



Agenda

CITY CLERK'S OFFICE

DATE 2-25-11 TIME 2:00

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

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES
FEBRUARY 2, 2011
5. MEETING WITH THE BRIAN SNYDER, DIRECTOR, CITY OF SANTA FE PUBLIC UTILITIES DEPARTMENT REGARDING BUCKMAN DIRECT DIVERSION (BDD) PROJECT
6. SUB-COMMITTEE REPORTS:
 - 1) Internal auditor
 - 2) External auditor
7. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT
8. OLD BUSINESS
9. NEW BUSINESS
10. OTHER MATTERS FROM THE COMMITTEE
11. NEXT MEETING DATE:
 - A. Next meeting scheduled on April 6, 2011.
12. 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.

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OF THE

AUDIT COMMITTEE

MEETING

March 2, 2011

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MINUTES OF THE
CITY OF SANTA FE
AUDIT COMMITTEE MEETING

March 2, 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 in the City Councilors Chambers, City Hall, 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

MEMBERS ABSENT

Clark de Schweinitz, excused

STAFF PRESENT

Judie Amer, Assistant City Attorney
Rick Carpenter, Public Utilities Department
Teresita Garcia, Finance Department
Kathryn Raveling, Finance Director
Richard Mares, Internal Auditor
Brian Snyder, Director, City of SF Public Utilities Department

OTHERS PRESENT

Jo Ann G. Valdez, Stenographer

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.

APPROVAL OF AGENDA

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

APPROVAL OF MINUTES: February 2, 2011

The following changes were made to the Minutes of the February 2, 2011 meeting:

Pages 5, 15 and 16, "*GASPE*" was changed to: "*GASB*"

Page 12, top paragraph the word "Internal Auditor" was changed to: "*External Auditor*".

Mr. Randall made a motion to approve the Minutes of the February 2, 2011 meeting as amended. Mr. Lierz seconded the motion, which passed unanimously by voice vote.

MEETING WITH BRIAN SNYDER, DIRECTOR, CITY OF SANTA FE PUBLIC UTILITIES DEPARTMENT REGARDING BUCKMAN DIRECT DIVERSION (BDD) PROJECT

Chair Moll welcomed Brian Snyder.

Mr. Snyder noted that Mr. Carpenter is the Project Manager for the BDD.

Chair Moll said she invited Judie Amer, the Assistant County Attorney to answer any questions the Committee may have. She said some issues have been brought to the Committee's attention with regard to the BDD Project Audit Report.

Mr. Lierz said the Committee understands that the BDD Project Audit has been completed for FY 2009 on June 30, 2009 but the audit for 2010 needs to be completed. He said, by normal standards, it is delinquent at this point. He asked how this would be addressed.

Teresita Garcia said currently they are trying to amend the contract to include the BDD Audit with the State Auditor to piggyback on the City's contract. She explained that they have to go out to bid for the 2011 audit and they will be visiting the State Auditor, who will give them the rules.

Mr. Lierz asked if the Board of the BDD has to approve the selection of the auditor.

In response, Ms. Garcia said the City is the Fiscal Agent of the BDD Project; and therefore they are responsible to assure that an audit is done on the BDD; and the expenditures of BDD are audited at both the County and City levels. She said they have a construction audit and based on the contract, it is mandatory that the City also have an operating audit done, to ensure that the costs are distributed correctly. They have submitted the contract amendment - to include the 2010 audit - for approval.

Mr. Lierz asked if they are waiting for City Council's approval.

Ms. Garcia said yes.

Chair Moll asked if the construction audit was a 2-year audit.

Ms. Garcia said yes, it was a construction audit and most of the construction costs were in 2008. This was the first audit; so it includes all costs on the project for the City since 2002. The Auditor also asked the County to include their costs for the project.

Chair Moll asked if the County does its own audit.

Ms. Garcia said since the County is including all expenditures in their budget; and it is an asset to them; that cost is included in the overall audit. The County's external auditors audit the expenditures. There are three audits done: the County's; the City's; and the third audit is done on the BDD costs to make sure that the amounts are allocated correctly.

Mr. Randall asked if there would be only one audit once the construction is complete.

