



Agenda

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DATE 3/30/12 TIME 1:35
PREPARED BY Yolanda Green
[Signature]

CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
APRIL 5, 2012
2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
February 1, 2012
March 7, 2012
5. DISCUSSION OF PROPOSED NEW MEMBER
6. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT:
 - A. Gross Receipts Tax Report
 - B. Lodger's Tax Report
 - C. Draft Police Audit
 - D. Internal Auditor Documents for Consideration
 - E. External Audit – Status Reports
7. SUB-COMMITTEE REPORTS:
Internal Auditor
External Auditor
8. OLD BUSINESS
9. NEW BUSINESS
10. OTHER MATTERS FROM THE COMMITTEE
11. NEXT MEETING DATE:
 - A. Next meeting scheduled on May 2, 2012
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.

SUMMARY OF ACTION
AUDIT COMMITTEE MEETING
City Councilors Conference Room
April 5, 2012

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**MINUTES OF THE
MEETING OF THE
CITY OF SANTA FE AUDIT COMMITTEE
City Councilors Conference Room
April 5, 2012**

1. CALL TO ORDER

A regular meeting of the City of Santa Fe Audit Committee was called to order on Thursday, April 5, 2012, at approximately 2:00 p.m., by Chair Maurice A. Lierz, in the City Councilors Conference Room, City Hall, Santa Fe, New Mexico.

2. ROLL CALL:

MEMBERS PRESENT:

Maurice A. Lierz, Chair
Hazelidine Romero-Gonzales
Randy Randall
Clark de Schweinitz
[Vacancy]

OTHERS ATTENDING:

Dr. Melville Morgan, Finance Director
Teresita Garcia, Deputy Director, 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 packet for all agenda items are incorporated herewith to these minutes by reference. The original Committee packet is on file in the Finance Department. All handouts at the meeting are scheduled as exhibits to these minutes.

3. APPROVAL OF AGENDA

MOTION: Randy Randall moved, seconded by Hazeldine Romero-Gonzales, to add the CAFR and Findings under New Business, and to approve the Agenda as amended.

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

4. APPROVAL OF MINUTES – FEBRUARY 1, 2012 AND MARCH 7, 2012

The following corrections were made to the minutes of February 1, 2012:

Page 13, Paragraph 3 under New Business, add clarifying language as follows: "...I talked to her [Teresita Garcia] about it. And I know she'll Teresita Garcia] get it done."

Page 4, Paragraph 11, correct as follows: Chair Lierz asked if ~~said~~ the Audit Report has been submitted and is sitting at the State Auditor's Office.

MOTION: Randy Randall moved, seconded by Hazeldine Romero, to approve the minutes of the meeting of February 1, 2012, as amended.

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

Chair Lierz asked that the updated minutes of February 1, 2012, be corrected and transmitted to the members.

Chair Lierz said, "We say in the minutes that we have the minutes with all the attachments. I'm finding that does not exist. So, I think I would first ask that we get administrative support to manage the Audit Committee's minute and attachment files."

Ms. Helberg explained the City Clerk's Office does not, as a matter of practice, send the attachment with the original minutes.

Mr. Randall said, "What he's talking about is he's gone to the Finance Department Office and the attachments are not in the files."

Ms. Garcia asked what attachments the Chair is asking about.

Chair Lierz said, "Every set of minutes, we talk about all these exhibits and stuff."

Ms. Garcia asked the Chair if he wants the packet attached to the minutes.

Chair Lierz said yes.

Mr. Randall said, "Yes, and anything else that is handed out during the meeting."

Chair Lierz said he doesn't believe Committee members should be responsible personally for maintaining the official files of the Audit Committee.

Ms. Garcia said Yolanda Green keeps a notebook for each meeting with the packet included, along with a copy of the minutes. She said, "So what you want, is you want the minutes to be attached to the packet that they're referencing. Right now, what he wants is March 7th attached to last month's packet."

Ms. Helberg said she turns these into the City Clerk, and it would be simple to reference the packet similar to what is done for the City Finance Committee. However, anything that is not in the packet is scheduled as an exhibit to the minutes, and Ms. Garcia said copies of those will be added to the file for each meeting in the Finance Office.

Ms. Helberg noted that the handouts are scheduled as Exhibit "1" and so forth, and those handouts with the Exhibit number at the bottom should be in the packet.

Chair Lierz asked he signed the letter that was sent transmitting the status report, but he said he doesn't have a copy.

Ms. Garcia said anything which is done by the Committee between meetings – correspondence and such that is sent out – should go into the packet for the next meeting.

