



Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
JULY 6, 2011
2:00 PM

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

JUNE 1, 2011
5. PROPOSED RECOMMENDATIONS REGARDING CITY OF SANTA FE EXTERNAL AUDIT PROCESS
6. SUB-COMMITTEE REPORTS:
 - A. Internal Auditor
 - B. External Auditor
7. CITY OF SANTA FE CASH AND CASH INVESTMENTS
8. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT
 - A. Award of External Auditor
 - B. Information on Audit Process for FY 10/11
 - C. Memo on Proposed Resolution
9. OLD BUSINESS
10. NEW BUSINESS
11. OTHER MATTERS FROM THE COMMITTEE
12. NEXT MEETING DATE:
 - A. Next meeting scheduled for August 3, 2011
13. ADJOURNMENT

**SUMMARY OF ACTION
AUDIT COMMITTEE MEETING
July 6, 2011**

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**MINUTES OF THE
MEETING OF THE
CITY OF SANTA FE AUDIT COMMITTEE MEETING
City Councilors Conference Room
July 6, 2011**

1. CALL TO ORDER

A regular meeting of the City of Santa Fe Audit Committee was called to order on Wednesday, July 6, 2011, at approximately 2:00 p.m., by Chair Deborah Moll, in the City Councilors Conference Room, City Hall, Santa Fe, New Mexico.

2. ROLL CALL:

MEMBERS PRESENT:

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

MEMBERS EXCUSED:

Hazeldine Romero-Gonzales

OTHERS ATTENDING:

Teresita Garcia, Deputy Director, Finance Department
Melessia Helberg, Stenographer
Keira Hay, *The Albuquerque Journal*

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

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

3. APPROVAL OF AGENDA

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

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

4. APPROVAL OF MINUTES – JUNE 1, 2011

MOTION: Randy Randall moved, seconded by Clark de Schweinitz, to approve the minutes of the meeting of June 1, 2011.

FRIENDLY AMENDMENT: Maurice Lierz proposed the following changes to the minutes:

Page 2, Paragraph 2, line 1, under Subcommittee reports, a. Internal Auditor, correct as follows: "...on the City County of Bernalillo..."

Page 3, Paragraph 4, line 4, under Subcommittee reports, b. External Auditor, correct as follows: "...this ~~will~~ decision will be..."

THE AMENDMENT WAS FRIENDLY TO THE MAKER AND SECOND, AND THERE WERE NO OBJECTIONS BY THE OTHER MEMBERS OF THE COMMITTEE.

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

Replacement pages will be provided to the City Clerk for the approved minutes as amended.

5. PROPOSED RECOMMENDATIONS REGARDING CITY OF SANTA FE EXTERNAL AUDIT PROCESS.

A copy of the draft proposed "Advisory Recommendation No. 1, External Auditing Process," dated July 6, 2011, is incorporated herewith to these minutes as Exhibit "1."

A copy of the draft cover letter transmitting Advisory Recommendation No. 1, is incorporated herewith to these minutes as Exhibit "2."

Chair Moll said the Committee can discuss the proposed Recommendation, but she would like to postpone Committee approval until all of the members are in attendance and can sign.

Mr. Randall expressed concern in delaying approval another month, commenting it can be approved today by a majority of the Committee, and Ms. Romero-Gonzales could sign it after it was approved.

Mr. Randall asked if a copy of the proposed recommendation is available, saying he recalls that changes were proposed at the previous meetings.

Chair Moll said yes, but it is still a draft.

Mr. Lierz asked if staff could make a copy of the proposed draft of the Recommendation, saying we need to be looking at the same thing in discussing the document, and Ms. Garcia said she will run copies.

Keira Hay, *The Albuquerque Journal*, asked for copies of Exhibits "1" and "2."

Chair Moll said the Committee normally doesn't provide copies of drafts [and that drafts are not considered public records under the Public Records Act].

Ms. Hay said she maintains if the document is handed out and discussed in an open meeting it is a public record [and that we (*The Albuquerque Journal*) might challenge that decision (not to give her a copy of the draft)].

Chair Moll said Ms. Hay can sit in the Committee and listen to the discussion.

Mr. Lierz said there is nothing in the packet about the limited distribution of what we are discussing.

