



Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS CONFERENCE ROOM
FEBRUARY 2, 2011
2:00 PM

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:

JANUARY 5, 2011
5. MEETING WITH THE CITY MANAGER AND CITY ATTORNEY, REGARDING RESOLUTION CREATING AUDIT COMMITTEE AND OTHER QUESTIONS REGARDING AUDIT COMMITTEE'S PROCEDURES, DUTIES AND RESPONSIBILITIES
6. SUB-COMMITTEE REPORTS:
 - A. Status report from sub-committee on initial meeting with the external auditor
 - B. Other sub-committees reports
7. DISCUSSION OF AMERICAN INSTITUTE OF PUBLIC ACCOUNTANTS (AICPA) AUDIT COMMITTEE GUIDELINES
8. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT
9. OLD BUSINESS
10. NEW BUSINESS
11. OTHER MATTERS FROM THE COMMITTEE
12. NEXT MEETING DATE:
 - A. Next meeting scheduled for March 2, 2011
13. 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.

SUMMARY OF ACTION
AUDIT COMMITTEE MEETING
February 2, 2011

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**MINUTES OF THE
MEETING OF THE
CITY OF SANTA FE AUDIT COMMITTEE MEETING
City Councilors Conference Room
February 2, 2011**

1. CALL TO ORDER

A regular meeting of the City of Santa Fe Audit Committee was called to order on Wednesday, February 2, 2011, at approximately 2:00 p.m., by, Chair Deborah Moll, in the City Councilors Conference Room, City Hall, Santa Fe, New Mexico.

2. ROLL CALL:

MEMBERS PRESENT:

Chair Deborah Moll
Maurice A. Lierz
Randy Randall
Clark de Schweinitz

MEMBERS EXCUSED:

Hazeldine Romero-Gonzales

OTHERS ATTENDING:

Kathryn Raveling, Director, Finance Department
Richard Mares, Internal Auditor
Teresita Garcia, Finance Department
Geno Zamora, City Attorney
Robert Romero, City Manager
Judie Amer, Assistant City Attorney
Melessia Helberg, Stenographer

There was a quorum of the membership in attendance for the conducting of official business.

NOTE: All items in the Committee packets for all agenda items are incorporated herewith by reference. The original Committee packet is on file in the Finance Department.

3. APPROVAL OF AGENDA

MOTION: Randy Randall moved, seconded by Maurice Lierz, to approve the Agenda as published.

VOTE: The motion was approved unanimously on a voice vote;

4. APPROVAL OF MINUTES – JANUARY 5, 2011

The following corrections were made to the minutes:

Page 1, Members Present, correct as follows: Clark Crocker de Schweinitz

MOTION: Maurice Lierz moved, seconded by Randy Randall, to approve the minutes of the meeting of January 5, 2011, as amended.

VOTE: The motion was approved unanimously on a voice vote.

5. MEETING WITH THE CITY MANAGER AND CITY ATTORNEY, REGARDING RESOLUTION CREATING AUDIT COMMITTEE AND OTHER QUESTIONS REGARDING AUDIT COMMITTEE'S PROCEDURES, DUTIES AND RESPONSIBILITIES.

Chair Moll thanked the City Manager and City Attorney for attending the meeting. She said the Committee would like clarification on items and issues as follows:

- *The background of the enabling Resolution and the duties of the Committee, understanding part of the purpose is to oversee audits, financial reports and these kinds of things.*
- *To what degree should the Committee be involved in procurement.*
- *To what degree should the Committee be involved in investigations.*
- *What is the role of the Committee in the event of fraud.*
- *Is this a committee which simply reviews the audit to see what the Committee might see that is lacking and bring that to the attention of the Finance Department so they could see that it was remedied.*

Mr. Lierz said he believes the Committee ultimately reports to the City Council in coordination with the City Manager.

Mr. Zamora said the language in the enabling Resolution talks about the advisory capacity of this Committee which is more of a review and advise function. And as you review and advise, you have the ability to review, revise, raise flags, make recommendations and report to the City Council.

Mr. Zamora said the genesis of this Committee is based on a presentation by State Auditor to the Council and County Commission about six months ago in the County Chambers. It was a presentation on managing finances and preventing fraud and waste within the respective City and County. One of the recommendations was to form an audit committee of independent members, so, in the event of fraud or abuse, there would be another group of eyes to review transactions and raise a flag(s). He said this Committee is one of the new, good government measures implemented by the Council.

