



Agenda

CITY CLERK'S OFFICE

DATE 9/29/11 TIME 2:45 P

ORDER BY Yolanda Green

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
OCTOBER 5, 2011
2:00 PM

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

SEPTEMBER 7, 2011
5. DISCUSSION OF AUDIT COMMITTEE EXTERNAL AUDIT RECOMMENDATIONS WITH NEW CITY FINANCE DIRECTOR INCLUDING PROPOSED PLAN FOR IMPLEMENTATION AND PROPOSED PRESENTATION TO CITY COUNCIL
6. SUB-COMMITTEE REPORTS

Internal Auditor

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 for November 2, 2011
12. ADJOURNMENT

SUMMARY OF ACTION
 AUDIT COMMITTEE MEETING
 October 5, 2011

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DISCUSSION OF AUDIT COMMITTEE EXTERNAL AUDIT RECOMMENDATIONS WITH NEW CITY FINANCE DIRECTOR, INCLUDING PROPOSED PLAN FOR IMPLEMENTATION AND PROPOSED PRESENTATION TO CITY COUNCIL	Information/discussion	2-4
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**MINUTES OF THE
MEETING OF THE
CITY OF SANTA FE AUDIT COMMITTEE
City Councilors Conference Room
October 5, 2011**

1. CALL TO ORDER

A regular meeting of the City of Santa Fe Audit Committee was called to order on Wednesday, October 5, 2011, at approximately 2:00 p.m., by Vice Chair, Randy Randall, in the City Councilors Conference Room, City Hall, Santa Fe, New Mexico.

2. ROLL CALL:

MEMBERS PRESENT:

Hazeldine Romero-Gonzales
Randy Randall
Clark de Schweinitz

MEMBERS EXCUSED:

Chair Deborah Moll
Maurice A. Lierz

OTHERS ATTENDING:

Dr. Melville L. Morgan, Director, Department of Finance
Teresita Garcia, Deputy Director, Finance Department
Richard Mares, Internal Auditor, Finance Department
Melessia Helberg, Stenographer

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: Hazeldine Romero-Gonzales moved, seconded by Clark de Schweinitz, to approve the Agenda as published.

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

4. APPROVAL OF MINUTES – SEPTEMBER 7, 2011

MOTION: Clark de Schweinitz moved, seconded by Hazeldine Romero-Gonzales, to approve the minutes of the meeting of September 7, 2011, as amended.

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

5. DISCUSSION OF AUDIT COMMITTEE EXTERNAL AUDIT RECOMMENDATIONS WITH NEW CITY FINANCE DIRECTOR, INCLUDING PROPOSED PLAN FOR IMPLEMENTATION AND PROPOSED PRESENTATION TO CITY COUNCIL.

Dr. Mel Morgan said most recently he was the Deputy Superintendent and CFO for the Santa Fe Public Schools, and gave a brief overview of his experience with the public schools. He spoke about the things he hopes to do here, commenting that this is a wonderful opportunity and a new experience. He said he is committed to getting things submitted on time. His goal is we won't be late with the audit, given the understanding that there are many other things involved.

Dr. Morgan said it is important to have a document which communicates timelines and expectations, which is the Benchmarks/Timeline document included in the Committee packet, which was prepared by Ms. Garcia, who has done a great job on it. He said he is monitoring the document and checks it daily/every other day.

Dr. Morgan said in his experience it is important to address the audit findings, and once that is done, the auditors need to move to a new level and go a little deeper. He has never worked with an auditor that didn't find something, commenting this helps to make things more clear, clean and more efficient.

Vice-Chair Randall said the smaller problems become more important as the larger problems are resolved.

Dr. Morgan agreed, saying school boards, municipalities and audit committees think findings are a bad thing, with which he doesn't agree. He said reviewing the City's findings gives him a better idea of what needs to be done. He said addressing or not addressing the findings becomes the issue. He said this is his approach to these things and hopes it meets with this Committee's approval, and if not, he hopes they will steer him in the right direction.