Ms. Helberg requested copies of the documents for the record which were provided by Ms. Garcia.

The Committee proposed the following corrections to the draft Advisory Recommendation [Exhibit "1"]:

- Page 1, Paragraph 4, line 3, change as follows: "...by the external auditors as of ~~June 1, 2011~~ July 6, 2011, and has..."

- Page 1, last paragraph, line 4, change as follows: "...and its inability to fill vacancies with qualified experienced individuals."
- Page 1, last paragraph, last sentence, delete the "(????)".
- Page 2, Paragraph 2, last sentence, correct as follows: "... was implementing a new an updated accounting system in order to accommodate the implementation of a new payroll system in 2010 in the year ended June 30, 2009...."
- Page 2, Paragraph 3, line 3, correct as follows: "...~~but~~ and it has ~~not~~ just been reviewed ~~or~~ and released by the State Auditor...."
- Pages 2 and 3, enumerate the reasons for the City to timely submit its external audits, and number them. Rewrite the last paragraph on page 1 and the first and second paragraphs on page 2, with language, to the effect:

"The Committee has identified the following as reasons for the City to submit its external audits in a timely manner: 1. The lack of adequate staffing in the Finance Department. 2. The high rate of turnover in that department. 3. The inability to fill vacancies with experienced individuals...."

And then continue with paragraphs 1-2 on page 2.

Also add language with regard to ensuring that the fees are charged, collected and allocated to Finance for the care and maintenance of the fund [Mr. Randall volunteered to rewrite the 3 paragraphs and send the suggestions to Mr. Lierz by email.]
- CAFR is an acronym which should be spelled out on page 2, as follows: "CAFR (Comprehensive Annual Financial Report)...."
- Delete the last paragraph on page 2, "~~If there are any further questions or comments, please direct those matters to our Audit Committee for further consideration. (???????????)~~"
- Page 2, paragraph #2, change as follows: "... make this issue plan a high priority" [Mr. Lierz noted the Albuquerque Mayor has made the plan a high priority in Albuquerque and stated that Albuquerque's External Audit will be timely submitted.]

- Page 2, paragraph #3, move the last sentence to be the first sentence in the paragraph, with corrections to the sentence as follows: "The City needs to ensure that a proper portion of this fees are dedicated for the use of the Finance Department for these services and that that money is submitted to the City in full and in a timely manner as specific services are completed."
- Page 2, paragraph #3, line 1, change the first sentence, which is now the second, as follows: "...Agreement – For example, Buckman Direct Diversion..."

[Chair Moll volunteered to rewrite paragraph #3 incorporating all changes, and send it to Mr. Lierz].

The Committee commented and asked questions as follows:

- Mr. Lierz asked where is the CAFR [Comprehensive Annual Financial Report] in the audit, and asked if it has been finalized.

Ms. Garcia said they have an exit conference on Monday with the City Manager and the External Auditor.

It was the consensus among the Committee that Mr. Lierz will keep track of the changes since he has the document on his computer, and will make the changes and send it to Finance and the members of this Committee.

- Chair Moll said this Committee will be presenting our Recommendation to the Governing Body, and it will be on the Council Agenda as a discussion item.
- Mr. Lierz said this Committee is an advisory committee to the Governing Body, noting the Committee has an Assistant City Attorney's opinion to this effect.
- Mr. De Schweinitz said he thought perhaps the Finance Committee would like to hear the report first since it is the key body dealing with the City's finance.
- Mr. De Schweinitz said his understanding was that Ms. Raveling was to develop parts of the plan and to comment on the proposed Recommendations, and asked if Ms. Raveling has commented.
- Chair Moll said she hasn't heard from Ms. Raveling in this regard.

