



Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
Tuesday, December 11, 2012
2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
November 7, 2012
5. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT:
 - A. Introduction of internal auditor
 - B. Presentation and discussion of benchmarks and targets for accomplishing 2012 CAFR
 - C. Gross Receipts Tax Report
 - D. Lodger's Tax Report
 - E. Investment Report and Cash and Investment Balances
 - F. Debt Management Policy
 - G. Status of Audits: BDD
6. SUB-COMMITTEE REPORTS:
 - Internal Audit
 - External Auditor
7. OLD BUSINESS
8. NEW BUSINESS
9. OTHER MATTERS FROM THE COMMITTEE
10. NEXT MEETING DATE:
 - A. Next meeting scheduled on January 2, 2013
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 INDEX
CITY OF SANTA FE
AUDIT COMMITTEE
December 11, 2012

ITEM	ACTION TAKEN	PAGE(S)
1. CALL TO ORDER		
2. ROLL CALL	Quorum Present	1
3. APPROVAL OF AGENDA	Approved as modified	1
4. APPROVAL OF MINUTES October 3, 2012	Approved as presented	2
5. STATUS REPORTS		
A. Introduction of Internal Auditor	Introductions	2
B. Benchmarks & Targets for 2012 CAFR	Reported	2-4
C. Gross Receipts Tax Report	Reported	4-5
D. Lodgers' Tax Report	Reported	5-6
E. Investment Report/Cash & Investments	Reported	6-7
F. Debt Management Policy	Discussion	7
G. Status of Audits: BDD	Included above	7
6. SUB-COMMITTEE REPORTS		
A. Internal Audit	Reported	7
B. External Auditor	No report	7
7. OLD BUSINESS	Discussion	7
8. NEW BUSINESS	None	7-8
9. OTHER MATTERS FROM THE COMMITTEE	None	8
10. NEXT MEETING DATE: January 10, 2013	Announced	8
11. ADJOURNMENT	Adjourned at 3:36 p.m.	8-9

MINUTES OF THE
CITY OF SANTA FÉ
AUDIT COMMITTEE

December 11, 2012
2:00 p.m. – 4:00 p.m.

1. CALL TO ORDER

A regular meeting of the City of Santa Fé Audit Committee was called to order by Chair Maurice Lierz on this date at approximately 2:00 p.m. in the City Councilors' Conference Room at City Hall, 200 Lincoln Avenue, Santa Fé, New Mexico.

2. ROLL CALL

Roll call indicated the presence of a quorum as follows:

Members Present:

Maurice A. Lierz, Chair
Hazeldine Romero-Gonzales
Randy Randall
Marc A. Tuppler

Members Absent:

Clark de Schweinitz [Excused]

Others Attending:

Melville L. Morgan, PhD, Director, Department of Finance
Teresita Garcia, Deputy Director, Department of Finance
Lisa Kerr, Internal Auditor
Carl Boaz, Stenographer

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

3. APPROVAL OF AGENDA

Mr. Randall moved to approve the agenda as modified. Ms. Romero-Gonzales seconded the motion and it passed by unanimous voice vote.

4. APPROVAL OF MINUTES – October 3, 2012

Mr. Randall moved to approve the minutes of October 3, 2012 as distributed and reviewed. Mr. Tuppler seconded the motion and it passed by unanimous voice vote.

5. STATUS REPORT FROM CITY OF SANTA FÉ FINANCE DEPARTMENT

Dr. Morgan said B and G would be reported by Ms. Garcia.

A. Introduction of Internal Auditor

Dr. Morgan introduced Ms. Lisa Kerr who has already started working. He asked her to talk about her background.

Ms. Kerr thanked the Committee for the opportunity and looked forward to working with the Committee. She described her academic and work history to the Committee. Her work included several large firms in a variety of functions including audit and IT. She said in her role they needed to define the audit universe and then do risk assessment on which part would be most critical. Some are on an annual basis and others as they could be rotated in. If she was doing all of it, the Committee would need to accept the risk involved and how to schedule the hours for what auditors were needed. It was a lofty goal but it could be done.

