



Agenda DATE 3/27/18 TIME 11:02a
PREPARED BY Celeste Valentini
APPROVED BY [Signature]

**CITY OF SANTA FE AUDIT COMMITTEE MEETING
CONVENTION CENTER ADMINISTRATIVE CONFERENCE ROOM
WEDNESDAY, APRIL 4, 2018
2:00 P.M. – 4:00 P.M.**

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. APPROVAL OF AGENDA**
- 4. APPROVAL OF AUDIT COMMITTEE MINUTES – MARCH 7, 2018**
- 5. GENERAL AUDIT MATTERS**
 - **Status of Comprehensive Annual Financial Report (CAFR) (Adam Johnson)**
 - **Internal Audit Outsource/Co-Source Discussion and Update**
- 6. OLD BUSINESS**
 - **Update on Status on Revised Committee Ordinance**
- 7. NEW BUSINESS**
 - **Review 2nd Quarter Financial Performance Report (Andrew Hopkins)**
- 8. PUBLIC COMMENT – (5 Minutes)**
- 9. NEXT MEETING DATE**
- 10. ADJOURNMENT**

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CITY OF SANTA FE AUDIT COMMITTEE

April 4, 2018

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

April 4, 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 Cheryl Pick Sommer, Vice-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:

Cheryl Pick Sommer, Vice-Chair
Barbara Borrego
Al Castillo
Carolyn Gonzales

Members Absent:

Clark de Schweinitz, Chair [excused]

Others Attending:

Andrew Hopkins, Senior Budget Analyst
Brad Fluetsch, Financial Planning and Budget Officer
Adam Johnson, Finance Director
Laura Beltran-Schmitz, CliftonLarsonAllen LLP [telephonically]
Renee Martinez, Deputy City Manager [arriving later]
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.

The Committee skipped the Agenda and Minutes approval to address the audit status first.

5. GENERAL AUDIT MATTERS

- **Status of Comprehensive Annual Financial Report (CAFR) (Clifton Larson Allen and Adam Johnson)**

Mr. Johnson called Ms. Beltran-Schmitz on the conference phone.

Mr. Johnson asked Ms. Beltran-Schmitz to update the Committee.

Ms. Beltran-Schmitz reported the updated draft was received yesterday and is being reviewed. Manual updates still need to be made to the notes received from Ericka and they have been going back and forth to make the corrections.

She is concerned the errors were not corrected in Caseware, because even though Erika is working on them, the more manual the process the more room there is to miss errors as they go through additional renditions.

Jeff is following up with Erika on additional expense questions on the last of the expense work and she is now going through the debt work. Their internal policy requires them to submit a "complication" for their second review team when they have restatements, and that requires additional time for the review process.

Everything is being pushed through the review process as fast as possible and the hope is to finish the end of next week but is more likely to be by the end of April. They will probably suggest sending a letter to the State Auditor, so they can avoid rushing through and missing errors in the review process.

Member Gonzales asked if the audit would be close to being finished in the next couple of weeks.

Ms. Beltran-Schmitz replied more likely it would be the end of April. The concern is there will be additional comments from Georgie and the second reviewers and some of this takes weeks to turn around. They want to ensure there is enough buffer to get through the entire process.

Member Borrego asked the deadline to the State Auditor and if Georgie had reviewed anything at this point.

Ms. Beltran-Schmitz replied April 13th is the deadline. Georgie has possession but has not yet reviewed the draft because it was not in good shape.

Vice-Chair Sommer inquired if extending the date required permission from the State Auditor.

Ms. Beltran-Schmitz explained they just send a letter. She would know by Friday whether to send the letter.

Mr. Johnson said Brad wanted Ms. Beltran-Schmitz to expand on her "*decent enough shape*" comment.

Ms. Martínez arrived at 2:09.

Ms. Beltran-Schmitz explained in the 12/29 version they had identified several challenges and issues and that took until March 14 to provide a new draft. The debt was not disclosed properly, key statements were lacking and reconciliations and no financial statements, etc. The March 14th version was the first full draft that included a whole version with NMBA and government wide and the stat section.