- Mr. Lierz said the Committee approach is that the City needs a plan, and how they develop the plan is a management problem.
- Mr. Randall said this Committee isn't here to tell the City how to do things, but to tell them what needs to be done and the "how" is up to the City, and Mr. Lierz said he agrees.
- Chair Moll said this is true, but Ms. Raveling was to come back to this Committee and tell us what the plan would look like.
- Mr. Randall said we don't need the plan before we submit these Recommendations, and "we were just trying to give her a heads-up to be working on the plan, so that she wouldn't be caught 'flat footed.'" "
- Mr. De Schweinitz asked the Chair to let the Committee know if Ms. Raveling does submit comments.
- Mr. De Schweinitz expressed concern that Paragraph #3 on page 2 should reflect all Fiscal Service Agreements – Buckman Direct Diversion, Solid Waste Management Association [SWMA], the Railyard, College of Santa Fe, and such. He wants to keep the Recommendations simple, clear and easy to understand, so that we get the important points across to the City Council.
- Responding to a question from Mr. Lierz, Ms. Garcia said there is a reporting requirement for the City for the College of Santa Fe, and the City has to be sure everything is disclosed correctly, which means having a new set of accounts, collecting the audit report from the College, maintaining control over the maintenance of the agreement and such. So, it's not just setting up accounts, there are additional services the City has to provide for accountability, noting the City picked up the loan, so the City has disclosures it has to make.
- Mr. Lierz asked if new staff was added, and Ms. Garcia said no.
- Mr. Randall said he believes the entire list is material.
- Mr. Lierz asked Ms. Garcia if she is saying that the College of Santa Fe became a burden in terms of staff and time.

- Ms. Garcia said yes. She said anything the City picks up in this regard creates an additional level of reporting and accountability, and a burden of time. She said the Railyard is in construction which is a big thing because the City has to allocate an accountant to ensure that the project is accountable, that we do cash flows and make sure the money is transferred to the project, and depending on the phase and the contract and the amendment, it creates an additional financial burden on the City.
- Mr. Randall said he believes we are off topic, and the issue is that whenever the City takes on an additional project, the City needs to ensure that there are adequate fees in the project to cover the time and the costs, and that the fees are collected and allocated to Finance so it can expand its staff sufficiently to take on the burden of time. Then we can give examples and put in whatever order. He said he likes Mr. De Schweinitz's idea about moving the last sentence in the paragraph to be the first sentence.
- Mr. De Schweinitz said we need to keep the Report simple and readable, commenting that the Mayor and Council have a lot on their plate. He said he thinks Mr. Randall should make the fee issue another reporting item – that sufficient fees are charged, collected and allocated to Finance for the care and maintenance of the fund.
- Ms. Garcia said, with regard to the Buckman Direct Diversion [BDD], when the City picked up the BDD project, there was nothing in the JPA that says the City can charge administrative services for the construction project, so no administrative fees were allocated for the construction. She said it is now constructed and in operation, and they hired a manager, but by that time “there was already two years that created the situation, and because the construction is finished, the need for that person no longer exists.”
- Ms. Garcia suggested they might want to submit the changes to Yolanda Green and she can input the information, clean up the draft and email it to the Committee for comment.
- Chair Moll said the problem is the Committee can't vote by telephone or electronic media, and we have to vote at a regular meeting. She said she also is concerned that the final draft contains the corrections as we intended.
- Mr. Lierz asked, if we are able to get a cleanup draft, and we don't want to wait a full month, if we could have a special meeting to approve the Recommendations.

- Chair Moll said that is possible, noting we still have to get on the Council Agenda to present the report.
- Mr. De Schweinitz suggested that we get a draft of the report first.
- Ms. Garcia said before going to the City Council, things like this normally must go through the Committee process before going to the City Council, and this probably would go to the Finance Committee.
- Chair Moll said Ms. Amer said we could take the Report to the Finance Committee first, but it still would have to go to the City Manager and then to the City Council.
- Ms. Garcia said the Finance Committee can discuss the report and ask questions, and then recommend that it go to the City Council.

It was the consensus among the Committee that action on this item will be postponed to the next meeting, and Chair Moll and Mr. Randall will email their changes to Mr. Lierz who has the most up-to-date draft, and Mr. Lierz will make all corrections and send out a new draft to the Committee prior to the next meeting.

The Committee proposed corrections to the cover letter transmitting the Advisory Recommendation [Exhibit "2"] as follows:

- Paragraph 3, line 7, add a "t" to "tha".
- Paragraph 3, last sentence, change as follows: "...The recommendation ~~also~~ proposes several ~~options~~ ideas through which the City could rectify the situation. "
- Page 1, last Paragraph, line 2, change as follows: "... and the ~~current~~ Internal Auditor,"
- Change the salutation to "Dear Members of the Governing Body and City Manager Romero."

