



As of June 3, 2025, Moss Adams LLP has merged with Baker Tilly.

FINAL DRAFT REPORT

City of Santa Fe
MONTH-END AND YEAR-END CLOSE
INTERNAL AUDIT

October 16, 2025

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I. Executive Summary

As part of the fiscal year 2025 City of Santa Fe (the City) internal audit program, Baker Tilly Advisory Group, LP (Baker Tilly) performed an internal audit of the City’s month-end and year-end close processes. The internal audit focused on assessing select key controls within the month-end and year-end close process and providing recommendations for improvements to enhance the overall integrity and reliability of the City’s financial closing procedures. The internal audit took place between February and October 2025. We experienced a delay of approximately four months awaiting the City to provide our requested testing documentation. A significant portion of our requested testing documentation was not provided until October, after we had prepared and provided the draft report to the City. Based on the additional documentation provided, we revised the initial draft report to reflect the results of the additional testing we performed in October.

The purpose of this internal audit was to identify whether month-end and year-end close internal controls appear to be designed and operating effectively. The results of the month-end and year-end close review should be utilized as a roadmap for the City to identify areas where further resources should be deployed to test the effectiveness of controls and the associated risks of potential issues identified, and to identify management priorities and focus areas. The results presented in this report should be used as a management and internal audit tool going forward.

This engagement was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based.

A. Risk Rating Definitions

The following definitions guided our risk rating:

RISK LEVEL DEFINITIONS	
Risk	Significance
HIGH	Represents a high likelihood of causing significant negative impact (e.g., post a threat to achieving the City’s objectives) if not promptly addressed.
MEDIUM	Represents a moderate likelihood of causing negative impact if left unaddressed, and should be prioritized for corrective action to improve controls.
LOW	Represents a low likelihood of causing significant impact, but still warrants attention to improve efficiency and effectiveness.

B. Summary of Findings and Recommendations

FINDINGS AND RECOMMENDATIONS		
Lack of Policies and Procedures		
MEDIUM RISK		
1.	Finding	The City has not developed written comprehensive policies and procedures for the month-end and year-end financial close processes, which might lead to various financial risks and inconsistencies.
	Recommendation	The City should develop and implement written comprehensive month-end and year-end close policies and procedures to help provide more structure and guidance for employees involved in these key financial processes.
Lack of Formal Review Process and Documentation		
MEDIUM RISK		
2.	Finding	There was no evidence of review and approval for the June 2024 Utility AR Aging report, as well as for the City-wide Cash Reconciliations for September and December 2024, which increases the risk of errors and potentially impacts financial reporting accuracy and audit readiness.
	Recommendation	The City should develop comprehensive Utility Billing and Collection and Cash Reconciliation policies and procedures that establish clear requirements for tracking, reviewing, and approving the Utility AR Aging report and Cash Reconciliations. These policies should mandate documented evidence of reviews and approvals, define responsible personnel and review frequency, and include controls for timely follow-up on overdue accounts to ensure accountability, compliance, and enhanced financial oversight.
Unavailable Requested Documents		
LOW RISK		
3.	Finding	The City did not provide select requested documentation in a timely manner for this internal audit. In addition, one of the two most recent tabletop exercise documents was not provided, which limited the effectiveness of the internal audit.
	Recommendation	The City should ensure that documentation to support financial activity is readily available for audit. In addition, the City should review the missing tabletop exercise documentation (if it exists). If the City cannot locate this documentation, procedures should be implemented to ensure all required financial and control documentation is properly maintained and readily available for audit purposes.

C. Commendations

Although the focus of this internal audit was to identify whether month-end and year-end close internal controls appear to be designed and operating effectively, we noted the following areas of strength and existing good practices that can be leverages for further improvement:

- **Communication:** Interviewees highlighted that the City has solid month-end close communication to help ensure that month-end tasks are completed timely
- **Willingness to Change:** Management demonstrated an openness to feedback and a commitment to refining and documenting the month-end and year-end close processes.