Chair Lierz was grateful to have her here. He explained that the Audit Committee was formed about two years ago after the State Auditor recommended that the City of Santa Fé have an internal Audit Committee. The City Council passed a resolution and asked the City's Municipal Judge to select five people to serve on the committee So Judge Yalman did the selection instead of being appointed by Mayor Coss but the Council did approve the membership. One member had to retire last year and Mr. Tuppler joined the Committee. In the process, the Committee formed a subcommittee to try to deal with who we should become - particularly for internal audit. The Committee put four documents together.

Dr. Morgan said they were working on the risk assessment document. The others she had seen. The next step is to get the plan in place to look at all of the risk and prioritize the components.

Chair Lierz said they have had two subcommittees. One was for internal audit and they did a lot of the work. He and Mr. de Schweinitz served as the external audit subcommittee.

Everyone introduced themselves to Ms. Kerr.

B. Presentation and discussion of benchmarks and targets for accomplishing 2012 CAFR, etc.

B.1. BDD Project – 2012 Operating Audit Report

Ms. Garcia reported completion of the field work for Water and, working on 2012, had a draft portion and she was making sure changes were made and reconciled on the overall project.

She shared the BDD 2012 operating audit which had not yet been submitted to the State Auditor because the Auditor doesn't acknowledge Buckman Direct Diversion as an agency. Page 6 gave the background of the Proprietary Fund (City, County, and Las Campanas). They made clear that it was a reimbursement fund (doesn't generate its own revenue). Page 8 gave the reimbursements to the 3 partners. The City had the bulk of them. Some were fixed percentage and others were variable, based on use.

Page 10 showed a cash overdraft because they were between operating and capital. They put reimbursements below operating expenses to show it as reimbursed. Page 13 showed the basis of accounting and statement on cash.

She explained that they never true up the cost when they did fee billing but just kept adding more cash to it. Since they hadn't used the whole budget there was an excess of cash and they were in the process of changing that. They would go with a 90-day cash reserve and true up every month to avoid excess cash. Las Campanas didn't have the cash to keep putting in more and needed their cash flow. The County wanted more control over the investments for lots of projects.

Mr. Randall noted on page 16 in Note D that it didn't have a separate bank account. He was surprised since it came from three entities.

Ms. Garcia explained that City as Fiscal Agent always used the city's bank account. She clarified that all transactions were balanced transactions. Using the white board she showed the structure involved using fund accounting.

Chair Lierz noted this report was the first two months of operations.

Ms. Garcia agreed - it was the first two months of operation plus costs incurred during construction.

Chair Lierz asked if those costs were considered operation rather than construction. Ms. Garcia agreed.

Chair Lierz asked if the Committee would receive a final report for construction. Ms. Garcia agreed.

Chair Lierz recalled the audits were late because there were policy issues that must go through the BDD Board and get City and County to agree to the final construction costs.

Ms. Garcia agreed. The revenue BDD received had to be split correctly between City and County.

Mr. Tuppler asked about the costs of construction.

Ms. Garcia said the costs were within budget at \$3,256,000. There are still environmental mitigation costs. The report will probably be ready in January. It is in draft form now.

Ms. Garcia added that the BDD didn't have their own retirement or health plans so the employees were all city employees. So BDD was part of the City. Any costs for employees afterward will have to be

absorbed by City or go back to their agency. She explained that BDD was a fund in the City budget and staff members were all city employees. But BDD was not part of the City's audit reporting because they put the costs under the Water Division.

Chair Lierz added that BDD had separate managers who reported to the BDD Board.

Ms. Garcia agreed and the BDD Board had two members from the City; two from the County and one at-large. They have a director who answers to the City for reporting.

B.2. 2012 CAFR

Dr. Morgan said December 1 was the due date for the 2012 CAFR report but he had heard it would be done by the end of the month.

Ms. Garcia said the auditor told her it would be mid-January but she didn't know how realistic it was. Whether they hit the due date for next year would depend on events during the year. If nothing unusual happened they could probably hit it. Farmington was about the only city reporting on time. Albuquerque and Las Cruces are often late.

