



Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS CONFERENCE ROOM
JANUARY 5, 2011
2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. Presentation by representatives of the Finance Department regarding organization of department, city funds and overview of governmental accounting.
5. DISCUSSION ITEMS
 - A. Tasks and methodology for City of Santa Fe Audit Committee
 - B. Designation of City of Santa Fe Audit Committee's Vice Chairperson
 - C. Role of sub-committees for the City of Santa Fe Audit Committee
 - D. Review of City of Santa Fe 2009 Comprehensive Annual Financial Report
 - E. Review of status of 2010 Audit
 - F. Review of Role of City of Santa Fe Internal Auditor
 - G. Meeting dates and time
6. ACTION ITEMS
 - A. Designation of City of Santa Fe Audit Committee's Vice-Chairperson
 - B. Designation of City of Santa Fe Audit Committee sub-committees
 - C. Requests of the City of Santa Fe Finance Department
 - D. Designation of regular meeting dates and time
7. OTHER MATTERS FROM THE COMMITTEE
8. ADJOURNMENT

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OF THE

AUDIT COMMITTEE

MEETING

January 5, 2011

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MINUTES OF THE
CITY OF SANTA FE
AUDIT COMMITTEE

Santa Fe, New Mexico

January 5, 2011

The meeting of City of Santa Fe Audit Committee was called to order by Deborah A. Moll, Chair at 2:00 p.m. on this date at the City Hall, City Councilors Conference Room, Santa Fe, New Mexico.

Roll Call indicated the presence of a quorum for conducting official business as follows:

MEMBERS PRESENT

Deborah A. Moll, Chair
Hazeldine Romero-Gonzales
Maurice A. Lierz
Randy Randall
Clark Crocker de Schweinitz

MEMBERS ABSENT

None

STAFF PRESENT

Kathryn Raveling, Finance Director
Richard Mares, Internal Auditor

OTHERS PRESENT

Jo Ann G. Valdez, Stenographer

APPROVAL OF AGENDA

Mr. Randall made a motion to approve the Agenda as published. Ms. Romero-Gonzales seconded the motion, which passed unanimously by voice vote.

**PRESENTATION BY REPRESENTATIVES OF THE FINANCE DEPARTMENT
REGARDING ORGANIZATION OF DEPARTMENT, CITY FUNDS AND
OVERVIEW OF GOVERNMENTAL ACCOUNTING**

[Copies of the Basic Summary of the City Finance Accounting Concepts (*Exhibit A*) were distributed.]

Ms. Raveling reviewed the Summary as follows:

- All city financial reporting is required to be done as “fund accounting” in contrast to regular business operations accounting.
- All city funds require an approved budget. Numerous budget adjustments are done throughout the fiscal year. New budgets and budget adjustments over \$30,000 require Finance Committee and City Council approval.
- Standards exist for generally accepted accounting principles. (GAAP).
- Accounting standards for governmental accounting is set by GASB (Governmental Accounting Standards Board). Ms. Raveling explained that GASB puts out regulations that mandate how the City does its reporting.
- Fiscal year is July 1 – June 30.
- Types of Funds
 - a. General Fund (Fund involves finances under major city departments i.e., Land Use; Public Works)
 - b. Special Revenue Funds (grants, special purposes)
 - c. Debt Service Funds (Bond payments)
 - d. Capital Projects
 - e. Permanent Funds (endowments)
 - f. Proprietary Funds
 - i. Enterprise Funds (Business-like operations-depreciation)
Ms. Raveling said that the Water Company is probably the strictest enterprise fund the city has because they collect payments from water customers. She said the city has a lot of hybrids, for example, the Genoveva Chavez Center receives a tax increment from gross receipts taxes-the cost of operations is not solely based on the rates-it is supplemented with gross receipt taxes.

Chair Moll asked if the city had internal enterprise funds; ones that would pay for program support or something like this.

In response, Ms. Raveling said yes, the city does these types of transfers. She said this could certainly be another presentation. She continued with the summary.