Chair Lierz said the letter he signed with the report to Council is not in this month's packet.

The following corrections were made to the minutes of the meeting of March 7, 2012:

Summary Index, Correct as follows: Add NEW BUSINESS as page 9."

Page 3, paragraph 5, line 1, under Item 6(A), correct as follows: "... Internal Audit Committee job description."

Page 3, Paragraph, under Item 6(A), correct as follows: "Dr. Morgan said he would do that. ~~all in the same~~."

Page 4, Paragraph 10, line 1, correct as follows: "...everyone ~~matched~~ agreed..."

Strike Page 5 in its entirety.

Page 6, Paragraph 1, line 2, correct as follows: ".. Replace "the College" with "Laureate."

Page 6, Paragraph 2, line 1, correct as follows: "... if ~~the College~~ Laureate..."

Page 6, Paragraph 2, line 2, correct as follows: " and principle only past the..."

Page 6, Paragraph 9, line 3, correct as follows: "...~~8-6~~ .86

Page 7, paragraph 2, line 1, correct as follows: "~~SWAMA~~ SWMA..."

Page 7, paragraph 1 under 7(A), correct as follows: "... Mr. Randall said previously discussed was that he and...."

Page 7, paragraph 2 under 7(B), correct as follows: "... should meet with the External Auditors...."

MOTION: Randy Randall moved, seconded by Hazeldine Romero-Gonzales, to approve the minutes of the meeting of March 7, 2012, as amended.

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

Chair Lierz said, "Let the minutes show that we are now at 2:37 p.m., and that we've only dealt with the minutes. We've got to create a procedure by which we're not being consumed by corrections to meeting minutes in approval of the minutes."

The Committee discussed the minutes, corrections to the minutes, and final corrected copies of the minutes, and it was the consensus among the Committee that Ms. Romero-Gonzales will work with staff to get corrections timely made to the minutes prior to the meeting where the minutes are to be approved, and Ms. Garcia and Ms. Helberg will work with Yolanda Green to get the corrected minutes to the Committee for final approval at the next meeting.

5. DISCUSSION OF PROPOSED NEW MEMBER.

Dr. Morgan said Judge Yalman has nominated Marc Tuppler to fill the vacancy on this Committee. He said there was a bit of miscommunication between he and the Judge, and she made this nomination while this Committee was still looking for an individual to nominate to the Judge to fill the vacancy.

Mr. Randall said, as requested by the Committee, he did communicate with the two other people who had expressed interest, and he received a resume from the gentleman, and a response from Mary saying she would send a resume, but she never did so. He said the one resume is on file with Yolanda Green in the event there is another vacancy. He advised both individuals that the Judge went ahead and filled the position while we were in this process.

Responding to Ms. Romero-Gonzales, Dr. Morgan said he understands the new person should be appointed by the Mayor at the Council meeting of April 25, 2012.

6. STATUS REPORT FROM CITY OF SANTA FE FINANCE DEPARTMENT

A. GROSS RECEIPTS TAX REPORT

Dr. Morgan reviewed the document, *Gross Receipts Taxes Collected* dated 03/15/2012, which is in the Committee packet, noting to date the GRTs are up about \$3.3 million over the projected budget. He said if you look at the pattern, the next 3 months including April are our lowest months. He is hoping to just stay even through the end of the fiscal year.

Dr. Morgan said he is cautiously optimistic about the financial situation, noting there are now more positive months with only a few negative months.

Mr. de Schweinitz asked where this information is heading this Committee.

Dr. Morgan said he believes it is giving the Committee an idea of the revenues and what the budget will be, where we're going, if we are going to be in good shape, and so forth.

Mr. de Schweinitz asked why this Committee is looking at this report, noting it is nice to know this information, but would like to know to what purpose.

Chair Lierz said, under the enabling Resolution, this Committee is to look at interim financial reports, and the flash reports on GRTs and Lodgers' Tax, would be interim financial results.

Mr. Randall pointed out we're only looking at the revenue side.

Chair Lierz said this is true, but it is historic information, and if we see trends that are adverse to what we think is happening in the economy, those could be a flag to say "here's an area you should investigate." He said this goes to due diligence, commenting he believes this is an evolutionary process.

Dr. Morgan said the quarterly report has been delayed somewhat because we are in the middle of the budget cycle, and this Committee will get those quarterly reports.

