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CITY OF SANTA FE AUDIT COMMITTEE
June 20, 2018

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MINUTES OF THE
CITY OF SANTA FÉ
AUDIT COMMITTEE

June 20, 2018
2:00 p.m.

1. CALL TO ORDER

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

2. ROLL CALL

Roll call indicated the presence of a quorum as follows:

Members Present:
Clark de Schweinitz, Chair
Cheryl Pick Sommer, Vice-Chair
Barbara Borrego
Al Castillo

Members Absent:
Carolyn Gonzales [excused]

Others Attending:
Georgie Ortiz, LarsonCliftonAllen, LLP
Laura Beltran-Schmitz, LarsonCliftonAllen, LLP
Renee Martínez, Deputy City Manager
Brad Fluetsch, Interim Finance Director
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 City Clerk's Office.

3. APPROVAL OF AGENDA

MOTION: Member Sommer moved, seconded by Member Borrego, to approve the agenda as published.

VOTE: The motion passed on a unanimous voice vote with Members Borrego, Castillo, Gonzales, and Sommer voting in the affirmative and none voting against.

4. APPROVAL OF MINUTES

a. **March 7, 2018**

b. **April 4, 2018**

c. **May 2, 2018**

MOTION: Member Castillo moved to accept the minutes of March 7, April 4, and May 2, 2018 as presented. Member Borrego seconded the motion.

VOTE: The motion passed on a unanimous voice vote with Members Borrego, Castillo, Gonzales, and Sommer voting in the affirmative and none voting against.

5. NEW BUSINESS

a. **Status of Contracting for City Internal Audit Functions (Barbara Borrego and Renee Martínez)**

Ms. Martínez provided status on the RFQ for the contract of the internal audit functions. The quote was posted on Monday and closes June 29 and the Purchasing Office will notify them of the responses. An addendum will be put out as questions are posed by vendors and posted on the City website and an evaluation committee will be established.

She asked how the Committee would like to be involved with the evaluation.

Chair de Schweinitz noted that the new ordinance states the Committee should participate. He asked the Committee if more than one member is needed for the evaluation committee.

Member Sommer suggested one member, if the member will report back to the Audit Committee with a recommendation. Ms. Martínez agreed.

Ms. Martínez said indicated the contract is for the Risk Assessment, a proposed audit plan and the top priority audit.

Member Borrego suggested waiting to see the number of responses before deciding how many members are on the evaluation committee.

Member Sommer asked about the process.

Ms. Martínez explained finalists would be selected who meet criteria and interviewed and a scoring process will determine a recommendation for the award.

Member Castillo asked if the Audit Committee members on the committee would be able to vote.

Ms. Martinez explained even though the Audit Committee is advisory, members assigned to a committee can vote on recommendations that come to the full Committee. The full Committee would then make a recommendation to the City Manager.

Chair de Schweinitz confirmed that the RFP is for only one audit.

Member Sommer asked what is included in the audit plan.

Ms. Martínez replied that the Risk Assessment may identify compliance audits, but most audits will be Performance audits.

Member Sommer confirmed that the expectation is for the person awarded to do a Risk Assessment and create a proposed audit plan based on the assessment and perform an initial audit. The person/firm would need to be rehired to perform additional audits.

Ms. Martínez agreed, or they could extend their contract if comfortable with the first audit.

Mr. Fluetsch added the contract could be written with an option for five more audits.

Member Sommer voiced concern that if the person awarded does only one audit and a second firm is hired, they might not want to follow the first firm's audit.

Ms. Martínez said this would be the City's audit plan and a second firm should not have a problem conducting an audit from that plan, even if they did not develop the audit.

Chair de Schweinitz pointed out City Council would be approving the audit plan.

Member Sommer noted on a finer point that a second firm might have a different Risk Assessment than the developer of the initial audit plan. Member Borrego agreed.

b. Review and Discussion of Audits (Forensic, Performance, Compliance and Internal) to be Performed in FY 2018-2019 (Renee Martínez)

Chair de Schweinitz asked Ms. Martinez to explain the three audits on the agenda with the additional audit.

Ms. Martínez asked Mr. Fluetsch to comment as it was part of the Finance Department's recommendation.