- *Mr. Randall asked, since this is an advisory committee, does the committee incur any liability for its actions, if they miss something.*

Mr. Zamora said there are two answers. One, the Committee has no authority to make decisions, and it only reviews and recommends. Secondly, as members of the Audit Committee you are "public officials," which brings you under the City's liability, and there is no individual liability, and any official liability, if any, you might have would be covered by the City.

- *Chair Moll said the Committee had questions about the Open Meetings Act which requires all meetings of the Committee be open to the public.*

Chair Moll said the Attorney General's Compliance Guide provides that if a committee is advisory it might not be covered by the Open Meetings Act. The Committee has concerns, because there may be times they need to look at confidential information and there is no exemption in the Act which would include Financial data.

Mr. Zamora said the City has ordinances which go beyond the scope of the State Statute which requires that all meetings of boards, commissions and committees are to be held in accordance with the Open Meetings Act. He said there are several advisory boards which are subject to the Open Meetings Act. He said he understands the distinction, having worked with the State which very specifically created advisory committees so they would not have to comply with the Open Meetings Act. He said he will work with the Committee to ensure compliance with the Open Meetings Act, as well as to look for sections which would apply regarding confidential review and determination meetings which may be held by this committee which would allow special sessions and provide for confidentiality of materials.

- *Mr. Lierz asked, if the subcommittees formed by the Committee would comply under the Open Meetings Act as long as there is not a quorum of the whole Committee in attendance.*

Mr. Zamora said that would be fine, since there isn't a quorum, no decisions would be made and the subcommittee would be reporting back to the Committee where a quorum of the entire membership could take action.

Mr. Zamora said, under the Open Meetings Act, there are delineated exemptions allowing the Committee to go into Executive Session, and there may be other ways to review any confidential financial and or investigative information in the possibility of fraud, where you need the opportunity to openly and freely review and discuss the information before going into open session to make a public decision. He said his staff will assist the Committee to ensure that the appropriate information is protected and that the information which should be public is made public information.

- *Mr. Randall asked what are the differences between the City Ordinance and the Open Meetings Act.*

Mr. Zamora said there are no differences. The Ordinance simply requires compliance with the Open Meetings Act and relies on the exemptions provided by the Act, and appropriate case law, but it does not add exemptions to the Act.

- *Mr. Randall asked, if there were to be concern in a particular department, anything to do with fraud, if this is to be brought to the attention of this Committee, not necessarily to take action, but just to advise the Committee.*

Mr. de Schweinitz said this isn't something the Committee necessarily is asking to do.

Mr. Lierz said, regarding 4(a) and (b), if those investigations are conducted by the internal or external, presumably this Committee would be advised through the written reports.

Mr. Randall said it would also be the timing of the information, and once it was a written report, the Committee would have no role to review and advise.

Chair Moll said the Committee had a lively discussion about this at the first meeting.

Mr. Zamora said, in reviewing Section 4, the duties and responsibilities, he doesn't see anything explicit regarding this Committee reviewing specific whistleblower complaints. However, under Section 4(e) "Review and make recommendations regarding the City's policies and practices and Internal controls," one thing this Committee is capable of doing is recommending additional responsibilities as you become more established. He said this Committee can make recommendations with regard to its role and scope, noting this Resolution can be amended by a future Resolution. He said this Committee can, in the short term, make recommendations through the City Manager on how to deal, generally, with whistle-blower complaints, and how those should be distributed, and what controls should be in place to ensure the complaint is investigated appropriately.

Mr. Zamora said, although this Committee can't act beyond the scope and role as currently defined by the Resolution without the City Council's authorization, it certainly has the authority to make recommendations for changes in its scope and its role.

Mr. Romero spoke about the City Audit and how it historically has been used and the evolution of the role of the Internal Auditor in this respect, and what role this Committee could play in terms of audit findings, allegations of fraud and other such issues.

The Committee discussed audit findings, whistleblower complaints, fraud complaints, allegations of wrongdoing, and other such complaints and issues, and who should have access, if any, to confidential information and when, and what the role of this Committee should be in the process of investigation, and other issues surrounding these kinds of complaints and allegations, and concluded as follows:

- The Committee is willing to play a role generally as a "sounding-board," and in advising the City Manager regarding certain situations without the need for the specific confidential information on the department or the person being disclosed to the Committee, in either a public meeting or in executive session at the discretion of the City Attorney and the City Manager.
- The Committee expressed some concern about being asked to comment on situations which are just unfolding and still unformed in terms of the nature, extent and parties involved, but on the other hand is willing to do so because the members want to be of value in an active advisory capacity to staff.
- The Committee can look at financial and audit situations and make recommendations, while the issues relating to personnel will proceed on a separate track.
- The Committee can look at the final audit and review what has been done to correct or remedy the findings, if any, and exceptions, if any, and make recommendations/suggest controls to remedy and/or correct these situations, and to avoid these kinds of findings and exceptions in the future.
- The City Attorney and staff will work with the City Manager and the Committee to preserve the confidentiality of the information and the employees.
- The Committee can look at how situations were remedied, after the fact, and comment and make recommendations to improve the process.
- In terms of the Internal Auditor, there should be a regular schedule of auditing, to pick up these kinds of things. The Committee could make recommendations in this regard.

