



Agenda

DATE 4/27/11 TIME 11:35a
SERVED BY Yolanda Green
RECEIVED BY [Signature]

CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
MAY 4, 2011
2:00 PM

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
April 6, 2011
5. CITY OF SANTA FE CASH AND CASH INVESTMENTS
6. SUB-COMMITTEE REPORTS, INCLUDING INTERNAL AUDITOR
7. DISCUSSION OF AUDIT COMMITTEE PRIORITIES
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:
June 1, 2011
13. ADJOURNMENT

INDEX OF MINUTES

OF THE

AUDIT COMMITTEE

MEETING

May 4, 2011

| <u>ITEM</u> | <u>ACTION</u> | <u>PAGE(S)</u> |
|--|----------------------------|-----------------------|
| 1. CALL TO ORDER | | 1 |
| 2. ROLL CALL | Quorum | 1 |
| 3. APPROVAL OF AGENDA | Approved [as published] | 2 |
| 4. APPROVAL OF MINUTES April 6, 2011 | Approved [as amended] | 2 |
| Clarification from Ms. Garcia | Informational | 2-4 |
| 5. CITY OF SANTA FE CASH AND CASH INVESTMENTS | Motion passed | 4-5 |
| Public Utilities Department | Informational | 5-7 |
| 6. SUB-COMMITTEE REPORTS, including Internal Auditor | | 7-8 |
| 7. DISCUSSION OF AUDIT COMMITTEE PRIORITIES | | 8 |
| 8. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT | No additional report given | 8 |
| 9. OLD BUSINESS | None | 8 |
| 10. NEW BUSINESS | None | 8 |
| 11. OTHER MATTERS FROM THE COMMITTEE | None | 8 |
| 12. NEXT MEETING DATE | | |
| a. Next meeting scheduled for June 1, 2011 | | 8 |
| 13. ADJOURNMENT | Adjourned at 4:00 p.m. | 8 |

MINUTES OF THE
CITY OF SANTA FE
AUDIT COMMITTEE MEETING

May 4, 2011

The meeting of City of Santa Fe Audit Committee was called to order by Deborah A. Moll, Chair at 2:07 p.m. on this date in the City Councilors Conference Room, 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
Clark de Schweinitz
Hazeldine Romero-Gonzales
Maurice A. Lierz

MEMBERS ABSENT

Randy Randall, excused

STAFF PRESENT

Rick Carpenter, Public Utilities Department
Teresita Garcia, Finance Department
Richard Mares, Internal Auditor
Kathryn Raveling, Finance Director
Brian Snyder, Public Utilities Department Director

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

APPROVAL OF MINUTES: April 6, 2011

The following changes were made to the Minutes of the April 6, 2011 meeting:

Page 3, 7th paragraph, 3rd sentence was changed to read: *“He questioned how they came up with the number in the financial statements with regards to water rights and stored water **amounts.**”*

Page 4, 3rd paragraph from the bottom, 2nd sentence was changed to read: *“He said under the “Accountability in Government Act”, the Department of **Internal** Audit (of the City of Albuquerque) reports to a Committee.”*

Page 5, 8th paragraph (Motion) the words: Eternal Auditor Subcommittee was changed to read: **“External”** Auditor Subcommittee.

Mr. de Schweinitz made a motion to approve the Minutes of the April 6, 2011 meeting as amended. Ms. Romero-Gonzales seconded the motion, which passed unanimously by voice vote.

Clarification from Ms. Garcia

Referring to page 5, 5th paragraph of the Minutes, Mr. Lierz asked staff for clarification on whether or not the City can keep the same auditors for four years. He noted that the City recently put out a Request for Proposal for an auditor, after three years.

Ms. Raveling said typically the City has kept the same auditors for four years. She said that Teresita Garcia is the one who works on this; she will be here soon and she can clarify this.