Mr. Fluetsch explained the Forensic audit is an initiative by the Mayor. A Forensic audit can provide answers to the public for issues the McHard report highlighted as high potential for fraud and could show whether or not there was fraud. The report indicated a high chance of fraud in the area of Payroll and that is easily verifiable, and another area was in Water. The Forensic audit will look at the data to determine if there was fraud or not.

The City has budgeted $200,000 for the three audits and they feel the amount is sufficient to start. The 2008 Parks Bond Audit was a total cost of $250,000 over 2 years. The Forensic audit will be separate from the Internal audit, which is three additional audits.

Mr. Fluetsch described the Performance audit as a way to measure efficiencies within the Finance Department and the rest of the City and dovetails closely with the Internal audit.

The Compliance audit is to determine if the City is in compliance with Federal, State, etc. and is separate from the Annual audit and the hope is to get recommendations to improve compliance.

Member Borrego asked about the timeframe.

Mr. Fluetsch replied timeframe has not been set up, but they would like to get an RFP out soon for the Forensic, which should stand alone. The other two audits can go hand in glove.

Ms. Martínez asked if the Risk Assessment and audit plan will show which audits to conduct.

Mr. Fluetsch responded the Risk Assessment will have an effect on the Performance and Compliance audits and will be in addition to the other six audits.

He explained that three audits are entirely separate from the Internal audit and the Risk Assessment, is by itself. The three audits are driven by the McHard Report, which needs to be addressed but can be expanded with the Compliance audit.

Chair de Schweinitz asked if there could be 3 different requests and possibly three different auditors.

Mr. Fluetsch said it could potentially, however the Forensic audit is a standalone. There is a total of 10 audits; 6 Internal audits, the CAFR and the 3 audits: Performance, Risk Assessment and Forensic. The RFP should be published by the end of July with the Forensic audit being the first and the other audits to follow.

Member Castillo asked regarding efficiency, if Mr. Fluetsch objected to one firm doing more than one audit.

Mr. Fluetsch replied that would be no problem.

Member Sommer wondered if all RFPs should be done at one time.

Mr. Fluetsch explained that was the goal, but Finance is struggling with scheduling them.

He addressed Ms. Beltran-Schmitz and Ms. Ortíz and asked if the Internal audit will have to go through the State approved list or if the RFP could be open to everyone.

Ms. Ortíz did not think the State list was a requirement.

Ms. Beltran-Schmitz suggested Mr. Fluetsch look at the State audit rule that explains what does or does not have to go through the list. She added they will not have to sign a contract with the State Auditor, but she suggests sending a letter about what they are doing.

Ms. Beltran-Schmitz explained they also need to have open communication with the other firms as well. They will need to incorporate that into their audit plan, especially with a Forensic audit happening while the External audit is going on, because the findings could impact the ability to complete the External audit.

Mr. Fluetsch noted CLA's contract was approved by the Finance Committee on Monday and is going to Council on Wednesday and the amount was increased by $35k to include the financial statements.

Mr. Fluetsch indicated the hope is to have the RFP responses back by mid or end of August to review.

Member Sommer asked if the firm will audit current records, especially for the Forensic audit, or the records reviewed by McHard.

Mr. Fluetsch thought they would go back five years and definitely the year McHard came in - FY2016/2017 and possibly two years before that depending on the findings.

Member Castillo thought if they go back too far the history would not be relevant.

Ms. Martínez explained if an employee is suspected and has been around for years they would look at the pattern and follow where the data leads.

Member Castillo was concerned they would be digging up issues already corrected.

Mr. Fluetsch thought auditors would narrow their scope by topic such as Payroll or Parking etc. to areas with the greatest potential for fraud.

Ms. Martínez said depending on the number of responses, the finalists will be narrowed down, and interviews scheduled. She hopes to have a recommendation for the Committee by the August meeting. Hopefully the contract will be under $60k which can be approved by the City Manager.

She confirmed she would be comfortable scheduling interviews for July 21, 2018.

6. OLD BUSINESS

a. Brief update on status of CAFR (Clark de Schweinitz)

Chair de Schweinitz reported that the CAFR information was not released from the State Auditor's Office and it will be Monday before they receive it. He asked Ms. Beltran-Schmitz to talk about what CLA is working on.

Ms. Beltran-Schmitz said one question CLA had was if they would be doing the CAFR. They are waiting on

Finance Staff for the PBC list and the dates to review and Ericka told her last week that there were dates being modified.

