City of Santa Fe

Agenda

CITY CLERK'S OFFICE
DATE 3-29-13 TIME 2:50
SERVED BY Yolanda Green
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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
Wednesday, April 3, 2013
2:00 P.M.

1. CALL TO ORDER

2. ROLL CALL

3. APPROVAL OF AGENDA

4. APPROVAL OF MINUTES:
   March 6, 2013

5. Update from Robert Romero on status of Finance Director
   1. Assignment of Liza Kerr as the City of Santa Fe Liaison to the Audit Committee

6. Report from External Auditor: Status of 2012 Audit Completion, Vote on Recommendation to Present to Finance Committee

7. STATUS REPORT FROM CITY OF SANTA FE, AUDIT & FINANCE DEPARTMENTS:
   A. Status of Audits
   B. Internal Auditor: Update on Risk Assessment Process, Audit Plan
   C. Gross Receipts Tax Report
   D. Lodger's Tax Report
   E. Debt Management and Cash Policies Discussion/Work – Helene Hausman
   F. Debt Report – Update

8. SUB-COMMITTEE REPORTS:
   - Internal Audit
     - ALGA Benchmarking Results
   - External Auditor

9. OLD BUSINESS
   - Second Yearly Report Discussion (Committee)

10. NEW BUSINESS

11. OTHER MATTERS FROM THE COMMITTEE

12. NEXT MEETING DATE:
    - Next meeting scheduled on May 1, 2013

13. 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 FÉ
AUDIT COMMITTEE
April 3, 2013

MINUTES OF THE

CITY OF SANTA FÉ

AUDIT COMMITTEE

April 3, 2013
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 A. 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
Randy Randall
Hazeldine Romero-Gonzales
Clark de Schweinitz
Marc A. Tupler

Members Absent:

Others Attending:
Teresita Garcia, Deputy Director, Department of Finance
Liza Kerr, Internal Auditor
Robert Romero, City Manager
Martin Mathisen, Atkinson certified public accountants
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 presented. Mr. Tupler seconded the motion and it passed by unanimous voice vote.

4. APPROVAL OF MINUTES

March 6, 2013

Mr. Randall moved to approve the minutes of March 6, 2013 as presented. Ms. Romero-Gonzales seconded the motion and it passed by unanimous voice vote.

5. Update from Robert Romero on status of Finance Director.

Mr. Romero heard back from several staff members of the possible resignation of Dr. Morgan during the budget process. He then looked back to others that had applied when Dr. Morgan was hired.

He explained that he didn't want to promote anyone from within because it would leave a big hole in current staff. He had made a selection and would announce it as soon as the terms were worked out. The appointee once worked in the State Auditor's office and he would likely be on board fully a week from Friday.

Mr. Randall clarified that Dr. Morgan might have mentioned his departure to individuals but not to the Audit Committee. He thought it was great that Mr. Romero moved ahead and found a qualified person so quickly.

Mr. de Schweinitz asked if Dr. Morgan resigned or was terminated.

Mr. Romero said he resigned.

A. Assignment of Liza Kerr as the City of Santa Fé Liaison to the Audit Committee

Mr. Romero announced that he had assigned Ms. Kerr as liaison to the Audit Committee. He shared his memo to Dr. Morgan on March 4, 2013 [attached as Exhibit A]. Mr. Romero said having Ms. Kerr be the liaison for the Audit Committee would help smooth it out. She would be the liaison for the foreseeable future. He asked how the Audit Committee felt about that.

Mr. Randall thought that would work but noted that the Financial Director's work with the Audit Committee was also important.

Mr. Romero said he would ask the new Finance Director to also attend these meetings.

Mr. Randall explained that the Committee was trying to be protective of the internal auditor's time with all she had to do. The Audit Committee was excited about what she could accomplish but she needs the space to do it.

Ms. Kerr said she was getting good support from the Finance staff. Yolanda Green was preparing the agenda and the attachments. She asked the members to get anything they wanted on the agenda at least by the Friday before. That would be helpful.

6. Report from External Auditor: Status of 2012 Audit Completion

Mr. Mathisen said the CAFR was final as of two weeks ago. He provided a handout that he used to walk through the CAFR. They were listed in a hand out [attached as Exhibit B] which he reviewed with the Committee. The first section dealt with Items on the CAFR

On page 9 he believed on reason for the reduction in total expenses was from vacancy reductions.

Mr. Randall asked what "business funds" were.

Ms. Garcia said it was for enterprise funds.

Mr. Mathisen said those were hopefully self-generated but some were subsidized.

Mr. Mathisen noted sales tax revenues were slightly higher and commented that the allocation formula for municipalities may have passed the legislature.

Ms. Garcia said a few years ago the state reduced GRT on food and medical and to make up the difference, they increased the percentage of GRT but it wouldn't affect the City until FY 15. So staff would work on making sure it stays level for the FY 15 adjustment.

Ms. Romero-Gonzales noticed in other revenues a huge drop and asked what happened there.

Mr. Randall agreed but revenues were not broken out by category.

Ms. Garcia said she would have to go back and find out.

Mr. Mathisen said they needed to look at it on an ongoing basis.

Mr. Mathisen pointed out on page 11 a paragraph at the bottom of the page. He brought notes from the Finance Committee. He added that in July 2011 there was an ordinance established that funds from enterprise departments could not be transferred to the general fund.

He briefly explained the way reporting on government funds were classified in non-spendable as endowment or due from other funds. Spendable could be restricted, committed or assigned. Page 42 showed how they were to be used.

Page 199 showed all the cash accounts for the City. That schedule was required and might be useful.

Page 159 showed that risk management and health funds had a negative change in assets and risk management actually had a negative balance.

Page 162 showed that the health and dental fund had a loss but it was about the only fund that had budget violations. That might have a bearing on the budget.

Ms. Garcia said they still had a large balance of cash and they had to use the cash balance to keep insurance rates down. Page 158 showed the negative net asset. They used a 5-year perspective on managing that fund.

Chair Lierz said at some point they needed to make up the $750,000 loss in risk management.

Ms. Garcia said they had a balance of $1.58 million. She explained the actuarial adjustment and they were comfortable with that amount of claims payable of which a portion was included in the $2.5 million. During the budget process they would analyze that to make sure they had enough to cover actual costs. They would assess each department to make up for the deficiency in that fund.

Mr. Mathisen said the detail on enterprise funds was on page 145 in the cash flow statement. The bottom section of page 32 had the collaborating income or loss which was an imp number in evaluating the enterprise funds.

He pointed out on page 76 the GASB footnote for the year they were completing. It was a big thing. PERA approved raising rates to make the retirement plans more solvent. In FY 15 - the City would book the unfunded amount from PERA and it might be a big figure. The unfunded liability was now $6.2 billion statewide. This was accrual information. The modified accrual on the ledger was what the City was expected to pay within 60 days. He had no idea what the total would be.

Findings were on pages 212-235 in the CAFR. Page 220 had the executive summary. Five were listed on his handout. On page 221 he noted there were no questioned costs under II. Section III had the status of prior findings. There were four findings cleared and six repeated or modified for this year. The budget overage was greatly improved. There were also some new findings. One finding was from 2006. The Committee needed to have a plan to address those. The late audit stands alone.

On 222 and 224 there were seven parts. Ms. Kerr, Ms. Garcia and Mr. Mathisen met this morning and possibly could start on the new audit as early as next month.

Chair Lierz said he and Mr. de Schweinitz were on the External Auditor Subcommittee and they wanted to be aggressive with the new audit and have Mr. Mathisen keep us updated each month.

Mr. Mathisen said they needed a milestone schedule to let people know there is a plan. He agreed to send out an email on what needed to be done and when to document their analysis and discussion. They could sent out a master schedule. It was just to have meetings and communication and to have the meetings.

Mr. Randall said Mr. Mathisen was invited to attend the Committee meetings so there were no surprises.

Mr. Mathisen agreed that accountability and monitoring were important. The goal was to get the audit done on time.

Chair Lierz asked Ms. Garcia if they had the staff to make this happen.

Ms. Garcia agreed they did. Last year they had two staff that left but now they had six experienced staff here (at least 2 years). So if they could keep the staff they would have consistency. And of course, Mr. Mathisen's staff had experience.

Mr. de Schweinitz understood that staff would still do the financial statements but this year they would be completed much earlier.

Mr. Mathisen agreed. The milestones chart would keep everyone on track. In May they would deal with changed statutes and the audit would be started in May and the schedule would show that.

Ms. Romero-Gonzales asked if Sarah Brack would be senior manager. Mr. Mathisen agreed.

Mr. Mathisen said regarding the Fire Department findings that they had a few anonymous letters to look at. One of them said too much was spent on uniforms and training and travel. So he selected items to review. They happened to find a payment to SFCC on training for paramedics. Once licensed, they weren't required to get more training. The documentation for 2006 to 2008 was not a clear demonstration of program costs or what invoices came. They were all completed before 2012 so to pay in 2012 was not good.

Item 12-02 dealt with the training class. 95 people came from other departments and $21,000 was the fee. He didn't see anything wrong with having the class but they didn't properly complete the paperwork.

Mr. Tupler asked if the training was the result of those letters received.

Mr. Mathisen agreed. There were five sent to Mr. Romero. He explained they tried to be objective in their search. He used the letters as a potential risk analysis.

Chair Lierz asked if that was not contemplated for next year. Mr. Mathisen agreed.

The single audit findings, 11-04 and 11-06 were repeated and were 12-03 and 12-04.

Mr. de Schweinitz asked in 11-04 if he convinced the City that the regulation required them to do that.

Mr. Mathisen thought so. It was a requirement to have employees sign the document.

Ms. Garcia said the funders wanted to know what the employee did on the program and what they accomplished. So we have to get grant managers to deal with them.

Mr. Mathisen gave some examples and said they could design a one-page form to solve the problem.

Mr. Tupler asked if the certifications were to be filed somewhere.

Ms. Garcia said they were filed in two places - one was the compliance file and the other was the program file. So all they needed was a time sheet.

Mr. Randall and Mr. Tupler agreed it was very fixable.

Ms. Garcia agreed to meet with the program managers to make sure they understood time certifications and to make sure they had everything in the compliance file.

Chair Lierz said it seemed to be a communications problem.

Mr. Randall - hoped that when properly trained and given the document to manage the grant, the employee should be written up if they were not doing it.

Chair Lierz asked Ms. Garcia if she would do the training.

Ms. Garcia agreed but the discipline was up to the City Manager. She would document who did the violation and if repeated to document it so they wouldn't jeopardize the grant funding to the city.

Mr. Mathisen said he needed the certifications by June 30 2013. A certification could be done after the fact but it was a semi-annual certification.

Mr. de Schweinitz added that if repeated next year the Committee would need to come down hard on it.

Mr. Mathisen said 11-06 page 229 could be cleared by just getting a policy in place.

Ms. Garcia said the manager just needed to document what was done but sometimes they forget to press print and put the copy in the file. Purchasing goes through it every day so they just need to print it every day.

Mr. Randall said the purchasing director should be monitoring this.

Ms. Garcia said the purchasing agent just needed to print it out. This was a new requirement and the federal government has not put any emphasis on it.

Mr. Tupler said- it just looked like they used the wrong form to document it.

Chair Lierz asked who monitored the program department.

Ms. Garcia said the department directors did that. Sometimes the financial analysts were the grant monitors. The departments were aware of their weaknesses.

Ms. Kerr asked if we track when they remediate the findings.

Ms. Garcia left it up to the department directors. Maybe the Finance Department needed to help with that.

Mr. de Schweinitz noted on page 233 that the finding seemed to be more than just documentation. No review approval process was in place. So someone didn't have a policy to do that.

Mr. Mathisen said someone should review the drawdown of the money. This one should be given more significant attention.

Ms. Garcia agreed to bring that to the new Finance Director. She added that this was the result of not going to the Finance Committee anymore. Many grants required the Finance Director's signature.

Mr. Mathisen continued his findings review. On the last page he noted they had already discussed finishing on time.

Mr. de Schweinitz moved to accept the CAFR and recommend that the CAFR be presented to the Finance Committee on April 15. Ms. Romero-Gonzales seconded the motion and it passed by unanimous voice vote.

Ms. Garcia said she would submit the request for the audit contract at that meeting.

Ms. Romero-Gonzales asked if the State Auditor asked for any changes.

Mr. Mathisen said there were about ten things and agreed to provide the list to the Audit Committee.

Chair Lierz noted the next meeting would be on May 1.

7. STATUS REPORT FROM CITY OF SANTA FÉ FINANCE DEPARTMENT:

A. Status of Audits

Ms. Kerr handed out a schedule and asked about construction audit.

Ms. Garcia said it was still open.

Mr. Randall asked if there was a due date.

Ms. Garcia said she had to stop about half way through when Dr. Morgan resigned. She agreed to have both construction audits finished by the next meeting. Operations was finished for 2011 but not for 2012.

Chair Lierz asked if they would have operations done by the next meeting.

Ms. Garcia said Mr. Mathisen needed to do the field work. She had to verify the reports that the financial manager who resigned had done. BDD has not hired a financial manager replacement or a director yet.

Mr. Tupler asked if the BDD Board met regularly.

Ms. Garcia agreed. They have advertised but she was not sure when it would close. She said they were up to date on BDD billing.

Ms. Kerr noted the Transit Department needed the date of the initial report which was 7/20/12. They went through another review and it was not finalized yet.

The Data Center audit was added to her list and 4/30/13 was anticipated completion. A couple of issues came up that could take more time.

Ms. Garcia said the fraud audit needed to be added.

Ms. Kerr said she would.

Ms. Kerr said the forensic audit was to have been done by March 30 but requested an extension because they found problems in it. They had previously been missing thousands of documents and now were missing only 90. The audit was extended to April 30. She was pushing them to meet that date and they agreed to come here on Monday to deal with it.

Chair Lierz asked if we had seen Housing Audit.

Ms. Romero-Gonzales said they got it two months ago.

Chair Lierz asked for a copy. Ms. Garcia agreed.

Chair Lierz asked if they got the Railyard audit.

Ms. Kerr said it was in the packet today [attached as Exhibit C].

B. Internal Auditor - Update on Risk Assessment Process, Audit Plan

Ms. Kerr sent off the risk assessment and got a fantastic response. She had a great success rate in getting those responses back and logged in a couple each day.

C. Gross Receipts Tax Report

Ms. Garcia said a copy of the reports and schedules were in the packet [attached as Exhibit E]. Dr. Morgan had alerted us to the previous month drop but it was recovered in March so to date it was pretty much flat.

D. Lodger's Tax Report

Ms. Garcia said the Lodger's Tax Report was not in the packet and she would email it to the Committee members.