In the draft they found footing errors; schedules and notes disclosed in the footnotes and issues with debt that required modification to the debt note. That changed multiple statements because of how that rolls into other sections and there were a lot of changes.

Again, she and Erika have been going back and forth with the restatement notes and it was still not correct yesterday. That is a big piece because the process requires a second interview review. There were questions on the break out of intergovernmental revenue between federal, state and local sources required by the State Auditor and was not included, and the JPA schedule was lacking, and they just received that last week.

Mr. Johnson said the point was for everyone to understand that once you hand over the principal it should be complete and there should be no further back and forth. The City has not had this type of review before and now should be able to prepare for that in the future.

Ms. Beltran-Schmitz agreed. She explained Erika at times sent her things that were not in Caseware and she inserted manual pages in Georgie's work with notes of what needed updating, etc. If she had given Georgie the March 14th version knowing there were errors, she would have to review and reperform a review of the CAFR.

She is having to go through the entire review of the CAFR because things could change. She was not prepared for some of the detail included that turned out to be incorrect and she has corrected that and then gave it to Erika. Each time they receive a new draft they have to do a completely new review, Georgie must do a full review and before sending it to the second review process the draft must be a pristine chapter of the CAFR.

Ms. Beltran-Schmitz said this was discussed at length to prepare the City during the entrance conference. Considering the amount of restatements and financial reporting issues that have been identified and that the City might not be prepared, shows the need for this type of review process.

Mr. Johnson agreed.

Member Borrego asked if the testing and analytical work was finished.

Ms. Beltran-Schmitz replied she is still waiting for the expense analytics from Ericka and the debt because the last version was not correct.

Member Borrego confirmed it was a matter of reviewing everything for the presentation after that.

Ms. Beltran-Schmitz agreed and to make sure their documentation met their reviewer's standards etc. She reviews other team members work and Jeff does the same, but they have to go through everything and drop in new notes when things change in the CAFR, which is time-consuming.

Member Borrego asked at what point she would say no more changes.

Ms. Beltran-Schmitz replied she may have to push that back on the City. They know Casework does

not have everything and is why she has been receiving manual updates. If they have to do manual insertions, there are changes and questions from their side. Then Georgie has questions and comments and Jeff has questions and comments. There cannot be a report date until they go through the entire process, which involves their second reviewer.

Vice-Chair Sommer asked what caused the need for changes; were they not necessitated, or testing revealed the problem.

Ms. Beltran-Schmitz replied that was part of the reason. She posted several journal entries between December 29 and March 14 and when looking at the debt note with the 3/14 version she identified one bond with an incorrect amount.

That had to be changed and there were three additional journal entries around March 15 related to debt that had to be fixed and run through the governmental wide statement. She did not expect having to re-audit the work when things changed.

Member Gonzales asked if she had to restate prior year numbers.

Ms. Beltran-Schmitz replied that the City identified two restatements - one related to for GRT and another for franchise fee revenue.

Member Castillo asked on the proposed adjustments for long-term debt why that takes so long. He could not understand the delay.

Ms. Beltran-Schmitz said she would like to believe his question was directed at the City because she could not answer that. She added that she had informed the City about the debt changes she received on March 14 on the same day, but she did not receive the updated draft until the 3rd of April.

Mr. Fluetsch said the City has been very responsive, but there were a multitude of changes that took a couple of weeks to get done. In the debt entry, there were journal entries made on March 15th, but they cannot produce a new CAFR for one change.

He explained that journal entries are made to the accounting system and that is where changes are made. Ericka identifies the changes made, tracks them through the accounting system manually and adjusts the journal entries that are affected in Caseware.

Mr. Johnson indicated that was not his understanding of the purpose of Caseware. The intent was for changes to be made in E1 (the accounting system) and mapped over to the Caseware to produce the financial statements. He did not know the reason for the holdup but the Caseware was not implemented to allow that process.

