at a later time. The following controls deficiencies are findings and will be cited in the data center audit report.

Based on representations made by ITT management, Atkinson asserted that the following controls existed and were designed effectively. It should be noted that Atkinson did not test these controls. They relied on the assertions made by management (**See Attachment 14**). Also, this review did not include all of the controls listed by Atkinson. Entity level controls and controls regarding backup and recovery were the focus. Other Atkinson ITT controls will be tested at a later date. The controls are listed as direct quotes.

- 1) "A management steering committee is responsible for reviewing and approving IT plans and priorities."
  - a) My test work indicates there is no steering committee (**See Attachment 15, pg. 2 Management's Response**).
  - b) This is a finding, and will be cited in the data center audit report.
- 2) "ITT management conducts regular risk assessments and addresses noted risks appropriately."
  - a) The risk assessment process is ad hoc and informal (**See Attachment 16, pgs. 1 and 2**).
  - b) There is also no formal policy or procedure for doing a risk assessment. In an email dated May 17, 2013 Mr. Williams agreed and stated he will finish the risk assessment policy. This has not happened as of 06/20/2013 (**See Attachment 16, pg. 1**).
  - c) This is a finding, and will be cited in the data center audit report.
- 3) "All outside service providers used by the entity are evaluated to determine those who provide material financial services that may impact controls."
  - a) My test work indicates that this control is not in place (**See Attachment 17**).
  - b) According to Marty Mathison, Audit Director, Atkinson, a relevant example of this type of provider would be the administrator of the City's (sic) Health Plan. When asked for clarification of this control he states that "The controls of the outside service provider may impact the City's IC system where the outside service provider provides significant financial services to the City. Common examples are an outside payroll contractor or processing of transactions in the case of financial institutions, calculation of depreciation and maintenance of capital assets, or administration of insurance or self insured functions such as CSSF health plan (this one is relevant). "

- c) Per email from Mr. Williams dated 05/17/2013 "We're not doing anything along those lines." Per this email no documentation of the internal controls of the outside service providers is being done at this time. Mr. Williams is beginning the process of identifying these providers.
- d) This is a finding, and will be cited in the data center audit report.
- 4) "A backup and data retention policy/schedule exists, specifying how often backups are to be performed, how long they are to be retained, and where the backup media are to be stored."
  - a) My test work indicates that this control is not in place (**See Comments for this control in Attachment 14, pg. 3**).
  - b) Atkinson cites "IT policies appear to be outdated" in the 2009 and 2010 Comprehensive Annual Financial Report (CAFR).
  - c) Atkinson does not cite this as a finding in either 2011 or 2012, although, policies are still not formalized or updated.
  - d) Atkinson indicates that this control does not exist, and is not effective, but did not cite it as a finding as the following was noted "There is a backup and retention policy for all financial system servers. Nightly program saves and weekly system backups, backups taken to Siringo location weekly for storage. Expected to complete in early summer locating critical networking to Century Link data center (Tier 3 or 4), should have a SOC1. Will also have a backup center at state ISD (probably a secondary location). Have a draft disaster recovery policy that is not yet finalized"
  - e) The referenced backup and retention policy is a draft. The 'draft policy' that was provided for data backups was at least 6 years old as it references the Net Apps data backup system that was replaced with the purchase of the Hitachi SAN system in 2007. The referenced backup schedules do exist, but are not part of a formal policy. Also, backup procedures for the I-Series financial data do exist, but are not formalized in a policy. Other policies/procedures are ad hoc and informal. A formal, current backup policy needs to be created. A formal disaster recovery and business continuity policy needs to be created.
  - f) This is a finding, and will be cited in the data center audit report.
- 5) "File server recovery procedures are tested at least once annually to ensure data integrity and recovery."
  - a) My test work indicates that this control is not in place (**See comments for this control in Attachment 14, pg. 4**).
  - b) Atkinson cited this as a finding in 2009, 2010 and 2011 CAFR.
  - c) Atkinson did not cite this as a finding in the 2012 CAFR.
  - d) Currently, a mirrored back-up is set up at the Regional Emergency Command Center for three of four LPARs for the I-Series financial data. A test has never been done to assure that this system is working correctly. ITT is in the process of setting up a formal testing procedure, but that has not occurred yet. There is no file server backup of non-financial Information such as email and network. The Hitachi SAN system that would have done this is nonfunctioning.
    - i) In an update from William Smith, Network Operations Manager, I have been informed that the Hitachi SAN at the SFPD has been set up to do backup starting approximately May 1, 2013. This was done in response to this investigation and has not been tested.