E. Debt Management and Cash Policies Discussion/Work– Helene Housman

Ms. Hausman reported on the debt management policy. She reported they issued an RFP and decided to continue with the present consultant. She advised the consultant to meet with staff after July 1 to look at the entire bond process from A to Z from beginning to termination of arbitrage. It included the post-issuance policy. The IRS changed the policy regarding muni bonds with new requirements after issue so the City had to have a post-issuance policy.

She worked with the bond counsel in December to get a draft and could now mark the square on the IRS form. But they had to do some larger planning that had not yet happened.

She e-mailed the last policy and the comments of bond counsel would be very important. All four consultants were excited about meeting with us at the same time and it would give an opportunity to have a more comprehensive policy. They were trying to get an AAA rating on the jurisdiction. Water has it now.

So they would meet with advisors in early July. The City had not ever done this before and things were much more complex. She was dealing with them individually now so having all of them together would make a big step in getting to the AAA rating. At this point, it was up to the bond attorney and advisor to give us feedback.

Chair Lierz appreciated the fact that she was getting into this. The Committee thought she was just dealing with cash and they wondered why the City had just AA instead of AAA. He didn't understand why they needed $200 million of assets when they only had $400 million of debt. The Committee, quite honestly, would like to be part of the process in July (or June) and get into the process and ask questions of the advisors about it.

Ms. Hausman said they had a blank slate and this was the first time they had done this. She clarified that she handled all the bonds for the City. She was the behind the scenes person.

Chair Lierz said they didn't want to prematurely push this. The new Finance Director would be heavily involved in the debt management policy.

Mr. Randall said as a follow-up they probably would like to have one or two members be part of the discussions but didn't know if it would be a public meeting.

Ms. Hausman felt it might complicate things if it was a public meeting.

Ms. Garcia said one of their goals was to bring all four of them in to train staff to evaluate our portfolio and train with Finance and Audit committees. The City had lost the ability to do analysis with all the changes. So they wanted to put money for training in the budget.

Ms. Romero-Gonzales asked if the post-issuance policy was a draft policy.

Ms. Hausman said it had not gone to council but she and Dr. Morgan signed it. So it was not formally adopted and had to be meshed into the debt management policy.

Mr. Randall said it would be good to have the draft policy.

Ms. Hausman agreed to provide it. It was public information.

Mr. de Schweinitz asked if she worked from the draft debt management policy.

Ms. Hausman said it didn't matter which version the Committee had because it would be significantly changed along the way. She thought it might be best to wait until they got to the table.

Mr. Tupler her why the City wasn't AAA rated at the jurisdictional level.

Ms. Hausman thought they needed policies and procedures. Beyond that she didn't have a response for the Committee but noted they held the AA rating through all of this turmoil. Double A+ was just a step below AAA. They just needed to have policies to back up the good job being done.

She agreed to provide the memos on rating she had to the Audit Committee. She added that the $200 million of cash and investments were all part of 600 funds. She just added it up and invested it. It was all committed with strings attached.

Chair Lierz said they should continue the dialog.

Mr. Randall asked Ms. Hausman to meet with the Audit Committee on a quarterly basis to keep the Committee up to speed on what was happening. It would be very helpful. The documentation of policies and procedures was critical. The City has done lots of best practices but they haven't documented it.

Ms. Hausman agreed to provide quarterly report right after her quarterly report to Finance. The next one would probably be mid-May.

Chair Lierz noted that in the enterprise area there were three bonds at 3.75 to 5%. He asked if she ever looked at the idea of pre-paying.

Ms. Hausman said she did. On water they had a limit on those against refunding. They have set call dates in the documents that the City could not advance. She agreed to provide those bond documents to Chair Lierz.

Mr. Randall excused himself from the meeting.

F. Debt Report – Update

This matter was covered earlier in the meeting.

8. SUB-COMMITTEE REPORTS:

A. Internal Audit - ALGA Benchmarking Results

Ms. Kerr asked this report to be tabled to the meeting next month. The report was in the packet [attached as Exhibit D] and could be read and then discussed next month.

B. External Auditor

There was no report for the External Auditor Sub-committee.

9. OLD BUSINESS.

- **Second Yearly Report**

The Second Yearly Report was distributed to the Committee [attached as Exhibit F].

Mr. de Schweinitz moved to forward the Second Yearly Report to the Finance Committee on their agenda and to Council with a transmittal letter approved and signed by Chair Lierz. Mr. Tupler seconded the motion and it passed by unanimous voice vote. Mr. Randall was not present for the vote.

10. NEW BUSINESS

There was no new business for the Committee to consider.

11. OTHER MATTERS FROM THE COMMITTEE

There were no other matters from the Committee.

12. NEXT MEETING DATE: May 1, 2013

13. ADJOURNMENT.

On motion by Mr. Tupler the Audit Committee meeting was adjourned at 4:17 p.m.

Approved by:

Maurice A. Lierz

Maurice A. Lierz, Chair

Submitted by:

Carl Boaz

Carl Boaz, Stenographer

City of Santa Fe, New Mexico

memo

DATE: March 4, 2013

TO: Dr. Mel Morgan, Director Finance, Liza Kerr, Internal Auditor, and Audit Committee

FROM: Robert Romero, City Manager

SUBJECT: Designation of Audit Committee Liaison

In accordance with the resolution 2010-83, Section 9 (Audit Committee Resolution) I hereby appoint Liza Kerr, Internal Auditor as the liaison for the City of Santa Fe's Audit Committee. This appointment is effective immediately.

City of Santa Fe

Audit Committee

CAFR info April 3, 2013

ITEMS ON THE CAFR

Page 9—Changes

- Total expenses governmental activities 2012 to 2011 went down 1.5M
- Transfers to Enterprise funds increased from 11MM to 16MM
- Capital grants and contributions down in Business type activity
- Large increase in water management expenses
- Sales tax slightly higher
- Changes in sales tax to municipalities during session?

Page 11 water build up of reserves discussed---Finance committee notes

Page 42 fund balance reporting for government funds

Page 199 all cash fund balances presented

Page 159 risk management and health fund negative change in assets

Page 162-health fund budget violation

Page 32 cash flow from operations enterprise funds

GASB 68 page 76

Findings pages 212-235

1. Late audit finding 06-05
2. Fire Dept
3. Single audit findings
4. 4 findings cleared
5. Budget finding improved

TO FINISH ON TIME

Need to start main fieldwork before 10-15

Single audit performed in July or August

Finding 06-05 plan

Internal Auditor

Milestone schedule

Interim work

1. Control updates
2. Control testing
3. Debt
4. Capital assets// additions
5. Minutes
6. Change in statutes
7. Payroll expense
8. SAO test work

OPEN

THE SANTA FE RAILYARD COMMUNITY CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

EXHIBIT C - Audit Committee - April 3 2013

Barraclough & Associates, P.C.
Certified Public Accountants & Consultants

THE SANTA FE RAILYARD
COMMUNITY CORPORATION

March 8, 2013

Dr. Melville Morgan
Finance Director
City of Santa Fe
PO Box 909
120 South Federal Place
Santa Fe, NM 87504-0909

Dear Dr. Morgan,

Please find enclosed the Santa Fe Railyard Community Corporation and Subsidiary Consolidated Financial Statements, June 30, 2012 and 2011 with Independent Auditor's Report thereon prepared by Barraclough and Associates, P.C., dated November 9, 2012.

Section 5.22 of the City of Santa Fe Amended and Restated Railyard Lease and Management Agreement provides the City with the right to audit SFRCC's books. Each year since 2002, the Santa Fe Railyard Community Corporation (SFRCC) has proactively provided the City with annual third-party audits of SFRCC's operations. There have been no audit exceptions to date.

Please review the audit and advise if you have any questions or comments. Thank you.

Sincerely,

Richard A. Czoski, CCIM, CPM
Executive Director

CC: Bob Siqueiros
Railyard Project Administrator

Received by:
By: Melville L Morgan
Title: Director
Date: 3/8/13

332 Read Street, Santa Fe, NM 87501
Tel 505-982-3373 Fax 505-982-3126 www.sfrailyardcc.org

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"27 Years of Excellence"

Barraclough & Associates, P.C.
Certified Public Accountants & Consultants

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Principals
John E. Barraclough, Jr., C.P.A
Annette V. Hayden, C.P.A
Sandra M. Shell, C.P.A./A.B.V., C.V.A

Managers
Douglas W. Fraser, C.P.A
Laura Parker, C.P.A
Rick W. Reynolds, C.P.A
Katherine M. Rowe, C.P.A
Rhonda G. Williams, C.P.A

Independent Auditors' Report

Board of Directors
The Santa Fe Railyard Community Corporation and
Board of Managers
CSF Management, LLC

We have audited the accompanying consolidated statements of financial position of The Santa Fe Railyard Community Corporation (SFRCC) and Subsidiary as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of SFRCC management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the June 30, 2012 and 2011 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Santa Fe Railyard Community Corporation and Subsidiary as of June 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary information contained on pages 14-16 are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Barraclough & Associates P.C.

November 9, 2012

The Santa Fe Railyard Community Corporation and Subsidiary

Consolidated Statements of Financial Position

June 30, 2012 and 2011

ASSETS	2012	2011
Cash	$ 359,945	$ 468,204
Due from City of Santa Fe	9,405	-
Rents and utilities receivable, net of allowance for uncollectable accounts of $30,000 for 2012 and 2011	104,975	66,553
Prepaid expenses	21,910	19,727
Prepaid lease commissions - net	30,201	30,854
Property and equipment - net	15,172	7,928
Other assets	1,500	1,500
Total assets	$ 543,108	$ 594,766
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 66,303	$ 37,437
Payable to City of Santa Fe	1,281,528	993,157
Rent deposits payable	22,867	22,367
Deferred revenue - rent	408,145	482,165
Total liabilities	1,778,843	1,535,126
Net Assets		
Unrestricted - net assets (deficit)	(1,235,735)	(940,360)
Total liabilities and net assets	$ 543,108	$ 594,766

The accompanying notes are an integral part of these consolidated financial statements.

The Santa Fe Railyard Community Corporation and Subsidiary

Consolidated Statements of Activities

Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Rents	$ 1,179,687	$ 1,232,339
Event fees	53,187	50,142
In-kind donations	35,900	40,995
Project income	30,273	87,199
Contribution income	5,162	-
Management fees	1,278	42,000
Miscellaneous	675	551
Reimbursement income	-	56,416
Total operating revenues	1,306,162	1,509,642
Project costs	32,167	86,789
Other operating expenses:		
Lease expense - City of Santa Fe	831,619	817,586
Salaries	296,472	243,484
Repairs and maintenance	158,607	139,476
Legal and professional fees	58,905	53,520
Payroll taxes and benefits	50,742	47,937
In-kind legal and professional services	35,900	40,995
Advertising and promotion	34,190	28,687
Office rent	27,868	27,430
Bad debt	21,646	37,538
Insurance	12,283	23,398
Office expense	10,667	11,682
Utilities	8,670	10,892
Miscellaneous	6,754	20,989
Telephone	6,556	7,983
Depreciation and amortization	4,415	3,625
Travel and meals	2,091	2,204
Office supplies	1,764	3,052
Auto mileage	1,478	844
Total expenses	1,602,794	1,608,111
Net (decrease)	(296,632)	(98,469)
Other revenue:		
Interest income	1,257	1,731
(Decrease) in unrestricted net assets	(295,375)	(96,738)
Unrestricted net assets (deficit), beginning of year	(940,360)	(843,622)
Unrestricted net assets (deficit), end of year	$ (1,235,735)	$ (940,360)

The accompanying notes are an integral part of these consolidated financial statements.

The Santa Fe Railyard Community Corporation and Subsidiary

Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (295,375)	$ (96,738)
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	3,762	3,021
Amortization	653	604
Bad debt	21,646	37,598
Changes in operating assets and liabilities:		
Restricted cash	-	227,526
Due from City of Santa Fe	(9,405)	90,574
Rents and utilities receivable	(60,068)	(82,038)
Prepaid expenses	(2,183)	(1,507)
Prepaid lease commissions	-	(7,363)
Accounts payable and accrued expenses	28,866	(60,508)
Payable to City of Santa Fe	288,371	105,261
Funds held for others	-	(227,526)
Rent deposits payable	500	-
Deferred revenue - rent	(74,020)	(53,560)
Net cash (used) by operating activities	(97,253)	(64,656)
Cash flows from investing activities:		
Purchase of property and equipment	(11,006)	-
Net cash (used) by investing activities	(11,006)	-
(Decrease) in cash	(108,259)	(64,656)
Cash, beginning of year	468,204	532,860
Cash, end of year	$ 359,945	$ 468,204
Noncash operating activities		
Gifts in-kind	$ 35,900	$ 40,995

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

The Santa Fe Railyard Community Corporation (SFRCC) was formed August 25, 2000. SFRCC was formed to increase public understanding of the historical, cultural and economic importance of the Santa Fe Railyard Project, a parcel of real property owned by the City of Santa Fe, New Mexico known as the Railyard property. The SFRCC entered into a Railyard Lease and Management Agreement with the City of Santa Fe on July 1, 2002. The SFRCC entered into an Amended and Restated Railyard Lease and Management Agreement with the City of Santa Fe on April 30, 2011, which terminates June 30, 2027 unless renewed by mutual consent. Through this Lease and Management Agreement the SFRCC is to implement the Railyard Master Plan and Design Guidelines, solicit new leases and administer new and existing leases on leasehold areas within the Railyard property.

SFRCC formed a Single-Member LLC, CSF Management, LLC, (CSF) which has a separate board, as of December 2, 2009. There are some overlapping board members between the two organizations. Because SFRCC is the only member of CSF, it is consolidated with SFRCC. CSF was awarded a professional services agreement with the City of Santa Fe to provide property management and lease administrative services for the College of Santa Fe property. The agreement's initial term was for a sum not to exceed $200,000. The contract was amended in December of 2010 and February of 2011 to increase the budget to $231,500 and was terminated on December 31, 2011. The scope of work is now general manager consulting services on an on-call basis. It is the intent of the board to keep CSF as an entity in the event it is needed for future contracts.

2. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of the SFRCC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Construction project revenue and expenses are accounted for on the completed contract method.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. All other accounting literature is considered non-authoritative.

Basis of Presentation

Financial statement presentation follows the recommendations of the FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements.* Under FASB ASC 958-205, the SFRCC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2012 and 2011, the SFRCC has no temporarily or permanently restricted net assets.