Mr. Randall understood it wasn't due to the audit firm or internal issues but just because it was so big and complex.

Ms. Garcia agreed. Moss-Adams had a hard time understanding the complexity of the City. They had to report gain and loss on investment to the State Treasurer. The certificate of achievement from GFOA is nationwide. Because the City was late we lost that. Their deadline nationwide is December 31. That has a big impact on our bond issues.

Chair Lierz noted their next meeting was January 2 and as due diligence he would like the status report. The external auditors are invited to the first Finance Committee meeting to give their status report.

Ms. Garcia said January 2nd would be a hard day for staff.

Chair Lierz said they could select another date then and have 6-8 pages of the items. He also would like to have the status of the various audits too.

Dr. Morgan agreed. One of those was for Lodgers' Tax that the City contracted out in the past to do limited procedure audit on Lodger Tax. It is disclosed in a matrix. There are five audits. They also tried to follow the Housing Authority that was done separately.

C. Gross Receipts Tax Report

Dr. Morgan the GRT report comes to Audit Committee after the Finance Committee. Last year it was up 4% and was rolled over to this year. In tracking it for the year he tried to shoot for plus or minus 1

deviation. Right now they were right on track -and the variation is only up and down just slightly.

D. Lodger's Tax Report

Dr. Morgan noted that Lodgers Tax revenue was way up over last year.

Mr. Randall recalled that 40% of that tax happened in the week between Christmas and New Year's - thought it would be soft this year.

E. Investment Report and Cash and Investment Balances

Dr. Morgan said Ms. Hausman couldn't be here today. He suggested taking this report and looking at it. The City takes the funds and puts them together for the investment pool and then separates them out. It gives better interest rates and more choices. What was heartening was the weighted interest yield which was very good compared to personal accounts but not compared to a few years ago. The investments were listed in the report and he couldn't provide much detail about it.

Mr. Tuppler thought it would be great to have Ms. Hausman here in January.

Mr. Randall asked about the policy on keeping in cash.

Dr. Morgan said they were required to keep 1/12. There was once an ordinance for 1/10 but it was never completed. The minimum is about \$6.5 million. He explained that there was restricted cash and accessible cash and many different things involved in distinguishing them.

Ms. Garcia said a true comparison would be on a month-to-month basis.

Mr. Randall referred to page 11 and asked how the Committee would know how much of that was committed money that couldn't be used for anything else - restricted or committed.

Ms. Garcia said she went back to the funds. We know out of that amount what is construction in progress funds and how much is in enterprise funds.

Mr. Randall granted that she knew but the Committee didn't so he asked how much of that \$230 million was available for what the city could use.

Ms. Garcia offered to run a report for the Committee and could do it on a month-to-month basis if that was wanted.

Mr. Tuppler noted they had a capital breakout.

Mr. Randall agreed but it was eight months old when the Committee got it. He explained that if the City was getting 0.7% on investment income and paying 4-5% on loans or even 2% and if there was money to

get rid of loans the Audit Committee could see if the City was being prudent about it.

Dr. Morgan said there were some state and federal restrictions to consider too. He said the usual report was quarterly instead of month-to-month.

Mr. Tuppler thought quarterly would probably be better for tracking trends.

Chair Lierz wanted to see the June 30 2012 cash reports broken out and then see how the Committee could relate it to CAFR so they could drill down below the CAFR numbers. And then they could review it quarterly because they were not trying to create bureaucratic burdens.

Chair Lierz asked if the City had a cash investment policy.

Dr. Morgan agreed to provide copies to the Committee.

Chair Lierz said debt management policy was another way to look at this - by dovetailing cash management policy with debt management policy. That could be used for good policy decisions.

Mr. Tuppler thought it was wise for the Committee to understand both because they went hand in hand.

Dr. Morgan agreed to make sure the Committee has that.