B. LODGER'S TAX REPORT

Dr. Morgan said Ms. Garcia and Accounts Receivable personnel are calling, sending letters, and making arrangements for people to pay their past due Lodgers' Taxes. He believes the Lodger's Tax is on target, and if we collected all the past due it would be about \$100,000, which is about 1%. He thinks the receipts are flat.

Dr. Morgan said past due Lodger's Taxes are subject to a monthly charge.

Chair Lierz said Mr. Randall said last month that the hotels are collecting the room charges which include the Lodgers' Tax.

Mr. Randall said this is indicative that the hotels may have cash flow issues.

C. DRAFT POLICE AUDIT

Chair Lierz said he would like for the minutes to show we acknowledge receipt of the draft report on the Santa Fe Police Department, and that the minutes show this is the first time we have seen this document, and the Committee is taking it under advisement.

D. INTERNAL AUDITOR DOCUMENTS FOR CONSIDERATION

Dr. Morgan said he and Ms. Romero-Gonzales have clearly delineated when this Committee will see drafts, when the Committee would have input.

Dr. Morgan said he read Mr. de Schweinitz's comments very carefully, and took them to heart, noting he sent a copy out after entering those corrections. He said there are only two pages which are the job description, and the rest of these are the guidance, direction, the work plan, the organization and so forth which makes the Internal Audit Department of one, at this point, function. He said inside is the list of what they do, when they do it, how they do it, what the steps are, where the draft goes, where the final copy goes, who they meet with, who they don't meet with – everything is in here.

Dr. Morgan said the only change he made was to the job description, so that it clearly says this position reports to the City Manager and the Audit Committee.

Dr. Morgan said then he went through and made changes so it would clearly say what the pattern of reporting was to be. He said he has sent this back and forth to the Committee several

times and it's getting to be old. He said it is in the in the plan, in the organizational picture, and it is in everything and ready to go. He said it will go, and once it goes, he will then need to school the City Manager on this document.

Dr. Morgan said he really needs this Committee to carefully read this one more time, and then we really need to be able to "call this done."

The Committee commented and suggested corrections as follows:

- Mr. Randall asked, "As an appointed Committee, without authority, how can the position report to the Audit Committee." He said it would seem the position should report to the City Manager, and perhaps have responsibility to the Audit Committee.
- Mr. de Schweinitz asked why it can't report to this Committee.
- Mr. Randall said, "Because we can't give direction. We have no authority. We're not hired. We're not elected. And I don't see how we can have any person reporting to us. I can see how there's a responsibility to keep us informed, but I don't see how it could be us and the City Manager. I guess the person reports to the City Manager."

Dr. Morgan said, "Right, but..."

- Mr. Randall said the position has a responsibility perhaps to the Audit Committee.

Dr. Morgan said he needs to provide some language for this change.

Dr. Morgan said the Committee needs to take the time to read through this document carefully, noting they don't have to read the last few pages because that is his and Ms. Gonzales-Romero's effort to make a checklist and an audit – pages 11 forward. He said, "What I need you to read carefully are pages 5-10, because it gives the detail and talks about them talking with you about the process of the audits and where they are with them, and all of that, and that's what I think we mean by Report. The Internal Auditor makes a Report to this Committee."

- Mr. Randall said, "But that's different than reporting to you, so I would suggest... you say you need wording, that they report to the City Manager and have a responsibility to the Audit Committee, and it is not a direct reporting situation.
- Mr. de Schweinitz said it needs to be made very clear that the Internal Auditor is supervised by the City Manager. He said he likes to get the reports, but we have no authority on those reports.

- Mr. Randall said when you say "reports to the City Manager," you aren't talking about giving reports. You are talking about who the person is responsible to, and that's not this Committee. He said, "This Committee can't hire or fire, and that's what reporting means. And it's a misnomer to say that the person reports to us. Now maybe the person makes reports to, that's where I'm saying has a responsibility to this Committee. I have no problem with that, but I don't want it said that there's any reporting situation from that individual to this Committee."

Dr. Morgan suggested language to the effect: "Has a responsibility to communicate and interact with the Audit Committee."

- Mr. Randall said he likes that language. He said, "The most important thing to the Internal Auditor is that that person reports to the City Manager, which makes that person able to deal with every other department in the City."
- Mr. de Schweinitz said, "I don't mind that language, but I would like something a little stronger, so that it is clear, when it says 'communicates with and interacts' which is fine, but does that mean we get drafts of these things."

Dr. Morgan said yes, noting that is in the document.