2. Summary of Significant Accounting Policies (Continued)

Consolidation Policy

The consolidated financial statements of SFRCC include the accounts of Santa Fe Railyard Community Corporation and its wholly owned subsidiary, CSF Management, LLC. Significant intercompany accounts and transactions have been eliminated. The SFRCC and subsidiary files a consolidated Form 990.

Reclassification

Certain June 30, 2011 amounts have been reclassified to conform to June 30, 2012 financial statement presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Rents Receivable, Utilities Receivable and Allowance for Uncollectible Accounts

Rents and utilities receivable are from tenants. The carrying amount of receivables is reduced by an allowance for uncollectible accounts that reflects management's best estimate of the amounts that will not be collected. Based on management's assessment of the tenants' current creditworthiness, an estimate is made of the portion, if any, of the balance that will not be collected using the reserve method. Receivables are written off as a charge to the allowance for uncollectible accounts when, in management's estimation, it is probable that the receivable is worthless.

Due from City of Santa Fe

As of June 30, 2012 and 2011 the amounts due from the City of Santa Fe represent reimbursements for costs incurred on service contracts. The reimbursements were collected subsequent to year end. No allowance has been recorded since the receivables are considered fully collectible.

Property and Equipment

Property and equipment are stated at cost if purchased and at fair value at the date of contribution for donated assets. The SFRCC capitalizes additions of property and equipment in excess of $500 cost or fair value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Office, furniture and equipment	3-5 years
Leasehold improvements	5 years

2. Summary of Significant Accounting Policies (Continued)

Lease Commissions

SFRCC has leased two lots with the assistance of outside leasing agencies. The commissions paid to the leasing agencies for the two leases are being amortized over the length of the leases. Amortization expense for the years ending June 30, 2012 and 2011 was $653 and $604, respectively.

Completed Contract Method of Accounting

Revenue from construction contracts is recognized on the completed contract method. A contract is considered complete when all costs except insignificant items have been incurred and the installation is operating according to specification or has been accepted by the customer.

Effective with the City of Santa Fe Council meeting of October 28, 2009, the City accepted the infrastructure of the north and south railyard from SFRCC. Total revenue recognized from the completed contract was $13,103,537 and total expenses recognized were $13,103,537.

Deferred Revenue

Income from rents is deferred and recognized over the periods to which the amounts relate. Deferred revenue-rent for June 30, 2012 and 2011 were $408,145 and $482,165, respectively.

Donated Assets and Services

Noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated services are recognized as contributions in accordance with FASB ASC 958-605-25-16, *Not-for-Profit Entities – Revenue Recognition – Contributed Services*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the SFRCC.

Compensated Absences

The SFRCC provides sick leave and vacation benefits to its employees. No more than five days of vacation time may be carried over from year to year and any unused vacation time will be paid upon separation of employment. Sick leave accrues to employees and can be carried over from year to year, however, no amount is paid upon separation of employment.

The SFRCC vacation liability for the years ended June 30, 2012 and 2011 were $34,166 and $28,215, respectively.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2012 and 2011 were $19,489 and $9,683, respectively.

2. Summary of Significant Accounting Policies (Continued)

Income Tax Status

The SFRCC is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these consolidated financial statements.

CSF Management, LLC, is a single-member LLC. It is considered a disregarded entity by the Internal Revenue Service, thus its activity is included in the SFRCC's Form 990.

Management of CSF Management, LLC determined that the activities engaged in by CSF fall under the allowable activities approved by the Internal Revenue Service for SFRCC's exemption from federal taxes.

SFRCC adopted FASB ASC 740-10, *Income Taxes*, which require disclosure of taxable unrelated business income. There are no uncertain tax positions. None of the present or anticipated future activities of SFRCC are subject to taxation as unrelated business income; therefore no provision for income taxes has been made in the accompanying consolidated financial statements.

3. Property and Equipment

Property and equipment comprise the following at June 30:

	2012	2011
Furniture and equipment	$ 19,747	$ 19,084
Website	12,653	12,653
Leasehold improvements	4,985	4,985
Tenant improvements	10,343	-
	47,728	36,722
Accumulated depreciation	(32,556)	(28,794)
Property and equipment, net	$ 15,172	$ 7,928

Depreciation expense for the fiscal years ended June 30, 2012 and 2011 is $3,762 and $3,021, respectively.

4. Allowance for Uncollectible Accounts

The following is an analysis of allowance for uncollectible accounts:

	2012	2011
Balance, beginning of year	$ 30,000	$ 30,000
Bad debt expense	21,646	37,538
Charge offs	(21,646)	(37,538)
Balance, end of year	$ 30,000	$ 30,000

(Continued)

5. Lease and Management Agreement - City of Santa Fe

On February 27, 2002, the SFRCC entered into a lease and management agreement with the City of Santa Fe for the leasehold premises. On April 30, 2011 the SFRCC entered into an Amended and Restated Lease and Management Agreement with the City of Santa Fe, which amends, restates, supersedes, and replaces in its entirety the Agreement dated February 27, 2002. The amended agreement terminates June 30, 2027 unless renewed by mutual consent. The purpose of the restated agreement is to create a binding contract for the purpose of establishing an effective implementation mechanism for the Railyard Master Plan and Design Guidelines, to lessen the burden upon the City in implementing the Plan and to restructure debt owed.

The SFRCC also manages and maintains the Railyard property, negotiates leases with subtenants and collects all subtenant rents.

Under the restated agreement, the City of Santa Fe has determined that the SFRCC will compensate the City in the form of lease payments. The payments consist of the following:

a. Payments are due May 1st and November 1st over five fiscal years commencing November 1, 2020 and concluding May 1, 2024 for total amount of $769,175.

b. 100% of the City's debt service payment on the City's infrastructure financing, the payments will be due thirty (30) days before each of the City's debt service payment are due. The set payment schedule shall be subject to adjustment as the result of the City refinancing the infrastructure financing. If the City refinances the aforementioned conduit financing and activities a lower repayment schedule, the City will reduce the amount owed by SFRCC to the City on a dollar-for-dollar basis.

The City of Santa Fe obtained loans with the New Mexico Finance Authority (NMFA) to cover the development costs related to the Railyard project.

The City of Santa Fe issued $10,490,000 of Subordinate Lien Gross Receipts Tax Refunding Revenue bonds, Series 2010B on November 10, 2010. The funds from the issuance of these bonds, in addition to reserve funds held by the City of $429,252 were used to refund the NMFA loans. The bonds mature starting in June 2011 to June 2026 with interest rates from 2% to 5%.

The lease payments SFRCC pays the City will be increased for the total principal and interest payments on both the tax-exempt and taxable loans. The City deferred principal payments from SFRCC until after the land lease is paid in full in 2024. Repayment of principal deferred will be for three years starting during the year ending June 30, 2025.

5. Lease and Management Agreement - City of Santa Fe (Continued)

Based on the lease and management agreement with the City of Santa Fe, future lease payments net of deferrals for the loan are as follows:

Years ending June 30:	
2013	$ 543,670
2014	908,977
2015	908,486
2016	907,897
2017	959,857
	$ 4,228,887

c. After the SFRCC has repaid all of its obligations related to the debt service and infrastructure financing debt, the SFRCC shall pay to the City, 50% of the annual excess revenue collected by the Santa Fe Railyard. Annual excess revenue is defined as the difference between the annual lease revenue (excluding any donated and grant funds and special assessments earmarked for a particular use) and the annual cost of the SFRCC's performance of its obligations under this Agreement, including but not limited to payments of City debt service on both land and infrastructure, annual administrative and operating cost, any annual contribution to park and public space development, management and/or operations, and a reasonable allowance for maintenance and capital improvement reserves. Since SFRCC has a deficit unrestricted net asset balance at June 30, 2012 and June 30, 2011, no liability exists to the City.

Total lease expense, including bond and interest costs paid to the City of Santa Fe for the years ended June 30, 2012 and 2011 is $831,619 and $817,586, respectively.

CSF Management, LLC (CSF) entered into an agreement with the City of Santa Fe effective January 1, 2010 for lease and property management services for the former College of Santa Fe campus, which the City purchased, then leased to a for-profit corporation who is operating a university on campus.

Part of the City's lease agreement with the university operator requires the City to fund various capital upgrades and improvements to the campus. The contract between CSF and the City requires CSF to coordinate and provide construction management services for the upgrades and improvements to the campus.

The agreement was for an initial term to January 31, 2011 for maximum compensation for services rendered of $200,000. The contract was amended in December of 2010 to increase the budget to $225,000. Compensation consisted of a flat monthly management fee and reimbursement for allowable costs, including compensation for SFRCC staff work on the CSF agreement. A second amendment was made in February of 2011 to increase the budget to $231,500 and terminate December 31, 2011. Also amended was the scope of work to general manager consultation services on an on-call basis.

5. Lease and Management Agreement - City of Santa Fe (Continued)

The City provided $250,000 of advance funding for CSF to pay various third party contractors for architecture, design, planning, engineering and construction services. CSF accounts for these funds as restricted cash and funds held for another. As bills related to the upgrades and improvements to the campus were processed, the balance in the restricted cash and the funds held for others were reduced. CSF paid the final amount owed to third party contactors and reimbursed the unspent portion of the advance funding totaling $174,174 on June 29, 2011 to the City of Santa Fe.

6. Operating Leases

The SFRCC leases office space and equipment under operating leases with varying expiration dates. Total office and equipment rental expense for the years ended June 30, 2012 and 2011 was approximately $29,314 and $28,273, respectively.

The following is a schedule of future minimum lease payments:

Year ending June 30:	
2013	$ 28,471
	$ 28,471

The SFRCC rents month-to-month storage space for total annual rent payments of approximately $1,398 and $1,232 for 2012 and 2011, respectively.

7. In-Kind Donations

The SFRCC received in-kind donations for the years ended June 30, as follows:

	2012	2011
Legal and professional services	$ 35,900	$ 40,995

8. Tenant Leases

As discussed in Note 4, the SFRCC leases the Railyard land and existing buildings from the City of Santa Fe and subleases to tenants of the Railyard property. Twenty eight are long term tenant leases with terms from 20 to 50 years, most with renewal options up to a total term of 90 years. Most long-term leases include an adjustment clause based on the consumer price index. Leases also contain common area maintenance contributions which offset the expenses of operations and maintenance needs. During 2012, SFRCC renegotiated leases with three tenants' rent payments owed in the 2012 and 2013 fiscal years and were reallocated to future years per the applicable tenant lease agreements.

Minimum future long-term sublease payments receivable on contracts in place on June 30, 2012 for the next five years are as follows:

Years ending June 30:	
2013	$ 892,501
2014	893,703
2015	900,435
2016	924,198
2017	948,494
	$ 4,559,331

9. Concentrations of Credit Risks

The SFRCC received 2% and 6% of its revenues for the years ended June 30, 2012 and 2011, respectively from the City of Santa Fe through its Lease and Management agreement (Note 4) and through additional professional service contracts as a general contractor to implement the Railyard Master Plan and Design Guidelines. In addition the lease payments are made to the City. If this relationship with the City were to terminate, it would have a significant impact on the consolidated financial statements.

The SFRCC has a concentration in the Santa Fe real estate market, meaning that it is subject to the risks that affect the real estate environment in the City, including the levels of consumer spending, seasonality, the willingness of individuals and businesses to lease space in the Railyard, changes in economic conditions and consumer confidence. The length of the current recession could adversely affect consumer spending and the ability of potential tenants to obtain financing to lease land in the Railyard and construct or improve buildings on the land.

The SFRCC maintains its cash balances in three financial institutions located in Santa Fe, New Mexico. FDIC insurance is $250,000 as of June 30, 2012 and 2011, and the financial institutions were participating in the FDIC insurance coverage for transaction accounts. All funds in a "noninterest-bearing transaction account" are fully insured through December 31, 2012.

10. Legal Proceedings

SFRCC is involved in various legal proceedings that arise in the ordinary course of its business. SFRCC will record a liability when a loss is considered probable and the amount can be reasonably estimated if any lawsuit occurs.

11. Subsequent Events

Management has evaluated subsequent events through November 9, 2012 to determine whether such events should be recorded or disclosed in the consolidated financial statements or notes for the year ended June 30, 2012. This date represents the date the consolidated financial statements were available to be issued. There were no items deemed to be significant that required disclosure or adjustment to the 2012 financial statements.

The Santa Fe Railyard Community Corporation and Subsidiary

Consolidating Statement of Financial Position

June 30, 2012

ASSETS	SFRCC	CSFM, LLC	Eliminations	Consolidated Total
Cash	$ 338,647	$ 21,298	$ -	$ 359,945
Due from City of Santa Fe	9,405	-	-	9,405
Investment in CSFM, LLC	2,000	-	(2,000)	-
Rents and utilities receivable, net of allowance for uncollectable accounts of $30,000	104,975	-	-	104,975
Prepaid expenses	21,910	-	-	21,910
Prepaid lease commissions - net	30,201	-	-	30,201
Property and equipment - net	15,172	-	-	15,172
Other assets	1,500	-	-	1,500
Total assets	$ 523,810	$ 21,298	$ (2,000)	$ 543,108
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	$ 55,015	$ 11,288	$ -	$ 66,303
Payable to City of Santa Fe	1,281,528	-	-	1,281,528
Rent deposits payable	22,867	-	-	22,867
Deferred revenue - rent	408,145	-	-	408,145
Total liabilities	1,767,555	11,288	-	1,778,843
Net Assets				
Unrestricted - net assets (deficit)	(1,243,745)	10,010	(2,000)	(1,235,735)
Total liabilities and net assets	$ 523,810	$ 21,298	$ (2,000)	$ 543,108

See Independent Auditors' Report.

The Santa Fe Railyard Community Corporation and Subsidiary

Consolidating Statement of Activities

Year Ended June 30, 2012

	SFRCC	CSFM, LLC	Eliminations	Consolidated Total
Operating revenues:				
Rents	$ 1,179,687	$ -	$ -	$ 1,179,687
Event fees	53,187	-	-	53,187
In-kind donations	35,900	-	-	35,900
Project income	30,273	-	-	30,273
Contribution income	5,162	-	-	5,162
Management fees	1,278	-	-	1,278
Miscellaneous	675	-	-	675
Total operating revenues	1,306,162	-	-	1,306,162
Project costs	32,167	-	-	32,167
Other operating expenses:				
Lease expense - City of Santa Fe	831,619	-	-	831,619
Salaries	296,472	-	-	296,472
Repairs and maintenance	158,607	-	-	158,607
Legal and professional fees	58,773	132	-	58,905
Payroll taxes and benefits	50,742	-	-	50,742
In-kind legal and professional services	35,900	-	-	35,900
Advertising and promotion	34,166	24	-	34,190
Office rent	27,868	-	-	27,868
Bad debt	21,646	-	-	21,646
Insurance	12,283	-	-	12,283
Office expense	10,667	-	-	10,667
Utilities	8,670	-	-	8,670
Miscellaneous	6,071	683	-	6,754
Telephone	6,556	-	-	6,556
Depreciation and amortization	4,415	-	-	4,415
Travel and meals	2,091	-	-	2,091
Office supplies	1,764	-	-	1,764
Auto mileage	1,478	-	-	1,478
Total expenses	1,601,955	839	-	1,602,794
Net (decrease)	(295,793)	(839)	-	(296,632)
Other revenue:				
Interest income	1,257	-	-	1,257
(Decrease) in unrestricted net assets	(294,536)	(839)	-	(295,375)
Unrestricted net assets (deficit), beginning of year	(989,209)	50,849	(2,000)	(940,360)
Return of capital	40,000	(40,000)	-	-
Unrestricted net assets (deficit), end of year	$ (1,243,745)	$ 10,010	$ (2,000)	$ (1,235,735)

See Independent Auditors' Report.