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II. Background, Scope, and Methodology

A. Background

Baker Tilly was engaged by the City to assess the controls surrounding the month-end and year-end close processes. In prior fiscal years, the City routinely would not be able to close their books timely and, as a result, would be delayed with their financial audits. However, the City has recently caught up to timely close their books and to have their financial audit completed timely as well. Although the City is fully caught up on their close process and financial audit, we were tasked with evaluating how the City might better strengthen its month-end and year-end internal controls.

The City uses the Tyler Munis ERP system (Munis) to execute these close processes and prepares additional month-end reconciliations to ensure the accuracy and integrity of financial data. Oversight of the month-end and year-end close resides with the Finance Department, which utilizes the Month End Manager feature within Munis to streamline these activities. The month-end close-out process is to be completed by the 20th of the following month. Regarding the year-end close, the Finance Department issues a memo to all departments outlining due dates and preparatory steps to support the process. The year-end close is completed after the external audit is finalized and the City has posted any adjustments resulting from the audit.

The Finance Committee, as a Committee of the City Council, is responsible for overseeing the City's financial reporting. It plays a key role by reviewing quarterly financial statements through the Quarterly Financial Performance Reports. This review enables a zoomed-out review of financial accounts and performance over time to help identify potential anomalies that should be corrected via month-end or year-end processes.

Another crucial aspect of the month-end and year-end close processes is data security, which is tested at least every two years via "Tabletop" exercises. These exercises help demonstrate the City's disaster recovery plan and protect the City's financial data.

B. Scope and Methodology

This internal audit focused on the month-end and year-end close process, including the evaluation of internal controls, financial reporting accuracy, and compliance with City policies and procedures throughout fiscal year 2024 and 2025. Our initial objectives included:

- Evaluating select month-end and year-end close processes to determine whether they appeared to be consistent with City policies and procedures (P&Ps).
- Assessing a sample of month-end and year-end close activities to evaluate for consistency with best practices in financial reporting and internal controls (e.g., documentation retention, timely and complete reconciliations, and documented reviews and approvals).
- Making recommendations to the City, based on the evaluation, for improvements to the month-end and year-end close processes.

To address these objectives, we conducted an internal audit of key controls, which included:

1. Conducting interviews with employees from the Finance Department to understand the specific processes, controls, and overall functions being assessed.
2. Identifying control objectives and the corresponding controls that satisfy each objective.
3. Reviewing existing Munis closeout instructions, such as the Month End Manager document and examining relevant documentation to support select key controls.
4. Performing control walkthroughs to observe the design of key controls and understand workflow processes.
5. Performing journal entry testing:
 - a. From the population of all journal entries posted between June and December 2024, we randomly selected a sample of 20 entries. For each entry selected, we requested:
 - i. A copy of the journal entry
 - ii. Evidence of journal entry approval
 - iii. Supporting documentation substantiating the entry
 - b. For each entry selected, we intended to perform the following:
 - i. Assess whether the entry was properly approved
 - ii. Review supporting documentation to assess the validity of the entry
 - iii. Assess whether the entry was posted in the correct accounting period
6. Performing reconciliation testing:
 - a. We requested the following reconciliations:
 - i. Monthly purchasing card (P-card) transaction reconciliation reports for July and November 2024
 - ii. Bank reconciliations for September and December 2024
 - iii. The Parking and Utilities Accounts Receivable (AR) Aging reports for June 2024
 - b. For each reconciliation selected, we intended to request a copy of the reconciliation along with evidence of review and approval.
 - c. For each reconciliation, we intended to perform the following:
 - i. Assess whether it was properly approved
 - ii. Evaluate whether any variances were appropriately addressed and documented
7. Performing reporting testing:
 - a. We requested the quarterly Financial Performance Reports for the first and second quarters of fiscal year 2025. For both reports, we intended to assess whether they were properly reviewed and documented.
8. Performing year-end close checklist testing:
 - a. We requested the fiscal year 2024 year-end close checklist. We intended to assess whether the checklist included all necessary sign-offs from each department, indicating completion of their respective tasks over the close process.

The following objective was also planned as part of this internal audit. However, as noted in the “Requested Documentation Unavailable” finding, we were unable to obtain the necessary documentation to complete this objective.