- ii) This system is at end of life and will not be supported by Hitachi past this point. Also, the City no longer has a maintenance contract with Hitachi for support as this expired 12/31/2010 (See Attachment 8).
- e) This is a finding, and will be cited in the data center audit report.
- 6) "An information security policy exists that defines information security objectives. This policy is supported by documents, standards and procedures where necessary."
  - a) My test work indicates that this control is not in place (See Comments for this control in Attachment 14, pg. 5).
  - b) Atkinson cites "IT policies appear to be outdated" in the 2009 and 2010 CAFR.
  - c) Atkinson does not cite this as a finding in either 2011 or 2012, although, policies are still not formalized or updated.
  - d) ITT has been cited in the last two US Department of Transportation Financial Management Oversight (FMO) reports for "Lack of a Comprehensive IT Policies and Procedures Manual". They have characterized this finding as a significant deficiency. The original recommendation was to "prepare a comprehensive Information Technology Security Policies and Procedures Manual." The current status states that "The Grantee indicated that it was still in the process of updating its policies and procedures. Draft versions of the updated IT policies and procedures were provided that addressed some of the areas noted in the findings including access to the data center, and the terminated employee's system access policy. The Grantee did not have any documentation to show that it had established a policy to address areas such as risk assessment, incident response, or security awareness. Current procedures are not adequate. This finding is still applicable."
  - e) Atkinson showed this as a finding, (i.e. does not exist, is not effective) but passed on reporting it as they were told a policy was being drafted.
  - f) This is a finding, and will be cited in the data center audit report.

## **OBSERVATION 1**

- Mismanagement of City financial and human resources, resulting in a failure to implement the disaster recovery solution that included redundant data backup and recovery of network data,
- Negligent misuse of city equipment, and
- Failure to prevent the waste of City resources.

### **Criteria**

The City Fraud Prevention Policy (See Attachment 18, pg. 3) defines fraud as:

**§6.1.10** Intentional, negligent, or reckless misuse or damage of city vehicles and equipment.

**§6.2.1** Managers are responsible for establishing and maintaining a reasonable system of internal controls to ensure the detection and prevention of fraud, waste, and abuse and other irregularities. Management should be reasonably familiar with the types of fraud that might occur with their area of responsibility, be alert for any indication of fraud, and realize the primary defense against fraud is prevention.

### **Condition**

If the above assertions are proven this could result in a violation of the City's Fraud Prevention Policy.

A reasonably prudent person would not spend over \$500,000 of taxpayer money for redundant data back-up and recovery system and not diligently follow through to ensure that:

- Purchased systems were implemented prior to end of life,
- Team members received the training necessary to operate the system,
- Paid for software upgrades are acquired,
- Money spent on software maintenance is necessary,
- Additional hardware purchases of \$13,415, and \$18,335 were implemented, and
- That the system was set-up and functioning to do data back-up and recovery.

Several different reasons were given for this failure, including:

- Lack of training on how to use this system,
  - **Note:** The cost of the training was included in the original cost,
- Conflicting priorities,
- Insufficient power load to plug in the system,
  - **Note:** A test of the available power load indicates that there is sufficient power (See Attachment 19, pg. 1, ¶1).

### **Cause**

Mr. Williams failed to ensure that his staff had the training required to operate the Hitachi SAN, and he failed to ensure that the system was operating for its intended purpose.

### **Effect**

This resulted in a waste of financial resources and a breach of fiduciary responsibility to the citizens of Santa Fe. The City remains at risk for data back-up and disaster recovery.

### **Recommendation**

Mr. Williams is being referred to the City Manager, and to the Finance Department Head as his immediate manager, to determine proper action.

## **OBSERVATION 2**

Misrepresentation to the Governing Body and to the Director of Purchasing

### **Criteria**

In the memo directed to the Finance Committee (**See Attachment 1**) dated September 25, 2007, Mr. Williams states the following:

"ITT has received two consecutive audit findings due to the lack of a disaster recovery solution for network data. In order to address this finding, a redundant back-up and storage system is required. Accordingly, the City Council approved the use of \$400,000 against the 2005 CIP Bond for this project. ITT issued a Request for Quotes (RFQ) in April 2007 (copy attached) to which three vendors responded."

### **Condition**

A review of the bid quotes indicates that one of them is from Integrity Networking Solutions. This bid quote is dated August 2005, (**See Attachment 4**) two years before the Request for Quotes was initiated on 03/27/2007(**See Attachment 2**).

### **Cause**

When asked about this Mr. Williams stated he had gotten a quote from Ms. Kerry Sanchez, Sales Representative, Integrity in 2005 when he started thinking about Hitachi as a solution. He further stated that when Ms. Sanchez moved from Integrity to J and J that he felt comfortable working with her so he got a subsequent quote through J and J. The original quotes from Integrity ranged from \$234,042 (**See Attachment 4 pg. 16**) to \$401,634 (**See Attachment 4 pg. 1**) the subsequent quote from J and J was for \$405,309 (**See Attachment 1, pg. 7**). It should be noted that this is the first and only time J and J sold this type of a system.

### **Effect**

This misrepresentation and the facts around the purchase appear to be questionable. There is an appearance that this might be considered to be favored treatment of Ms. Sanchez.

At the recommendation of ITT, the City incurred expenditures of over \$500,000 that did not benefit the City or the citizens it represents. The City remains at risk for data back-up and disaster recovery.

### **Recommendation**

Mr. Williams is being referred to the City Manager, and to the Finance Department Head as his immediate manager, to determine proper action.