Teresita Garcia said in the past, for example, the City has had an audit exception because it wasn't using the correct format, and the auditor suggested forming an audit committee to determine the risk factor, and then set goals and schedule audits. She said if we go back to that kind of plan it would satisfy the pronouncements in GASPE. She said the Committee could assist in this process.

Richard Mares said when he met with Hazel, they discussed the risk assessment and how that could be done and implemented in high risk areas in the City. He said that will be in Hazel's report as well.

Chair Moll believes the risk assessment process would be a systematic way to get at the issues, and avoid some of the associated personnel issues.

Ms. Garcia said the City has strong internal controls and believes that a risk analysis process would assist the City with issues that may arise in the future and generally for clarity and transparency in the financial process. She believes this is a worthwhile and most beneficial undertaking in the near future.

Mr. Romero suggested that Teresita Garcia and Richard Mares could work together to develop a draft risk assessment plan which they could bring to this independent Committee for its review and recommendation.

Mr. Randall agreed saying it would be good to use this Committee which is volunteer and independent to assist in this process.

Mr. Romero said he is very glad to have this Committee, as an independent, volunteer body, to review financial policy and procedures, and to make recommendations, as well as for him to be able to come to this Committee for its independent input in situations and issues which arise in terms of Finance.

Chair Moll said it is an extremely good idea to work on getting the risk assessment in place, which will give Mr. Mares guidance throughout the year.

Mr. Lierz said we're talking about a system of internal controls, and he is unsure if the City has those systems documented. If not, this should be done as a program. He said risk assessment is a secondary mode. He said a system of internal controls means that no one person controls a transaction from beginning to end without the intervention of another party at some point. He said tied with that as a system, that information can "float to the top of the organization without being stymied by different players in the organization." He said we may have to "back off, take the broad view." He said we do have a member who has been an internal auditor at State Environment, and there are programs which have been developed, although we haven't seen those. He said we should think of these as long term, but within a context, noting we are talking about sub-elements of that broader concept.

Ms. Amer said, if the City Code and/or policies don't adequately address this, it is a good long term goal to come up with some recommendations for policies and ordinances and go on to education, noting there is a whole training part which need to be done, not by this Committee, but by some of the staff. She said once the system of internal controls has been developed, it is important to communicate it to the very basic level of employees.

Mr. Lierz said he believes this Committee's role to make recommendations.

Ms. Raveling said there already is a lot of information on internal controls, which could be simplified into a check list and bring that to this Committee, and explain what they do in terms of internal controls. This Committee could then look at that checklist and process to see if there are any holes in the process.

Mr. Zamora said, "This all fits, starting with Robert's expressed desires of the relationship between him and the Committee, to now, would all pretty well fit within Section 4(e) of the Resolution to '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.'"

Mr. Lierz said as the Committee reviews problem areas, it can be done in the context of how to improve internal controls, if that's a problem.

Ms. Raveling said sometimes the staff is too close to something, and this Committee could serve as a third party.

Mr. Romero said when the audit is received, he wants to go to work on the audit findings and exceptions and be sure those things are resolved prior to the next audit. He said perhaps this report can be given to this Committee. He said his job is to take action as quickly as possible. He said as the Auditors are doing their work now, he would like them to let him know right away of any problem areas so he can start to resolve those by the time the Audit Report is issued.

Ms. Garcia said generally the external auditor does come in with findings, and this can be discussed as long as it's not a public record because of State Auditor rules.

Chair Moll said State DFA keeps tabs on things throughout the year.

Ms. Amer said, however, DFA "really doesn't have authority. It can advise and make recommendations... and only when they have really hard information and they don't have staff to do that and try to avoid doing that." She said there are a lot of complaints at State DFA which are referred to the State Auditor who writes a letter, and they may not get a letter back, noting that they publicize that they have a fraud investigating unit over there. She said in terms of procurement issues, DFA refers a lot to the Attorney General's Office who then says talk to the District Attorney's Office, and then the District Attorney says it is too busy, understaffed and can't do anything. She said this is a big issue at the State as a whole.