Ms. Garcia explained that a Request for Proposal went out for an external auditor for the next three years. She said she put out the RFP because the audit requirements have changed dramatically over the last two years; one of them is the Buckman Diversion Capital Outlay Construction Project; they are asking that they do an audit for 2010 and 2011 in one audit and a final audit on the construction; they also asked for an audit on operations for the Buckman Diversion Project, as part of the JPA; and an audit for the City of Santa Fe and the Solid Waste Management Agency.

Mr. Lierz said in the 2009 Audit Report, there was another auditor for the Housing Authority.

Ms. Garcia said at one time, the State Auditor required that the same auditor audit the Housing Authority but they changed this two years ago, in which they required another auditor to audit the Housing Authority.

Mr. Lierz said he has asked for copies of the audit report for the Housing Authority and this is in prior minutes.

Ms. Garcia said the Housing Authority has submitted it to the State Auditor for review and they will not release the Audit Report until they finalize it.

Mr. Lierz asked if the Committee could get a copy of the 2009 Audit Report for the Housing Authority.

Ms. Garcia said she could download the report from the State Auditor's website. She noted that they changed the rules for the Housing Authority and they wanted their own auditors; therefore this is not included in the scope of work of the RFP. However, the current City's RFP does include the Housing Authority as a component unit.

Mr. Lierz asked Ms. Garcia if she could get the Committee a copy of the Housing Authority Audit for year ending June 30, 2009; a copy of the Audit Contract for June 30, 2010 and check to see what their intentions are for June 30, 2011.

Ms. Garcia said yes.

Mr. Lierz asked if City Council approves the Housing Authority audit.

Ms. Garcia said no, they go before their own County Board.

Chair Moll asked what they considered a component unit.

Ms. Garcia said they changed the rules, but the Mayor and City Council appoints the board and they have oversight of the board. She explained that the federal government issued bonds for the Housing Authority through the City of Santa Fe but HUD has changed their regulations, and the Housing Authority has changed their structure. HUD has forgiven the Housing Authority's debt; therefore they are no longer responsible for the bonds. Also, the 2011 new audit rules came out but Ms. Garcia has not determined whether or not the Housing Authority is still considered a component unit.

Chair Moll asked Ms. Garcia to let the Committee know the outcome.

Ms. Garcia agreed and said that she needs to ask the City Attorney exactly how this structure has changed.

Chair Moll requested that Ms. Garcia get a written opinion from the City Attorney – on whether or not the Housing Authority is considered a component unit.

Ms. Garcia will also check the book on the reporting standards to try and determine what is considered a component unit.

Mr. Lierz said the Committee had already determined that the Subcommittee would deal with the External Audit activity. He referred to the Resolution that formed this Committee, (section 4b) that states: "*Review and make recommendations regarding the City's Annual External Audit.*" He said the Committee's concern is not the selection of an external auditor- it has to do with getting the audits done on a timely basis. He asked what it will take to accomplish this. He understands that the City Finance Department does not have enough staff to get it done. He asked if there is an environment in place to be able to get the audit reports on time. He said another option would be to hire an outside group, such as a CPA to help get this done.

Chair Moll said the Committee could make a recommendation to the governing body that we see this as a problem. She suggested that the Subcommittee come up with a draft recommendation that the Committee could look at.

Ms. Garcia noted that the State Auditor makes the final approval of the External Auditor.

CITY OF SANTA FE CASH AND CASH INVESTMENTS

At the prior Committee meeting, staff was asked to provide a detailed report of the cash investments and cash balance.

[Copies of these reports were distributed and a copy is hereby incorporated to these Minutes as Exhibit "A".]

Ms. Raveling noted that Mr. Snyder and Mr. Carpenter are present today to answer questions the Committee had at the prior meeting with regards to water.

In response, Chair Moll said she thought it was because of the cash reserves that were discovered in the City Water Utility Fund.

[A copy of the newspaper article dated April 29, 2011 "*Review of cash reveals millions*" was reviewed. A copy is hereby incorporated to these Minutes as Exhibit "B".]