1. Performing tabletop exercise testing:

- a. We requested documentation for the last two “Tabletop” exercises. For these items, we intended to assess whether the exercises were completed, properly reviewed, and appropriately documented.

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III. Findings and Recommendations

Based on the input gathered from interviews, document review, and testing results, we prepared a comprehensive set of findings and recommendations, which are detailed below.

A. Lack of Policies and Procedures: Medium Risk

1. Finding	The City has not developed written comprehensive policies and procedures for the month-end and year-end financial close processes, which might lead to various financial risks and inconsistencies.
Recommendation	The City should develop and implement written comprehensive month-end and year-end close policies and procedures to help provide more structure and guidance for employees involved in these key financial processes.

The financial close process is fundamental to the City's ability to produce accurate and timely financial reports, comply with applicable laws and regulations, and maintain effective internal controls. Best practices and regulatory guidance emphasize the importance of having documented policies and procedures that clearly outline the financial close steps, timelines, and controls. These documents should also define roles and responsibilities to ensure accountability and consistency throughout the process.

Currently, the City has not developed written comprehensive policies and procedures (P&Ps) for the month-end and year-end close processes, which exposes the City to the following risks:

Financial Reporting Risks	<ul style="list-style-type: none"> ➤ ● Inaccurate or incomplete financial statements ● Misstated revenues, expenses, assets, or liabilities ● Delays in financial reporting and closing cycles ● Delays with financial audits ● Inconsistent application of accounting principles
Operational Risks	<ul style="list-style-type: none"> ➤ ● Inefficient and uncoordinated closing processes ● Increased likelihood of errors and omissions ● Lack of clarity in roles and responsibilities ● Duplication of efforts or missed tasks
Compliance Risks	<ul style="list-style-type: none"> ➤ ● Noncompliance with accounting standards (e.g., Generally Accepted Accounting Principles (GAAP) or Government Accounting Standards Board (GASB)) ● Failure to meet regulatory and audit requirements ● Increased risk of audit findings and penalties
Internal Control Risks	<ul style="list-style-type: none"> ➤ ● Weaknesses in segregation of duties and oversight ● Lack of documented evidence to support closing activities

Strategic and Reputational Risks

- Increased potential for fraud or misappropriation
- ● Loss of stakeholder confidence due to unreliable financial information
- Negative impact on decision-making due to inaccurate data
- Damage to the City’s reputation and credibility

Although comprehensive, formalized P&Ps for the month-end and year-end close processes are currently lacking, interviews with key employees in the Finance Department indicated that close processes are functioning effectively in practice. The Finance Department demonstrates strong oversight and control over the close process, which is largely attributed to consistent and clear communication channels established with all participating departments. This collaborative approach helps ensure that necessary tasks are coordinated and completed timely.

Furthermore, the Finance Department leverages the capabilities of Munis, specifically the Month End Manager feature, to streamline and manage the month-end close process efficiently. This technological support enhances accuracy and accountability by providing structured workflows and tracking mechanisms.

Interviewees also emphasized that communication among departments involved in the year-end close is well-maintained, fostering a cohesive environment that supports the successful completion of closing processes. Despite these positive indications, as highlighted in the first finding of this report, our ability to substantiate these assertions through testing was limited. The requested documentation necessary to corroborate the effectiveness of the close processes was not provided, which restricted our capacity to fully evaluate the controls and procedures in place.

Although the P&Ps do not need to standardize every aspect of the month-end and year-end close processes, the City should develop written comprehensive P&Ps in this area that include the following key elements:

Purpose and Scope	➤ Define the objectives of the close processes, including ensuring accurate, timely, and consistent financial reporting across all departments.
Roles and Responsibilities	➤ Clearly outline the roles and responsibilities of all employees involved in the close process, including department heads, Finance Department employees, and management.
Close Calendar and Deadlines	➤ Establish a detailed schedule with key deadlines for each step of the month-end and year-end close, ensuring all departments adhere to consistent timelines.
Close Procedures	➤ Document step-by-step procedures for completing the close, including journal entries, reconciliations, accruals, and adjustments. The City should include references to the Month End Manager document and New Fiscal Year Checklist for detailed procedures in these areas.
Review and Approval Requirements	➤ Specify the review and approval process for all close activities, including who must review and sign off on supporting documentation.