Mr. Romero said last year he asked the external auditors if they had problems with the City's Procurement Code, and they told him Santa Fe is one of the only cities in the State which actually has a procurement code and follows it. He said the City follows the Procurement "to the t," and has a very strong procurement office. He has been involved in procurement for about 10 years, first as Public Works Director and then as City Manager, and has been involved in "hundreds of millions of dollars worth of projects," and he knows for sure that we follow the Procurement Code.

Mr. Lierz said his understanding is that Santa Fe, as a Charter City, can do things differently.

Ms. Raveling said this is correct and this is the reason Santa Fe can have its own Procurement Code, which the City follows in lieu of the State Procurement Code.

Mr. Lierz said then everything we evaluate has to be done in terms of Santa Fe as a Home Rule Charter City.

Ms. Amer said this is true to a certain point, but the City can't contradict the State or be more specific.

Mr. Lierz said he understands a budget is filed with the Local Government Division of DFA, but the Local Government Division doesn't critique that budget.

Ms. Amer said this isn't true, because Local Government Division has to approve the budget, and certify that budget.

Ms. Raveling said she usually receive 5-7 comments or changes that Local Government wants to have done. She said the budget has to be in place each year by July 1st, and it is filed with DFA prior to that date.

Ms. Garcia said the LGD does review the City's cash balances to ensure compliance, for example, with reserves which are 1/12th of the budget, and if it didn't comply, the budget would come back to the City not approved. She said they do review the budget and send it back to the City for these kinds of adjustments.

Mr. Randall said then it is a technical review of the budget, but not as to how the City will be spending its money, and Ms. Raveling said this is correct.

Mr. Romero said in the past there has been a concern about the City's audit being submitted late, and he is trying to correct this. He said the external auditor said the City is in compliance.

Ms. Raveling said, technically, the deadline to submit the audit is September 1st. She said it takes two months to close the books for the previous fiscal year. She said there have been issues which have taken a lot of work.

Ms. Garcia said there also have been staffing problems, noting the City generates its own reports and ties that to all of the notes, which is a lot of work. She said the City also has gone into a new system and therefore had to redevelop the report. She said the City allows access to the system by the Auditors who can run their own lead sheets, and the staff doesn't have to do a lot of the work. She said they currently are in the process of completing the City's Audit, and have completed the SWMA and Buckman Diversion audits. She said staff now needs to provide the reports for those audits.

Ms. Raveling said they have been allowed to fill some essential positions during the hiring freeze.

Chair Moll noted that the City transfers money between divisions.

Ms. Raveling said this is true, noting they have a lot of budget adjustments.

Mr. Romero said the City receives funds from many sources, and how those funds are distributed depends on whether the funds come from the federal or state government, from GRTs or from fees.

Ms. Amer noted that Budget Adjustment Resolutions [BARs] must be approved by the State.

Responding to Mr. Lierz, Ms. Raveling said there are strict written policies governing the transfers of money between funds, noting there are two types of BARs.

Mr. Romero said, although he has the authority to approve up to \$50,000 in transfers, at least 5 signatures are required to permit that, commenting that he likes that so many people are looking at what is being done.

Chair Moll said it sounds as if the City has good controls.

Ms. Raveling said if there is a mistake, it can be corrected.

Ms. Garcia said the types of funds are identified by number sequence and the structure flags if it is going from one restricted fund to another, for example.

Chair Moll asked how the audit is done for the Buckman Direct Diversion [BDD].

Ms. Raveling said the Committee was given a copy of the BDD audit.

Ms. Garcia said the BDD isn't a separate agency from the City and is included in the Water Division and its expenditures are included in the Water Division – the BDD is owned by the Water Division.

Mr. Lierz said he received a draft of the external auditors report. He said his concern is whether we have a signed audit contract for June 30, 2010, for the BDD.

Ms. Garcia said she spoke with the State Auditor, because the City wanted to include the Buckman in the regular audit. However, because the audit as sent out for bid, didn't include the BDD, it can't be included in the scope of the work. She said once it is finished, the 2010 audit contract can be amended to include the BDD. She said next year when the contract is bid it can be included and it will be a part of the audit contract.

Mr. Lierz said he believes the City already is delinquent for a 2010 Audit for the BDD, and there is no contract.

Ms. Garcia reiterated that the BDD can be added to the scope of work for the City's 2010 Audit once the Audit is complete. She said there is a Buckman Direct Diversion Board which is aware of this situation.

Mr. Lierz told the City Attorney he thinks this is something which the City should expedite.

Mr. Romero said this will go to the City Council as quickly as possible, and Ms. Garcia said it needs to go first to the BDD Board.

Mr. Romero said he will attend meetings of this Committee when requested to do so.