## **OBSERVATION 3**

Inappropriate use of an existing state price agreement

### **Criteria**

**City, Purchasing Manual (See Attachment 20, pgs. 1-29 included)**

**§1.2.6 CIVIL PENALTY** Any person, firm or corporation that knowingly violates any provision of the city Purchasing Manual is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Purchasing Manual. Any penalty collected under the provisions of this section shall be credited to the general fund of the City.

**§1.4.2** Other sections of state statutes, federal law or City ordinances, and rules and regulations of authorities having jurisdiction over applicable item(s) shall also apply and deemed to be included in this manual (See Attachment 20, pg. 12)

**§3.73 PRICE AGREEMENT.** A definite quantity contract or indefinite quantity contract which requires or allows the contractor to furnish items of tangible personal property, services or construction to a governmental entity which issues a purchase order, if the purchase order is within the quantity limitations of the contract, if any (See Attachment 20, pg. 24).

**§4.1.6 Procurement Requirements.** Purchases of tangible personal property and services, including services that exceed \$5,000 up to \$49,999 or that exceed \$50,000. Purchases of tangible personal property and services, including professional services that exceed \$5,000 require at least three verbal quotes. Purchases of tangible personal property and services, including professional services that exceed \$5,000 but not more than \$50,000 require at least three written quotes. Purchases of tangible personal property exceeding \$50,000 require bids. Purchases of services, including professional services that exceed \$50,000 in one fiscal year, not including applicable sales tax, require requests for proposals (See Attachment 20, pg. 29)

**New Mexico State Procurement Code (See Attachment 21)**

**§13-1-71 Definition; Price Agreement.** "Price Agreement" means a definite quantity contract or indefinite quantity contract which requires the contractor to furnish items of tangible personal property, services or construction to a state agency or local public body which issues a purchase order, if the purchase order is within the quantity limitations of the contract, if any. (See Attachment 21, pg. 16)

**§13-1-196 Civil Penalty.** Any person, firm or corporation that knowingly violates any provision of the Procurement Code [Section 13-1-28 through 13-1-199 NMSA 1978] is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code. The attorney general or the district attorney in the jurisdiction in which the violation occurs is empowered to bring a civil action for the enforcement of any provision of the Procurement Code. Any penalty collected under the provisions of this section shall be credited to the general fund of the political subdivision in which the violation occurred and on whose behalf the suit was brought. (See Attachment 21, pg. 56)

**§13-1-199 Misdemeanor.** Any business or person who violates the Procurement Code [13-1-28 NMSA 1978] is guilty of a misdemeanor. (See Attachment 21, pg. 57))

## **Condition**

Mr. Williams replied that he had gotten a previous quote from Ms. Kerry Sanchez, the sales representative at Integrity for the Hitachi SAN system. He stated that Ms. Sanchez left Integrity and went to work for J and J in April of 2007. Mr. Williams stated that he trusted Ms. Sanchez and felt he had a good working relationship with her so he was comfortable getting a quote from J and J.

The J and J quote included a software purchase from InMage totaling \$137,360. This price agreement was for "IBM compatible computers and peripheral equipment" and did not include software.

## **Cause**

Leveraging off of the NMSU state pricing agreement appears to be inappropriate for this purchase. If this is proven it could result in a violation of the City's Purchasing Policy, and the State of New Mexico Procurement Code, and may be subject to civil and criminal penalties.

Based on the above stated criteria, it appears that this purchase should have gone out for a RFP.

## **Effect**

Violations of the State of New Mexico Procurement Code and other contracting industry standards increases the likelihood of questionable practices that result in lower quality and/or higher costs being incurred for goods and services. Questionable practices include solicitations that result in unreasonably high costs, low quality, and/or are otherwise unnecessary or unallowable expenditures of public monies. Related improprieties include: bid-rigging; order-splitting to bypass the Request for Proposal (RFP) process or other large-dollar procurement requirements; sole-sourcing of contracts when, in fact, the competitive process would be more appropriate or is otherwise mandated by law or policy; contract administration that enables vendors to be paid for services or goods not provided; individual who authorize or otherwise decides a contract award and, at the same time, has a vested interest in the company receiving the award. Potential conflicts of interest stemming from less-than-arms-length dealings are also a concern—where the individual influencing the contract award or administering the contract is either related to or has such a close association with one or more of the company's principals as to create reasonable doubt as to his/her ability to place fiduciary duty above personal bias.

The bypassing of a competitive bidding process resulted in a purchase that did not benefit the City. There is an appearance that this might be considered to be favored treatment of Ms. Sanchez.

The City remains at risk for not having a sufficient redundant data back-up and recovery system, or a disaster recovery plan.

## **Recommendation**

Mr. Williams is being referred to the City Manager, and to the Finance Department Head as his immediate manager, to determine proper action.

An assessment regarding potential violation of the procurement code and applicability of civil penalties and/or misdemeanor charges needs to be done by proper authorities.



Whether a particular act is, in fact, fraud or noncompliance with provisions of laws, regulations, or grant agreements may have to await final determination by a court of law or other adjudicative body.

If the use of the state price agreement is determined to not be appropriate for this purchase, a forensic audit of ITT purchasing should be considered to determine if this is a pattern.

## **OBSERVATION 4**

Assertions made to Atkinson in regards to the IT internal control environment were not always accurate.