Mr. de Schweinitz said the article indicates that there are also other funds in which cash balances have accumulated over time.

Chair Moll said her concern is that these funds were not "revealed". She asked what happened here.

Ms. Raveling said it is not that they were not revealed. She explained that the structure of the funds is complicated; for example, the City has a Wastewater Fund that is the main wastewater operating fund; most of the employees are paid out of this fund; and the revenue comes into the fund. The city also has a number of city subsidiary funds, i.e. for capital improvement projects.

Ms. Raveling said staff was a little confused as to the request from the Committee in regards to the cash and cash investments.

Mr. Lierz mentioned that he sent an e-mail to the Committee members. He said essentially he went back to the audit report that came from the 2009 Audit Report; and in terms of cash and cash investments – the City needs to know what balances are restricted (by third parties); what is designated and what is undesignated. He said it would be beneficial for both the Committee and city staff to know this.

Mr. Lierz wanted the Committee to discuss a possible model/format that the City could use for their summary financials. He asked staff to prepare an overview of the cash investments for four time periods: June 30, 2009, June 30, 2010, December 31, 2010 and April 30, 2011 - in the format that he suggested/presented. He requested that they be broken down by categories: undesignated, designated and restricted.

Chair Moll said it sounds like the goal is to formulate some kind of structure whereby the funds could be reported in a different manner.

Mr. Lierz moved that the Committee asks that the Finance Department provide reports (summary financials) for the four time periods: June 30, 2009, June 30, 2010, December 31, 2010 and April 30, 2011. Mr. de Schweinitz seconded the motion, which passed unanimously by voice vote.

Ms. Romero-Gonzales asked if anything has happened since the article went.

Ms. Raveling said no, this is part of the budget review.

PUBLIC UTILITIES DEPARTMENT

Chair Moll said there were apparently some remaining questions from their last visit.

Mr. Lierz thanked Mr. Snyder and Mr. Carpenter for coming back. He referred to the handout entitled "*Sangre de Cristo Water Division's Sources of Drinking Water Supply*".

Mr. Lierz said the main question he had from their last visit was whether the stored water was at the Heron Reservoir, or Elephant Butte Reservoir.

Mr. Snyder said the majority of it is stored at the Elephant Butte Reservoir.

Mr. Lierz asked if the City uses approximately 12,000 acre feet of water per year.

Mr. Snyder said it is closer to 10,000 acre feet-last year the City was at 10,100 acre feet.

Mr. Lierz noted that the City uses only 10,000 acre feet of water per year; and has about 3 ½ years of water in storage. He said water is an asset and maybe the City should be thinking about the possibility of selling some of the stored water on an annual basis. He asked if it was true that the City sells effluent water.

Mr. Snyder said yes, they sell it to different people: the Country Club, Las Campanas, MRC, the Horse Park and they sell it by truck load to contractors for certain purposes. On average, the rate for non-potable water is \$2.50 to \$3.00 per gallon.

Mr. Lierz asked what the rate was for potable water.

Mr. Snyder said \$5.18 per gallon.

Chair Moll asked Mr. Lierz if he is going back to the issue that this is somehow not quantified as an asset.

Mr. Lierz said no, he is also looking it as a revenue-generating asset.

Chair Moll said she did not see this as the Committee's purview - to suggest that the City sell it. She thinks the Committee's point is that it be clear that if they put this down as an asset, as opposed to stored water.

In response, Mr. Lierz said the objective is that information "float to the hierarchy of the organization". He said this is the first time he sees stored numbers. He asked Mr. Snyder if they provide the information - on how much water is being stored - to the City Council, Mayor or City Manager.

Mr. Snyder said this information is in their Annual Report, which is a public document that is presented to the governing body through channels; the Public Utilities Committee and City Council. He is not aware of any other report that they will give to the governing body that includes these numbers.

Mr. Lierz asked if they have considered the sale of stored water.