Mr. Zamora said he also will attend meetings, however, Ms. Amer has been assigned to this Committee from the City Attorney's Office and she can attend the meetings or be on call at the discretion of the Committee.

Break 3:15 to 3:20 p.m.

6. SUBCOMMITTEE REPORTS

A. STATUS REPORT FROM SUB-COMMITTEE ON INITIAL MEETING WITH THE EXTERNAL AUDITOR

Mr. de Schweinitz said Ms. Garcia talked about using the audit exceptions as the basis of a risk assessment.

Chair Moll said there are two separate things. One thing is whether there would be a way to set up an internal audit procedure for the Internal Auditor, noting she understands before they would do that it would be necessary to do a risk assessment to see where the City is most vulnerable.

Ms. Garcia said previously when the risk assessment was done there were two internal auditors and everything was on track, but someone resigned and then Mr. Mares was assigned to areas which needed special problem solving.

Mr. Lierz observed that both the scheduled audits and special audits/investigations are needed. He said he believes this will be a three-year project.

Mr. Randall asked about the previous risk assessment which was done.

Ms. Garcia said yes, there is a procedure manual for determining the risk of internal control. She said the Internal Auditor look at areas of internal control, and determine whether it is a high or low risk, depending on the number of exceptions. She said to minimize the cost and make the internal audit of more value, the external auditors they look at the Internal Audit and determine how the Internal Auditor determines the risk factors, what is scheduled as risk factors and how many audits have been done. She said the external auditor depends on the Internal Auditor's risk factors to determine their audit, noting areas of high risk will be included as a part of their external testing. She said there is a document which will analyze the risk factor for planning purposes.

Responding to Ms. Raveling, Ms. Garcia said the current Audit Contract was bid for three years, and the City can extend the contract once for three years. She said after six years the City is required by the State Auditor to change auditors.

Mr. Lierz said the Committee has requested copies of the Audit Contract to try to understand it.

Ms. Garcia said the Audit Contract is with the State Auditor's Office. She said the City sends out RFPs, evaluates those, and submits their recommendation to the State Auditor. She said the State Auditor will then determine if the firm is in good standing, and if so, it will then evaluate the firm and its staffing to ensure sufficient and appropriate staff is available to do the Audit. She said very few firms submit proposals because the audit is so complicated and the City usually receives 1-2 from in-state firms and 1-2 from out-of-state firms. The current contract can have one three-year extension, and the State Auditor then requires the City to choose a different firm.

Chair Moll said her understanding is that the auditor has its own standards, terms and conditions for at least some of the contract.

Ms. Garcia reiterated that the contract is with the State Auditor and not with the City of Santa Fe, and the City can only recommend an auditor.

Mr. Lierz said the external auditor will first do an evaluation of the internal control then they will make their own decision as to whether they consider areas to be of higher risk, then tailor their examination independent of the City as to what they want to evaluate and how much. He said the audit has little or no relationship with the work of the internal auditor.

Mr. Mares said he does meet with the external auditor who asks him what he has been looking at, and then they will focus on some areas, and not on others.

Mr. de Schweinitz said he is trying to get clarification of the Committee's role in doing risk assessments, and what that will mean.

Ms. Garcia said some of the things Mr. Mares is talking about are mandatory based on the State Auditor's rules and compliance. She said federal funds as well as stimulus funds have their own compliance and internal control compliance. She said they go through the single audit to ensure that the City is in compliance. She said one of the most heavily audited programs is Transit which is federally funded, noting it is more than \$500,000, and they will do a financial and compliance audit of that Division.

Mr. Lierz said the Committee learned from the internal auditor that they are into the year ending June 30, 2010, and are hoping to conclude the audit by April 2011. He said last year, the audit wasn't concluded until July 2010. He understands they are working to provide a more timely audit.

Mr. Lierz said the City has taken the responsibility as the fiscal agent for BDD beginning in 2005. He said the City also handles the Waste Management project which he presumes is the "City dump."

Ms. Garcia said that is the Solid Waste Management Agency, which is a separate agency.

Mr. Lierz asked what that Agency does, and if it manages the landfill, and Ms. Garcia said yes.

Mr. Lierz said the Committee asked Internal Auditor the reason it takes so long for those audits, and he was told it was because the City had the responsibility for its main audit as well as for SWMA and the BDD. He said there should be a long term goal of having these audits on a timely basis and what it will take to do that.

Ms. Raveling said it is done as an efficiency, otherwise the auditor would have to hire additional auditors. She said the City already has auditors on staff.

Mr. Randall asked if the City is compensated for this, and Ms. Raveling said yes.