### **Criteria**

Internal controls are a combination of people, processes and tools that are put in place to prevent, detect or correct issues caused by unwanted events. The need is to create a carefully planned control framework that weaves the various types of controls together and protects the City from risks.

### **Condition**

Atkinson identified key IT controls and through interviews with ITT management documented that the controls existed and were designed effectively. Per discussion with Marty Mathison, Audit Director, Atkinson, no formal test work of these controls was done as part of the financial audit. Rather, they relied on the assertions of management in making their assessment.

The controls reviewed by me appear to be ineffective and are findings that will be cited in the data center audit report.

The ITT department lacks basic formal policies and procedures addressing IT controls. The ITT department is run informally and on an ad hoc basis. There is a lack of accountability as everyone has their own way of doing things. As the City grows and the IT environment becomes more complex, it is of increasing importance to move to a more formal, controlled environment.

### **Cause**

- Misrepresentations by ITT to the external auditors,
- Lack of accountability in ITT,
- Insufficient internal control environment.

### **Effect**

Not citing the internal control findings in the financial audit report leads the reader to believe that the ITT department has effective internal controls to protect its financial and other critical ITT operations. If these items had been brought up during the audit, and cited, decisions regarding resource allocation in order to remediate the issues could have been addressed by senior management. The lack of forthrightness creates an impression that everything is going fine, and no additional resources or attention is needed in order to maintain operations. Senior management is not able to make budgetary or other critical decisions to help ITT move in the direction needed to provide protection of its critical ITT operations.

**Recommendation**

As the Director of ITT, Mr. Williams is ultimately responsible for assertions made by his staff. Mr. Williams is being referred to the City Manager, and to the Finance Department Head as his immediate manager, to determine proper action.

Formal policies and procedures addressing internal controls need to be created to provide a governance framework for the ITT department to follow.

## APPENDIX

### Abbreviations

The following is a list of abbreviations used throughout this document. It is intended to improve the flow of reading. The list is alphabetical.

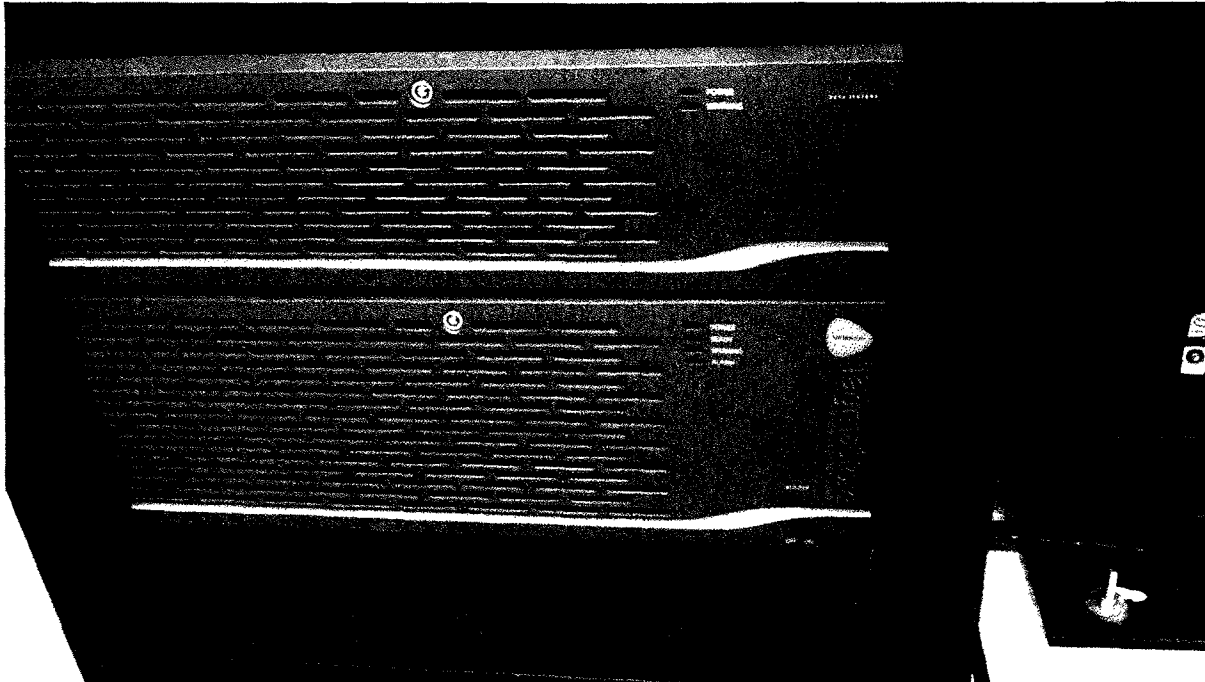
Atkinson.....	Atkinson and Company
CAFR.....	Comprehensive Annual Financial Report
CEO.....	Corporate Executive Officer
CIP.....	Capital Improvement Projects
City.....	City of Santa Fe
FTA FMO.....	Federal Transit Administration Financial Management Oversight
Governing Body.....	City Council
Hitachi (company).....	Hitachi Data Systems Maintenance and Support
Hitachi SAN.....	Data Back-up and Disaster Recovery System
InMage.....	Inmage Simplified Data and Data Recovery
Integrity.....	Integrity Networking Systems
IC.....	Internal Controls
IT.....	Information Technology
ITT.....	Information Technology and Telecommunications
J and J.....	J and J Technology Services
NMSU.....	New Mexico State University
Mainline.....	Mainline Information Systems
RFP.....	Request for Proposal
RFQ.....	Request for Quote
SAN.....	Storage Area Network
SFPD.....	Santa Fe Police Department