- Mr. de Schweinitz asked, "Are you sure that's real clear. That's the part that we can get hung up on I think, that we won't see anything."
- Ms. Gonzales-Romero quoted from page 7, under Draft Report, "The draft will be provided to the [City] Manager, the Audit Committee and anyone else deemed appropriate by the City Manager."
- Mr. Randall asked if it means City Manager there, because in the other places it specifically says "City Manager."

Dr. Morgan said yes, he just made a typo here by leaving out "City."

- Mr. de Schweinitz asked if this is a contract exempt position.

Dr. Morgan said he doesn't believe this should be an exempt position.

- Mr. de Schweinitz said, "I hope the position is part and parcel of the City administration. I don't want some outside contractor."

- Responding to Mr. Randall, Mr. de Schweinitz said he is reading from page 2, paragraph 4, "This is a contract, exempt position." He said he doesn't want this person to be a contract position.

Ms. Garcia said this position should be a classified, confidential position, noting confidential means the position is not a member of the union, and classified means it is a regular employee to be terminated only for cause.

Dr. Morgan said the position should be protected to some degree.

Dr. Morgan said we need to get this done, get it the way we want it, and then bring it back to the Committee at the next meeting for approval, and then move forward.

Ms. Gonzales-Romero said page 1 is the overall designation of Internal Audit, pages 2-3 are the job description, page 4 is the Code of Ethics, 5-10 are the nuts and bolts and 11 forward is the Risk Analysis which we haven't looked at it. She said this was taken from the State of Mississippi and there are a lot of references to "state" and "state personnel," so we need to look at this at a later date.

- Chair Lierz said on Page 5, under Audit Prioritization and Selection, paragraph 2, line 5, "director" should be the "internal auditor." The other Committee members were in agreement.
- Chair Lierz said on Page 5, the Audit Committee should be added to the first bullet. The other Committee members were in agreement.
- Chair Lierz said he would like to change the order of pages 6-10: 9 and 10 become new pages 6 and 7, and 6-7-8, become new pages 8-9-10, and leave pages 11 and forward as is. The other Committee members were in agreement
- Chair Lierz said on Page 9, paragraph 2, line 4, change as follows: "The annual audit plan shall be transmitted to the City Council for their general information." The other Committee members were in agreement
- Chair Lierz said on Page 9, paragraph 3, add the Audit Committee in the first bullet. The other Committee members were in agreement.
- Mr. de Schweinitz said he is trying to shore up the position, and make it more effective.

- Ms. Gonzales-Romero asked if the draft document the Committee just reviewed coincide with the proposed Resolution regarding drafts and reports and such, and Dr. Morgan said it does.

Chair Lierz asked that the minutes reflect that there is a draft Resolution for the Internal Audit Position, and asked where that Resolution is now in the process.

Dr. Morgan said Ms. Gonzales Romero is speaking about the Resolution sponsored by the Mayor and Councilor Wurzbarger which provides if you have a draft it has to be done in two weeks, and it has to be reported to everyone – any report of any kind. He said these are working papers and the Resolution doesn't address these.

Chair Lierz said he understood a proposed Ordinance establishing the Internal Audit Department was being drafted by City Legal. He said if the Committee is expected to review that Ordinance next month, he would like to see the working papers of the updated draft of this document and the draft Ordinance from legal, so we can approve these at the next meeting.

Ms. Gonzales-Romero would like a copy of the draft Resolution regarding reports and such for the next meeting packet, so the Committee can understand how it fits with what we do here.

E. EXTERNAL AUDIT – STATUS REPORT

A copy of the *Advisory Recommendation No. 1 External Auditing Process*, and the Memorandum transmitting the Advisory Recommendation to the City Council, Finance Committee, Mayor and City Manager, are incorporated herewith to these minutes as Exhibits "1" and "2," respectively.

A copy of a letter, with attached Status Report, dated March 12, 2012, signed by Chair Lierz, to the Mayor, Council and City Manager, is incorporated herewith to these minutes as Exhibit "3."

Chair Lierz said he understands the audit report ending June 30, 2011, has been finalized and approved by the State Auditor.

Dr. Morgan said he wants the minutes to reflect that Teresita Garcia did a yeoman's effort, and did an audit in 6 months and within a year completed two audits.

Mr. Randall said he would like the Committee to show appreciation to the wonderful response by Ms. Garcia to its major concerns when it was formed.

Chair Lierz asked Dr. Morgan when he will present the Audit Report to the Finance Committee.

Dr. Morgan said a number of things have to happen: Ms. Garcia is having the Report duplicated and put in the Councilors' boxes, and in the Mayor's hands, and Dr. Morgan has placed it in the City Manager's hands. The next step is to put it on the agenda for the next City Finance Committee meeting for approval.