Reconciliation Requirements	➤ Detail the requirements for account reconciliations, including timelines, documentation standards, and resolution of discrepancies.
Documentation and Record Retention	➤ Define the types of documentation required to support the close process and establish retention policies to ensure audit readiness.
Use of Technology and Tools	➤ Describe any systems or software (e.g., ERP systems like Munis) used to facilitate the close process and how they should be utilized.
Training and Communication	➤ Outline training requirements for employees involved in the close process and communication protocols to keep all stakeholders informed.
Continuous Improvement	➤ Include a process for periodic review and updates to the close procedures to incorporate best practices and address any identified issues.

B. Lack of Formal Review Process and Documentation: Medium Risk

2. Finding	There was no evidence of review and approval for the June 2024 Utility AR Aging report, as well as for the City-wide Cash Reconciliations for September and December 2024, which increases the risk of errors and potentially impacts financial reporting accuracy and audit readiness.
Recommendation	The City should develop comprehensive Utility Billing and Collection and Cash Reconciliation policies and procedures that establish clear requirements for tracking, reviewing, and approving the Utility AR Aging report and Cash Reconciliations. These policies should mandate documented evidence of reviews and approvals, define responsible personnel and review frequency, and include controls for timely follow-up on overdue accounts to ensure accountability, compliance, and enhanced financial oversight.

In accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework, evidence of reviews should be properly documented and retained to ensure a clear and reliable audit trail. Documented reviews also help to ensure that the work being reviewed was performed completely and accurately.

During our testing of the June 2024 Utility AR Aging report—which summarizes outstanding customer balances by the length of time they have been overdue, helping the City monitor and manage collections—we found no evidence of review and approval. Additionally, we noted that the City-wide Cash Reconciliations for the months of September and December 2024 also lacked evidence of review. These deficiencies likely exist because the City had not established or enforced standardized procedures to document and retain evidence of these reviews, possibly due to oversight or reliance on informal practices

The absence of documented evidence of reviews for both the Utility AR Aging report and Cash Reconciliations exposes the City to risks such as:

Inaccurate Financial Reporting	➤ Without proper review documentation, errors or discrepancies in AR or cash balances may go unnoticed, leading to misstated financial statements.
Increased Risk of Fraud	➤ Lack of oversight and documentation can create opportunities for unauthorized adjustments or misappropriation of funds.
Audit Findings and Compliance Issues	➤ Failure to retain evidence of reviews may result in negative audit findings and noncompliance with internal controls or regulatory requirements.
Reduced Accountability	➤ Without documented reviews, it is difficult to hold individuals accountable for the accuracy and completeness of financial reports.
Impaired Decision-Making	➤ Incomplete or unreliable financial data can negatively impact cash flow management and strategic financial decisions.

The City should develop and implement comprehensive Utility Billing and Collection and Cash Reconciliation policies and procedures that clearly define how AR and cash balances are tracked, reported, reviewed, and approved. These policies should include detailed guidance on the preparation and regular review of the Utility AR Aging report and City-wide Cash Reconciliations, specifying responsible employees review frequency, and documentation requirements for approvals. Additionally, the procedures should establish controls to ensure timely follow-up on overdue accounts and outline how review evidence is retained to support accountability and audit readiness. To ensure effective implementation, the City should provide training to all relevant employees on these policies and monitor compliance regularly. This holistic approach will strengthen financial oversight, improve accuracy in reporting, and reduce risks related to errors or fraud.

C. Requested Documentation Unavailable: Low Risk

3. Finding	The City did not provide select requested documentation in a timely manner for this internal audit. In addition, one of the two most recent tabletop exercise documents was not provided, which limited the effectiveness of the internal audit.
Recommendation	The City should ensure that documentation to support financial activity is readily available for audit. In addition, the City should review the missing tabletop exercise documentation (if it exists). If the City cannot locate this documentation, procedures should be implemented to ensure all required financial and control documentation is properly maintained and readily available for audit purposes.