The Santa Fe Railyard Community Corporation and Subsidiary

Consolidating Statement of Cash Flows

Year Ended June 30, 2012

	SFRCC	CSFM, LLC	Eliminations	Consolidated Total
Cash flows from operating activities:				
Change in net assets	$ (294,536)	$ (839)	$ -	$ (295,375)
Adjustments to reconcile increase in net assets to net cash used by operating activities:				
Depreciation	3,762	-	-	3,762
Amortization	653	-	-	653
Bad debt	21,646	-	-	21,646
Changes in operating assets and liabilities:				
Due from City of Santa Fe	(9,405)	-	-	(9,405)
Rents and utilities receivable	(60,068)	-	-	(60,068)
Prepaid expenses	(2,183)	-	-	(2,183)
Accounts payable and accrued expenses	29,525	(659)	-	28,866
Payable to City of Santa Fe	288,371	-	-	288,371
Rent deposits payable	500	-	-	500
Deferred revenue - rent	(74,020)	-	-	(74,020)
Net cash (used) by operating activities	(95,755)	(1,498)	-	(97,253)
Cash flows from investing activities:				
Purchase of property and equipment	(11,006)	-	-	(11,006)
Net cash (used) by investing activities	(11,006)	-	-	(11,006)
Cash flows from financing activities:				
Return of capital	40,000	(40,000)	-	-
Net cash provided (used) by financing activities	40,000	(40,000)	-	-
(Decrease) in cash	(66,761)	(41,498)	-	(108,259)
Cash, beginning of year	405,408	62,796	-	468,204
Cash, end of year	$ 338,647	$ 21,298	$ -	$ 359,945
Noncash operating activities				
Gifts in-kind	$ 35,900	$ -	$ -	$ 35,900

See Independent Auditors' Report.

Association of Local Government Auditors 2012 Benchmarking and Best Practices Survey

Published February 2013

INTRODUCTION

This report is the next in a series of Benchmarking and Best Practices Survey reports that began in 1996. There were 114 responding audit organizations, a 68% increase from the 68 respondents to the 2010 Survey (2012 was a 28% increase from the 2008 survey). The survey was performed on Survey Monkey. Where appropriate, the responses are grouped to allow comparability among audit departments with similar staffing levels. Based upon the number of responses and the profiles of participating organizations, the data is summarized into the following organization sizes.

Organization Size	Offices Participating	Average # of Auditors	Average Budget	Smallest Budget	Largest Budget
1-2 auditors	28	1.5	$ 193,375	$ 25,000	$ 600,000
3-5 auditors	39	4.3	$ 493,549	$ 70,000	$ 1,700,000
6-10 auditors	23	7.6	$ 1,042,814	$ 490,000	$ 2,900,000
11-15 auditors	13	13.2	$ 1,642,359	$ 200,000	$ 2,736,165
16+ auditors	11	20.9	$ 3,124,423	$ 1,580,240	$ 4,140,000
2012 Total	114	6.8	$ 898,560	$ 25,000	$ 4,140,000
2010 Total	68	6.9		$ 76,914	$ 3,724,278

The following is a tally of the organizations responding by census regions.

Organization Size	Pacific	Mountain West	Midwest	Northeast	South	International
1-2 auditors	4	3	5	1	14	1
3-5 auditors	7	5	4	2	20	1
6-10 auditors	5	2	3	1	10	2
11-15 auditors	3	1	2	1	5	1
16+ auditors	2	3		1	4	1
Total	21	14	14	6	53	6

The survey addresses four audit topics:

- Part I — Background and Profile Information
- Part II — Resource Inputs and Outputs/Outcomes
- Part III — Chief Audit Executive/Peer Review Information
- Part IV — Best Practices Organizations (based on self evaluation)

Since 1996, approximately 170 different Association of Local Government Auditors (ALGA) audit organizations have participated in the Benchmarking and Best Practices Survey by completing the questionnaire.

This year's survey included responses from ALGA members in 25 states/provinces, Canada and Guam. All dollar values are expressed in United States Dollars. The conversion ratio used for Canadian Dollars was 1.

The ALGA Board of Directors thanks all who participated in this year's survey and hope you find its contents useful. If you did not participate in the survey yet find its contents useful, they ask you consider participating the next time the survey is performed.

The responses represented 763 auditors, 114 administrative support staff, and 38 consultants who used 716 thousand audit hours to provide audits.

The "best practice" audit shops are shown in ***Appendix A***.

PART I – BACKGROUND AND PROFILE INFORMATION

Table 1 contains counts each of the responding organizations as well as average audit spending per auditor, which is calculated by taking the annual audit department expenditures (less outside consultants) and dividing by the number of full-time auditor staff equivalents. The average of the calculations is presented as the Average Audit Spending per Auditor. The Low Average Annual per Auditor and the High Average Annual per Auditor is the low and high audit shop by size of organization.

Table 1

Organization Size	Offices Participating	Average Audit Spending per Auditor	Minimum Audit Spending per Auditor	Maximum Audit Spending per Auditor
1-2 auditors	25	$ 115,708	$ 30,000	$ 245,920
3-5 auditors	37	$ 109,783	$ 66,667	$ 191,000
6-10 auditors	23	$ 124,447	$ 64,843	$ 217,143
11-15 auditors	13	$ 122,272	$ 58,333	$ 171,010
16+ auditors	9	$ 128,935	$ 63,294	$ 170,625
2012 Total	107	$ 117,448	$ 30,000	$ 245,920
2010 Total	68	$ 125,215	$ 69,100	$ 450,000

A. Charter/Policies/Audit Committee

Table 2 provides information on percent of organizations having charters; policies and procedures; and audit committees.

Table 2

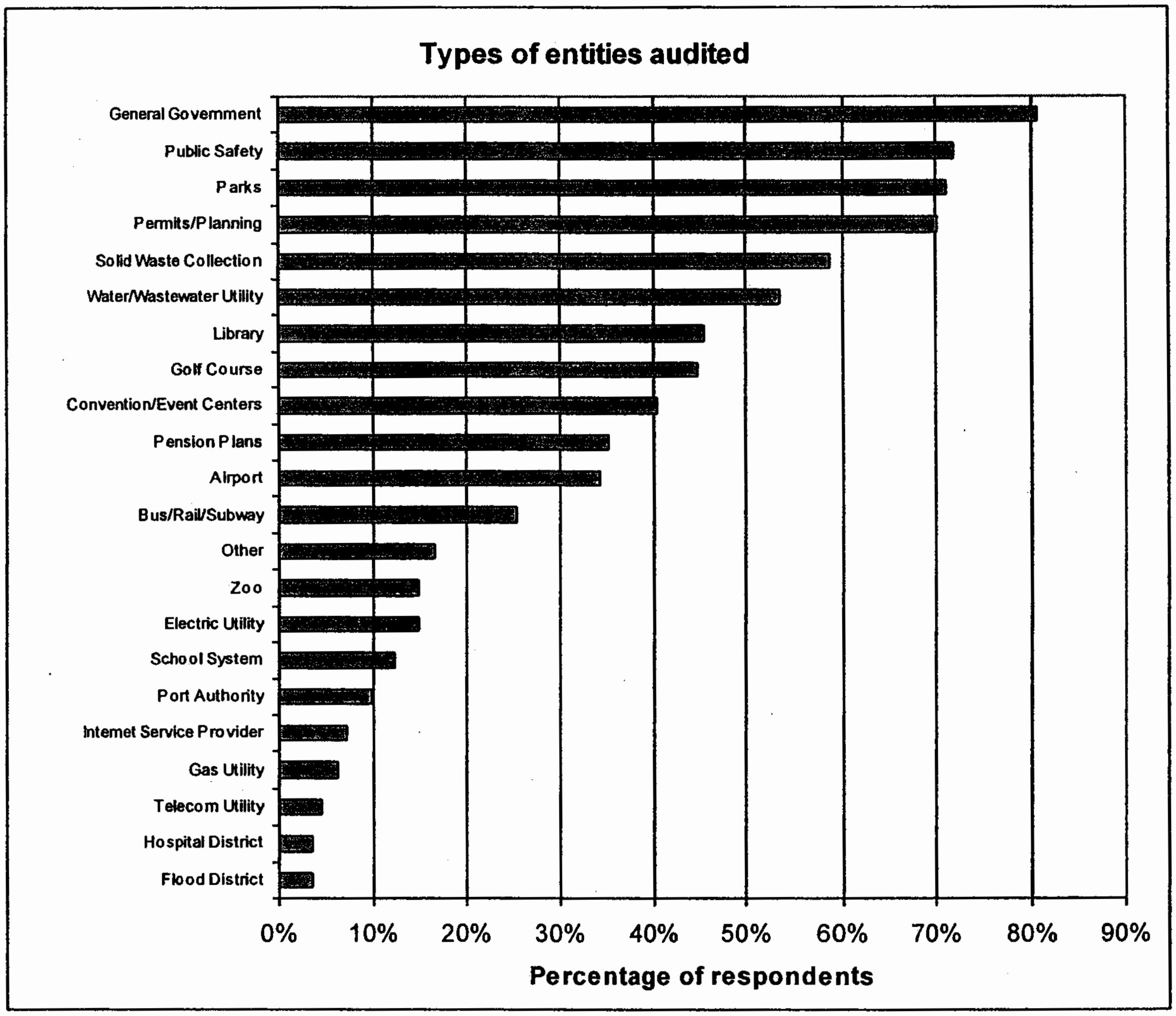
Organization Size	Charter/Enabling Legislation	Policies & Procedures Manual	Audit Committee
1-2 auditors	75%	75%	61%
3-5 auditors	79%	95%	72%
6-10 auditors	100%	96%	74%
11-15 auditors	100%	100%	75%
16+ auditors	100%	100%	91%
2012 Total	87%	91%	72%
2010 Total	92%	90%	77%

The 81 respondents having Audit Committees reported a total of 486 members. The average audit committee contained 6.1 members and is summarized as follows:

3.7	Governing Body
1.2	Management
1.6	General Citizens
1.7	Accounting/Auditing Professionals
0.1	IT Professionals
0.3	Other

Since averages are not always representative of the characteristics of a population, it is important to acknowledge that 20 (25%) of the 81 audit committees were comprised of governing body members only. This is down from 46% in the 2010 survey.

B. Types of Entities Audited



In addition to the entities listed above, the respondents included in "Other" the auditing of animal shelters, grants, engineering, construction, health, behavioral health, veterans, roads, veterans' services, marina, museum, parking authority, stadium, and toll road, to name a few.

C. Auditing Standards Followed

Ninety respondents indicated they followed at least one Auditing Standard. Seventy (78%) responded they followed GAO (Yellow Book), 39 (43%) IIA (Red Book), 13 (14%) follows ISACA, and 9 (10%) followed other standards. Twenty-one (23%) followed both the GAO and IIA standards.

D. Other Data

The survey also requested information in the following general areas. Since responses to every question were not provided by each entity, where applicable, we have listed the number that responded.

1. What percent of the audit staff satisfied the Continuing Education Requirement for the standard?

Standard	# Responding	Average%	# Responding with 100%
GAGAS (Yellow book)	70	92%	61
IIA (Red Book)	36	87%	29
ISACA	17	73%	12
Other requirements	9	73%	6

2. Is Managed Competition or Outsourcing planned or ongoing in the government organization you audit?

   There were 92 respondents with 32% indicating "Yes".

3. Do you have a formal follow-up process?

   There were 92 respondents with 95% indicating "Yes".

4. Do you have a formal audit plan and if so, who approves?

	# Responding	As a % of Total Respondents
City/County Manager or equivalent	14	17%
Audit Committee/Oversight Board	39	48%
No approval	15	19%
Other	16	20%

   Eighty-one responded as having a formal audit plan. Some entities provided multiple responses.

5. Do you have an agency wide risk assessment?

   Eighty-two responded with 84% responding "Yes".

6. Are performance measures used by the government organization you audit? And by the Audit Department?

   For the government organization, Ninety-two responded with 71% indicating "Yes".
   For the Audit Department, Ninety-two responded with 73% indicating "Yes".

7. Does your audit organization have a web site? If so, are audit reports posted on it?

   Ninety responded with 78% responding "Yes".
   For the follow-up question, sixty-nine responded with 75% indicating they post their audit reports on the site.

8. Do you have a fraud/waste/abuse hotline? If so, how is it staffed and how is it accessed?

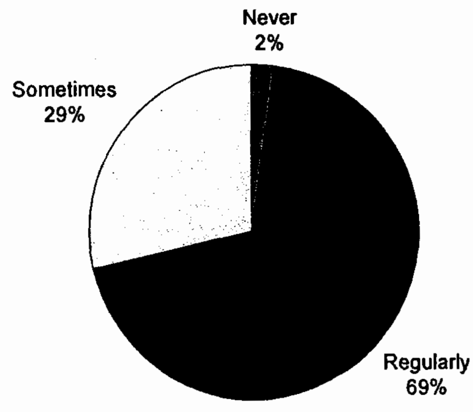
   Ninety-two responded with 64% indicating "Yes".