Chair Lierz said he assumes the Finance Director will handle the presentation of the report the same as last year. The Audit Report was presented to Finance Committee, and the auditor was in attendance at that meeting. Mr. Lierz would also like the Advisory Recommendation and Memo transmitting the Advisory Recommendation to the Finance Committee [Exhibits "1" and "2"] to be reproduced and put in the Finance Committee packet.

Chair Lierz reiterated that he doesn't have a copy of the letter he signed transmitting this Committee's status report to the Mayor, City Manager and the City Council. He would like that document to be reproduced and put in the Committee packet as well.

It was the consensus among the Committee to proceed as recommended by the Chair, and the Chair should be in attendance to answer questions at the Finance Committee meeting of April 16, 2012, at 4:00 p.m.

Dr. Morgan said the presentation to the Finance Committee needs to be quick, because there are 8 budgets to review that evening.

Chair Lierz said if the written documents are in the Committee packet, then we can say we are there for support, noting the completed Audit Report is the action to our expressed concern.

Chair Lierz asked if the Committee has any additional completed audits in final form.

Ms. Garcia said they received the SWMA Audit Report, the City's Audit Report and they still are working on the Buckman audits.

Dr. Morgan noted he gave the Chair a copy of the Railyard Audit.

Chair Lierz would like a copy of the SWMA Audit Report to be mailed to him.

Mr. Randall said he would like a list of all of the City audits.

Ms. Garcia said that is the CAFR, SWMA, Buckman Construction and Buckman Operations, the Railyard and Lodgers' Tax.

Chair Lierz said he still wants to see the Housing Authority audit, noting the Mayor still appoints the Board, and he would like proof that the City is no longer responsible for the Housing Authority.

Ms. Garcia said that is part of the CAFR, and there is a letter in the packet that the Housing Authority is no longer a component of the City.

Ms. Gonzales-Romero said she would like a copy of that letter once it is received by the City.

7. SUBCOMMITTEE COMMITTEE REPORTS:

A. INTERNAL AUDITOR

Chair Lierz said this has been discussed.

Ms. Gonzales-Romero would like a copy of the draft Ordinance from Legal for this position.

B. EXTERNAL AUDITOR

Chair Lierz said their subcommittee didn't meet last month and therefore there is nothing to report.

Mr. de Schweinitz asked if the subcommittee will be meeting with the External Auditor.

Chair Lierz said Dr. Morgan proposed previously to meet with the External Auditor and this Subcommittee.

Dr. Morgan said the primary topic was to have a conversation with, and/or explanation from, the External Auditors about why they missed certain things, why certain things aren't included in the audit which should be there.

Mr. Randall said it seems that should be done at the May Audit Committee meeting, as opposed to being done with a subcommittee. He said it makes sense to meet as a subcommittee while things are being developed, but once we get the audit and we are hearing from the auditors,

that should be done with the entire Audit Committee in the same manner as the final review of the internal audit process is done.

Chair Lierz asked Mr. Randall if he wants to be involved in the planning of next year's audit.

Mr. Randall said no, he would like to have the discussion about this past audit with the External Auditors in a meeting with the entire Committee. He said meeting with the External Auditors on the CAFR should be a standard step taken by this Committee each year.

Chair Lierz asked if Mr. Randall is saying the subcommittee can't meet with the External Auditors.

Mr. Randall said, "No. I'm just suggesting you can meet with them any time you want, but I would like the External Auditors to meet with the Committee at its May 2, 2012 regular meeting to review the CAFR with the entire Committee.

Chair Lierz said there will be two meetings. One on May 2nd, 2012, and invite the External Auditors to attend and review the CAFR and its results. He said there will be another meeting of the subcommittee with regard to planning next year's audit, and report back to the full Committee.

8. OLD BUSINESS

Chair Lierz said, for the record, he still is interested in getting the cash/cash balances broken down in the CAFR format, and would like to have that analysis so he can read it in conjunction with the CAFR.

Ms. Garcia said that will come in early May.

Dr. Morgan said there are a number of findings in the Audit, each one of which he and Ms. Garcia have reviewed in detail, and indicated what the City will do to address them, noting they are doing two of them right now. He said his question to the auditor, with regard to the issue on technology, will be "when will we call it done and when will it quit appearing." He was able to get the language modified that certain pieces were addressed and certain pieces were not.