The COSO Internal Control Framework highlights the importance of maintaining adequate documentation within its components of Control Activities, Information and Communication, and Monitoring Activities. However, beyond these general guidelines, the primary concern for the City is

ensuring the retention of all records that support its financial activities. This comprehensive recordkeeping is essential to comply with federal regulations, fulfill specific grant requirements, and support the City’s external audit process. Maintaining thorough documentation is critical for demonstrating compliance, ensuring accountability, and facilitating reliable financial reporting.

To assess the City’s financial close controls, we requested the supporting documentation for a variety of financial transactions, activity, and reports. Initially, the City was unable to provide documentation for the following:

- The support for, including documentation of required approval, 20 journal entries selected for review
- Monthly P-card transaction reports for the months of July and November 2024
- Bank reconciliations for the months of September and December 2024
- Quarterly Financial Performance Reports for the first and second quarters of fiscal year 2025
- Fiscal year 2024 year-end close checklist
- Documentation of the two most recent tabletop exercises

Given that a significant portion of our testing requests were outstanding, we initially rated this a High Risk finding. After we provided the initial draft report to the City in August 2025, they were able to provide all of the above documents in October 2025, aside from documentation for one of the two most recent tabletop exercises requested. The tabletop exercises are designed for the City to test its disaster recovery plan to help ensure that all City data (including financial data) is recoverable during an outage.

The absence of readily available documentation exposes the City to risks such as:

Incomplete Audit Evidence	➤ The absence of key financial documents limits the ability to perform comprehensive testing and verification, potentially leading to incomplete, delayed, or inaccurate audit conclusions.
Weaknesses in Internal Controls	➤ Missing documentation indicates potential deficiencies in recordkeeping and internal control processes.
Noncompliance with Policies and Regulations	➤ Failure to maintain and provide required documentation may result in noncompliance with internal policies, grant requirements, or regulatory standards.

The absence of documentation for one of the two requested tabletop exercises limited our ability to perform comprehensive testing and review related to the tabletop exercise procedures.

Going forward, the City should ensure that documentation to support financial activity is readily available in the event of an audit. In addition, the City should ensure that it has the documentation for the tabletop exercises requested throughout this internal audit. Next, the City should review the