## Pictures

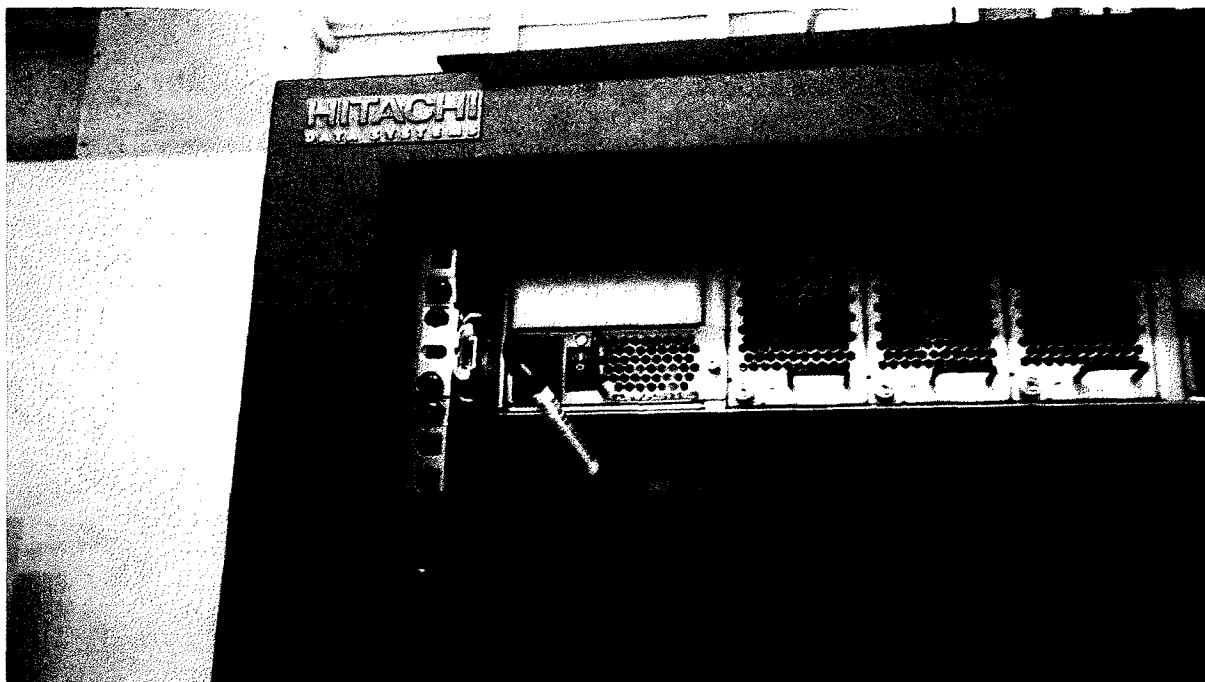
### #1 - Hitachi SAN



### #2 - Hitachi SAN – City Hall



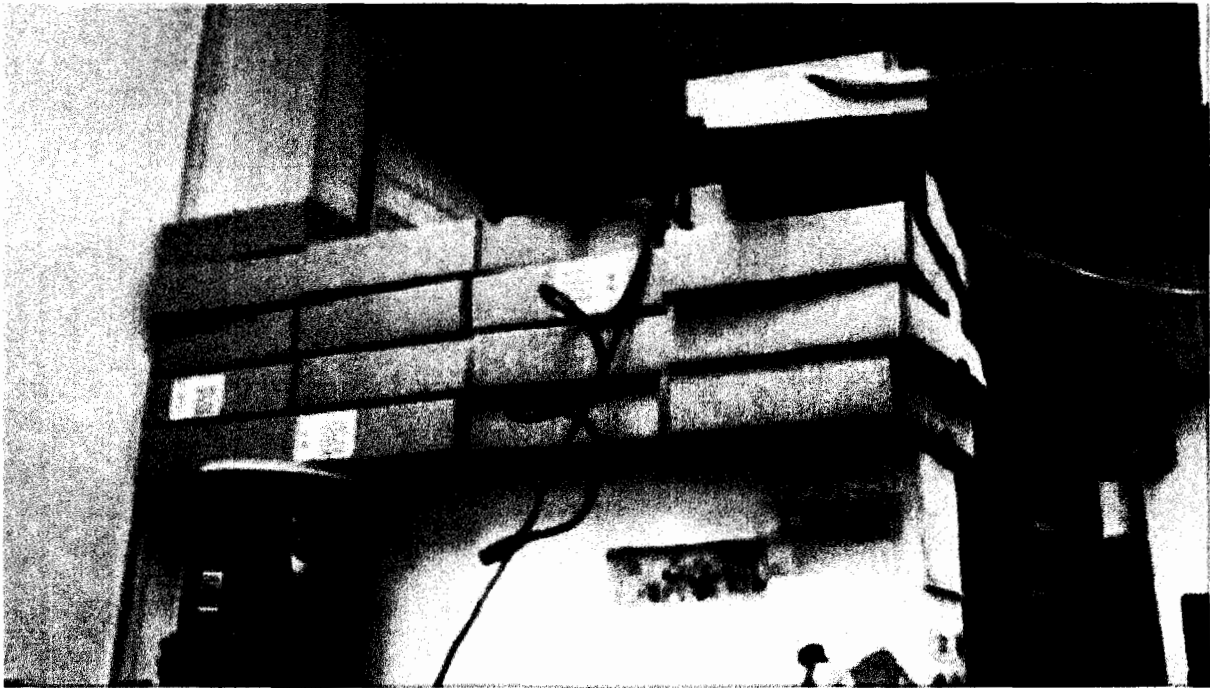
**#3 - Hitachi SAN – Santa Fe Police Department**