Mr. Fluetsch said as the Financial Planning and Reporting Officer it would be best if communications come through him because the financial audit is his responsibility. He asked to be copied on emails and to be contacted if CLA needs anything.

Ms. Beltran-Schmitz agreed. She explained they have not been communicating with Staff and are waiting until the contract has been fully executed through the State Auditor's Office.

Member Borrego mentioned she read there will be a Finance Director and a Controller, and the Controller would oversee the External Audit.

Mr. Fluetsch explained the Controller will be his direct report with the main focus to maintain the General Ledger because of its importance to both the audit and the budget and the Controller will be the key person for both.

He informed the Committee that the new Finance Director was announced yesterday, Mary McCoy, who will start July 16. He will report to her and she will report to the City Manager.

Ms. Martínez added that Ms. McCoy worked in the Finance Division in Boston and has prior experience with the State of New Mexico at DFA and LFC.

Mr. Fluetsch added that an offer has been made and accepted to the Controller, and she will start at the beginning of the year.

In addition Bernadette Salazar will be the new Director of Human Resources. She was at the County and may have been the Human Resources Director with the City about 10 years ago. Both the new Human Resources Director and the new Public Works Director will start in July.

Ms. Beltran-Schmitz indicated that FY17 will be public on Monday and she has asked Mr. Fluetsch to coordinate delivery to the Governing Body and a possible meeting with the Audit Committee beforehand.

Member Castillo asked where he could get a copy of the report.

Mr. Fluetsch indicated a copy will be on the City's and the State Auditor's website on Monday. He noted the City web site may just have a link to the State Auditor website.

Ms. Martínez suggested Chair de Schweinitz call Celeste and she could make copies for the Committee.

Mr. Fluetsch indicated they will print 30 books internally this week and hold them until Monday and more can be printed on demand. He will add Chair de Schweinitz and Member Castillo to the print list.

Member Sommer said she understood part of the problem had been having two different systems and getting a financial statement that matched data from the original accounting software.

Mr. Fluetsch said many of the delays were internal issues within the Finance Department such as getting the numbers in the General Ledger, getting the trial balance and getting that to the auditors and tying financials to the notes, etc.

Ms. Beltran-Schmitz pointed out even when the auditors draft the financial statement, there are still challenges when they test – it is not failsafe. They are dependent on the underlying accounting records and numbers provided by the City to make statements that are correct.

Mr. Fluetsch added the City produces the Management Discussion and Analysis (MDA) and the numbers have to tie to the financials and the City also produces the note that has to tie in. Publishing that was a big problem last year and is why they asked CLA to do that this year.

Ms. Ortíz noted it is easier for CLA to do the financial statements and faster. She asked if the City is up to date for June.

Mr. Fluetsch replied they were not because it took so long to finish this. A lot of people were behind on their ERP and are now trying to catch up that and their other work, in addition to getting prepared for the upcoming fiscal audit.

Ms. Ortíz asked about the timing of the audits like Payroll and Water and if they would be done before CLA.

Mr. Fluetsch thought if they get out an RFP and an evaluation committee by the end of August and a contract, the Forensic audit could start at the earliest in October, more like November. He thought she would be done before then.

Ms. Ortíz asked if this was really a Forensic audit or just looking for controls.

Mr. Fluetsch explained they will go back and specifically look for fraud in the areas identified as a high risk. No fraud has been found but no one has looked for fraud yet.

Members discussed how far back the audit would go.

Chair de Schweinitz noted there was fraud found in Parking a couple of years back.

Ms. Ortíz replied that is typical with Parking because it is hard to control.

Member Castillo suggested making the Performance audits deliverable by December 31st, when setting up their scope.

Member Sommer thought that would be too late.

Ms. Beltran-Schmitz explained the State Auditor deadline is December 15th and also this is the first they are hearing of the Forensic audit.

Ms. Martínez said they could open the communication channels and determine the best timeframe for the work once they have approval to proceed with the audit with CLA.

Ms. Martínez asked how soon after CLA receives the contract could the City get a schedule.

Ms. Beltran-Schmitz replied it would depend on the City's deliverable deadlines and they want to be sure the schedule and the PBC's are realistic. Last year right off the bat they were behind. This year CLA needs to ensure the deadlines and deliverables created by City Staff are reasonable and realistic so CLA can set up a timeline and staffing for success.