He thought Staff believed it more efficient or less resistant, to fix the error in E-1 and then in Caseware rather than to track it.

Member Borrego asked when saying they are "*manually correcting*", how do they do that.

Mr. Johnson explained Caseware (the report-writing software) can act as accounting software where journal entries could be done and that was the manual correction. He questioned Staff and thought they were doing corrections in Excel because they understood that program and then found a way to recreate the same thing so Caseware would put out the same result. Caseware is not doing what he envisioned it would if it had been properly implemented.

Member Borrego asked Mr. Johnson regarding his statement that he did not understand the software, who does understand it.

Mr. Fluetsch responded at this point it is Erika.

Vice-Chair Sommer asked if Erika spent all of her time on this.

Mr. Fluetsch said she does and Emily works with Erika and the two are the primary staff working with Caseware.

Mr. Johnson said in the last meeting he mentioned he thought City Staff was dependent on the previous auditors to do their financial statements even though that was not in their contract. He had been told the City did its own financial statement and took that on face value. Part of the lesson is to push sooner rather than later to see if people need help.

Ms. Beltran-Schmitz agreed. The auditors should maintain independence and ensure their clients understand and are capable of doing the financial statement. CLA understands the City probably had more help in the past, but they have to maintain their independence.

Member Borrego thought too much reliance was placed on one person- Erika and without her where would they be.

Vice-Chair Sommer asked at what point the auditor would say the numbers do not reflect financial activity and why do they continue to try to make the numbers work.

Ms. Beltran-Schmitz said they could have said that in December, but it would have meant they had to disclaim the City's report.

Member Borrego said it seems to keep dragging on and is more frustrating than in December. She thought the City could say they do not want to go any further.

Ms. Martinez replied they should make that decision and amend the contract.

Mr. Johnson agreed but added there are necessary transactions that need to take place and it should be closer to the engagement because the City wants to get this across the finish line.

Ms. Beltran-Schmitz pointed out if the City said they did not want to change this or to go any further, they would not have a clean opinion for the City CAFR.

Mr. Johnson indicated he trusts the opinions of the auditors who have done this work for a long time.

Member Borrego asked when Ms. Beltran-Schmitz would get to that point.

Ms. Beltran-Schmitz replied currently their findings indicate some account balances they are not comfortable with that were included under the financial reporting process. So, they have gotten to that point and are no longer testing them.

There will be a modified opinion on the capital assets in the findings because they stopped testing the capital construction and process work in December, as well as the asset observation. So, they do make those decisions and have discussed them with the City – Emily, Erika and Mr. Johnson in November. Those were included in the draft findings and that section will be modified.

Vice-Chair Sommer asked the implication of that.

Member Castillo said they are seeking an unqualified opinion and that is incumbent upon the City and Staff to get to an unqualified opinion. Several components made this a unique year – the media, sideline reports, new personnel, new auditors; all of which weighed upon the process.

He added had they kept the auditors from last year there would not have been some of the training issues. He thought they should stay the course and the Committee was more interested that the City get a CAFR as soon as possible, but if they have a chance to get unqualified opinion they should.

They need a little more time - maybe 3 days or 10 days and it might be worth it.

Vice-Chair Sommer asked if they were they healing themselves by getting an unqualified opinion for the following year or if this is a black mark they could never get out from under.

Mr. Johnson stated from a management perspective there are two important things - the process does not repeat as far as lateness - or is a more reasonable lateness. There are a lot of findings and the City has been working on that. They have a new Controller to lead the process, and hopefully they will learn the Caseware. They are currently testing a different report writer instead of Caseware and they need to have that briefing.

Mr. Fluetsch added in FY16 and 17 the City refunded six bonds and paid off 2 loans at NMFA, and two of the six bonds were rolled into four. The City has different methods to exact percentage, some round up throwing off the balance. And the journal errors must be booked and then un-booked.

Mr. Fluetsch indicated he is writing new debt accounting procedures and Staff has learned a lot. They have also sought help from their municipal advisor and have asked the auditors for help. Debt has been a big problem.