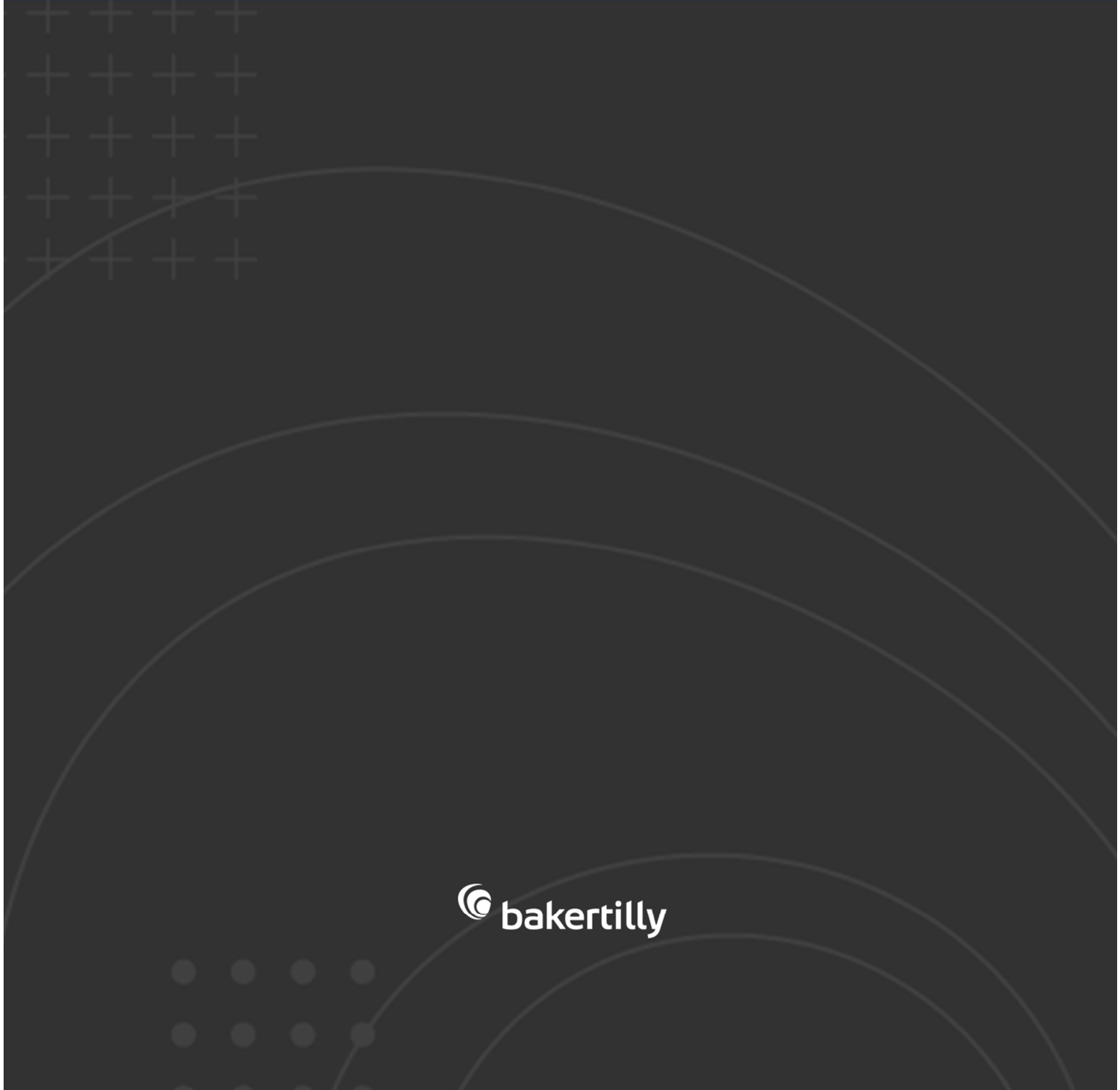
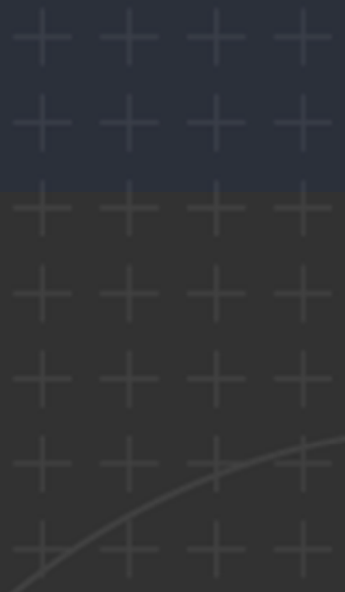
tabletop exercise documentation to ensure it is complete and that there is evidence of review and approval from an appropriate employee.

If the City cannot locate the documentation, then the City should establish and enforce procedures to ensure that documentation is properly maintained and made available promptly for audit purposes.

To properly retain control information and documentation and ensure that documentation is readily available in the event of an audit, the City should consider the following best practices:

Establish Formal Policies and Procedures	➤ Develop clear, written policies and procedures that define what documentation must be retained, the retention periods, and the responsibilities for maintaining and safeguarding records.
Compliance with Legal and Regulatory Requirements	➤ Ensure retention policies align with federal, state, and local laws, as well as grant and funding agency requirements.
Standardize Recordkeeping Practices	➤ Implement consistent formats and centralized systems (electronic or physical) for storing control documentation to facilitate easy retrieval and organization.
Define Retention Periods	➤ Specify minimum retention periods for various document types, often ranging from three to seven years or longer, depending on statutory requirements and audit needs.
Secure Storage and Access Controls	➤ Protect documentation from unauthorized access, loss, or damage through secure storage solutions, including encrypted digital systems with backup and disaster recovery plans.
Employee Training and Awareness	➤ Provide ongoing training to employees on documentation retention policies and procedures, and the importance of compliance.

By implementing these best practices, the City can enhance internal controls, support regulatory compliance, and promote effective financial management and governance.



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