Ms. Garcia said no, there will always be an audit - it will move to an operating audit. They will audit the operation costs as well, which was a requirement of the BDD Board.

Mr. Snyder said all governmental agencies require this.

Mr. Randall asked how they define their individual operating component. He said it seems to him that the BDD would operate as a whole, with mutual benefits flowing in different directions; and that this organization would become its own entity (once the construction is completed), with joint ownership, and the City would audit it.

Ms. Garcia said it is part of the City's overall audit because it is part of the City's expenditures. She said once the BDD starts operating, there will be a more detailed audit.

Mr. Lierz hopes the City will get caught up with the 2010 audit. He feels the audits should be done on a timely basis.

Mr. Lierz said he asked that the City's water manager or staff make a presentation to the Committee to get a clearer understanding on the legal arrangement on exactly how this all is coming together and how they are trying to manage and supervise this activity, including the BDD.

Mr. Carpenter said there is a Fiscal Services and Audit Committee - which is a subset of the BDD Board-that was created 3-4 months ago to review all the financial matters and make recommendations to the Board on fiscal issues.

Mr. Lierz said this is something that the Committee needs to be aware of. He said he is having a hard time understanding the structure. He asked staff to explain the structure to the Committee, from the City's stand point, i.e., what is the BDD Board approving, etc. He said that the BDD is in construction phase and you have a Water Division under the City-how are you going to wrap in the BDD when it has its own structure, and how does the BDD Board relate to the fiscal responsibilities of the City; and how do we go forward as an entity.

Chair Moll suggested that the Committee get a copy of the Joint Powers Agreement. This should explain the structure.

Mr. Snyder gave an overall summary of the Water Division and how the BDD is structured as follows:

- There is more than just a Joint Powers Agreement; there are also several different contracts. Mr. Snyder offered to provide this information to the Committee members.
- The City and the County wanted to get an additional water resource years ago and the City was asked to combine three groups: the City, the County and Las Campanas, so that there wouldn't be three sources coming out of the Rio Grande.
- The City is the Project Manager and has been overseeing the construction design and everything around that. They are 99% complete on construction and are moving into the operation stage.
- The contractor is currently operating the Water Plant and the Water Division hopes to take the Plant over in May.
- They are in the process of hiring City staff, per the Agreements: there will be 31 City staff-from operations, to maintenance to a utility manager.

- Mr. Snyder is the Public Utilities Department Director, as well as the Water Division Director. The Public Utilities Department is made up of the Water Division and has approximately 100 staff; and the Wastewater Division with about 70 staff. The BDD is a component of the Water Division. He mentioned that the BDD is a 24-hour operation.
- The Water Division will be the Project Manager for the construction aspect, as well as the operations aspect, as set forth in the JPA, until 2015.

Mr. Carpenter explained that there are three tiers of Agreements as follows:

- The Joint Powers Agreement was signed in March of 2005 by the City, the County and Las Campanas. The Joint Powers Agreement did two primary things: It created the BDD Board that is comprised of 2 City Councilors and 2 County Commissioners and a citizen member who provides representation for the public-at-large position.
- The next Agreement is the Facility Operations and Procedures Agreement (FOPA). FOPA further defines the role and responsibilities of the City and the County as a partner, and the BDD Board's responsibilities. It sets out what the costs will be for both the construction and operation. With respect to construction, the City and County shares the costs 50/50 and with regard to operation costs, there are fixed and variable charges- the City pays 75% of the fixed and variable charges and the County pays 25%.
- The third agreement is the Project Management and Fiscal Services Agreement (PMFSA).
- The three Agreements guided the development of the project.
- Mr. Carpenter noted that the BDD Board has oversight in just about every capacity-all policy issues, expenditure of funds, professional services contracts and all expected and planned operations and maintenance shall be presented to the BDD Board for approval and budget purposes.
- Approximately five months ago, the BDD Board decided that there were many accounting and financial issues that should be dealt with and therefore they created the Fiscal Services and Audit Committee. Again, the Committee is a subset of the BDD Board that meets once a month and makes recommendations to the Board. The Committee is comprised of the City and County Financial Department Directors, as well as a member of the public. The Committee does not have voting authority.