Member Gonzales thought the two systems had created inefficiencies and possibility more room for errors and that should be looked at and minimized and consolidated so they could move forward and run their own financials.

Mr. Johnson agreed. The intention of the software was to map it and that goes back to a clear understanding of the categorization and how financials are supposed to be built. He found prior auditor spreadsheets that show rather than understanding the effect of the change they just follow the steps.

Member Borrego agreed they do not want to put out something incorrect, but they are at the end of the new fiscal year. She asked how this would not happen again and what happens behind the scenes to create the issues; who would oversee fixing those in the next audit.

Mr. Fluetsch replied that would be him.

Member Gonzales asked how he anticipated fixing the issues.

Mr. Fluetsch explained he was just made the Financial Planning and Reporting Officer and will be working on the budget, the General Ledger and the CAFR. He has talked with Staff who work on the CAFR about meeting to dissect what went wrong this year.

He performed a lot of the debt work and the E-1 would allow him to code in three different business units for the same enterprises and they need to eliminate many of the problems allowed by the system. Also, there are strange naming conventions, such as GRT sometimes called *gross receipts*, sometimes *gross receipt tax*, etc. that causes problems when aggregating data and things to be missed.

The idea for Caseware was to upload from E-1 into the Caseware where everything is mapped. The information should just be there, but it is not and that needs to be fixed. They will evaluate the continued use of Caseware and are also looking into working with Open Gov data who would like to be the City's CAFR provider.

Ms. Martínez noted having a built-in integration would probably be an advantage.

Mr. Johnson added they also have new members of the team and a new Controller.

Mr. Fluetsch said they have started on next year and Erika, the Senior Financial Analyst met with her Staff today. An issue was the CPA Federal and State grants and now each has their own line item.

Teresita used to do the work and Erika was her right-hand person and they will have a succession plan. The new Controller will be focused on the General Ledger and the hope is to eliminate the reconciliation problems and have a pristine E-1 with the first upload to Caseware, etc.

Mr. Johnson added in previous years there was a support team to the CAFR and they licensed everyone, so they could contribute. Somewhere it became difficult for everyone to work on it and only a couple were doing the work. In regard to Erika being the only one; that happened since the breakdown this year.

Ms. Beltran-Schmitz informed them regarding the report date, if the auditors finish after Mr. Johnson's departure she would need to know the plan for who would sign the new representation letter.

Mr. Johnson thought they had discussed that in December.

Ms. Beltran-Schmitz said if Mr. Johnson was no longer with the City who would be prepared to sign the representation letter.

Mr. Johnson indicated in the past the City Manager and the Finance Director signed it and the interim could sign it with the City Manager.

Ms. Beltran-Schmitz stressed she would need to know in his absence, other members of the management who are willing to sign and accept the information in the letter.

Mr. Johnson offered to walk the appropriate people through the letter.

Ms. Beltran-Schmitz signed out of the conference at 2:48 p.m.

3. APPROVAL OF AGENDA

MOTION: Member Castillo moved to approve the agenda as presented, seconded by Member Gonzales.

VOTE: The motion passed by unanimous voice vote with Members Borrego, Castillo and Gonzales voting in favor and none voting against.

4. APPROVAL OF AUDIT COMMITTEE MINUTES - March 7, 2018

MOTION: Member Castillo moved, seconded by Member Gonzales, to postpone the minutes of March 7, 2018 until the next Committee meeting.

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

Member Gonzales asked about the transition to complete the audit when Mr. Johnson departs.

Mr. Johnson replied Mr. Fluetsch is working with Ericka and the team to take the audit to completion.

- **Internal Audit Outsource/Co-Source Discussion and Update**

Member Borrego indicated based on the conversation at the last meeting she had talked with a firm from Albuquerque and needs to get back with them on what the Committee would like them to discuss. She wondered if they would be bringing them in for no reason and with the new administration if they are still looking at external audit outsourcing.

Member Castillo thought the Committee had agreed that should be an option.