Dr. Morgan noted he likes the Benchmark/Milestones document, and this is the way he operated in his "previous life." He said at the School District, he or his assistant would make a regular presentation to the School Board.

Acting Chair Randall said this Audit Committee is a new committee for the City, so, for the record "we are undoubtedly the best Audit Committee this City has ever had." He said because of that, this Committee is feeling its way along as to what its role should be, and timing of Dr. Morgan coming to the City is good, but there isn't a lot set in stone.

Vice-Chair Randall said this Committee, based on the enabling legislation creating this Committee, is composed of at least one attorney, one CPA, and one business consultant. He said this Committee was solicited and appointed by the Municipal Judge. However, he doesn't know how the members are continued or replaced. He said the Committee has made one presentation to the Finance Committee, but has not appeared before the Council for any purpose.

Vice-Chair Randall said he believes it is important for the Committee to, at least, make an annual report before the Council, probably in conjunction with the completion of the Audit. He thinks we need to get something set up, commenting that has been moot to this point because of the lateness of the audit. He said the Committee feels it needs to have a strong ongoing relationship with the Finance Director and the City Manager.

Vice-Chair Randall said the biggest finding this Audit Committee has had is the delinquency of the City in submitting its audit for whatever reason. He said the Committee has said it is important that the audits be timely submitted, so it becomes a useful tool for the City and that doesn't happen if they're so late. The Committee made a recommendation to the City, through the Finance Committee, that the Finance Department needs to set up a procedure which would cause it to get the audits timely submitted. However, the Committee didn't suggest a procedure, because we felt it was the Finance Department's job to work with the external auditor to do that.

Vice-Chair Randall said the Finance Committee told this Committee it needed to be more specific in its recommendation as to the procedure for doing this. He said this Committee discussed this with Ms. Raveling last month, and she was going to draft a procedure for us containing basic items. However, because of the transition, she felt, and the Committee agreed, it would be better to discuss this with Dr. Morgan as the new Finance Director.

Vice-Chair Randall said Dr. Morgan's opening remarks regarding timely submission of audits is one of the most important pieces of an implementation plan, which is the buy-in of the Finance Department to the importance of getting things done on time.

Dr. Morgan said in the schools it's just the opposite. The Audit Committee is a well established, ongoing historical committee with which he worked closely, noting there is a statutory provision for this. He said the Legislature enacted a provision for a schools finance committee, which contained little guidance. He said he loves working with this Finance Committee, and said perhaps he can help the Committee with its work.

Dr. Morgan said there are two pieces which are the "report card" of the Finance Committee and the finances of the City, which are the audit completed on time with findings

addressed, and whether or not it actually can meet its budget. He said another piece of meeting the budget is the bond advisor. He just had a long conversation this morning with the bond advisor, commenting that the bond rating is critical. He said the audit is used by Moody's, Standard & Poors, and others to establish the bond rating. He noted Santa Fe Schools was one of the two top School Districts in New Mexico for the highest bond rating, of which he is very proud. He said addressing the audit findings was a great part of that success.

Dr. Morgan said he and Ms. Garcia can take some notes and make the implementation piece very clear.

Vice-Chair Randall said it is a big picture concept.

Dr. Morgan said there are certain pieces which need to be built into the organization so when he leaves it should not matter, and things will continue to flow no matter who is the Finance Director. He said he pledges that he will use his experience to meet the goals of the Committee, and hopes we have the same goals.

Vice-Chair Randall asked Dr. Morgan to develop a draft implementation plan and distribute it through Chair Moll to the Committee meeting, for Committee review before the next meeting, so we hopefully can finalize that at the next meeting and get back to the Finance Committee with that recommendation.

6. SUBCOMMITTEE REPORTS

Vice-Chair Randall said this Committee created two subcommittees at its first meeting. One was the External Audit Subcommittee with Maurice Lierz and Clark de Schweinitz, and the Internal Audit Subcommittee with Hazeldine Romero-Gonzales and himself. He said the External Audit Subcommittee has been more efficient and expedient in doing its work. However, he and Ms. Romero-Gonzales will get their work done.