- ii. Internal Service Funds (Insurances)
 - g. Fiduciary Funds (trust funds)
 - h. Agency Funds (custodial-offset by a liability)
- Modified Accrual Basis-the way the city accounts for these things.
 - CAFR (Comprehensive Annual Financial Report)

Ms. Raveling said that the Committee members should have received copies of the City's Vision Plan and the CAFR (Comprehensive Annual Financial Report). She mentioned that the Committee may be interested in other documents: Investment Policy; Procurement Manual; Inventory of Assets of \$5,000 per asset; Fixed Assets Manual and Reports can be run in a multitude of formats.

The following comments from the Committee were offered:

- Chair Moll asked what the Department of Finance and Administration's involvement was.

Ms. Raveling said they are not directly involved with the city; however, they have a good mutual working relationship with them and they use their resources.

In response on whether or not the city has to submit their budget to the local government, Ms. Raveling said yes, they have a deadline of December 1st to submit their budget to them. However, it has been a long time since the city has submitted their budget by the deadline, mainly due to the fact that the city is short-staffed. The city also submits an amended budget to them throughout the year.

- Who does the city's audit and when is the anticipated due date for the 2009 audit? A company out of Albuquerque (Atkinson) does the audits and they have already started working on the 2009 audit.
- Is there a separate audit report for the Buckman Diversion Project; for the Santa Fe Solid Waste Management Agency and for the Housing Authority? Ms. Raveling said it is her understanding that there would be separate audit reports but she offered to clarify this. The Committee would like to get copies of the separate audit reports. Ms. Raveling noted that there is no audit for the Buckman Diversion Project, as of yet.

- With regards to the Buckman Diversion Project- there was a statement about transfer of city assets but this does not seem to be accounted for. Concern was expressed about the rules of full disclosure with regard to material facts. The Committee would also like to see copies of the 5-Year Plan for the Buckman Diversion Plan.

Ms. Raveling said the external auditors would also be willing to attend a meeting in the future, if necessary.

DISCUSSION ITEMS

a. Tasks and methodology for City of Santa Fe Audit Committee

Chair Moll said that the Committee may want to discuss how they will approach the city. She asked if there will there be written reports to make recommendations; and how does the Committee see themselves functioning.

The following comments were offered:

Mr. Lierz referred to Section 4 of the Resolution that lays out what the Committees' focus is. He understood that the Committee has a joint reporting responsibility to City Council and to the City Manager; and the Committee will also deal with internal control. He asked if there was an organizational structure in place where "bad news" could float to the top – so that those responsible could presumably take action. There is also no formal way to bring forward tips of any wrongdoing (whistleblowers).

- Transparency - in how procurement procedures are done is another factor.
- A question was asked as to whether or not there was an Audit Committee in the past and what was the background for creating this Committee. Ms. Raveling said it began with the issues with the County and a particular vendor. To date, the city has *not* done anything inappropriate but the City wanted the public to be assured that they are fully transparent and have nothing to hide. The City Manager also met with the State Auditor to see if he had any recommendations and one of the recommendations was that the City look at having an audit committee.
- A question was asked as to whether or not the Committee members have any liability and are they covered under the City's insurance plan. Ms. Raveling offered to check on this.
- If the Committee has a legal question does it go to the City Attorney directly or to the staff liaison? Mr. Crocker de Schweinitz referred to the Resolution noting that the Finance Director is the staff liaison and she would take questions to the City Attorney. Chair Moll asked if they could have an attorney appointed to the Committee. Ms. Raveling will check with the City

Attorney and said that there is nothing that prohibits the Committee to go directly to the City Attorney.

- Mr. Randall referred to Section 3 noting that the Committee shall advise to the City Manager and Governing Body regarding financial audits and investigations and related policies and procedures. He asked if the Committee would be notified of all investigations and if there are any investigations being conducted currently.