Ms. Martínez said she wanted to provide information for the Committee to consider. She explained Liza Kerr had given her resignation and her last day would be Friday. The Committee may want to consider if they want to recommend having staff on the Committee or if they should outsource for a while and revisit the issue after a year.

Vice-Chair Sommer suggested the Committee have the presentations and ask their thoughts on co-sourcing or outsourcing completely. The Committee could then make a recommendation to the Finance Committee and possibly the Governing Body. She thought Councilors would appreciate the Committee gathering information and the Committee could make a formal recommendation by mid-summer, etc.

Member Borrego indicated she sent members an email about what they would look for in a presentation which was much like what Vice-Chair Sommer mentioned. She offered to follow up on the other two companies.

Member Gonzales noted she received an email from one company that goes through a rigorous process and the City did not pass, but she will follow up with the other company.

Vice-Chair Sommer said this is the information gathering stage and they are not ready to make a decision about a firm. She suggested an official from the County, etc. come to talk with them.

Member Gonzales said they need to see what is available in the form of an internal audit pool.

Ms. Martínez offered to post the search and look at other on-line forums.

Vice-Chair Sommer thought posting was premature because they do not know if the City wants an internal employee or to outsource.

Member Gonzales said it is more urgent now because they were not going to have someone for several months.

Member Castillo asked Ms. Martínez what the City Manager's office preferred and if they want to outsource, or if they care.

Ms. Martínez replied there was no strong opinion either way, but they did want the Committee's recommendations and are open to different models and there is an ordinance that allows both.

Member Castillo pointed out they tried one system with limited success, maybe they should try the other system.

Member Gonzales added they could try a co-source. She asked Mr. Johnson his opinion.

Mr. Johnson thought co-sourcing was ideal. The City needs a strong internal audit function. He hoped

over time the Internal Audit Department could handle the activity, but in the beginning, they need to access resources and the use of an external team.

Mr. Johnson suggested they not delay the search for a strong internal auditor or they could expand the department if there is a budget because the organization is too large and complex.

Also, as part of the final reorganization to the Finance Department he has created an Assurance and Compliance Officer position to act similar to an internal auditor. Their main responsibility would be to implement and apprise risk assessments.

With both of those working in conjunction with an external auditor they could help each other. His concern is he would not want the process for an RFP for a co-source. That adds time and even if done in July and fast-tracked, the contract would happen in October at the earliest.

Vice-Chair Sommer asked if posted, how quickly they could get applicants.

Ms. Martínez explained a minimum posting is ten days to give people time to apply.

Vice-Chair Sommer thought there could be a response by the May meeting and they could see the type of people that apply.

Member Gonzales noted a friend in Denver thought co-sourcing was the best because someone is onboard who knows the system and with a focus on projects. They could look at the caliber of employee they would get and go from there.

Ms. Martínez offered to get the position posted and welcomed members recommendations on where to post.

Mr. Fluetsch pointed out the Finance Department has two major positions posted - the Finance Director and Controller. He was concerned about posting an internal auditor because of the image.

Vice-Chair Sommer added currently they do not know who would be leaving because of the transition of the Mayor.

Member Gonzales believed the internal auditor is different than the finance positions and they are two different types of individuals. She suggested posting but not under Finance.

Ms. Martinez added in other organizations the position reports to the Mayor's office to be independent. She thought the position is currently classified but they could look at best practices.

Member Gonzales asked if they look at co-sourcing, who would request the funds for an individual and for the outside firm.

Mr. Johnson explained it would go through a process and end up in the City Manager's office.

Ms. Martinez offered to make a note regarding the budget.

Member Borrego asked if the internal auditor request would be for a full or part-time position.

Member Gonzales replied it would be full-time plus an outside firm because it gives more transparency and resources and an outside firm could do specific projects. She suggested the entire May meeting be used to discuss the potential options.

6. OLD BUSINESS

- **Update on Status on Revised Committee Ordinance**

Vice-Chair Sommer noted the ordinance had been pulled from the Finance agenda and Member Castillo had raised the issue of whether there should be involvement between the Committee and the Mayor.