Mr. Lierz asked about the arbitration process.

Mr. Snyder said the Joint Powers Agreement provides for arbitration provisions.

Mr. Randall said that the Fiscal Services and Audit Committee should be following the Open Meetings Act because it is comprised of three members of the five members of the BDD Board.

In response, Ms. Garcia said she thinks there are only two members; therefore they do not have a quorum and this is why they can't make a decision.

Mr. Lierz asked where they are housing the BDD staff-are they in a different location than the Water Division staff.

Mr. Snyder said that the BDD staff is at a different location, they are housed at the Treatment Facility site, which is at Caja del Rio. They have a Facility Manager and he reports to Mr. Snyder, as the Water Division Director.

Mr. Lierz asked how they handle the finances that go along with these two different groups.

Mr. Snyder said they are in the process of re-hiring a financial manager who will reside at the BDD facility and will work directly with the BDD Facility Manager. The Facility Manager oversees the day-to-day operations and financials and deals directly with the Accounting Supervisor at the Water Division.

Ms. Garcia noted that the Accounting Supervisor at the Water Division oversees the capital and County procedures, i.e., cutting purchase orders and running reports, etc.

Mr. Carpenter mentioned that the Project Manager is compensated for its services as Fiscal Agent to the Project in an amount equal to one percent (1%) of the total annual operating budget of the Project in any given fiscal year, which the Project Manager may deduct from revenues to the Project. The governmental agreements also require that the BDD prepare its own budget for the Project and that budget is submitted for approval.

Mr. Lierz said the Committee asked for a copy of the Financial Plan that covers about 10 years.

Mr. Snyder said the 10 Year Financial Plan that was created and approved effective March 1, 2009 is looking out 10 years, which includes a Capital Improvement Plan that is submitted to the governing body every year.

Mr. Lierz requested a 1-year current Financial Plan.

In response, Ms. Garcia said that the Financial Plan has not been updated. She explained that there is a rate structure in place that increases the rates every year to stabilize for future growth and they are in the third year of the rate increase.

Mr. Lierz asked if they have done the paperwork to get the operational phase in place.

Ms. Garcia said it is in the original Agreement.

Mr. Randall asked Mr. Carpenter how the City is compensated for services.

Mr. Carpenter said that there is \$1.1 million left over after the Project and this may go to the City.

Chair Moll asked if Las Campanas is involved with the day-to-day operations.

Mr. Carpenter said yes; Las Campanas pays the County and the County covers their expenses. He noted that Las Campanas, LP filed bankruptcy and there were concerns that they wouldn't meet their obligations, but they have.

Mr. Snyder spoke about annexation noting that basically the City moved forward with the annexation to define the boundary of the City.

Ms. Garcia noted that there is a Wholesale Water Agreement with the County presently with regards to the existing water system and this will not change.

Mr. Snyder explained that the BDD adds another source, as well as adding this in the City's portfolio of four water sources. There is no additional demand on the present water system; they are just shifting where the water comes from. The BDD adds more flexibility of the present water system.

The four water sources are:

- 1) Buckman Direct Diversion, which is a diversion from the Rio Grande. The City has 5230 acre feet of water from the BDD.
- 2) Canyon Road Water Surface Treatment Plant, which is off of the Santa Fe River. There are 5040 acre feet of water rights in this area.
- 3) Buckman Well Field, which is the deep-water wells. The City has 10,000 acre feet that is spread out over 13 different wells.
- 4) City Well Field, which has 3507 acre feet of water. The City also has seven different shallow water wells in the neighborhood of 500 acre feet.

For a total of approximately 17,000 acre feet of water rights.

Mr. Carpenter said this is legal water rights; however, they cannot necessarily produce that.

Ms. Romero-Gonzales asked how much they produce per year.

Mr. Snyder said this varies depending on the year, but overall, they produce approximately 10,100 acre feet per year and this is doubled in the summer.

Mr. Lierz asked what the County and Las Campanas are contributing.