Access Methods	Count	% of Total
Telephone	58	98%
Intranet (employees only)	28	47%
Internet (Employees & citizens)	45	76%
Other	17	29%

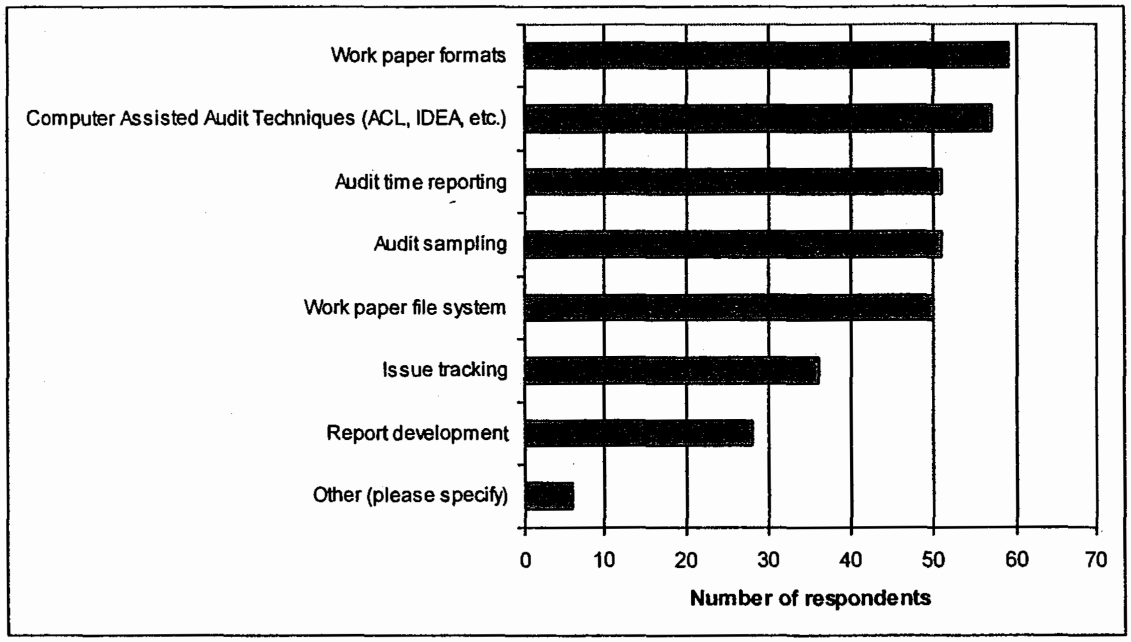
Forty-five responded to how the hotline was staffed.

Staffing:	Count	% of Total
In House, dedicated staff	16	27%
In House, no dedicated staff	15	25%
Third party, automated	8	14%
Third party, staffed	26	44%
Other	3	5%

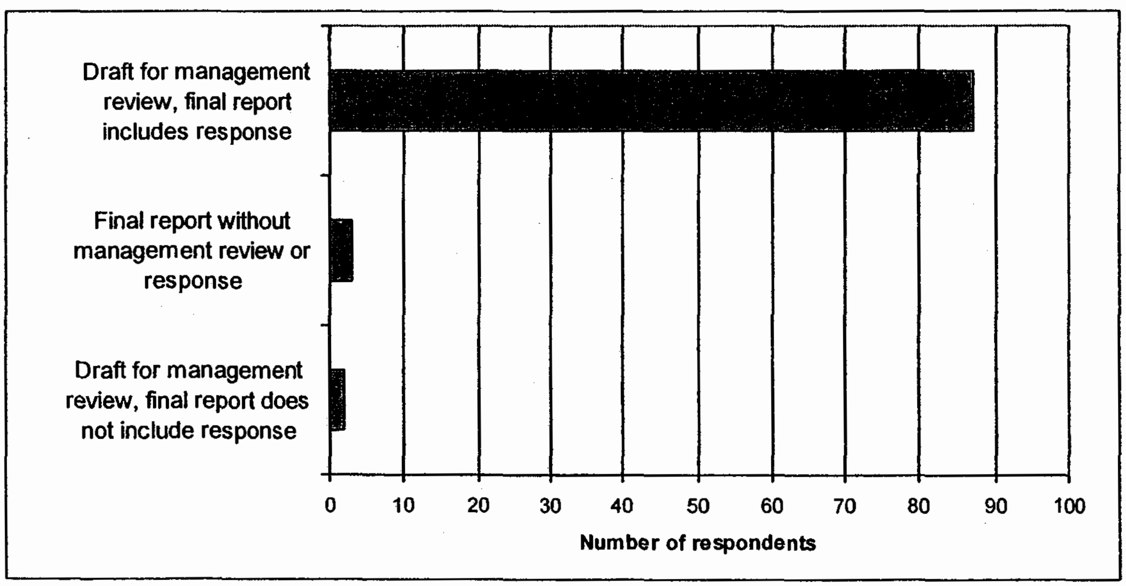
9. Does your department work with the client to develop solutions to findings?
Ninety-one responded.



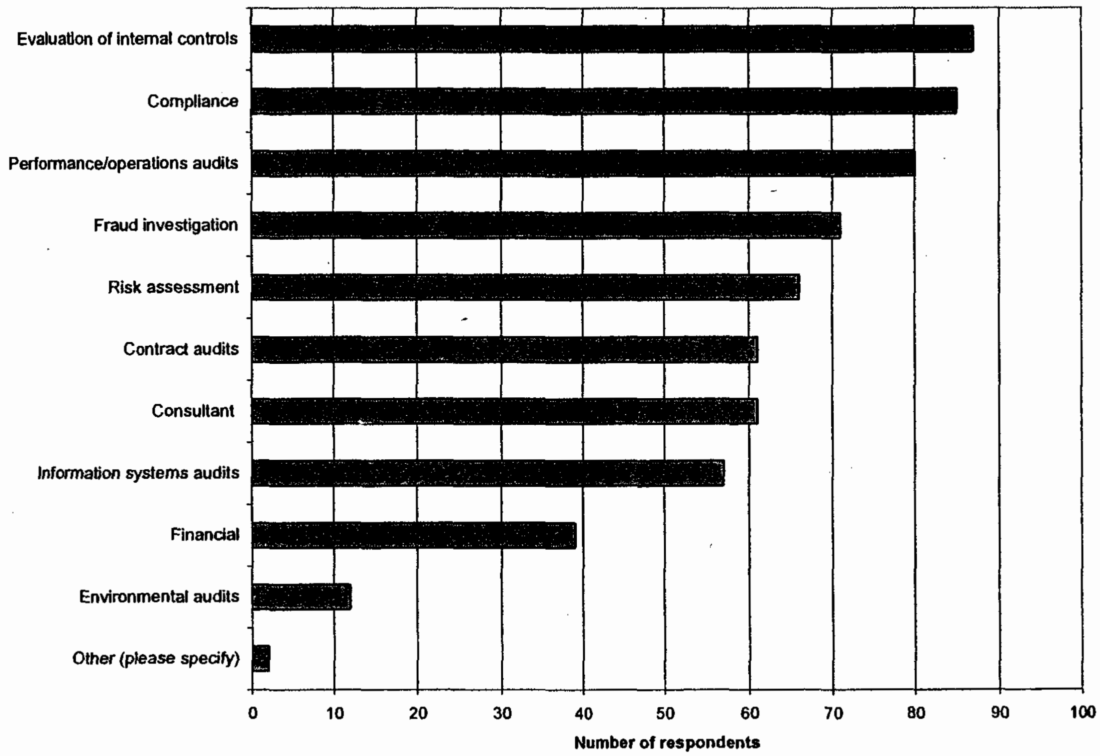
10. Which automated auditing tools does your organization use? Eighty-four survey respondents.



11. Which method best describes your audit report process? Ninety-two respondents.



12. What responsibilities does your audit organization perform (number of respondents and description)? Ninety-two respondents.



13. Do you have a group dedicated to IT Auditing?

Ninety-two responded with 28% indicating "Yes".

14. What percentage of staff is principally responsible for IT auditing?

Table 4

Organization Size	# of Respondents	Average for Group	Low for Group	High for Group
1-2 auditors	6	45.8%	10.0%	100.0%
3-5 auditors	17	32.7%	3.0%	100.0%
6-10 auditors	8	19.3%	10.0%	50.0%
11-15 auditors	8	12.6%	5.0%	25.0%
16+ auditors	7	18.0%	6.0%	50.0%

15. What percentage of IT audits was performed by third party providers?

Table 5

Organization Size	Number Responding	Average %
1-2	5	100.0%
3-5	2	87.5%
6-10	6	86.7%
11-15	1	20.0%
16+	3	59.0%
Grand Total	17	81.9%

16. If your shop performs a Customer Satisfaction Survey, what is the score on a range of one to five?

    Thirty-four responded with an average of 4.4. (4.3 in 2010)

17. Does your organization have more than one staff audit function? For example, an audit staff reporting to the City Manger and another reporting to City Council.

    Nine indicated having more than one. Of those that did they indicated the following types of multiple reporting:

    1 = Legislative Body and Chief Executive Officer
    1 = Legislative Body, Chief Executive Officer and Audit Committee
    1 = Legislative Body and Audit committee
    1 = Legislative body and Judicial body
    1 = Audit committee and Chief Executive Officer

18. What is the maturity, or age, of your Audit Department?

Organization Size	<2 Years	2 to <5 Years	5 to < 10 Years	10 to <20 Years	20 to <30 Years	> 30 Years
1-2 auditors	4	4	7	5	5	3
3-5 auditors	1	5	3	12	10	6
6-10 auditors	1		2	1	11	8
11-15 auditors				3	4	6
16+ auditors				2	2	7
Total	6	9	12	23	32	30

19. If your organization collects information on the percentage of audits that are requested, please indicate percentage.

Organization Size	Count	Average % of Audits Requested
1-2 auditors		
3-5 auditors	4	15.0%
6-10 auditors	7	32.3%
11-15 auditors	5	24.0%
16+ auditors	2	7.3%
Total	18	23.4%

PART II - RESOURCE INPUTS AND OUTPUTS/OUTCOMES

Part II identifies the resource inputs made available to audit departments and the resulting outputs and outcomes from their work. The source of this data is commonly found in the audit departments' annual budget and spending reports, and in internal time management and activity reports which identify: the type and number of reports issued, the audit time used, the audit recommendations and the projected financial savings which may have resulted from their work.

A. Annual Audit Spending and Staffing

Table 6

	Organization's Size				
	1-2 Auditors	3-5 Auditors	6-10 Auditors	11-15 Auditors	16+ Auditors
Average annual spending	$ 193,375	$ 493,549	$ 1,042,814	$ 1,773,128	$ 3,124,423
Internal Audit Size	1.5	4.3	7.6	13.2	20.9
Number responding	25	38	23	13	9
Average payments to outside auditors or consultants	$ 120,270	$ 89,480	$ 139,759	$ 350,434	$ 270,992
Number responding	5	10	8	5	6

Thirty-one percent of audit departments select and manage outside auditors or consultants to conduct internal or external reviews. The annual spending for outside audit support averaged about $176 thousand for the 34 audit shops that used this service.

B. Direct Time to Available Time and Total Time

Table 7

	1 to 2 Auditors	3 to 5 Auditors	6 to 10 Auditors	11 to 15 Auditors	16+ Auditors	All Groups
Direct to Available Time	84%	80%	82%	81%	81%	81%
Direct to Total Time	78%	70%	72%	67%	71%	71%

The computation used is:

Direct Time + Indirect Time = Available Time
Available Time + Benefit Time = Total Time

- Direct Time includes all time spent on audits, follow-up audits or other engagements.
- Indirect Time includes time used for general management, unassigned time, training and other indirect activities.
- Benefit Time includes vacation, holiday and sick leave and other paid leave.

C. Audit Department Staffing & Spending Benchmarks

Table 8

Organization Size	1 auditor to number of Organizational Staff	Audit $1 to Organization $ Spending
1 to 2 auditors	1 auditor per 811 staff (range 1 – 4,250 staff)	$1 : $1,796 (range $406 - $3,697)
3 to 5 auditors	1 auditor per 676 staff (range 33 – 3,441 staff)	$1 : $1,343 (range $186 - $8,000)
6 to 10 auditors	1 auditor per 1,222 staff (range 260 - 6,000 staff)	$1 : $2,002 (range $396 - $12,727)
11 to 15 auditors	1 auditor per 835 staff (range 29 – 4,714 staff)	$1 : $1,196 (range $471 - $2,010)

Organization Size	1 auditor to number of Organizational Staff	Audit $1 to Organization $ Spending
16+ auditors	1 auditor per 1,132 staff (range 485 – 3,333 staff)	$1 : $1,590 (range $782 - $3,315)
2012 TOTAL	1 auditor per 877 staff (range 1 – 6,000 staff)	$1 : $1,614 (range $186 - $12,727)
2010 TOTAL	1 auditor per 1067 staff (range 45 – 10,000 staff)	$1 : $1,647 (range $57 - $9,623)

The benchmarks shown in Table 8 provide a comparison between the staffing and spending ratio of audit departments to the number of full time positions and the total dollars spent by the government organization that hosts the audit shop. This data indicates a significant disparity exists in the size and spending ratio between all audit shops regardless of the size of organization. Audit Department spending amounts do not include amounts spent on consultants or the External Audit. These ratios are provided only for informational purposes and are not recommended for use without further analysis. Before using these macro measures, more specific information should be developed regarding the organizational needs and usage patterns of auditors within the government organization.

D. Cost/Total Audit Hour - Cost/ Billable Audit Hour

Table 9

Organization Size	Cost/ Total Audit Hours	Cost/ Billable Audit Hour	% Variance
1 to 2 auditors	$ 102.30	$ 123.86	21%
3 to 5 auditors	$ 57.39	$ 83.62	46%
6 to 10 auditors	$ 77.65	$ 108.82	40%
11 to 15 auditors	$ 74.48	$ 115.07	54%
16+ auditors	$ 70.61	$ 103.24	46%
2012 Total	**$ 70.92**	**$ 100.55**	**42%**
2010 Total	$ 59.47	$ 89.00	50%

Table 9 provides a composite cost per hour to run an audit department. A number of audit organizations have historically used hourly rates to compare their department to other government audit shops and outside CPA/consulting firms. In computing these costs, the above table presents a comparison using two traditional but different measures. The basic computations used:

Cost per Total Audit Hour - Total Audit Department Cost including Organizational General and Administrative (G&A) excluding payments to outside auditors/consultants divided by Total Audit Hours (paid hours for audit staff)

Cost per Billable Audit Hour - Total Audit Department Cost including Organizational G&A excluding payments to outside auditors/consultants divided by Total Direct Hours (billable hours – direct time spent on engagements)

Some audit shops use the **cost per total audit hour** calculation method. This computation divides either the total audit hours (paid) into the total audit department cost. However, in order for an audit shop to compare its actual cost of operation with the private sector, the audit shop may want to use the **cost per billable hour** calculation method. When using this alternative method, the audit shop should develop a billing rate that fully absorbs all its operating cost, including the G&A cost that is paid by the host organization. G&A usually includes costs that may not routinely be included in the audit department budget, such as office space, central services for copying, payroll and human resources support activities. In addition, the audit department must specifically identify indirect labor time such as training and other traditional non-billable time. When making a comparison to CPA billing rates the audit shop should divide the total department cost including G&A into the total direct hours (billable hours) not the total audit hours incurred by the audit shop.