F. Debt Management Policy

Dr. Morgan said the City really didn't have a debt management policy and he had explored lots of places in New Mexico for comparison. Albuquerque has one that is incredibly detailed. Most municipalities don't have one. A woman in El Paso created one using GFOA so he got a copy and edited out all Texas stuff and inserted New Mexico stuff and sent it to various people for review and editing. Ms. Garcia and Ms. Kerr need to look at it. This draft was as much as he could get done. It really did set the parameters on how debt is managed. It would fit together with the cash policy so he was asking for the Committee's input.

Chair Lierz asked if the Committee should set up a subcommittee to look at it.

Dr. Morgan said if the Committee could pick a date by which members could submit input before the January meeting it would help greatly.

Mr. Randall didn't think it needed a subcommittee.

Chair Lierz was excited with what he saw being disclosed. That's where he started thinking how it dovetailed with cash policy.

Mr. Tuppler asked what they were attempting to do with the policy.

Chair Lierz thought if done well, one of the consumers would be the City Finance Committee. It would

help guide decisions about funding a project. The Railyard was a good example. The Audit Committee members are not the policy makers but with an established policy the City wouldn't need to rush out to issue bonds for every capital project.

Ms. Garcia said debt policy is a tool and it would need to be tested before presenting it as a tool. She was looking at it as a tool for staff to make recommendations to the Finance Committee. So when staff was asked if the City should go for a bond issue staff would know how to answer that. So it is a structured exercise to make the determination to the Governing Body to make that decision.

Mr. Tuppler agreed that debt had its place in finance structure and it needed to be not too much or too little.

Ms. Garcia said how we apply it is important and needed the expertise on how to apply it. Staff needed the criteria to use to present the options to the Governing Body.

Chair Lierz asked for this to be sent to the members including Mr. de Schweinitz and give a due date for responses.

Dr. Morgan asked for comments by January 4th.

G. Status of Audits

This item was included in the discussion above.

MEETING SCHEDULE FOR 2013

Dr. Morgan asked when the Committee wanted to meet in January.

The Committee agreed on Thursday, January 10th. At 2:00.

Mr. Randall said July 3rd would not be a good day to meet.

Dr. Morgan agreed to look for alternate date for July.

6. SUB-COMMITTEE REPORTS:

A. Internal Audit

Chair Lierz thanked the subcommittee for their achievements and getting the internal auditor.

B. External Auditor

Chair Lierz said he had conferred with Dr. Morgan and Ms. Garcia on giving reports.

7. OLD BUSINESS

Ms. Romero-Gonzales said the Committee had considered doing something on the Open Meeting Act but the City falls under the State statute.

Dr. Morgan said the City Attorney said the Committee could not change it.

Chair Lierz noted the City had an AA bond rating asked why the City didn't have AAA. He found out from a bonding company that it was because the City relied on the tourist industry which in bond rating companies is a risky basis. The Santa Fé Chamber of Commerce has always had 3-legged basis. First is governmental offices; second is the tourist industry; and third as a trade hub for northern New Mexico. For the NMSA of Santa Fé and Los Alamos they ranked under 275th in the nation. So companies see that.

In dealing with Los Alamos activity LANL has a \$2.5 billion operating budget and more funding in its construction budget. So if Santa Fe has secure funding with the labs it would help mitigate the "not stable" category with the bond rating agencies.

Dr. Morgan agreed they needed another income source besides tourism. The bond raters want something that is more stable. There are very few municipalities that have maintained their bond rating. He agreed to keep working on it but felt the City needed to keep the AA bond rating first.

8. NEW BUSINESS

There was no new business.

9. OTHER MATTERS FROM THE COMMITTEE

There were no other matters from the Committee.

10. NEXT MEETING DATE – January 10, 2013

11. ADJOURNMENT

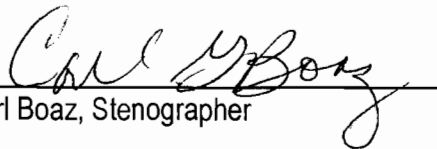
Ms. Romero-Gonzales moved to adjourn the meeting. Mr. Randall seconded the motion and it passed by unanimous voice vote.

The meeting was adjourned at 3:36 p.m.

Approved by:

Maurice Lierz, Chair

Submitted by:



Carl Boaz, Stenographer