#### #4 - Unused Servers Sitting on Counter at City Hall



## #5 - Unused Ethernet Cards





# City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

[www.santafenm.gov](http://www.santafenm.gov)

David Coss, *Mayor*

**Councilors:**

Rebecca Wurzbarger, Mayor Pro Tem, Dist. 2

Patti J. Bushee, Dist. 1

Chris Calvert, Dist. 1

Peter N. Ives, Dist. 2

Carmichael A. Dominguez, Dist. 3

Christopher M. Rivera, Dist. 3

Bill Dimas, Dist. 4

Ronald S. Trujillo, Dist. 4

July 2, 2013

Randy Randall  
20 Camino del Prado  
Santa Fe, New Mexico 87507

EXHIBIT 8  
AUDIT COMMITTEE  
JULY 10, 2013

Dear Mr. Randall:

The Santa Fe City Council, at its meeting of June 26, 2013, approved your reappointment to serve on the Audit Committee. Your term will expire November 2015.

The staff liaison to the Committee is Liza Kerr. Ms. Kerr can be reached at 955-5728 and can provide you with information regarding meeting dates and times.

Enclosed is a copy of the City's Code of Ethics Ordinance for public officials for your review. Also enclosed is a City Registration Form and Acknowledgement of Receipt which you will need to complete and return to Yolanda Y. Vigil, City Clerk, P.O. Box 909, Santa Fe, New Mexico 87504-0909, in the enclosed self addressed, stamped envelope.

Thank you for agreeing to continue serving as a member of the Audit Committee.

Sincerely,

David Coss  
Mayor

Enclosure: Code of Ethics Ordinance  
Registration Form  
Acknowledgement of Receipt

xc: Liza Kerr, Staff Liaison





# City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

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Peter N. Ives, Dist. 2

Carmichael A. Dominguez, Dist. 3

Christopher M. Rivera, Dist. 3

Bill Dimas, Dist. 4

Ronald S. Trujillo, Dist. 4

July 2, 2013

Clark de Schweinitz  
P.O. Box 1044  
Santa Cruz, New Mexico 87567

EXHIBIT 9  
AUDIT COMMITTEE  
JULY 10, 2013

Dear Mr. de Schweinitz:

The Santa Fe City Council, at its meeting of June 26, 2013, approved your reappointment to serve on the Audit Committee. Your term will expire November 2015.

The staff liaison to the Committee is Liza Kerr. Ms. Kerr can be reached at 955-5728 and can provide you with information regarding meeting dates and times.

Enclosed is a copy of the City's Code of Ethics Ordinance for public officials for your review. Also enclosed is a City Registration Form and Acknowledgement of Receipt which you will need to complete and return to Yolanda Y. Vigil, City Clerk, P.O. Box 909, Santa Fe, New Mexico 87504-0909, in the enclosed self addressed, stamped envelope.

Thank you for agreeing to continue serving as a member of the Audit Committee.

Sincerely,

David Coss  
Mayor

Enclosure: Code of Ethics Ordinance  
Registration Form  
Acknowledgement of Receipt

xc: Liza Kerr, Staff Liaison

# City of Santa Fe, New Mexico

## memo

EXHIBIT 10  
AUDIT COMMITTEE  
JULY 10, 2013

DATE: June 28, 2013

TO: Audit Committee for Meeting of July 10, 2013

FROM: Melissa Byers, Legislative Liaison *mb*

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**ITEM & ISSUE:**

Attached is proposed legislation to establish the audit committee by ordinance.

**BACKGROUND & SUMMARY**

On October 13, 2010, the Governing Body adopted Resolution No. 2010-83 to create the City Audit Committee. The resolution detailed the purpose of the committee, its duties and responsibilities, membership requirements and membership terms.

The intent of the attached bill and resolution is to establish the Audit Committee through an ordinance. Because the Audit Committee is established by resolution, if the Governing Body adopts the ordinance, the action taken to create the initial audit committee would need to be repealed, therefore, the need for the resolution.