9. NEW BUSINESS

CAFR & FINDINGS

Dr. Morgan said Ms. Garcia has come up with a design, a plan and an implementation that started with this year's budget, which accounts for each person and each department which receives a grant(s) to account for it appropriately, which will address that issue.

Chair Lierz said since we just received the report, if they have questions after they meet with the auditors, those can be discussed at the May meeting, and asked if this is okay with the members of the Committee, and the members nodded assent.

10. OTHER MATTERS FROM THE COMMITTEE

Ms. Garcia said there is no problem in recommending to contract with the current auditor for another year, so we don't have to go out for RFP.

11. NEXT MEETING DATE

A. NEXT MEETING SCHEDULED FOR MAY 2, 2012

Mr. Randall said he may be unable to attend the next meeting, and his alternative would be to hold the meeting one day later.

12. ADJOURNMENT

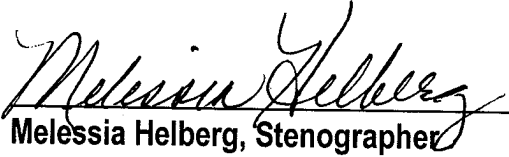
MOTION: Randy Randall moved, seconded by Clark de Schweinitz, to adjourn the meeting.

VOTE: The motion was approved unanimously on a voice vote, and the meeting was adjourned at approximately 3:50 p.m.

Maurice Lierz, Chair

Reviewed by:

Dr. Melville L. Morgan, Director
Department of Finance


Melessia Helberg, Stenographer



City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

David Coss, *Mayor*

Councilors:

Rebecca Wurzbarger, Mayor Pro Tem, Dist. 2

Patti J. Bushee, Dist. 1

Chris Calvert, Dist. 1

Rosemary Romero, Dist. 2

Miguel M. Chavez, Dist. 3

Carmichael A. Dominguez, Dist. 3

Matthew E. Ortiz, Dist. 4

Ronald S. Trujillo, Dist. 4

CITY OF SANTA FE AUDIT COMMITTEE

ADVISORY RECOMMENDATION NO. 1 EXTERNAL AUDITING PROCESS

**To: The Santa Fe City Council and the Santa Fe City Manager
pursuant to City of Santa Fe Resolution No. 2010-83**

City Council Resolution No. 2010-83 was approved by the Santa Fe City Council on October 13, 2010. Resolution No. 2010-83 establishes the City of Santa Fe Audit Committee (Audit Committee) to review and make recommendations regarding the City of Santa Fe's annual external audits and other matters. The Audit Committee serves in an advisory capacity to the Santa Fe Governing Body (City Council) and the Santa Fe City Manager (City Manager).

The Audit Committee has reviewed the external audit practices of the City of Santa Fe (City) for the fiscal years ending July 30, 2009 through the present and as a result of this review has determined the following:

Exhibit "1"



Issues Pursuant to the New Mexico State Auditor Act, and rules promulgated by the State Auditor, the City's external audit for fiscal year ending June 30, 2009 was required to be submitted to the State Auditor for review and approval no later than December 1, 2009. However, this audit was not completed and submitted to the State Auditor Office until July 12, 2010.

The City's annual external audits for the year ended June 30, 2010, which were required to be submitted to the State Auditor by December 1, 2010, also not submitted by this deadline and were not released for public inspection until August 5, 2011. Furthermore, the Buckman Direct Diversion Facilities, for which the City is the fiscal agent, have not been audited with respect to construction costs for the fiscal year ending June 30, 2010.

The failure to complete and submit these external audits to the State Auditor Office in a timely manner is not only contrary to the State Auditor Rule 2.2.2.9 NMAC, and the State Auditor Act, but also frustrates the timely review and evaluation of the City's fiscal affairs by various managers, committees and the City Council as well as the public, diminishing the usefulness of these audits. The lack of current and accurate financial data could also adversely impact the City's bond and other financial ratings.