She mentioned that when meeting with Councilor Harris and the City Attorney and they did not think that appropriate, but Councilor Rivera brought up the issue and asked the same question at the Finance Committee and the answer was the same. There is no mandate between the Mayor and the Committee and it would remain with the manager.

Member Castillo added as the most prominent, the Mayor could visit/interact whenever he wanted, and the ordinance does not need to specify that.

Vice-Chair Sommer stated the need to work on the operational procedures; not to write them down but if they go forward with the internal auditor they could ask for a spot at the table.

7. NEW BUSINESS

- **Review 2nd Quarter Financial Performance Report (Andrew Hopkins)**

Member Castillo asked the difference between the quarterly Financial report and a Performance Report.

Mr. Hopkins indicated it is a report on revenues and expenditures, for its tax revenue performance as well as the investment portfolio, etc.

Mr. Johnson added this is unaudited financial performance, not financial statements and is audited out of the system on a cash basis.

Member Castillo described his understanding of performance was setting certain goals/targets and that dove-tails into finances.

Mr. Fluetsch explained on investments, financial statements are the balance sheet income statement changes in cash flows. The performance report on the investment part tells how well the investments are doing relative to a benchmark, a peer group etc. and measures how it performed; its ROR primarily.

Mr. Fluetsch continued when he thinks about budget performance or GRT i.e., it is: how the GRT is coming in relative to what their expectations were - the budget; and is the economy performing to the same extent as forecasted; and are they collecting more GRT, or less. That is a measure of the performance of the economy.

Mr. Johnson added he would let Mr. Hopkins review the revenues, however their revenue assumptions are essentially holding – the City is receiving what they thought.

Member Gonzales mentioned she would like to see that identified and an unaudited and cash basis first.

Mr. Hopkins agreed.

He continued that regarding the general revenue and expenditures, it was as expected on the revenue side. The revenue side of the GRT – their most important revenue source – had a moderate 2% increase over budget expectation although a few like the Gasoline Tax is slightly below. Property Tax is performing over expectation.

The expenditure side for all funds is generally below budget expectations for a variety of reasons. Of note is the budget has been tightened and salaries and benefits are running close to projections. They are exceeding revenue expectations and below expenditure targets which is a good sign of fiscal health.

The General Fund is the same story and a few areas like Franchise Taxes are below, but the GRT, the most significant revenue source is right at or slightly above target.

The expenditure side is about the same but tighter than the General Fund and coming in at 2% below budget.

Mr. Fluetsch reported on the investments noting the reports go back to June 2015. Page 12 shows the composition of the portfolio changed and they stopped using savings accounts and are using Money Market Funds. The ROR picked up substantially after September 16 and that was a savings account that was moved into the Wells Fargo Trust Investment Prime Money Market Fund, a robust asset mix that is not limited to government securities only.

That helped their return interest income move up and when the Federal Reserves raised rates five times in 18 months, the securities interest rate goes up and the City earns more.

The blue line measures the change in market value.

Mr. Fluetsch said he and Mr. Johnson and Christine meet regularly and want to keep a low duration. Since September 2017 interest rates in the two-year Treasury went up 1% and the portfolio has gone down

exactly one half of a percent. They are trying to minimize the huge swings in market value but want to capture as much of the new higher interest rate as possible.

The next chart maps the total return yield (red line) and market value changes for the portfolio.

Member Castillo asked if CDs are like bank deposits and the statute required collateral.

Mr. Fluetsch explained the New Mexico statute requires a minimum. The State Treasurer rates about 60 Banks and an A rated bank requires only 50% collateral; a B rated must have 75% collateral, etc. Most of the banks the State does business with are A rated.

Another statute requires any CD to have an equivalent yield of a Treasury Bill.

Mr. Fluetsch (page 14) noted the interest earned by month compared to the two previous fiscal years. The bottom compares the capital market value changes for the current fiscal year to the previous two fiscal years.