In response, Mr. Mares said that he is presently working on an audit on the Senior Services Division. He explained that there may be ongoing investigations but they are primarily personnel matters. There are presently no ethical investigations being conducted. It was agreed that Ms. Raveling would be the source of information for the Committee (and not the media).

Mr. Lierz asked who would have primary responsibility (within city government) for handling investigations. Ms. Raveling said it would depend on what type of investigation it was.

Chair Moll said the Committee would be acting in hindsight in looking at what has happened and would make recommendations on what could have been done better. She said she would be a little uncomfortable with the Committee getting involved with investigations.

Ms. Romero-Gonzales thinks that the Committee should be aware of any investigations being conducted and kept abreast as to how the city is taking care of it. Also, the Committee could look at policies and procedures and what may have gone wrong with the policies and procedures.

Mr. Randall suggested that the Committee get some clarification on this from the City Manager.

Mr. Lierz thinks that the Committee should meet with the City Manager, the City Attorney and the Mayor, together or separately, to deal with this issue and to hear what their expectations are. Ms. Raveling will try to schedule the City Attorney, the Mayor and the City Manager to attend a meeting. She did not know if they could all attend at the same time.

Mr. Crocker de Schweinitz thinks the Committee has a right, as a Committee, to set the tone as to what they want. He did not think that the Committee should spend that much time on investigations.

Chair Moll noted that some things are confidential and questioned whether or not the Committee wants the responsibility of maintaining confidentiality or to even know about confidential matters.

b. Designation of City of Santa Fe Audit Committee's Vice Chairperson

Mr. Crocker de Schweinitz nominated Randy Randall as Vice Chairperson. Ms. Romero-Gonzales seconded the nomination.

(Action was taken further down on the agenda.)

c. Role of Sub-committees for the City of Santa Fe Audit Committee

Chair Moll said she was thinking that the Committee could create subcommittees that would be assigned different tasks to them.

Mr. Lierz said in looking over the packet information, one thing that concerned him was the lack of reconciliation of the city's major cash account. He said he understood that the Finance Department lost an employee; but he would have made this a priority. He asked if the city is still having problems in reconciling the cash account and is the account reconciled every month.

Ms. Raveling said it is reconciled every month; therefore this problem has been addressed. She explained that it is hard for staff to keep up and to keep things up to date, and again it is a matter of being short-staffed due to the budget shortfall. She said another factor is the learning curve for a new employee because of the complexities, etc.

Mr. Lierz asked how the city audits their computer system.

Mr. Mares explained that they do not have the talent in-house to audit the computer system.

Mr. Lierz said there are the finances and there is internal control and when there is limited staff, they should try to get better use of the accounting computer system.

Mr. Mares noted that he monitored the Accounting System when it was first implemented and many of the issues they were having with the computer system have been addressed.

Mr. Lierz said there are two elements here: 1) How to audit the new accounting computer system - they could have a contract with an outside firm to do independent computer system reviews if they do not have someone in-house to do it. 2) Also, does the city have back-up systems in the event of a crisis-can the city open for business the next day, for example point-of-sale computers like the one at the Recreation Center.

Ms. Romero-Gonzales noted that one of the items in the Audit Report said that the last time the computer controls were amended was in 2003. She said the Committee could try to find out if the external auditors are reviewing this as part of the Financial Audit.

Mr. Lierz said the Committee could take this responsibility and have some kind of dialog with them to have a better understanding on whether or not there are policies and procedures in place for the new computer system.

Ms. Romero-Gonzales mentioned that there was also an issue with Parking Division doing bank reconciliations and making sure that deposits are clearing properly. She asked if this is being taken care of also.

In response, Ms. Raveling said that Sevastian Gurule, the interim Parking Division Director is working on this.

Mr. Lierz suggested that there be a third subcommittee that would deal with procurement policies; and a fourth subcommittee that would work with the Water Division to look at what we are doing; better understand the water debt; what is the economic financial implications and whether or not we need all these rate increases. He recommended that the Committee get a copy of the 5-Year Plan for Water for the city/county joint venture-the Buckman Diversion project.