The Committee commented as follows:

- Mr. De Schweinitz said in his draft he was trying to give more familiarity, "because we are real people."

- Chair Moll agreed, saying however, this is a public document and it needs to be more formal.
- Mr. De Schweinitz agreed, but said we don't have to lose all personal touch just because it is a public document.
- Mr. De Schweinitz said he wanted to put a summary of the Recommendation in the letter, because the letter may be all the Governing Body will read. He said he wanted to make clear that the Committee has made these findings and/or analyses.
- Mr. De Schweinitz said he included reference to the enabling Resolution to remind the Mayor and Council of who and what this Committee is and does.

Chair Moll said she agrees and this is the reason she moved the language to the top of the letter.

It was the consensus among the Committee that action on this item will be postponed to the next meeting of the Committee, and the Chair will update the letter and provide a new draft to the members of the Committee prior to the next meeting.

6. SUBCOMMITTEE REPORTS

A. INTERNAL AUDITOR

Mr. Lierz said he has been reading through the material which was provided, and what caught his eye is what the City of Las Cruces is doing. He said Las Cruces has a 3-person internal audit department, and selected a CPA to be the manager.

Mr. Lierz said Albuquerque is really too big to apply to the City of Santa Fe. However, before coming to a final decision, he would like to look at what is being done by the Cities of Farmington, Roswell and Hobbs, and follow-up with Bernalillo County. He said this can be done by a subcommittee with the Internal Auditor. He said there are a lot of oil and gas and business people dealing with the governing bodies in Roswell, Farmington and Hobbs. He feels these cities probably have adopted some reasonable business practices, and wants to look at these in terms of doing our due diligence.

Mr. De Schweinitz asked if he is talking about a specific job description for an Internal Auditor.

Mr. Lierz said no, and “we may be talking a department.”

Mr. Randall said then Mr. Lierz is talking about how these other governmental entities handle its internal auditor position within the City.

Mr. Lierz said the City of Las Cruces has a mission statement, a set of objectives and a complete detailed audit outline with which he is familiar around this kind of “stuff.”

Chair Moll agreed that what Las Cruces is doing is very good.

Mr. Randall said the point is that we shouldn't “hang our hat” on what just one City is doing, and that we should at least look at what these others are doing.

Mr. Lierz said Richard Mares has been doing some good leg work on this and he seemed to be willing to get this information for us. He said there is a Subcommittee of Randy Randall and Hazel Romero-Gonzales, and would like for them to look at this before the next meeting as background and preparatory to our making our final recommendation.

Mr. Randall said he will be “up north,” but he will call Mr. Mares and get things moving forward. Mr. Randall asked Ms. Garcia to talk to Mr. Mares as well.

Ms. Garcia said some of the students taking management courses at NMSU have assisted the City in the past as part of their study. She said at one time the City tried to work with the College of Santa Fe and the Santa Fe Community College, but that wasn't available.

Mr. Randall suggested perhaps NMSU could assist us with this project, commenting we can speak to Dean Carruthers about this.

Ms. Garcia said many NMSU students come in and go through the City's budget and do, for example, an industry analysis and how the City prepares its budget, so NMSU students have come to the City, although she hasn't seen those results.

Mr. Lierz asked if we've ever had students from UNM.

Ms. Garcia said she believes there was one student from UNM gathering information for a management project.

Mr. Randall said he is willing to speak with Dean Carruthers to find out if this is a possibility.

Mr. De Schweinitz pointed out that we do have the job description for Santa Fe's Internal Auditor, and believes we should work from that.

Mr. Lierz said, "Yes and no. I'm not ruling it out, but I think we're going way beyond a job description, from what I've read in the City of Las Cruces documents."

B. EXTERNAL AUDITOR

Mr. Lierz said he spoke with the audit partner and he said he told him he has a draft of the Report on his desk, and will be meeting with the Audit Manager for a final exit conference on the 2010 Audit.

Ms. Garcia said we do have the draft audit, and the City manager is reviewing the work papers and the report. She understands it will then go through a peer review, and they will be meeting in an exit conference with the Audit Manager on Monday at 3:00 p.m., before it is sent to the State Auditor.