Vice-Chair Randall said he and Ms. Romero-Gonzales, through the Subcommittee, believe the work of the Internal Auditor should be done with more discipline and pre-planning, so the Internal Auditor does more fact finding and then moves on to do more internal audits. He said currently the Internal Auditor goes into a department/division where it is expected there is a problem(s), discovers the problem and then stays to fix it. He said you lose a little of the control you'd like to have when the person discovering is also doing the fixing, and then doing the review to be sure the problem is fixed. Secondly, it bogs-down the internal auditor, so they can't move on to do other things. He believes the Internal Auditor should do at least 6 internal audits per year.

Dr. Morgan said he really likes the idea of having an internal auditor.

Vice-Chair Randall said our Internal Auditor, Richard Mares, is incredibly talented and versatile, but is being misused, and part of the role of this Committee will be to work with Dr. Morgan to get this defined.

Mr. de Schweinitz said Maurice Lierz is very knowledgeable about all of this, and he is the one that really moved the work of their Subcommittee. He said their Subcommittee made the first recommendation which was presented to the Finance Committee. He asked Dr. Morgan if he has seen that recommendation and Dr. Morgan said he has. Mr. De Schweinitz said that will give Dr. Morgan an idea of where this Committee is coming from.

Ms. Garcia asked that Morgan Browning report next, so he can get back to his work on the City Audit.

Vice-Chair Randall exercised the prerogative of the Chair and said the Committee will hear the report from the External Auditor first under this agenda item.

B. EXTERNAL AUDITOR

Morgan Browning, Atkinson, Certified Public Accountants/Consultants, reported on the status of the audits. He said there are four audits – the Solid Waste Management Agency which is substantially complete and he will be meeting with SWMA to discuss the audit status, the Buckman Direct Diversion capital projects which was completed in August, the BDD Operating, and the City of Santa Fe noting they are in the planning process of that audit. He said in relation to the schedule provided by Ms. Garcia, they are meeting those numbers. He said it is more up to date, and a lot of the accruals are posted and he ran trial balances on Friday and those look good. He said they are meeting the deadlines in accordance with the schedule. He said this is the 4th year they have done the City audit, and he is committed to getting the audit submitted by the deadline. He said he is working overtime to get this done, as well as Ms. Garcia's staff, and they will do whatever is necessary to get the audit submitted on time this year.

Dr. Morgan said it is important to get the audit done on time, but it needs to be done well, and this is the piece that's important to him.

Vice-Chair Randall said the Benchmark document has been refined and updated, and it is now what the Committee wants it to be, and it is a useful tool.

Dr. Morgan said Ms. Garcia has done an outstanding job, and this Benchmark has been a well thought out piece.

Ms. Romero-Gonzales said the Committee has discussed the status of the Housing Authority, and asked the status – is it a component unit of the City.

Ms. Garcia said she and Dr. Morgan met with the City Attorney and Mr. Browning, and went through the checklist, and based on the check list it is not a component unit of the City. She said they finally got all the pieces together to have an agreement, based on the checklist, that the Housing Authority is not a component unit.

Vice-Chair Randall asked if the Housing Authority will now be responsible for having its own audit done.

Ms. Garcia said the Housing Authority always has been responsible for doing a separate audit, but it will not be included in the City's financial reports which means its findings will not be included in the City's Financial Statement.

Vice-Chair Randall said then its timeline would not be holding up the City, and Mr. Brown said, "Exactly."

Dr. Morgan said he has the letter to submit for documentation that the Housing Authority is not a component unit of the City, and he will be sending that out.

Vice-Chair Randall said although the Housing Authority is not a component unit, the City still has significant investment and concern.