Causes The reasons for the inability of the City to complete and submit its external audits in a timely manner are as follows:

1. The lack of adequate staffing in the Finance Department
2. The high rate of employee turnover in the Finance Department due, in part, to the lack of career ladders in that department
3. The inability to fill financial vacancies with experienced individuals
4. The acceptance of additional financial reporting responsibilities by the City without additional staff support, specifically, the fiscal agency responsibilities for the Solid Waste Management Agency and the Buckman Direct Diversion Facilities as well as the financial responsibilities related to the College of Santa Fe acquisition and the Railyard project (The external audit for the Santa Fe Housing Authority is done independently from those of the City of Santa Fe)
5. The shift in workload priorities from the completion of the Comprehensive Annual Financial Report (CAFR) to these additional financial reporting responsibilities preventing the external auditors from completing their audit of the City's Financial Statements and related entities on a timely basis for the past two years
6. The City implemented an updated accounting system in the year ending June 30, 2009 as well as a new payroll system in the year ending June 30, 2010

Recommendation Based upon the foregoing, the Audit Committee recommends that the following actions be taken by the City Council and the City Manager:

1. The City needs to formulate and execute **a plan** for the timely completion of external auditor contracts and the annual preparation of the City's CAFRs and its other fiscal agencies Financial Statements.
2. This plan must be given a **high priority** as part of the City's management of its fiscal affairs and in its annual budgeting process
3. This plan should include the dedication of certain Finance Department staff to the completion and submission to the State Auditor of annual external audits, as well as the hiring of additional staff dedicated to assisting current staff with these tasks and with their interaction with the external auditors and the development of a career ladder for existing and additional staff
4. The City must ensure that any fees assessed by it for additional fiscal agent financial services by the Finance Department are submitted to the City in full and in a timely manner and that these fees are budgeted and expended solely for the use of the Finance Department in its execution of these additional fiscal agent services.

Approved by the Santa Fe Audit Committee on this the 3rd day
of August 2011.

Signature of all committee members

Deborah A. Moll

Deborah A. Moll, Esq.

Chairperson

Randy Randall

Randy Randall

Vice-Chairperson

Clark de Schweinitz

Clark de Schweinitz

Member

Maurice Lierz

Maurice Lierz

Member

Hazeldine Romero Gonzales

Hazeldine Romero Gonzales

Member



City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

David Coss, *Mayor*

Councilors:

Rebecca Wurzbarger, Mayor Pro Tem, Dist. 2

Patti J. Bushee, Dist. 1

Chris Calvert, Dist. 1

Rosemary Romero, Dist. 2

Miguel M. Chavez, Dist. 3

Carmichael A. Dominguez, Dist. 3

Matthew E. Ortiz, Dist. 4

Ronald S. Trujillo, Dist. 4

Date: August 22, 2011

To: The Santa Fe City Council, Finance Committee, Mayor and City Manager

From: The City of Santa Fe Audit Committee

**Re: Audit Committee Advisory Recommendation No.1, External Auditing
Process (attached)**

The City of Santa Fe Audit Committee (Committee) was created pursuant to Santa Fe City Council Resolution No. 2010-83 to review and provide advisory recommendations to the City Council and City Manager regarding various City of Santa Fe (City) financial procedures including its external auditing process

The Audit Committee (Committee) has reviewed the City's external audit process and has determined that the City has failed to submit several crucial audits to the State Auditor Office for review and approval by the submittal deadline mandated by the State Auditor. Such delays hinder the ability of the City to make budgetary decisions based upon current and accurate financial data, as well as the ability of the City to address errors in its financial and auditing processes and could adversely impact the City's bond and other financial ratings.

The Committee has found that the delays were the result of structural issues including the lack of adequate staffing in the Finance the Department (Department), the high rate of employee turnover and lack of career ladders in the Department, the inability of the Department to fill vacancies with experienced

Exhibit "2"



August 22, 2011

Letter Regarding Audit Committee Recommendations

Page 2 of 2

individuals and the shift in workload priorities from the City's completion of its Comprehensive Annual Financial Report (CAFR) to the Department's substantial fiscal responsibilities regarding other entities such as the Buckman Direct Diversion Facilities.

The Committee's recommendations includes giving priority to the formulation by the City of a plan for the timely completion of audits, supplementation of Departmental staff, dedication of staff to the completion of the CAFR and the collection and dedication to the Department of any fees assessed by the City for fiscal agent services.

The Committee thanks the Mayor, the City Manager, the staff of the Finance Department and the Public Utilities Department, the Internal Auditor and the City Attorney's Office for their cooperation and assistance regarding this and other issues considered by the Committee.

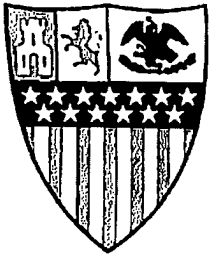
The Committee would be happy to address any questions or concerns regarding this advisory recommendation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Deborah A. Moll".