Mr. Lierz said this is a long, drawn-out process.

Ms. Garcia said it is usually is "fairly quick for a final document to go to the State Auditor."

7. CITY OF SANTA FE CASH AND CASH INVESTMENTS

Mr. Lierz said he asked the External Auditor if they would be able to help us with a cash and cash investment analysis profile, if we can't get it from City Finance, which he has requested, but not yet received. However, he hasn't had feedback from the External Auditor in this regard.

Responding to Ms. Garcia, Mr. Lierz said in May, the Committee asked Kathryn for this information.

Ms. Garcia said there are quarterly reports from the City's portfolio on investments.

Mr. Lierz said he has those, but those reports are from an investment manager viewpoint. He said we need this information in a CAFR format, noting he believes the Auditors would have this.

Ms. Garcia said she can prepare that information for the Committee.

Mr. Lierz said he doesn't want the Investment Officer's Report, and he wants the detail by fund and "rolled up in a CAFR format." He asked if it can be broken down by fund and amount, and what is restricted by third parties, what is designated by Council and what is undesignated.

Ms. Garcia said those are part of the Financial Statement and she can provide that information to the Committee. Ms. Garcia said she can prepare the scheduled based on CAFR.

Mr. Lierz said originally we requested that information for 2009 and 2010.

After a brief discussion, Ms. Garcia said she will provide 2009 and 2010, and then a preliminary draft for 2011.

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

A. AWARD OF EXTERNAL AUDITOR

Ms. Garcia said they evaluated the audit proposals, and the current auditor, Atkinson & Company, was selected and the recommendation was made for the audit scopes, and was approved by the City Council, noting this is the second year of the contract with Atkinson & Company. She said SWMA approved its audit, noting it doesn't need to go to the Board for approval, because it is less than \$50,000 and was approved administratively by the Director. She said the Buckman Board will approve its audit at its meeting on Thursday.

Mr. Lierz asked about the BDD construction audit for 2010.

Ms. Garcia said, based on State Auditor rules, the City couldn't amend the contract, and their recommendation was to include it in this contract so there is a contract for 2010 for the construction, with a final construction report in 2011, and to do an audit report for the operation, which was part of the audit contract. So there is a commitment for the next 3 years to use the same auditor.

Mr. Lierz said he has no problem in keeping the same auditing firm due to the complexity of the audit. He asked if this includes the Housing Authority.

Ms. Garcia said the Housing Authority chose to select its own auditor, and as soon as the contract is approved by the State Auditor, staff will determine whether the Housing Authority is still a component unit. She understands the Santa Fe Housing Authority purchased the Espanola Housing Authority, so that is one change that might affect that designation.

Mr. Lierz said that purchase was forced on the Santa Fe Housing Authority by the feds, which he finds interesting.

Ms. Garcia said the City Attorney and the City's External Auditor will evaluate whether the Santa Fe Housing Authority will or will not be a component unit. She said the State Auditor changed the rule 2 years ago and allowed the Housing Authority to select its own auditor and not be part of the City audit.

Mr. Lierz said he read through part of the audit report for June 2010, and it appears the draft did include Espanola. He asked if we would be interested in merely monitoring to get the June 2011 audit in place.

Ms. Garcia said she doesn't know, because they usually contract with a third party. She understands that the first draft didn't include Espanola, and they had to go back and redo it. She can speak with the Director about this.

Mr. Lierz reiterated the audit he has includes Espanola.

Ms. Garcia said she understood they were doing the audit but it didn't include Espanola. However, when the auditors came in they found out they had to pick up Espanola in the audit report which extended the time to do the audit.

Mr. Lierz said the audit report is dated March 28, 2011, which explains the reason for the delay. He said the only interest we have as a Committee is that we know the Authority is in the process of trying to secure its current audit.

Ms. Garcia said if they don't meet the deadline that we impose on them to include a component unit, we can't issue a financial statement, so it becomes critical. She believes the State Auditor realizes that because the State Auditor gave the Housing Authority the option to select its own auditor, if they are late, then our audit is late as well if we have to include the Housing Authority as a component unit. She said when we went for our GFOA Certificate [Government Finance Officers Association], the component unit had to be in the financial statement for us to get that Certificate. She reiterated that the City will evaluate whether or not it will be included as a component unit.