Ms. Garcia said the structure of the Housing Authority was changed by HUD, noting previously it issued its contribution to the City and the City was responsible because the debt issued was backed by the City. She said two years ago, HUD forgave all debt to the Housing Authority, so there is now no debt tying the City to the Authority, so there is no responsibility by the City. She said the only thing the City does currently, in terms of the Housing Authority, is that the Mayor appoints the majority of the members of the Board. She said the Housing Authority mortgaged its property, but if it defaults, the City would incur none of the debt. The City has no oversight responsibility.

Vice-Chair Randall asked who provides oversight of the Housing Authority now.

Ms. Garcia said the Housing Authority will provide oversight, but it is responsible and accountable to HUD. She said last year the Santa Fe Housing Authority took control of the Espanola Housing Authority, and is now overseeing it at the request of HUD.

Mr. de Schweinitz said this Committee recommended that the External Auditor assist the City in preparing its financial statements and asked the status of that.

Ms. Garcia said that was included in the auditing contract.

Mr. Browning said the City does the majority of the work in preparing the Financial Statement and he provides oversight and puts the government-wide financials together. He said the contract provides a contingency for assistance if they need his help.

Ms. Romero-Gonzales asked if the vacancy in Finance has been filled.

Ms. Garcia said they did the interviews and will be offering the position to the person by the end of this week or early next week, noting all applicants were within the City, so it was a method of promotion.

Vice-Chair Randall invited Mr. Browning to attend next months meeting of the Committee.

Vice-Chair Randall asked who prepares the agendas for this Committee.

Dr. Morgan said it is prepared by the Chair and Yolanda Green, and said he would like to be included in that process.

Mr. De Schweinitz said Chair Moll prepares the Agenda for this Committee and she doesn't consult with the Finance Committee, and suggested Dr. Morgan speak with Chair Moll about this.

Ms. Romero-Gonzales said in other places the Internal Auditor reports to the Audit Committee.

A. INTERNAL AUDITOR

Ms. Romero-Gonzales provided a packet of information to the Committee as follows:

- a) Copy of an article from Report No. 17, AGA CPAG Research Series, dated November 2008, *Characteristics of Effective Audit Committees in Federal, State and Local Governments*;
- b) Copy of an article from the June 2010 *Internal Auditor*, **Governance Perspectives, Asking the Difficult Questions**;
- c) Copy of an article from aicpa.org/BIG, *Benefits of Audit Committees and Audit Committee Charters for Government Entities*, dated June 15, 2011;
- d) A copy of an article from *The IIA Research Foundation*, **20 Questions Directors Should Ask About Internal Audit**, by John Fraser and Hugh Lindsay; and
- e) A copy of *COSO'S 2010 REPORT ON ERM*, BY Mark S. Beasley, Bruce C. Branson and Bonnie V. Hancock.

These documents are incorporated collectively herewith to these minutes as Exhibit "1."

Ms. Romero-Gonzales would like the members to review these materials prior to the next meeting.

Responding to Ms. Garcia, Vice-Chair Randall said members can bring these materials to the next meeting, but it would be wise to have a spare copy(s) available for the meeting.

Mr. de Schweinitz suggested that Ms. Garcia send a set of these materials [Exhibit "1"] to Chair Moll and Mr. Lierz prior to the next meeting.

Mr. Mares said he is retiring from the City effective December 31, 2011, because he needs to care for his father, commenting it isn't fair to the City for him to be gone so much to do this.

Vice-Chair Randall suggested the Committee communicate with the appropriate person that Dr. Morgan be involved in the hiring process for an Internal Auditor.

Ms. Romero-Gonzales suggested this might be a good time for the Committee to make its recommendations for the restructuring of the position of Internal Auditor and propose it to the Finance Committee, noting that would fall in line with the new budget cycle and it could be included in the budget. Ms. Romero-Gonzales noted that in some other states, the Internal Auditor reports directly to the Audit Committee.

Mr. de Schweinitz said this isn't an Audit Committee composed of City Councilors and asked if that would make any difference.