Mr. Carpenter said the City owns approximately 60% of the production capacity of the BDD, which is 5230 acre feet per year-with a peaking capacity of 15 million gallons per day; the County is about 19% of BDD production capacity, which equals approximately 1600 acre feet per year and Las Campanas at 21% of production capacity, which equals about 1700 acre feet per year.

Mr. Carpenter said the County's portfolio is a little more complicated than the City. They also have 375 acre feet from the San Juan Chama water.

Mr. Randall asked if we are still leasing other water rights up in the north.

Mr. Carpenter said no, they terminated the lease with the Jicarilla Apache Nation.

Mr. Lierz requested that the water rights portfolio - and what they are able to produce- be summarized for the Committee.

Mr. Lierz said when we were drawing water from the aquifer, it was not all ours.

Mr. Snyder noted that they also have 20,000 acre feet of water in storage.

Mr. Lierz said we have a major bookkeeping operation going on at the State Engineer's Office.

Mr. Carpenter said they have 1.5 full-time positions in their office to do the water right accounting for the State Engineer's Office.

Mr. Lierz said we are not talking dollars; we are talking substantial economic value. He said none of this is disclosed in the City's Financial Reports.

Ms. Garcia said that they do a report for the State's water rights-they put a value to the water rights and they get this balance from the storage that the Bureau of Reclamation keeps. She said the value is based on the costs of maintaining the storage-not at market value.

Mr. Lierz asked for a summary of the water rights of the various sources and an inventory of what water they have. He said he wants to understand the substantial dollar impact. He asked financial staff for an analysis. He said this is a very valuable asset.

Mr. Lierz asked if they have accountability-how do we tie water that is metered; and what is not billed, and water that is used but not billed.

Mr. Snyder said they have a number of tracking reports, they do daily and monthly reports, which itemizes what source it is and consumption.

Ms. Garcia said that they record the “unbilled” dollar amount at the end of the year. A non-revenue water audit was also done last year.

Mr. Lierz said he is really testing the “management control” and wants to see internal control.

Ms. Garcia said a consultant came in to review the numbers to come up with a 10-Year Financial Plan.

Chair Moll asked how they deal with Return Flow Credits.

Mr. Carpenter said they don’t have a return flow system in place. However, this was identified in the 10 Year Financial Plan as a project to build. He explained that they use treated effluent in a variety of ways currently.

Mr. Randall said he thought there was a market to lease water rights to other users.

The Committee talked about the variety of water rights and whether or not water rights could be leased to other users.

Mr. Lierz asked if they have defined what the sustainable water rights are.

In response, Mr. Carpenter said in terms of ground water pumping, the modeling that has been done so far suggests it is about 3500 acre feet.

Ms. Garcia noted that the Committee has a copy of the Joint Powers Agreement for the BDD in their packets.

SUB-COMMITTEE REPORTS:

1) Internal Auditor

Ms. Romero-Gonzales noted that the Internal Auditor job description was distributed at last month’s meeting. She reported that she met with Richard Mares and went over some of the questions.

Mr. Mares said they were asked to update the job description; however the official job description is maintained by the Human Resources Department.

Ms. Romero-Gonzales mentioned that the current job description does not show the education and experience necessary.

She said they also discussed the Ordinance on the Internal Auditor and the only section they found was *Section 1115-Franchise Financial Reviews* that states that the Internal Auditor shall review all the franchise agreements but this is not one of his functions presently.

Mr. Mares said the reason that the Franchise Financial Reviews are not being done is due to the ongoing litigation (for at least 10 years) on the electric franchise, therefore he was not allowed to audit the Electric Franchise.

With regards to the Comcast Telephone Franchise Agreement, Mr. Mares said he tried to audit this but they would only release some information, so he got an opinion from the City Attorney, at that time, that it would not be worthwhile because it would basically be a repetition. They were also concerned about the privacy of the customers and they could not confirm the data independently.

Ms. Garcia added that the City was currently in litigation with Comcast. Comcast filed an injunction against the City to implement a new Franchise Agreement through Land Use and it is in the judge's hand presently.

Mr. Mares noted that the PNM Franchise Agreement expired and they are in the process of renegotiating the agreement.

Ms. Garcia said she did not know if the contract was finalized.