Chair Moll asked when that will be done.

Ms. Garcia said as soon as the City procures the contract with the auditors, the City's auditor will make the test to determine whether or not it is a component unit, noting this is not a decision which is made by the Housing Authority's auditor.

There was a consensus among the Committee to request a report at the next Committee meeting on what actions the Housing Authority has taken to do its 2011 audit.

B. INFORMATION ON AUDIT PROCESS FOR FY 10/11

See item A above.

C. MEMO ON PROPOSED RESOLUTION

Mr. Lierz noted there is a Memorandum in the packet from Kathryn Raveling dated June 23, 2011. He said this Committee isn't doing a Resolution.

Chair Moll said Ms. Raveling is referring to the enabling Resolution for this Committee, noting she told Ms. Raveling that Resolution provides that this Committee's recommendation will be made to the Governing Body and the City Manager.

Ms. Garcia said Judith Amer, Assistant City Attorney, sent Ms. Raveling a copy of the Resolution, but Ms. Raveling thought this Committee would be making its recommendation through a Resolution.

Mr. Randall said Ms. Raveling misunderstood, and asked Ms. Garcia to advise Ms. Raveling that the Committee isn't planning to do a Resolution, and we understand that making recommendations is the extent of our authority.

Ms. Garcia said she would do so.

Mr. De Schweinitz said Ms. Raveling does touch on that in her Memo.

Ms. Garcia said she told Ms. Raveling that she is working on a timeline and a policy to be sure everyone provides the information needed on a timely basis. She noted they are posting accounts payable weekly instead of every two weeks, so they "upped all of the deadlines to accommodate that."

Mr. Lierz asked if Ms. Garcia is also dealing on a policy on cutoffs and subsequent adjustments.

Ms. Garcia said they used to do that, depending on the current auditor. She said the previous auditor said nothing is immaterial, and before issuing an opinion they would look at payables, and if there were payables "they made us book it." She said we have changed auditors, noting they are more comfortable with this auditor, and we don't have to book every payable.

Mr. Lierz said this will make the closings cleaner.

Ms. Garcia said, "So, right now, the only thing we determine when we see an account payable is that it is material to the fund, so then we can go ahead and book it. Of course, a payment for a cartridge for \$45 is material, so we do that."

Mr. Lierz said management needs to be clued in as well. He said if there is a line where you cut it off, and you have the support of the City Manager, it will be much cleaner going forward, because it will be the department directors who start "nit picking."

Ms. Garcia said with the new system, the departments are now capable of running their own purchase orders and verifying the information.

The Committee asked Ms. Garcia to send a copy of the packet to Ms. Romero-Gonzales.

9. OLD BUSINESS

There was no Old Business.

10. NEW BUSINESS

There was no New Business.

11. OTHER MATTERS FROM THE COMMITTEE

There were no Other Matters from the Committee.

12. NEXT MEETING DATE

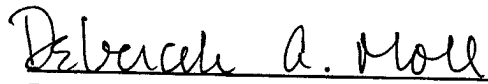
A. NEXT MEETING SCHEDULED FOR AUGUST 3, 2011

13. ADJOURNMENT

There was no further business to come before the Committee.

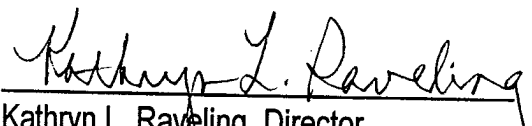
MOTION: Maurice Lierz moved, seconded by Randy Randall, to adjourn the meeting.

VOTE: The motion was approved unanimously on a voice vote, and the meeting was adjourned at approximately 3:40 p.m.

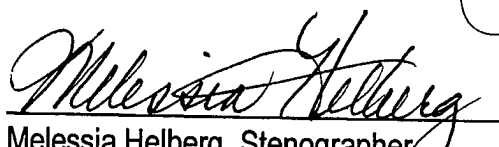


Deborah Moll, Chair

Reviewed by:



Kathryn L. Raveling, Director
Department of Finance



Melessia Helberg, Stenographer