Deborah A. Moll, Chair

City of Santa Fe Audit Committee



City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

David Coss, *Mayor*

Councilors:

Rebecca Wurzbarger, Mayor Pro Tem, Dist. 2

Patti J. Bushee, Dist. 1

Chris Calvert, Dist. 1

Peter N. Ives, Dist. 2

Carmichael A. Dominguez, Dist. 3

Christopher M. Rivera, Dist. 3

Bill Dimas, Dist. 4

Ronald S. Trujillo, Dist. 4

March 12, 2012

To: Mayor David Coss
The Santa Fe City Council
City Manager Robert Romero

Dear Mayor Coss, City Councilors and Mr. Romero:

City of Santa Fe Resolution No 2010-83 established the City of Santa Fe Audit Committee to review and make recommendations regarding the City annual external audits and other matters.

The Municipal Judge selected the five Committee members, whom the City Council subsequently approved. The Committee met for 11 scheduled committee meetings in 2011. The five Committee members are:

Deborah A. Moll, Esq., former Chair (resigned January 2012)

Maurice A. Lierz, Chair

Randy Randall, Vice-Chair

Clark de Schweinitz

Hazeldine Romero

The Committee members appreciate Deborah Moll's leadership and participation as Chairperson during 2011. Municipal Court Judge Ann Yalman is working to find a replacement to fill the vacancy on the Committee.

Audit Committee meetings and discussions encompassed a variety of topics and issues. The Committee's activities and accomplishments during 2011 are included in the attached report.

Please feel free to contact us if you have any comments or questions regarding our activities. We are pleased to serve the City in this advisory capacity.

Sincerely,

Maurice Lierz, Chair
City of Santa Fe Audit Committee

Copy to: Dr. Melville L. Morgan
Finance Director

Exhibit "3"

2011 AUDIT COMMITTEE ACTIVITIES

The City of Santa Fe Resolution No 2010-83 established the City of Santa Fe Audit Committee to review and make recommendations regarding the City annual external audits and other matters. The Municipal Judge selected the five Committee members, whom the City Council subsequently approved. The Committee met for 11 scheduled committee meetings. Audit Committee meetings and discussions encompassed a variety of topics and issues. The Committee's activities and accomplishments during 2011 are discussed below.

The Committee:

1. Organized Committee activities establishing sub-committees to focus on the external audit process and the internal audit process. The Committee met with the City Manager, City Finance Director, City Attorney's Office staff, City Internal Auditor, several City Department staff and the City's external auditors to obtain information and documents to understand our role as a Committee and to expand our collective knowledge of City operations.
2. Reviewed the City's Comprehensive Annual Financial Reports (CAFR). The State Auditor requires the City to submit the reports by December 1. The City issued the June 30, 2009 CAFR on July 12, 2010. The City issued the June 30, 2010 CAFR on July 6, 2011. The Committee brought strong focus to the timing of the external audit process and the result was an advisory recommendation to the City Finance Committee for the Finance Department to address issues that delayed the audit process. As a result, the Finance Department was far more prepared for the audit process for the fiscal year ended June 30, 2011 and more organized and deliberate.
3. Worked with the Finance Department, Internal Auditor and City Manager to completely reorganize and restructure the City's Internal Audit process. This includes revising the stated mission, job description and oversight, and the need for a risk-based analysis of all City functions.
4. Worked with the Finance Department to understand the methodology for establishing the stated values of the various City assets and liabilities, and the subsequent disclosures in the CAFR, particularly concerning City land and water resources, employee retirement and pension plans and other post-employee benefits. Disclosure of all the City's assets and liabilities could have a future bearing on the City's bond ratings. Currently, the City has retained a rating of AA+.

2011 AUDIT COMMITTEE ACTIVITIES

5. Reviewed the status of the Santa Fe Civic Housing Authority as a discretely presented component unit of the City. In the year ended June 30, 2011, the City and its external auditors determined the Authority is no longer a component unit of the City. The Committee requested the Finance Director provide the justification for such a position for our review.
6. Monitored the cash positions of over 600 cash accounts for the various City operations. We continue to request a breakdown of these cash balances by division and department, related to the CAFR, for cash management and budgetary purposes.
7. Reviewed the Finance Director's cost allocation plan. The plan is a formulated approach to fairly distribute fixed overhead costs to the enterprise funds, joint ventures, grants and eventually, to all City operating departments. This plan may affect future City negotiations with the County on joint water operations. The Committee is concerned that current administrative fees do not fairly cover the costs to meet its fiscal agent responsibilities for these City functions.
8. Made initial inquiries of the City's vulnerability to business interruption and its crisis management. The 2012 Capital Improvement Bond contains funding for City computer systems to include proper back up of data.