Chair Moll asked what the City was auditing.

Mr. Mares said to ensure that the City is receiving the revenue that it was entitled to per said agreement.

Mr. Mares said with regards to the telephone, the amount of revenue that the City has been receiving, in the last 6-7 years, has gone down to about two-thirds. The City used to receive about \$700,000 annually in revenue and this is presently down to \$250,000.

Ms. Garcia said this is based on the new Comcast accounting system which realigned the services that were subject to franchise.

Mr. Lierz said there was quite a drop in land lines.

Mr. Mares said that is true that there was a drop in land lines and he was trying to place a number of land lines to quantify this; and the only thing he was able to find was that the Centers of Disease Control issued a report and identified the percentage dropped of land lines by state, but it did not measure up to the amount of revenue that the City lost.

Ms. Garcia said the Franchise Agreement was established 25 years ago and it gave a Franchise Agreement on certain services provided to the City, however, she cannot remember what the lingo was. Within the 25 years, they added services to that, like call waiting, caller ID and this is enhancing that service and when they converted to a new accounting system, they arbitrary decided that these services were not subject to the Franchise Agreement. This portion is in litigation with the attorneys at this time.

Mr. Lierz said if the Internal Auditor is not able to get to the core issues or is denied access, they can turn to legal counsel for assistance.

In response, Ms. Garcia said everything was handled by the City Attorney's office. They were the ones who requested the information. She explained that they have been trying to audit all the Franchise Agreements for the last 10 years.

Mr. Mares said that now is the time to revamp the Agreement with Comcast so that the City could independently verify the data.

Chair Moll said the Committee could look at ways to strengthen the Internal Auditor job.

Ms. Romero-Gonzales agreed that there be more of a structure for the Internal Auditor. She said they could encourage the City to have more of a structure as to what an internal auditor does, when they do audits, who they report to; establish a written policy and procedure that declares him as an independent and exactly who the auditor reports to. The daily oversight would still be done by the City Manager. It also sounds like they would need an ordinance establishing an internal audit office.

Ms. Raveling said the only way that could happen is through a specific ordinance.

Mr. Randall said as a starting point, the Committee could get a copy of the Ordinance that set up the Internal Audit Office and job description. They could also check with the City of Albuquerque if this is set up by ordinance.

2) External Auditor

Ms. Garcia noted that the City is in the process of putting out a Request for Proposal for an External Auditor. They are using the standard Request for Proposal from the State Auditors' office. She asked if the Committee wants to see the Request for Proposal or be a part of the selection committee for the External Auditor.

Mr. Lierz requested a copy of the existing audit contract.

Mr. Randall thinks that the Committee does not have a role in the selection of the auditor. He explained that the Committee is only advisory.

Mr. Lierz said the Committee could see a draft of the Request for Proposals.

Ms. Garcia said in the proposal, they are asking that there be the same auditor for the SWMA and the BDD. This would reduce the cost of the audit. She noted that SWMA, the BDD and the City prepare their own financial statements.

STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT

A Status Report from the City of Santa Fe, Finance Department will be given at the next meeting.

OLD BUSINESS

There was no Old Business.

NEW BUSINESS

There was no New Business.

NEXT MEETING DATE

The next meeting is scheduled for April 6, 2011. Mr. Randall noted that he would not be at the April 6, 2011 meeting.

OTHER MATTERS FROM THE COMMITTEE

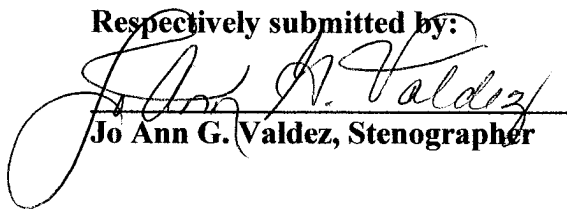
There were no other Matters from the Committee.

ADJOURNMENT

There being no further business to come before the Committee, Ms. Romero-Gonzales moved to adjourn, second by Mr. Lierz, the meeting adjourned at 5:00 p.m.

Deborah Moll, Chair

Respectively submitted by:



Jo Ann G. Valdez, Stenographer