Member Castillo asked what she preferred as the ideal situation.

Ms. Ortíz replied it would be nice to have everything completed a month before CLA needs it. She indicated they had taken the McHard Report item by item and their findings are included in the report and the report alludes to some of those things that could be a potential. Many of the delays were internal issues rather than fraud, but CLA did not get in depth.

Chair de Schweinitz asked what CLA would need from the Committee in involvement with the CAFR. They would like to get a copy of what the City sends CLA and help things along.

Ms. Ortíz said they would like to have a closed meeting with the Audit Committee.

Members discussed a closed session.

Ms. Martínez is not sure they could meet the definition for having a closed session and offered to discuss that with Legal.

Member Sommer suggested the best way might be to designate a subcommittee of two members for the CAFR and they could have regular closed meetings with the auditors.

Ms. Ortiz said not all cities or counties have audit committees but those who do often have a closed session after the public meeting.

Carl Boaz, the stenographer suggested looking at the minutes of APS to see which section of the OMA they use.

Chair de Schweinitz agreed.

Member Castillo talked about the OMA and the State Audit Act requirements and thought the State Act may prevail over OMA and appears the Committee could have a hiatus between the two statutes.

Ms. Ortíz noted they do not want to circumvent the system, but it would not be good if the Committee does not know what they found until the end.

Ms. Ortíz explained there is confidentiality with the client and they are not allowed to speak with reporters about their client's.

Member Castillo added they also have the Accountancy Act on what is permissible and not.

Ms. Ortíz said she would like to meet with Mr. Fluetsch once CLA gets the contract so she knows when Staff is available.

Mr. Fluetsch noted he has reached out to the new Finance Director and she will be involved so there will be no surprises for her.

Member Sommer asked about the Lodgers' Tax audit status.

Ms. Ortíz explained they received a list of approximately 10 -13 hotels and she is working with a senior advisor who sent out letters. They will then call and email the hotels to let them know they are starting the audit and will do two years.

Chair de Schweinitz asked if the Committee wanted CLA to come back to go over the findings on the CAFR. He proposed that be done before CLA goes before City Council for approval.

Mr. Fluetsch indicated he has a call in to the City Clerk. He asked if the audit goes to the Finance Department first and if so the Committee would have an opportunity to meet then.

Member Castillo said he had a different idea and was not sure what the rush is to see the findings. They could wait until September and let the administration and Finance and City Council do what they need. The Committee could then take items one at a time and be more reflective.

Chair de Schweinitz explained they need to review the findings thoroughly - more so than City Council would.

Ms. Ortíz agreed that is typical.

Member Castillo said the Finance Director and Administration are involved in addressing the findings and have more to explain than the auditors.

Mr. Fluetsch noted they have already addressed the findings and the findings are included in the report.

Chair de Schweinitz agreed but found some of the responses in the draft findings weak. They want to look at the findings thoroughly, but also, they want to wrap up the audit.

Member Sommer agreed and said the ordinance requires that the Committee make recommendations if appropriate. They will make recommendations to the Finance Committee and Governing Body so the faster they see the audit and do that, the better.

Ms. Ortíz and Ms. Beltran-Schmitz agreed to return the first of August.

b. Follow-up steps, if any, by Committee Members

Chair de Schweinitz said the Committee has their roles for evaluation committee and should get the 32-page report from Ms. Valentine.

c. Date for next Audit Committee Meeting

The next meeting will be on August 1, 2018 at 2:00 p.m. and the new Finance Director will be invited.

Chair de Schweinitz asked who is overseeing the CAFR development.

Mr. Fluetsch replied it is his job specifically for the budget, the audit and the CAFR. He will report to the Director and keep them informed and they will make decisions they need. The day to day with the audit communications with the State Auditor's Office and with the auditors will be through him.

He confirmed this is his first CAFR and has learned a lot and still has a lot more to learn.

7. PUBLIC COMMENT

There was no public comment.

8. ADJOURNMENT

Member Castillo moved to adjourn at 3:16 p.m. seconded by Member Sommer and the motion passed unanimously.

Approved by:

_____
Clark de Schweinitz, Chair

Submitted by:

Carl Boaz for Carl G. Boaz, Inc.