**REQUESTED ACTION**

Both the bill and resolution are before the Audit Committee as working drafts. Please review the proposed legislation and make a recommendation to the Governing Body whether or not to approve the legislation and detail any possible amendments to the legislation the Audit Committee would recommend.

Thank you.

**CITY OF SANTA FE, NEW MEXICO**

**BILL NO. 2013—**

**INTRODUCED BY:**

Councilor Peter Ives

Mayor David Coss

**AN ORDINANCE**

**RELATING TO CHAPTER VI SFCC 1987, BOARDS, COMMITTEES AND  
COMMISSIONS; CREATING A NEW ARTICLE 6-5 SFCC 1987 TO ESTABLISH THE  
CITY OF SANTA FE AUDIT COMMITTEE.**

**BE IT ORDAINED BY THE GOVERNING BODY OF THE CITY OF SANTA FE:**

**Section 1. A new Article 6-5 SFCC 1987 is ordained to read:**

**6-5 [NEW MATERIAL] AUDIT COMMITTEE**

**6-5.1 Creation; Purpose.**

- A. There is created the city of Santa Fe audit committee, an advisory committee.
- B. The purpose of the audit committee is to advise the city manager and the governing body regarding financial audits and investigations and related policies and procedures in order to promote transparency, accountability, efficiency and effectiveness of city government for the citizens of Santa Fe.

**6-5.2 Powers and Duties. The audit committee shall:**

- A. Review and make recommendations regarding reports from the city's internal

auditor;

B. Review and make recommendations regarding the city's annual external audit;

C. Review the request for proposals for the external auditor and the resulting recommendation for the selection of the city's external auditor (public accounting firm);

D. Review the city's preliminary financial reports semiannually;

E. Review and make recommendations regarding the city's policies and practices and internal controls in place to control the operations, accounting, and regulatory compliance of the city; and

F. Review the findings in the external audit and the proposed plans from the departments for correction of the findings.

#### **6-5.3 Membership; Chairperson; Terms; Vacancies.**

A. *Membership.* The audit committee shall consist of five individuals solicited and appointed by the municipal judge with the advice and consent of the governing body. The members of the audit committee shall include individuals that have experience and knowledge that would assist the governing body in completing the audit committee's purpose and who are qualified by training, experience, and ability to exercise sound and practical judgment regarding the duties and responsibilities of the audit committee. Of the five members one member shall be a certified public accountant, one member shall be a lawyer or have a law enforcement background and one member shall be a management consultant. Members shall reside in the state of New Mexico.

B. *Chairperson.* The mayor, with the approval of the city council, shall appoint the initial chairperson. The chairperson shall designate the vice chairperson. The chairperson shall serve as chairperson for a period of one year. Following one year of service, the chairperson shall be elected (or reelected) by the members of the Committee. The chairperson may appoint sub-committees and sub-committee chairpersons as needed.

1 C. *Terms.* Two of the members shall be appointed for two year terms and three  
2 shall be appointed for three year terms. Subsequent terms shall be for three years to maintain  
3 staggering of terms. There is no limitation to reappointment. The members shall serve at the  
4 pleasure of the governing body and may be removed at any time with or without cause.

5 D. *Vacancies:* Vacancies on the audit committee shall be filled in the same manner  
6 as initial appointments and shall be for the remainder of the term of the vacant position.

7 **6-5.4 Meetings; Staff.**

8 A. *Meetings.* A quorum of the audit committee shall be at least three members. The  
9 audit committee shall conduct all meetings in accordance with adopted city policies and  
10 procedures and shall use *Robert's Rules of Order* in conducting its meetings. The audit committee  
11 shall meet at least quarterly or as needed to accomplish the duties and responsibilities of the  
12 committee.

13 B. *Staff.* The finance department shall serve as the primary liaison to the Committee  
14 unless otherwise designated by the City Manager. Depending upon the issue, other city staff may  
15 also be required to assist the Committee.

16 APPROVED AS TO FORM:

17  
18 \_\_\_\_\_  
19 GENO ZAMORA, CITY ATTORNEY  
20  
21  
22  
23  
24

25 M/Melissa/Bills 2013/Audit Committee

**CITY OF SANTA FE, NEW MEXICO**

**RESOLUTION NO. 2013-\_\_**

**INTRODUCED BY:**

Councilor Peter Ives

**A RESOLUTION**

**AMENDING RESOLUTION 2010-83 TO REPEAL THE ESTABLISHMENT OF THE  
CITY AUDIT COMMITTEE.**

**WHEREAS**, on October 13, 2010, the Governing Body adopted Resolution No. 2010-83 to create the City Audit Committee and direct staff to take certain steps to further ensure that proper procedures are followed for all city purchases and professional services contracts; and

**WHEREAS**, the Governing Body desires that the Audit Committee be established by ordinance for the purpose of making the Audit Committee a permanent committee; and

**WHEREAS**, on \_\_\_\_\_, 2013, the Governing Body adopted Ordinance No. 2013-\_\_ to establish Article 6-5 SFCC 1987, Audit Committee.

**NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE  
CITY OF SANTA FE** that Resolution No. 2010-83 is amended to repeal the establishment of the Audit Committee because Ordinance No. 2013-\_\_ has established the Audit Committee to be a permanent committee in the Santa Fe City Code.

**PASSED, APPROVED, and ADOPTED** this \_\_\_\_ day of \_\_\_\_\_, 2013.

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DAVID COSS, MAYOR

ATTEST:

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YOLANDA Y. VIGIL, CITY CLERK

APPROVED AS TO FORM:

---

GENO ZAMORA, CITY ATTORNEY

*M/Melissa/Resolutions 2013/audit committee repeal*

Working Draft  
6/10/13

CITY OF SANTA FE, NEW MEXICO

BILL NO. 2013-\_\_\_\_

INTRODUCED BY:

Councilor Peter Ives

Mayor David Coss

AN ORDINANCE

RELATING TO CHAPTER VI SFCC 1987, BOARDS, COMMITTEES AND  
COMMISSIONS; CREATING A NEW ARTICLE 6-5 SFCC 1987 TO ESTABLISH THE  
CITY OF SANTA FE AUDIT COMMITTEE.

BE IT ORDAINED BY THE GOVERNING BODY OF THE CITY OF SANTA FE:

Section 1. A new Article 6-5 SFCC 1987 is ordained to read:

6-5 [NEW MATERIAL] AUDIT COMMITTEE

6-5.1 Creation; Purpose.

A. There is created the city of Santa Fe audit committee, an advisory committee.

B. The purpose of the audit committee is to advise the city manager and the  
governing body regarding financial audits and investigations and related policies and procedures  
in order to promote transparency, accountability, efficiency and effectiveness of city government  
for the citizens of Santa Fe.

6-5.2 Powers and Duties. The audit committee shall:

A. Ensure that all audits conform to generally accepted governmental auditing.

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standards;

B. Ensure that the internal audit function is independent from City management as defined in generally accepted auditing standards;A. —

C. Review applications and have membership appointed to the hiring committee for the appointment of the internal auditor;

D. Provide review and comments to the internal auditor's evaluation.

E. Provide comments to City Manager prior to any personnel actions taken regarding the internal auditor;

F. Review and approve the internal audit plan;

G. Review and make recommendations regarding reports from the city's internal auditor;

BH. Monitor ~~Review~~ and make recommendations regarding the city's annual external audit;

CI. Review the request for proposals for the external auditor and the resulting recommendation for the selection of the city's external auditor (public accounting firm);

DJ. Review the city's preliminary financial reports from time to timesemiannually;

EK. Review and make recommendations regarding the city's policies and practices and internal controls in place to control the operations, accounting, and regulatory compliance of the city; and

FL. Monitor and make recommendations regarding the City's cash, investment, and loan policies and procedures;

M. Review the findings in the external audit and the proposed plans from the departments for correction of the findings and monitor corrective actions taken; and

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N. Advise, review and make recommendations for other matters as requested or assigned by the finance committee and or City Council.

**6-5.3 Membership; Chairperson; Terms; Vacancies.**

A. *Membership.* The audit committee shall consist of five individuals solicited and appointed by the municipal judge with the advice and consent of the governing body. The members of the audit committee shall include individuals that have experience and knowledge that would assist the governing body in completing the audit committee's purpose and who are qualified by training, experience, and ability to exercise sound and practical judgment regarding the duties and responsibilities of the audit committee. Of the five members one member shall be a certified public accountant, one member shall be a lawyer or have a law enforcement background and one member shall be a management consultant. Members shall reside in the state of New Mexico.

B. *Chairperson.* The mayor, with the approval of the city council, shall appoint the initial chairperson. The chairperson shall designate the vice chairperson. The chairperson shall serve as chairperson for a period of one year. Following one year of service, the chairperson shall be elected (or reelected) by the members of the Committee. The chairperson may appoint sub-committees and sub-committee chairpersons as needed.

C. *Terms.* Two of the members shall be appointed for two year terms and three shall be appointed for three year terms. Subsequent terms shall be for three years to maintain staggering of terms. There is no limitation to reappointment. The members shall serve at the pleasure of the governing body and may be removed at any time with or without cause.

D. *Vacancies:* Vacancies on the audit committee shall be filled in the same manner as initial appointments and shall be for the remainder of the term of the vacant position.

**6-5.4 Meetings; Staff.**

A. *Meetings.* A quorum of the audit committee shall be at least three members. The

1 audit committee shall conduct all meetings in accordance with adopted city policies and  
2 procedures and shall use *Robert's Rules of Order* in conducting its meetings. The audit committee  
3 shall meet at least quarterly or as needed to accomplish the duties and responsibilities of the  
4 committee.

5 B. *Staff*. The ~~finance~~ internal audit department shall serve as the primary liaison to  
6 the Committee unless otherwise designated by the City Manager. Depending upon the issue, other  
7 city staff may also be required to assist the Committee.

8 APPROVED AS TO FORM:

9  
10 \_\_\_\_\_  
11 GENO ZAMORA, CITY ATTORNEY  
12  
13  
14  
15  
16

17 *M/Melissa/Bills 2013/Audit Committee*