The **% variance** is the represents the increase in costs per hour related to the G&A cost.

E. Average Number of Audits and Average Hours Spent per Audit

Table 10

	1 to 2 Auditors	**3 to 5 Auditors**	**6 to 10 Auditors**	**11-15 Auditors**	**16+ Auditors**	**TOTAL**
	Avg# Audits	Avg# Audits	Avg# Audits	Avg# Audits	Avg# Audits	Avg# Audits
	Avg Hrs/ Audit	Avg Hrs/ Audit	Avg Hrs/ Audit	Avg Hrs/ Audit	Avg Hrs/ Audit	Avg Hrs/ Audit
Performance	2.8	16.7	13.9	18.4	23.9	14.9
	366	589	944	942	1088	765
Fraud	1.4	12.2	5.2	34.6	32	14.4
	269	129	283	88	749	265
Follow-up	3.6	7.0	3.8	5.5	2.2	4.8
	67	75	144	190	1041	257
IT Audits	1.0	2.1	1.6	2.8	3.0	2.1
	416	273	413	674	577	428
Non-Audit	2.8	7.3	4.5	9.0	11.5	6.8
	156	130	288	133	567	232
Financial	1.5	3.6	2.0	1.8	7.5	2.9
	67	223	531	545	730	396
Contract	1.0	4.1	3.0	10	9.5	5.4
	233	639	465	266	1041	546
Attestation	3.3	4.0	6.4	8.0	11.7	6.2
	600	400	298	438	605	419
Construction	1.0	1.0	2.5	9.3	1.3	3.2
	208	243	484	1905	670	767
Other	2.0	9.7	5.0	5.0	9.0	7.1
	150	191	171		170	173

F. Outcomes - $ Savings

Table 11

Organization Size	# Shops	Total Projected $ Savings	Ratio of $ Savings To Audit $
1 to 2 auditors	4	$348,500 (range $44,000-750,000)	4.00 (range .99-7.50)
3 to 5 auditors	10	$1,084,400 (range $100,000-3.4 million)	2.30 (range .19-8.26)
6 to 10 auditors	5	$3,905,720 (range $776,000-11.7 million)	3.21 (range 1.03-5.70)
11 to 15 auditors	5	$1,540,856 (range $36,281-3.2 million)	.83 (range .03-1.88)
16+ auditors	5	$2,180,418 Range $24,559-6.1 million)	1.11 (range .01-3.86)

Table 11 identifies the dollar savings created by the 29 audit shops that reported the financial impact of their audit work. In order to be considered for the above list, the entity had to submit the cost of their audit shop and projected savings. Additionally, outliers were removed to arrive at averages that were truly representative of the overall group. The resultant dollar savings reflect the results of all types of audit work, including performance audits, financial related audits and other audit activities.

G. Outcomes - Audit Recommendations, Accepted and Implemented

Table 12

Organization Size	Average Number of Recommendations Made	% Accepted	% Implemented
1 to 2 auditors	35	79%	77%
3 to 5 auditors	68	91%	82%
6 to 10 auditors	84	78%	77%
11 to 15 auditors	113	99%	88%
16+ auditors	116	99%	81%
2012 Total	79	88%	80%
2010 Total	107	94%	77%

Table 12 represents the number of recommendations, the percent accepted and the percent implemented by management. Only 49 of the audit shops surveyed reported enough information to calculate the percentage. The consolidated acceptance and implementation rates of Recommendations Implemented by management were 88% and 80% as reported by these audit shops.

As an additional comment on Table 12, we recognized the difficulty of gathering answers for the question because recommendations are implemented over varying lengths of time. In an attempt to provide sameness to the responses, the following guidance was given to the survey respondents as they prepared their answer.

Recommendations: We are asking for annualized data with this question, realizing it might be several years before a recommendation comes to closure. For example, in an average year, you might make 185 recommendations, with 95% of those being accepted and 85% of them finally being implemented or closed over a three to five year period. In this example, the answers would be 185, 95% and 85%.

H. Other Performance Data

Part II also identifies three other performance indicators that could be used by an audit shop to measure its performance against other audit shops. Shown below in Table 13 are the results for fiscal year 2012. These results are based upon the data provided by 36 to 61 audit shops depending upon the measure calculated. Some responses indicated greater than 100%.

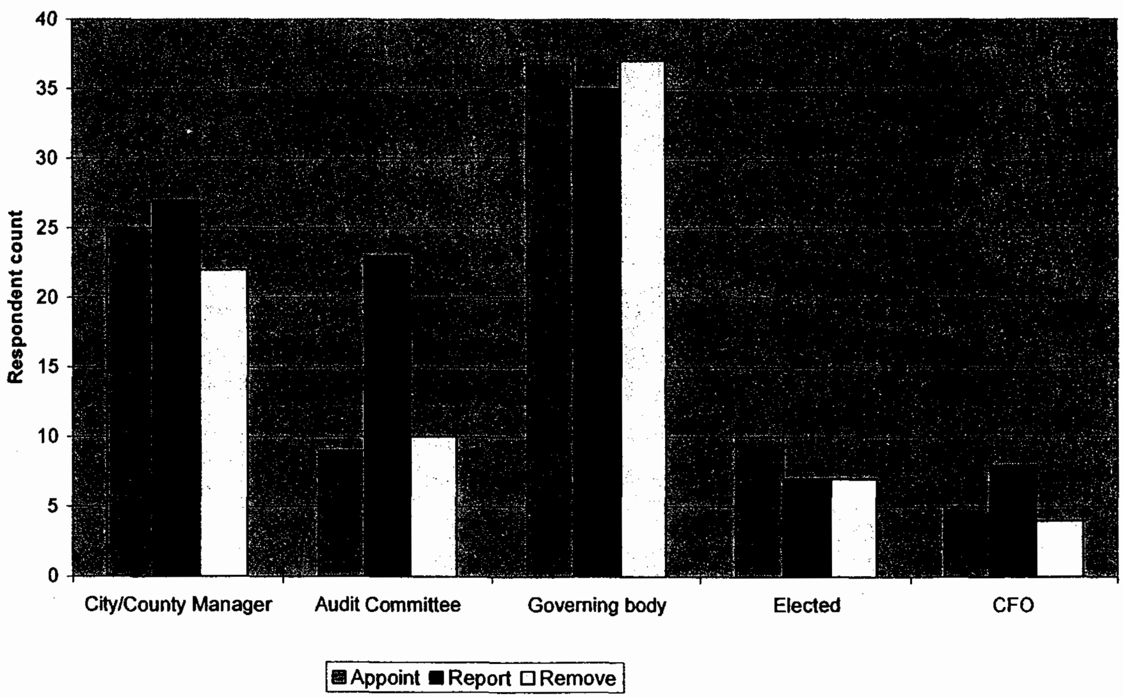
Table 13

Performance Indicator	1 to 2 Auditors	3 to 5 Auditors	6 to 10 Auditors	11-15 Auditors	16+ Auditors	TOTAL
Percent of completed engagements to number scheduled	85%	85%	75%	72%	95%	83%
Percent of engagements completed within the planned time budget	64%	73%	76%	88%	76%	74%
Percent of engagement that met milestone date	61%	83%	79%	88%	80%	80%

PART III – CHIEF AUDIT EXECUTIVE – PEER REVIEW INFORMATION

A. Chief Audit Executive Appointment, Reporting, and Removal

Chief Audit Executive Appointment, Reporting and Removal

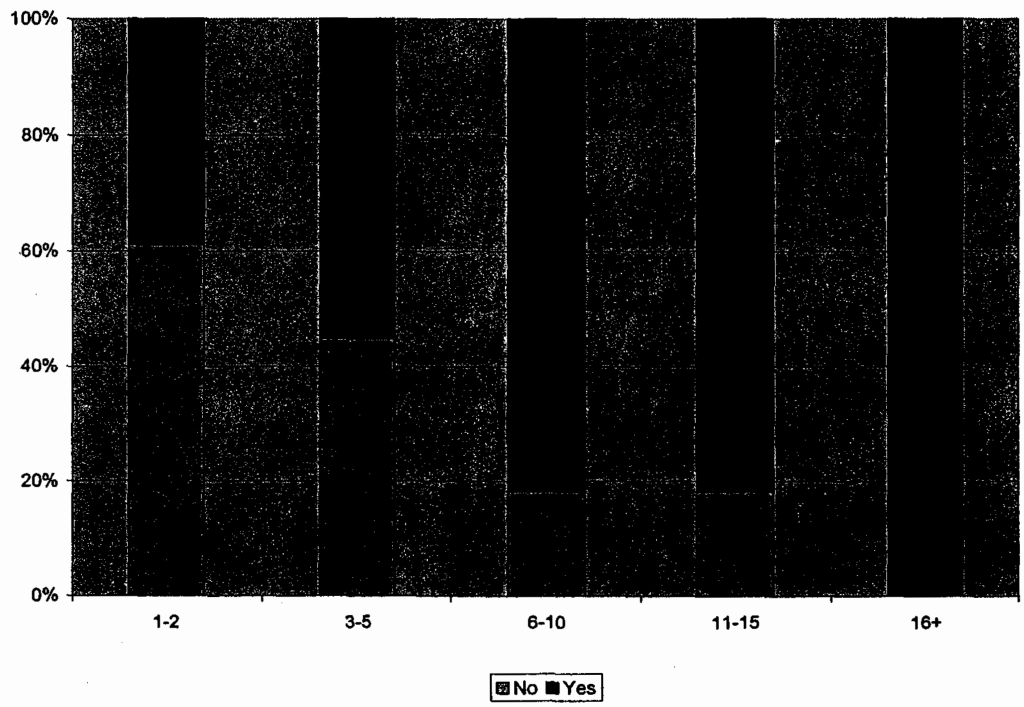


The above chart represents 91 respondents, with some respondents reporting to more than one group.

B. Does the Chief Audit Executive removal have to be for cause?

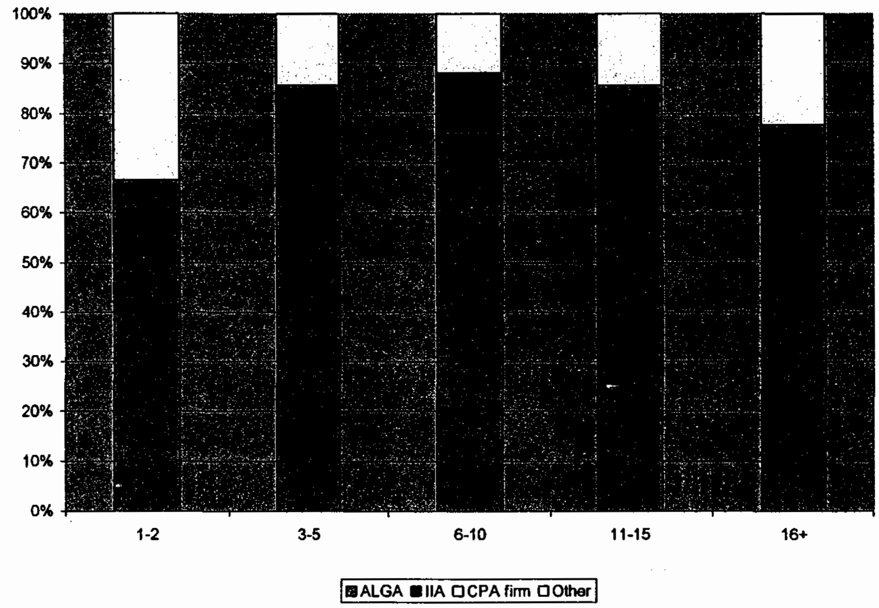
Eighty seven responded with 38% indicating "Yes". It should be noted that several CAE's are elected and for some, a response to this question would not be valid.

C. Is your organization currently in compliance with the requirement for having a peer review? There were 89 respondents to this question.

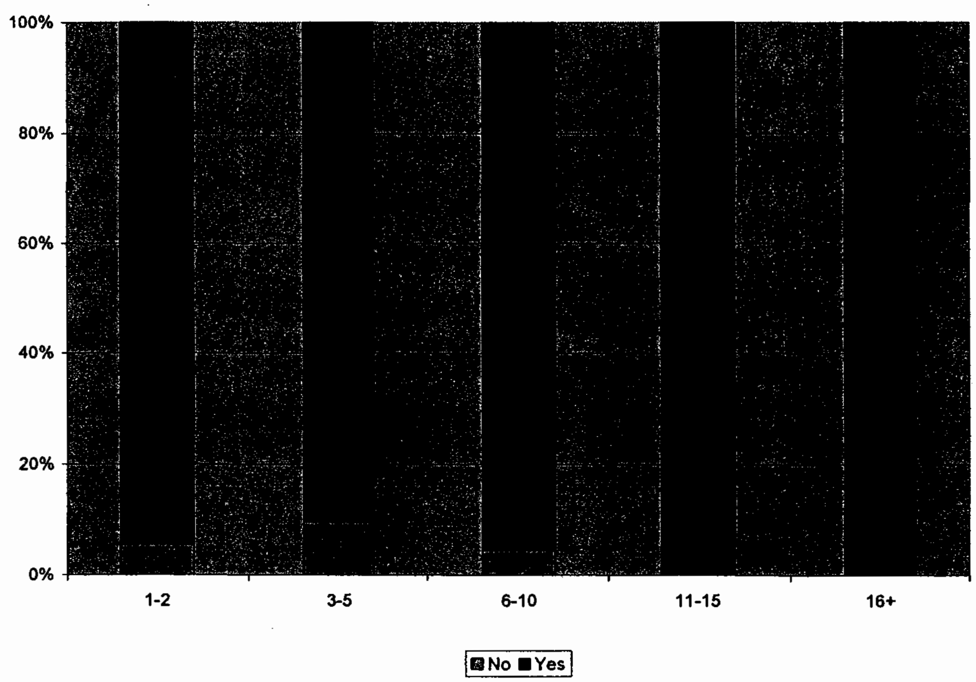


D. Who performed the peer review?

50 respondents reported: ALGA – 40, IIA – 2, CPA Firm – 5, Other Entity – 3



E. ARE YOU FAMILIAR WITH ALGA'S PEER REVIEW PROGRAM?



PART V – BEST PRACTICE AUDIT SHOPS

Part V identifies the level of experience that ALGA member audit organizations possess when conducting routine audit practices or implementing new and innovative audit techniques. The survey asked the individual audit executive to make a <u>self-evaluation</u> of the department's current status regarding a topic area. The status levels are: (1) Best Practice - highly successful, (2) Experienced, (3) Just starting and (4) Not applicable.