In response, Ms. Raveling said they could invite someone from the Water Division to attend a future Committee meeting. Mr. Lierz offered to work with Ms. Raveling on this and report at the next meeting.

At this point in the meeting, Committee members were introduced and provided a brief history of their backgrounds.

d. Review of City of Santa Fe 2009 Comprehensive Annual Financial Report
This will be done through a subcommittee.

e. Review of status of 2010 Audit

Ms. Raveling reported that the auditors have started the 2010 audit.

f. Review of Role of City of Santa Fe Internal Auditor

Mr. Mares was asked if he had a job description. Mr. Mares said yes and offered to have a copy for the next meeting. He explained that there is also an Ordinance that references the internal auditor and offered to have a copy of this also for the next meeting. He noted that his role and duties are directed by the City Manager. He said that they try to address and correct issues that come up immediately and reports are provided on how the issue/finding was addressed. The report identifies the response (s) to the findings. Mr. Mares noted that his services are used in many areas and there have been times when he was called upon to manage financial affairs of certain city divisions in the past.

Mr. Lierz asked Mr. Mares if there was any communication between him and the external auditor; and do they have access to his audit reports. Mr. Mares said yes, in fact, he met with him approximately 2-3 weeks ago and reviewed some concerns. He explained that his audit reports are considered "draft reports" until they are approved by

the City Manager; and he has to provide a status report on the findings before the report is finalized. He said that many times the findings defined in the audits have been addressed by the time the reports are finalized. He explained that his work as an internal auditor is used as a management tool to improve operation.

g. Meeting dates and time

The Committee will meet on the first Wednesday of the month at 2:00 p.m. The next meeting is scheduled for February 2, 2011 at 2:00 p.m. The following meeting was scheduled for March 2, 2011 at 2:00 p.m.

ACTION ITEMS:

a. Designation of City of Santa Fe Audit Committee's Vice Chairperson

Mr. Randall accepted the nomination that was made above.

Chair Moll designated Mr. Randall as the Committee's Vice Chairperson.

b. Designation of City of Santa Fe Audit Committee sub-committees

The following motion was made:

Mr. Lierz moved that the Committee initially set up three subcommittees:

1) Mr. Lierz and Mr. Crocker de Schweinitz will be one subcommittee. This subcommittee will review the 2010 Annual Audit and report back to the Committee. The members will have a dialog with the external auditor before the next meeting.

2) Ms. Romero-Gonzales and Mr. Randall will be another subcommittee. This subcommittee will work in conjunction with the Internal Auditor.

3) Chair Moll and Mr. Randall will be the third subcommittee. They will review the Procurement Manual and its status.

Mr. Randall seconded the motion. The motion passed unanimously by voice vote.

c. Requests of the City of Santa Fe Finance Department

All requests of the City of Santa Fe Finance Department will go through the Committee first. The Committee requested the following items from the Finance Department by the next meeting:

- 1) Copy of Internal Auditor Job Description
- 2) Procurement Manual
- 3) Water Plan and Financial Report

d. Designation of regular meeting date and time

There was consensus of the Committee to meet on the first Wednesday of the month at 2:00 p.m.

OTHER MATTERS FROM THE COMMITTEE

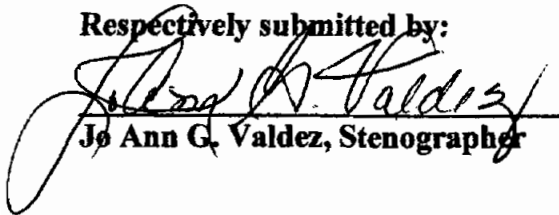
There were none.

ADJOURNMENT

There being no further business to come before the Committee, Mr. Crocker de Schweinitz moved to adjourn, second by Mr. Lierz, the meeting adjourned at 4:30 p.m.

Deborah Moll, Chair

Respectively submitted by:



Jo Ann G. Valdez, Stenographer