Mr. Snyder said no, to him, water is a commodity in New Mexico and New Mexico is in drought. Also, over time, the City built up water for the Buckman Diversion Project that they are now able to use the water that the City has been purchasing and storing over the years. This water is also used for off-sets for the Buckman water fields. He said with regard to Mr. Lierz's question about whether or not this could be a potential revenue source, he views the stored water as a valuable resource and asset to the Water Division; and the City making sure that they have adequate supply available for their customers, which is something that is in the City's Long Range Plan.

Mr. de Schweinitz said in years past, on a very limited basis and after contentious debate, the City Council has opted to sell back a small amount of water to the Bureau of Reclamation for the silver minnow.

Mr. Carpenter noted that the City preferred to store the water at the Abiquiu Reservoir because there is less evaporation; however, the City of Albuquerque did not allow this.

Chair Moll asked if City Council is aware that this water is available.

Mr. Carpenter said yes, many of the Councilors know.

Mr. Lierz asked if they have been updated in the last year or two.

Mr. Snyder said yes, they provide an annual report update to them.

SUB-COMMITTEE REPORTS, INCLUDING INTERNAL AUDITOR

Ms. Romero-Gonzales said she has been doing some research on the internet to get additional information on government internal auditor operations from other cities. She also found a book that she ordered. She noted that the City of Las Cruces has an internal audit department and so she will try to contact them, and the County of Bernalillo, to get some information to put together a general guideline and ordinance.

Ms. Raveling suggested that they ask the City of Las Cruces and the County of Bernalillo how they are getting their audits done by the deadline. She explained that the reporting requirements have become more complex.

Ms. Garcia mentioned that the State Auditor has indicated that it is difficult for other counties/cities statewide to meet the deadline.

Ms. Romero-Gonzales asked about the status of the 2010 Annual Audit.

Ms. Garcia said they will be preparing the financial statements next week and it should take about 10 days to file it with the State Auditor.

Ms. Romero-Gonzales asked for an update on the release of internal audits and the status of these audits.

Mr. Maes said he received a response from the Parking Division dated May 2, 2011 and he also met with the Interim Director of the Parking Division and went over the action that was taken. He now needs to meet with the City Manager's to see if he wants him to do some testing to see if the corrective actions have taken place.

Mr. Maes said with regards to the audit for the Division of Senior Citizens, he has to go back and discuss his findings with the City Manager as well. He said most of the findings had to do in the area of procurement and not complying with the procurement requirements.

Mr. Maes said he is also working on a third audit on the Utility Billing Division, primarily a review of procedures that have to do with delinquent accounts and the process for shutting off the water if someone is delinquent. They are looking at what the final process will be and what kind of payments would be received out in the field-whether to accept credit card payments, cash, etc. They are looking at what the procedures should be to give the public/customer a chance to keep their account open and they will check with the Gas Company of NM to see what they have in place.

Mr. Lierz asked if the receipt books are pre-numbered.

Mr. Maes said yes. He explained that they are also considering the risk to the employee if they carry cash.

DISCUSSION OF AUDIT COMMITTEE PRIORITIES

Chair Moll said the Committee needs to come up with some list of priorities to make some progress on some recommendations. There was consensus that the Committee would focus on the Internal Auditor at the next meeting.

Mr. Lierz said the Committee is working on two priorities; the external audit and the internal audit.

STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT

Ms. Raveling did not have anything more to add.

OLD BUSINESS

There was no Old Business.

NEW BUSINESS

There was no New Business.

NEXT MEETING DATE

The next meeting is scheduled for June 1, 2011 at 2:00 p.m.

OTHER MATTERS FROM THE COMMITTEE

There were no other Matters from the Committee.


ADJOURNMENT

There being no further business to come before the Committee, Mr. Lierz moved to adjourn, second by Mr. de Schweinitz, the meeting adjourned at 4:00 p.m.

Approved by:

Deborah Moll, Chair

Respectively submitted by:



Jo Ann G. Valdez, Stenographer