The following charts identify the percent of audit executives that identified their department as being either (1) best practice or (2) experienced in various audit practices and techniques currently used in the audit profession. Where applicable, each chart shows the history of audit executive responses over the last five surveys. Listed in the description accompanying the chart is the percent of audit shops who indicated they were Just Starting work in the technique in this year's survey. For presentation purposes, the audit practices are combined into the following groupings: Business Planning, Customer Satisfaction, Measuring Results, Peer Review, Audit Activities, Business Process Activities and the Use of Automated Audit Tools.

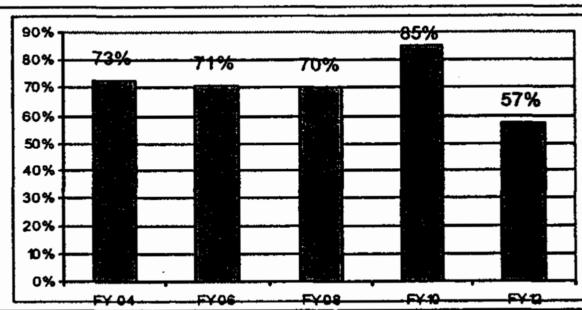
It should be noted that Best Practice audit shops represent a smaller percent than the combined total of level 1 and 2 shown below. A listing of audit shops that were self assessed as "Best Practice" in 18 topic areas is included in Appendix A.

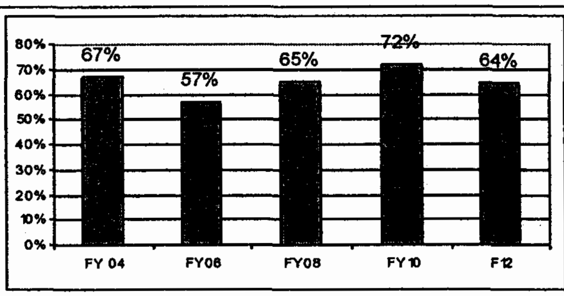
Business Planning

BP-1 Working with Audit Committee and/or Senior Management to Identify Major Issues

Audit committee and/or senior management reviews the audit work plan and strongly supports early involvement of the audit department.

FY12 Just Starting = 23%





BP-2 Audit Department Planning Process

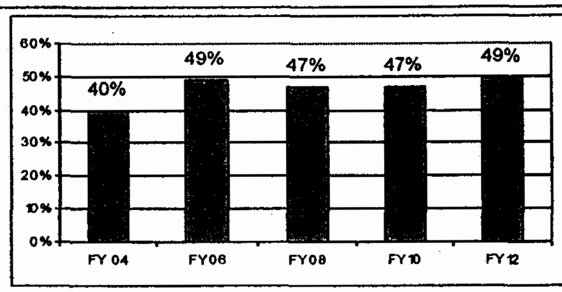
Audit department prepares a formal risk assessment document.

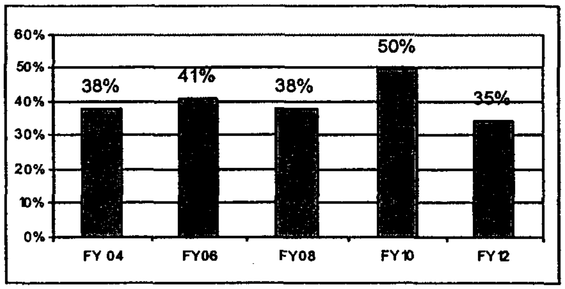
FY12 Just Starting = 24%

BP-3 Planning for the Future

Strategic planning and/or long-term (3 to 5 year) audit work planning on-going.

FY12 Just Starting = 26%





BP-4 Marketing the Audit Function

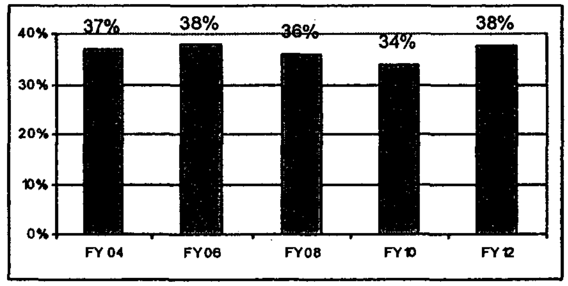
Audit department has developed a marketing product, which encourages management to see audit as an advisor/consultant and supports the audit mission.

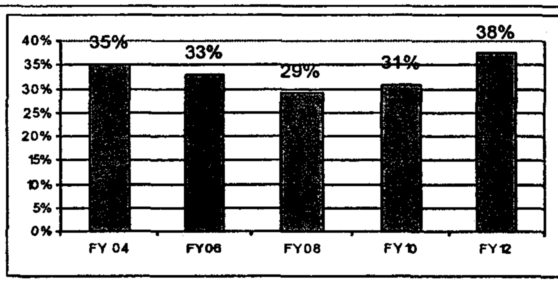
FY12 Just Starting = 31%

BP-5 Customer Satisfaction Surveys

Audit department obtains input through the use of formal customer surveys.

FY12 Just Starting = 13%





BP-6 Audit Effectiveness Questionnaire

Asks customers to value audit after the engagement has been completed.

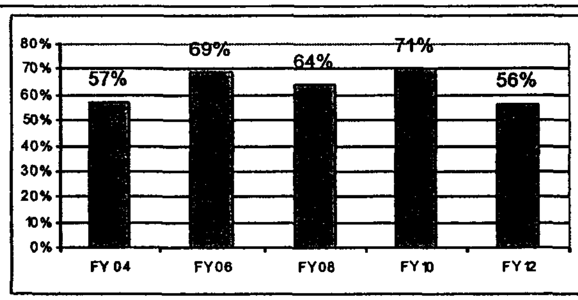
FY12 Just Starting = 8%

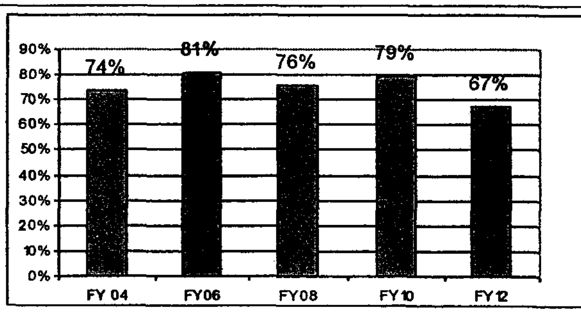
Measuring Results

BP-7 Audit Report Follow-up

Action dates logged and tracked, and non-compliance reported to Audit Committee and/or senior management.

FY12 Just Starting = 25%





BP-8 Audit Report Resolution and Corrective Action Taken by Management

Audit committee and/or senior management actively support the audit resolution process and take corrective action in a reasonable period of time.

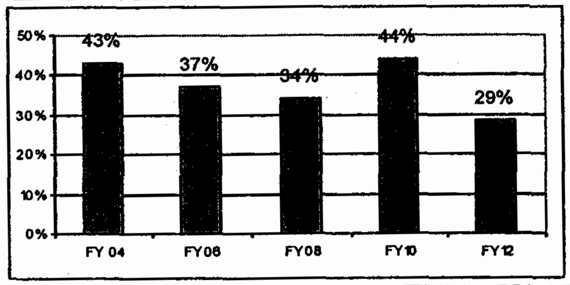
FY12 Just Starting = 20%

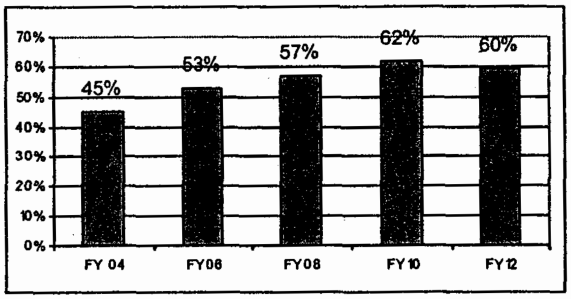
Third Party and Peer Review

BP-9 Third Parties

Use of third parties to conduct audit work.

FY12 Just Starting = 8%





BP-10 External Quality Control Reviews

Audit department schedules external peer reviews once every three years

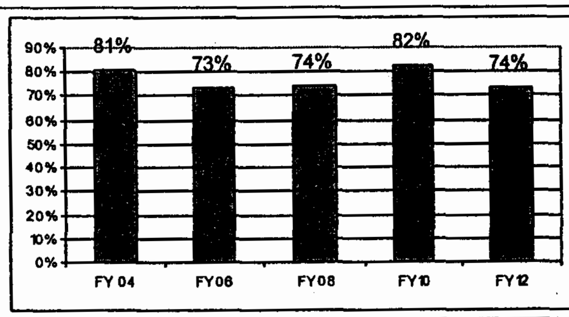
FY12 Just Starting = 19%

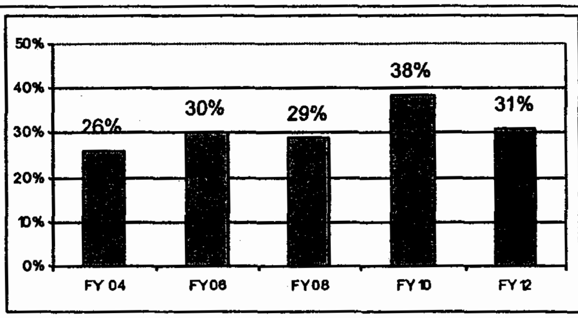
Audit Activities

BP-11 High Percentage of Performance/Operational Audits

Audits focus on business process (economy and efficiency and effectiveness), not just controls.

FY12 Just Starting = 21%





BP-12 Contract Auditing

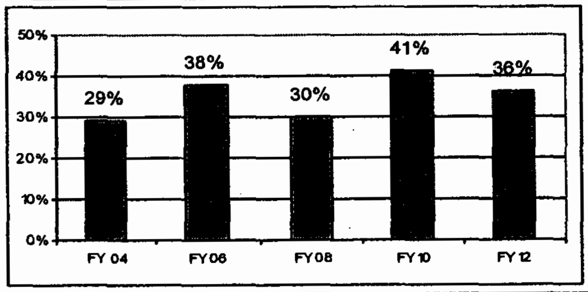
Audits are performed at the contractor's place of business before or early in contract term; field audits are used to verify amounts billed and obtain contract repayments.

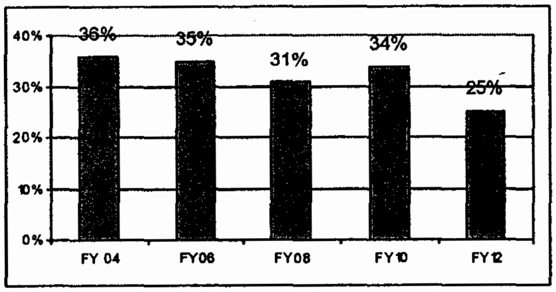
FY12 Just Starting = 25%

BP-13 Information System Auditing

Perform pre and post implementation reviews of new automated systems and/or actively involved in the audit of active automated system applications and the general control environment.

FY12 Just Starting = 33%





BP-14 Performance Measures Benchmarking and/or Best Practices

Audit department reviews and/or analyzes submissions made by operating departments regarding performance measures to verify the reliability of management presentations.

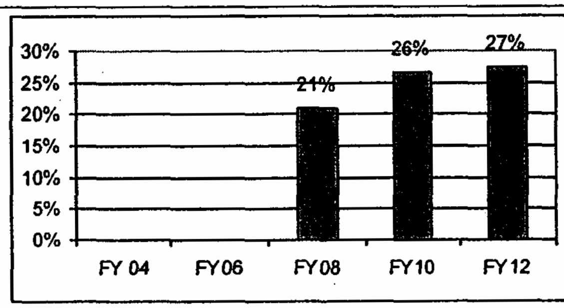
FY12 Just Starting = 25%

BP-15 Continuous Monitoring

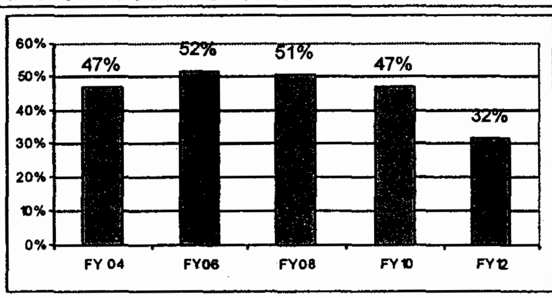
Audit Department uses Continuous Monitoring or Continuous Auditing for selected areas of their environment

FY12 Just Starting = 27%

(Did not start collecting data until FY08)



Business Process Activities



BP-16 Organization Teams for Re-Engineering Work Process Improvements and Quality Improvement

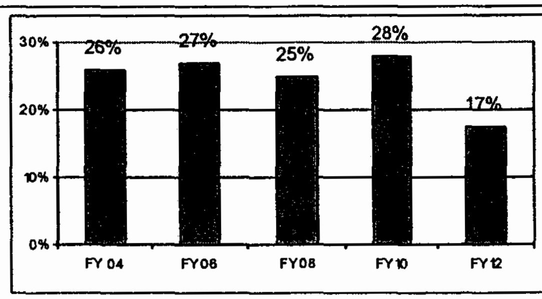
Audit department facilitates or participates in organizational initiatives to streamline operations and/or focus on customer needs.

FY12 Just Starting = 22%

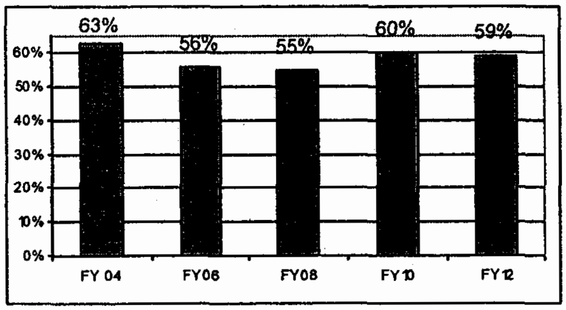
BP-17 Control Self Assessments

Audit Department educates/facilitates/equips operating departments for self-assessment of organizational risks.

FY12 Just Starting = 27%



Use of Automated Audit Tools



BP-18 Automated Audit Tools: Audit Sampling; Work Paper Formats; Work Paper File Systems; Audit Time Reporting

Use computer-assisted audit techniques and tools to assist in audit analysis and testing, and/or audit planning and administration.

FY12 Just Starting = 33%

Conclusion

I would like to thank the members that were willing to share their professional knowledge, insights and time with their peers through completion of the survey. This benchmarking survey provides internal audit organizations with valuable insight into the inner workings of other local government audit shops.