Chair Moll asked if SWMA is a joint powers agency with the County and Ms. Raveling said yes.

Mr. Lierz said the BDD is a joint powers agency.

Ms. Garcia said the difference between SWMA and the BDD is that SWMA is a separate entity and has its own federal ID, PERA plan and such.

Ms. Raveling said the City is sort of like the bookkeepers for SWMA.

Mr. Lierz said in the report, for example, the City can charge an administrative fee of 1%.

Ms. Garcia said that hasn't been finalized.

Mr. Lierz said last year almost \$100 million was spent, and 1% of that is about \$1 million which the City could charge. He said the question internally is if there are staffing problems there is funding, and it is a matter of allocation. He said the City has the heavy burden of these two programs, in addition to the basic City function, which takes City time and may be slowing-down the total process of being able to get the City Audit Reports filed with the State Auditor's Office by December 25th.

Ms. Garcia said the audit delay two years ago was because the City did a major upgrade to its system, moving from J.D. Edwards to a web based system. She said part of the conversion was to upload the information and verify the moving of the files which took a lot of staff time. Part of the upgrade involved redoing the reporting requirements and to be sure they rolled up, that the hierarchy was done in the same way they do the financial statement, all of which took 3-4 months because it was done in-house. She said they already have set up the template and they can now run the reports. She said this is the second year they have worked on this system.

Ms. Garcia talked about the BDD. She said when the BDD JPA was negotiated, it did not identify a funding source for the capital budget, so they are in negotiation on the 1%, based on the capital budget. She said BDD is hiring a Financial Manager to assist in preparing the Financial Statements and to do the job costing and accounting for both the City and the County. She said they hired someone, but they haven't hired the Financial Manager which has left some of the burden on the City. She said the BDD has hired an accounting firm, but most of the burden is still on the City because it maintains its own financial statements and funding. She said the BDD is complicated because it is not a truly independent cost or

entity, and is a facility shared by the City and the County and included in our capital assets which is an infrastructure. The operating costs will be split based on the respective water usage, and they will bill the City, so all costs have to be split so they can be included in the cost of the City's Water Division as a water resource and water revenue, and the County does the same on its side. She said the expenditures are audited by the external auditor at both the City and County level, so they are included in the external audit. She said all we have is a construction audit.

Mr. Lierz said it is a construction audit through December 2010. He read in the paper that the BDD is now operational as of January 2011.

Ms. Garcia said it is still a capital project, because the only cost that is operational is the cost of personnel, but it is still being tested and is still in the construction stage.

Mr. Lierz said the problem is, because the auditors are trying to complete the City audit by April 2011, they still have to come back and audit BDD for last year. He asked the objectives for next year, and said this Committee will want the City to have the annual audit completed by Christmas for the following year. He said this hasn't been discussed by the Committee, but he believes that would be a desire.

Ms. Garcia said if the City can include the BDD as part of its audit as part of its ordinary work. She said they are familiar with the City's system and can audit it at the same time as the City. She said they audited the 2002 expenditures to determine the cost of construction, because at that time the City was already putting funds into the infrastructure, but there was no Joint Powers Agreement for the BDD until 2005. She said they had to go back to 2005 and determine what costs the City had and the costs the County had, to come to the total cost of the project.

Chair Moll asked if the City has always been the fiscal agent for the BDD.

Ms. Garcia said the BDD project began in 2002, and the County had its expenditures and the City its expenditures. She said based on the available funding, it was determined it would be more beneficial if the City and County asked for the funding jointly, because as separate entities they couldn't get grants or loans, so funds were given to the City as the fiscal agent. She said there are expenditures from 2002-2005 as the City's expenditures toward the Buckman. She said a JPA was signed in 2005 between Las Campanas and the County. She said once the construction is complete, the BDD will go into an operating contract where the City as fiscal is responsible for project accounting billing based on water usage, noting they currently are working on a system to do the project accounting.

Ms. Raveling said the position for BDD has not been filled, but it has been advertised, and hopefully will be filled soon.

Mr. de Schweinitz noted the BOR sold the 5,000 afy of water rights to the City, and the City has been paying fees to the BOR for at least 30 years. He asked if the County will be paying the City something for this.

Ms. Garcia said there are prepaid water rights which the City is using which are in the Financial Statement. She said there also are the Jicarilla prepaid water rights. She said the City has these listed in its assets statement. She said this becomes complicated because the City has to separate the assets and include it as part of the Water Division. The County has to include what it contributed in its financial statement. She said it isn't recorded in the BDD because it is included in the City's audit, noting it is under construction and only the facility is being audited, but the water rights are under the City, so the City records the prepaid water rights in its financial statement and in the annual audit.