Chart 16 is the average U.S. Treasury and since September shows higher returns. The chart at the bottom of 15 combines interest plus change in market value.

The next chart compared performance. The most commonly used benchmark for governmental entities with 5-year maximum maturity is the Bloomberg 1-3-year Government Index and they include the 1-3-year Aggregate Index that includes a broader range of credit.

He reviewed the cumulative return for short duration and noted they are catching up to the benchmarks and are between .3 and .75 and performed as interest rates went up because they had not lost as much.

Page 17 shows the maturities range.

There are three Money Market Funds: Black Rock, JP Morgan and Fidelity and to a lesser extent the Wells Fargo Government Fund that acts as their sweep account.

They are invested in agencies – the two largest are Federal Home Loan Bank and Federal Farm Credit. City policy dictates they not to be concentrated and they try to keep a balance.

CDs are at the Guadalupe Credit Union, the State Employees Credit Union and the First National Bank of Santa Fe now called Sunflower Bank.

They changed the investment policy from looking at interest rate risk from the number of days to maturity to duration. They have provided duration and the weighted average days to maturity.

They do not see a reason to change their investment strategy at this time but would reevaluate the strategy if there are signs of a recession and extend duration because they would expect the Federal government to stop extending rates.

Vice-Chair Sommer asked on page 21 about total portfolio value and par value.

Mr. Fluetsch explained the securities par values is the number of units owned at any given point.

Vice-Chair Sommer noted that page 16 shows how they are doing compared to the benchmarks. She asked if the report compared last year to this year.

Mr. Johnson pointed out the chart on page 14 compares to the last two years.

Mr. Fluetsch noted page 15 has the total returns and how the portfolio is performing.

Mr. Johnson added people are generally interested in how much money the City is making in investment income. That is on page 14 on the chart: The City's investment position, performance, efficiency, proper allocation and all have all been significantly improved since Mr. Fluetsch joined the City. As his first act he and Mr. Fluetsch and Christine rewrote the policies and from there minimized the swings in the market value while maximizing interest.

Mr. Fluetsch explained this year the City budgeted \$5.5 million versus last year 470k dollars.

Vice-Chair Sommer asked Mr. Fluetsch if he would still do this in his position as Financial Planning Officer.

Mr. Fluetsch replied he would but added it has been an informal committee with Christina and Mr. Johnson and himself and they generally agree on the primary factors for investing.

Vice-Chair Sommer asked about the Lodgers' Tax Audit contract award of \$180k to CLA that was approved at the Finance Committee and if all of that was for the Lodger's Tax.

Mr. Johnson confirmed that would all be for Lodger's tax for FY16/FY17.

Vice-Chair Sommer expressed her surprise when hearing that because she thought the fee was much lower. She asked if they would be doing something different than Barraclough because their fees had been much lower when they did the Lodger's Tax audit.

Mr. Johnson explained their proposal was not that high but after adding everything that was needed it caused it to be higher.

Vice-Chair Sommer wondered if the process would change. She stated she did not agree with the process for the Lodger's Tax audit the way it had been done. The City identified 30 properties whose names they gave to the auditors who then contacted them for information. If the property failed to respond there was nothing you could do and if they did respond that was reported.

She thought it was a lot of money for the audit if the process had not changed.

Mr. Johnson said he would not disagree. The Genesis went back to the way the Lodgers' Tax

ordinance was written, but he thought the process would not be much different. The City will send a letter and Clifton will contact them. The Lodgers Tax audit is required by State law.

Member Castillo thought the contract should be relevant to the amount they expect to receive from the audit; the amount that can be recovered versus how much it will cost the City.

Vice-Chair Sommer said they should hire someone to scour the web, etc. and match to the permits.

8. PUBLIC COMMENT


There were no public comments.

9. **NEXT MEETING DATE** - The first Wednesday of May (9th) at 2:00 p.m.

10. ADJOURNMENT

The meeting was adjourned at 3:44 p.m.

Approved by



Clark de Schweinitz, Chair

Submitted by:



Carl Boaz for Carl G. Boaz, Inc.