Ms. Romero-Gonzales said no, and in those other states the Audit Committee is appointed "from all different directions."

Mr. de Schweinitz would like to get a broader understanding of the Internal Auditor position before Mr. Mares leaves.

Vice-Chair Randall said we need to properly communicate our recommendations to the City Manager regarding this position, especially if we are suggesting something different in terms of the job description and the structure regarding to whom he reports and to whom he is responsible. He said perhaps he and Ms. Romero-Gonzales could put together a recommendation for the next meeting with the idea of going to the City Manager in November.

Responding to Ms. Garcia, Vice-Chair Randall said there is an issue of to whom the Internal Auditor should report, as well as to whom he is responsible.

Dr. Morgan said he feels strongly that the Internal Auditor should not report to someone in Finance and should report to, for example, the City Manager.

Vice-Chair Randall agreed, but believes there should be more responsibility from Finance in terms of setting priorities. He said there should be no hire/fire/promote authority given to the Finance Department for this position.

Ms. Romero-Gonzales said she and Mr. Randall met with Mr. Mares the month before last, and he provided a lot of information on the City of Las Cruces's operation of its Internal Auditor, and they do have something the Committee can begin working on.

Ms. Romero-Gonzales asked Mr. Mares the status of the work he is doing currently.

Mr. Mares said he is working with the Police Department and providing guidance on a range of issues, noting they have had to clean up a lot of things. He will provide a written report on his work to the Police Chief and City Manager as promised, as well as to this Committee.

Ms. Garcia said, as discussed with the Police Chief and Deputy Chief, it is planned to collapse the business units and the funds for the Police Department so that it is more manageable – so there will be 3 major business units, noting this will be submitted to the Finance Committee and Council for approval. Ms. Garcia said there has been a lot of turnover at the Police Department, so we are giving them time to evaluate their needs.

7. STATUS REPORT FROM CITY OF SANTA FE FINANCE DEPARTMENT

Dr. Morgan said he has nothing else to add.

8. OLD BUSINESS

There was no old business.

9. NEW BUSINESS

There was no new business

10. OTHER MATTERS FROM THE COMMITTEE

A copy of the report from Cavanaugh Macdonald Consulting, LLC, *Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2010*, is incorporated herewith to these minutes as Exhibit "2."

Mr. de Schweinitz asked if the Committee will be appearing before the City Council in late October, and Vice-Chair Randall said he doesn't believe so.

Ms. Garcia provided a copy of the PERA actuarial report requested by Mr. Lierz to the members of the Committee [Exhibit "2"].

Vice-Chair Randall said, on behalf of the Committee, he would like to express that they believe he has a wonderful staffer in Ms. Garcia, and she has been very open and willing to work with the Committee. He said the Committee is delighted to have Dr. Morgan on board and to have some permanence in that position. He said the Committee is glad to be a resource for him, and

welcome his new ideas and approach, and would like him to attend the meetings on a regular basis if possible.

11. NEXT MEETING DATE

A. NEXT MEETING SCHEDULED FOR NOVEMBER 2, 2011

Vice-Chair Randall said he won't be able to that meeting, because he will be out of the country, and asked that he be shown as excused for that meeting.

12. ADJOURNMENT

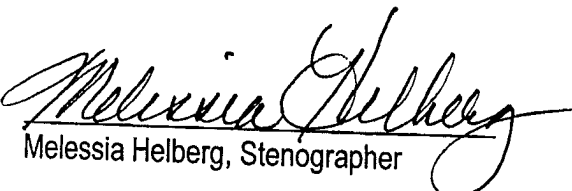
MOTION: Clark de Schweinitz moved, seconded by Hazeldine Romero-Gonzales, to adjourn the meeting.

VOTE: The motion was approved unanimously on a voice vote, and the meeting was adjourned at approximately 4:00 p.m.

Deborah Moll, Chair

Reviewed by:

Dr. Melville L. Morgan, Director
Department of Finance


Melessia Helberg, Stenographer