Chair Moll asked if the Committee can suggest ways to deal with this issue, so it doesn't delay the audit.

Ms. Garcia believes we can get back on track once we have fine-tuned the financial system, and once the construction project on the BDD is completed. She said the audit does "take a lot out of us," because the City has to reconstruct the information. She said the delay was in the beginning when the entities were sorting out responsibilities and the City became fiscal agent.

Chair Moll said once there are separate funds then there will be funds to hire staff.

Ms. Garcia reiterated that the contract doesn't include paying the City 1% of the capital funds for serving as fiscal agent – that was never agreed upon. She said the contract provides for payment of 1% of the operating budget, which hasn't started. She said, based on the contract, there is no fiscal agent allowance for the City to pick up that responsibility, and reiterated that currently is being negotiated.

Ms. Raveling reiterated a position was approved to do the accounting, and that position was filled, but the person quit after two weeks.

Responding to Mr. Randall, Ms. Raveling said even if the City is paid, it is a lot of work, and we probably need two positions to do the work.

Mr. Lierz said if you lose staff it creates a void, but the City still has the fiscal agent responsibility.

Mr. Lierz asked if the Committee was provided with a copy of the SWMA audit.

Ms. Raveling said that audit is complete and she can provide a copy to the Committee.

Mr. Lierz noted the assumption of these two entities has put an undue burden on the Finance staff.

Mr. de Schweinitz said it appears the City is working on the risk assessment to identify problem areas.

Mr. Lierz said auditors change their evaluation year to year, so it isn't a cookie-cutter approach.

Responding to Mr. de Schweinitz, Ms. Garcia said the Police overtime was moved into a new system which is more accurate, and the union had requested a special audit on the Police Union time sheet. She said that has been placed on hold.

Mr. de Schweinitz said he was speaking about the article in the paper about the payment of overtime which was in Public Safety – Fire and Police – and the auditor had looked at it, but hadn't realized it was a public issue.

Mr. Lierz said there are 4,000 acres of land in the balance sheet, but it isn't broken down. He said the City has 2,500 acres in the Northwest Quadrant which is somewhat of a "rainy day" account. He said that acreage is surplus to the basic function of the City, but it isn't shown on the balance sheet. He said this should be a material disclosure of fact in a foot note.

Ms. Garcia said the value of the land is shown. She said when GASPE34 came into play some years ago, it required the City to record the value of all assets.

Ms. Raveling said the City had to value all of its streets and land.

Ms. Garcia said this has to be included in what GASPE considers government-wide statements which accurately reflects all of the City's capital assets and debt ratio.

Ms. Garcia said if it wasn't included as historical cost, and if there was none, it is included at the estimated value which was accepted by GASPE, and there was a separate formula to determine that valuation. She said it is necessary to tie the value of the assets to the debt for a debt to asset ratio. She said those asset statements were submitted to GFOA for the certification award and were accepted.

Mr. Lierz would like the value of the 2,500 acres to be provided to the Committee.

Responding to Mr. Randall, Ms. Garcia said they don't update the value, and have to record the historical cost.

Ms. Raveling said otherwise, the City would be spending a "fortune" on appraisals every year.

Mr. Randall said it seems as if there should be a reasonable update of the schedule of assets.

Ms. Garcia said when the City purchases land or real estate for the infrastructure of the City, it is recorded at the historical cost or the anticipated purchase price. She said, for example, when the City purchased the College of Santa they found out, based on the rules, if the City holds the land for resale, we can't report it for more than we anticipate receiving for it from Laureate which has first option to purchase. She said there are accounting principles and guidelines as to how the City can record its capital assets to insure we don't inflate our financial statement for bonding purposes.

Responding to Mr. Lierz, Ms. Garcia said the percentage of the State's unfunded liability for the PERA footnote is determined by the State Auditor.

Mr. Lierz said that, however, in his mind that doesn't mean it is full disclosure.

Mr. Lierz asked the unfunded liability for the City's health care.

Ms. Garcia said because the City is not in control of the State PERA, all we have to do is to disclose it, noting PERA has its own audit. She said, with regard to the health care, the City has an actuarial that we do every year, and they do report the "incurred but not reported liability" in the Financial Statement based on the actuarial we receive.

Ms. Raveling said that's really for someone who might have an illness we don't know about, and for open claims.

Mr. Lierz said there is no disclosure on the water rights in the financial statements, noting there is about 15,000 afy of water. He said there supposedly is a water debt as well, and none of these things are disclosed in the financial statements. He said the water rights have a lot of value. He said when we get to the point of wanting to talk to the water manager, he believes the Committee will want some summarized information with regard to exactly what the City owns.

Ms. Garcia said the water rights are separated in the fixed assets.

Mr. Lierz said he is speaking of financial statement footnote disclosure. He said he isn't arguing about the value in the in the balance sheet, he is speaking of footnote disclosure of water rights and any water debt.

Chair Moll asked if he is saying it should just be in a footnote.

Mr. Lierz said he would like an expansion of the water rights footnote. He said before we can even understand, we probably need a presentation to the Committee by the City's water manager or staff.

Chair Moll said Brian Snyder is supposed to attend the March Committee meeting.

Mr. Lierz said we will need to put together a tickler list of items that we would like them to address, saying he can work with staff to develop a series of questions for fact items that we would like to have accumulated.

Ms. Garcia said, with regard to the detail on the water rights, they did this before GASPE changed the reporting requirements, and they made them take out a lot of the detail the Committee is requesting.

Ms. Raveling said they still can have someone talk to the Committee about this.

Mr. Lierz wants to know what is disclosed and where it is disclosed. He said the water rights are such a material thing to Santa Fe in terms of where the City stands and what it possesses. He said he is under the rules of full disclosure of material fact, whether dollars, events or economic situations, which is the reason he is addressing this.

Ms. Raveling said she can speak with Brian about a report on the water rights.

Mr. Lierz said she should wait, because they haven't had a chance to discuss this as a Committee.

Chair Moll said staff can email the issues to be brought to the Committee, and she can prepare a list of topics. She said, although water rights are very important, there are other issues with regard to capital items that should be disclosed.

Ms. Garcia said those could be included as a supplemental schedule. She said she isn't arguing about that, but when they submit the CAFR to the GFOA to be certified they don't want them in there. She said the State Auditor doesn't want them in there, and they will kick back the audit so they can be removed. She said there are auditor rules, they tell the City what to put in there. She said staff can get that information on special reporting for the Committee.

Ms. Raveling said the CAFR is very regimented as to what they want included, but they can get the information requested by the Committee.

Mr. Lierz said if she would get the information, the Committee can decide how "we would react to it."

B. OTHER SUB-COMMITTEE REPORTS

There were no other sub-committee reports.

7. DISCUSSION OF AMERICAN INSTITUTE OF PUBLIC ACCOUNTANTS (AICPA) AUDIT COMMITTEE GUIDELINES.

Chair Moll noted these Guidelines were sent to her by Hazel Romero who found them on the internet, and she sent them to the Committee, noting there are a number of guidelines for audit committees and what other people's responsibilities are to an audit committee.

Mr. Lierz said we can look at those and see if we want to recommend that the City amend its Charter.

Mr. Randall said some of this will happen over time as the Committee moves forward, and he doesn't think the Committee should ask for changes to the Charter right away, and we should wait and see how things "shake out."

Chair Moll said we need to look at these guidelines and pick and choose things according to what is in the Resolution.

Mr. Randall said he is comfortable after hearing from the City Manager and the City Attorney, commenting it will be interesting to hear from the Mayor as well. He said he wants to know if the Committee is fulfilling their expectations.

8. STATUS REPORT FROM CITY OF SANTA FE FINANCE DEPARTMENT.

Chair Moll said the status report basically are the materials Ms. Raveling provided, and asked if she has any new issues.

Ms. Raveling said she doesn't and will try to provide whatever information the Committee requests.

9. OLD BUSINESS

There was no Old Business.

10. NEW BUSINESS

There was no New Business.

11. OTHER MATTERS FROM THE COMMITTEE

There were no other matters from the Committee.

12. NEXT MEETING DATE

A. NEXT MEETING SCHEDULED FOR MARCH 2, 2011.

Mr. Randall said he will be out of town for the April meeting, but he will be attending the March meeting.

13. ADJOURNMENT

There was no further business to come before the Committee.

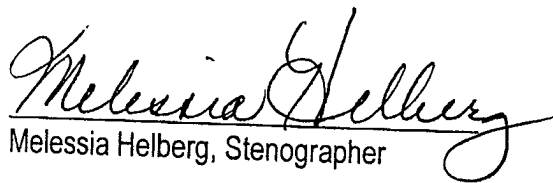
MOTION: Maurice Lierz moved, seconded by Clark de Schweinitz, to adjourn the meeting.

VOTE: The motion was approved unanimously on a voice vote, and the meeting was adjourned at approximately 4:30 p.m.

Deborah Moll, Chair

Reviewed by:

Kathryn L. Raveling, Director
Department of Finance


Melessia Helberg, Stenographer