The number of respondents for this survey (114) was an increase from the responses for the last two surveys. I hope all those who participated find value in the results presented. These comparisons and benchmarks can be useful to audit organizations in improving their own operations. We often perform benchmark comparisons of the organizations we audit so we should be willing to compare our performance as well. Obviously, the benchmarking metrics included in this report only provide a partial analysis. It may be necessary to expand into other types of analysis in cases where an audit department has a substantial disparity with the standard results reported by other ALGA members. It may prove useful to seek counsel from "best practice" audit shops or begin a formal process-benchmarking project.

Regardless, all ALGA members should take advantage of data included in this report. A comparison with other peer organizations should lead to better identification of both the strengths of the audit operation and highlight those areas where improvements should be made. I hope that ALGA's membership continues to use this survey report as a tool for continuous improvement within their respective audit organizations.

On behalf of the Survey Committee
David Givans, County Internal Auditor
Deschutes County, Oregon
(541) 330-4674
david.givans@deschutes.org

ALGA Benchmarking and Best Practices Survey
APPENDIX A - List of Best Practice and Experienced Organizations for FY 2012

The following represents audit organizations that considered their audit activities to be "Best Practice – highly successful" or "Experienced" in the following topic areas. You may want to contact these organizations directly to obtain additional information or advice in areas that interest you.

You may identify the topic area (Part I) you are interested in (BP-1 through BP-18) and then use the table in Part II to identify entities that are either Best Practice or Experienced in that area. If you are unsure about the organization or who to contact, please refer to your membership list or the ALGA website.

Part I – List of Topic Areas

Business Planning		
	BP-1	Working with Audit Committee and/or Senior Management to Identify Major Issues
	BP-2	Audit Department Planning Process
	BP-3	Planning for the Future
	BP-4	Marketing the Audit Function
	BP-5	Customer Satisfaction Surveys
	BP-6	Audit Effectiveness Questionnaire
Measuring Results		
	BP-7	Audit Report Follow-up
	BP-8	Audit Report resolution and corrective action taken by management
Third Party and Peer Reviews		
	BP-9	Third Parties
	BP-10	External Quality Control Reviews
Audit Activities		
	BP-11	High percentage of Performance/Operational Audits
	BP-12	Contract auditing
	BP-13	Information System Auditing
	BP-14	Performance Measures Benchmarking and/or Best Practices
	BP-15	Continuous Monitoring
Business Process Activities		
	BP-16	Organization teams for Re-engineering Work Process Improvements and Quality Improvement
	BP-17	Control Self Assessments
Use of Automated Audit Tools		
	BP-18	Automated Audit Tools: Audit Sampling; Work Paper Formats; Work Paper File Systems; Audit Time Reporting

Part II – Entities who identified themselves as Best Practices (BP) or Experienced (E) in any of the 18 topic areas. List of Topic Areas

Organization name	BP -1	BP -2	BP -3	BP -4	BP -5	BP -6	BP -7	BP -8	BP -9	BP-10	BP-11	BP-12	BP-13	BP-14	BP-15	BP-16	BP-17	BP-18
CITY																		
Albany Office of Audit and Control, City of	E	E									E							
Albuquerque, City of		BP			BP	BP				BP		E				E		
Austin, City of	BP	BP	BP	E	E	E	E	E	E	BP	BP	E					E	E
Charlotte, City of	E		E				BP	BP	E	BP	BP	E	E					BP
Chattanooga Internal Audit Division, City of	E							E		BP								E
Chesapeake, City of	E						E	E		E	E	E	E	E				E
Colorado Springs, City of		E	E				E		E		E		E					BP
Conroe, City of			E				E	E								E		E
Dallas, City of	E	BP					BP			BP			E					E
Fort Wayne, City of		E	E				E	E			E							E
Fort Worth, City of	E	E	E				E	E			BP	BP	E		BP			BP
Garland, City of	E	E	BP				BP	BP		BP	E	E	E					E
Hampton, City of		E	E	BP							BP							
Hartford, City of	BP	BP	E	E	BP	BP	BP	E			BP	E	E			BP		E
Kansas City, City of		E						E		BP	BP		E	E				
Lawrence City Auditor, City of	BP	E					BP	E		BP	BP							E
Long Beach, City of				E				E		BP	BP	E		E		E		
Los Angeles Fire and Police Pensions	E	E	E	E		E		E			E			E				
Los Angeles, City of	BP	BP	E		BP	BP	BP	BP	BP	BP	BP	E					BP	BP
Memphis, City of		E		E	E	E			E	E	E							
Mesa, City of	E						BP	BP			E							
Miami Beach, City of	E	E					E	E	E		E	E		E	E	E		
Moncton, City of											BP							BP
Oklahoma City, City of	BP	BP	BP		BP	BP		BP		BP	BP						E	BP
Overland Park, City of		E									E	E						
Phoenix, City of	E	E	E	E	BP		BP	BP	E	BP	E	E	E	E	E	E		E
Pinellas Park, City of	E	E	E	E		E	E	E			E	E	E	E	E	E		E
Portland, City of			E	E	E	E	E	E		E	E		E	E				E
Raleigh, City of				E				E	E		E							E
Riverside, City of- Internal Audit Department	E	E									BP	E	E					
San Antonio, City of	E	E					E	BP		BP	BP			E		E		BP

Organization name	BP -1	BP -2	BP -3	BP -4	BP -5	BP -6	BP -7	BP -8	BP -9	BP-10	BP-11	BP-12	BP-13	BP-14	BP-15	BP-16	BP-17	BP-18
San Jose, City of	BP	BP					BP	E		BP	BP			E				
Savannah, City of											E				E	E		E
Scottsdale, City of	E	E	E					E		BP	E	E	E			E		E
Seattle, City of				E	BP	BP	BP	BP	E	BP	BP	E				BP	E	E
Sioux Falls, City of											E							
St. Petersburg, City of- Audit Services	BP	BP	BP	BP	BP	BP	BP	BP			BP	E	E	E	E	E		BP
Tallahassee, City of	BP	BP	E	E	BP	BP	BP	BP		BP	BP	BP	BP	E	E	E		BP
Tampa, City of	BP	BP	E	E	BP	BP	BP	BP		BP	BP	E		BP				BP
Toronto, City of - City Manager's Office	E			E	BP	BP		E		E	E		E	E		E	E	E
Toronto, City of-Auditor General's Office	BP	BP	E	E			BP	BP	E	BP	BP		BP	E	E			E
Tulsa, City of	BP	BP	E	E	BP	E	BP	BP	E	BP	E		E		E	E	E	BP
Wilmington, City of	E	E	E		BP	BP	E	E	E	E			E					BP
Wilmington, City of - City Manager's Department	BP							E	E		BP				BP	BP	E	
Winnipeg, City of - Audit Department	E	E	E	E	E	E	E	E	E		E						E	E
CITY AND COUNTY																		
Broomfield, City and County of	BP	BP	BP		BP	E	BP	BP			BP					E		E
Denver, City and County of	BP	BP	E	BP	E	E	E	E	E	BP	BP		BP	BP		E	BP	BP
Honolulu Office of City Auditor, City and County of	BP	BP	BP				BP	BP	BP	BP	BP		E	BP	BP	BP		E
Louisville Jefferson County Metro Government	E	BP	BP	E	BP	E		E	BP	BP		E	BP		E	E	E	
Wyandotte County	E	E			BP		E			BP	BP				E			E
COUNTY																		
Buncombe County		E	E											E	E		E	
Charlotte County Clerk of the Circuit Court							E	E					E		E		E	E
Chesterfield County	BP	BP	BP	BP		BP	BP	E		BP	BP	E	E			BP		E
Deschutes County	E	E			BP		E	E		BP	E		E					E
Harford County Maryland		E	E															BP
Jackson, County of	E	E					E	E	E	E	E	E			E	E		E
King County	BP	E	BP	E	E	E	BP	BP	BP	BP	BP			BP		E		E
Knox County	E	E								E								
Lake County	E	BP	E	E				E			BP		E					E
Maricopa County	E	BP	E	BP	BP	E	BP	E	BP	E	E	E	BP	BP	E	E	E	E
Milwaukee, County of - Comptroller's Office							E	E		BP	E	E						
Montgomery County Government Internal Audit		E	E	E			E		E		E	E	E					E

Organization name	BP -1	BP -2	BP -3	BP -4	BP -5	BP -6	BP -7	BP -8	BP -9	BP-10	BP-11	BP-12	BP-13	BP-14	BP-15	BP-16	BP-17	BP-18
Multnomah County Auditor's Office					E	E				BP	BP							
Pinellas County Clerk of the Circuit Court	BP	BP	E	BP			BP	BP		BP	BP		E	E	E		BP	BP
Prince George's County Public Schools							BP			E			E					
San Luis Obispo, County of								E		E								
St. Charles County Auditor	E	BP	BP	E	BP	BP	E			BP								E
Waukesha County	E		E					E	E		E							E
OTHER																		
Metro Office of the Auditor		E			BP	BP	BP	E		BP	BP							E
New Jersey Department of Human Services					E			E	E	E								
Alamo Colleges		E									E							
SCHOOLS / UNIVERSITIES																		
Milwaukee Public Schools										BP	E				E			
Savannah-Chatham County Board of Education	E	BP	E		BP	BP	BP	BP		BP	E					E		
Virginia Beach City Public Schools	BP	E			BP	E	BP	E		BP	BP				E			E
STATE																		
Guam Office of Public Accountability										E								
Maryland Judiciary Internal Audit Department	BP		BP	BP	E	BP	E	BP		BP	BP		E		E	BP	BP	BP
TRANSPORTATION AUTHORITY																		
Dallas/Fort Worth International Airport		E					BP	E		E								
Greater Orlando Aviation Authority	E	E	E	E				E	BP			BP						
Transportation Corridor Agencies											E							
VIA Metropolitan Transit	E	E	E		E	E	E	E		E	E							
UTILITY																		
Charleston Water System			E			E		E							E			
Water District No. 1 of Johnson County		E			E	E	E	E			E				E	E		E

City of Santa Fe
Gross Receipts by Category
Fiscal Years 2012-13 vs. 2011-12

March
(December Activity)

Category	March 2012-13	March 2011-12	Dollar Difference	Percent Difference
Agriculture, forestry, hunting	3,066	3,598	(532)	-14.78%
Mining	0	0	0	0.00%
Utilities	304,249	414,527	(110,279)	-26.60%
Construction	586,896	777,019	(190,123)	-24.47%
Manufacturing	108,951	99,438	9,513	9.57%
Wholesale	81,920	96,295	(14,376)	-14.93%
Retail	1,931,281	1,766,091	165,190	9.35%
Transportation & warehousing	14,141	14,789	(647)	-4.38%
Information & Cultural Indust.	303,697	273,826	29,871	10.91%
Finance & insurance	102,755	82,610	20,144	24.38%
Real estate, rental & leasing	133,833	148,807	(14,974)	-10.06%
Prof, Scientific, Technical	552,283	519,386	32,897	6.33%
Management of companies	16,138	8,937	7,201	80.58%
Admin & Support, Waste Mgt	41,688	45,455	(3,767)	-8.29%
Educational Services	47,016	43,543	3,474	7.98%
Health Care & Social Assist	260,372	353,885	(93,513)	-26.42%
Arts, Entertainment & Recr	36,088	32,122	3,966	12.35%
Accomodation & Food	687,796	647,672	40,124	6.20%
Other Services	691,545	651,735	39,810	6.11%
Public Administration	0	377	(377)	0.00%
Unclassified	18,038	13,192	4,846	36.73%
State reimb-food/med tax	1,371,741	766,876	604,865	78.87%
Muni. Equivalent Distribution	24,429	26,587	(2,158)	-8.12%
Total Distribution	**7,317,920.54**	**6,786,767.02**	**531,153.52**	7.83%

City of Santa Fe
GRT Analysis By Category
Fiscal Years 2012-13 vs. 2011-12

Cumulative 2012-13 vs. Cumulative 2011-12
(May - January Activity)

Category	July-March 2012-13	July-March 2011-12	Dollar Difference	Percent Difference
Agriculture, forestry, hunting, fishing	150,928	164,558	(13,630)	-8.28%
Mining	3,965	1,043	2,923	0.00%
Utilities	1,811,244	1,841,193	(29,950)	-1.63%
Construction	6,510,786	7,054,942	(544,156)	-7.71%
Manufacturing	1,098,461	1,262,409	(163,949)	-12.99%
Wholesale	1,052,478	1,244,445	(191,967)	-15.43%
Retail	20,502,850	20,772,875	(270,024)	-1.30%
Transportation & warehousing	162,753	431,373	(268,620)	-62.27%
Information and Cultural Indust	2,583,166	2,602,512	(19,346)	-0.74%
Finance & Insurance	878,902	631,491	247,411	39.18%
Real estate, rental & leasing	1,458,655	1,276,943	181,713	14.23%
Professional, Scientific, Tech	5,358,852	5,190,896	167,957	3.24%
Management of companies	168,642	151,884	16,757	11.03%
Admin & Support, Waste Mgt	562,973	721,727	(158,754)	-22.00%
Educational Services	392,853	389,090	3,763	0.97%
Health care and social assist	3,182,810	3,306,024	(123,214)	-3.73%
Arts, Entertainment & Recr	350,112	333,002	17,110	5.14%
Accommodation & Food	8,134,652	7,722,636	412,016	5.34%
Other Services	7,053,678	6,362,568	691,110	10.86%
Public Administration	775	1,168	(393)	0.00%
Unclassified	201,202	135,243	65,958	48.77%
State reimb-food/med tax	8,276,505	7,735,042	541,464	7.00%
Muni. Equivalent Distribution	228,829	274,818	(45,989)	-16.73%
Total Distribution	**70,126,070**	**69,607,880**	**518,190**	0.74%

EXHIBIT E - Audit Committee - April 3 2013

Copy of GRT 12-13 March 2013
03/18/2013
hrh

City of Santa Fe
Gross Receipts Taxes Collected (less Water 1/4%)

MONTH	FY Actual 2007/08	% Inc/Dec	FY Actual 2008/09	% Inc/Dec	FY Actual 2009/10	% Inc/Dec	FY Actual 2010/11	% Inc/Dec	FY Actual 2011/12	% Inc/Dec	FY Actual 2012/13	% Inc/Dec	$ Diff to PY	FY Budget 2012-13	% Actual to Budget	Over/Under Budget
JUL	7,375,729	15.39%	7,522,492	1.99%	6,801,875	-9.58%	6,253,785	-8.06%	6,868,168	9.82%	6,839,744	-0.41%	(28,424)	6,868,168	-0.41%	(28,424)
AUG	8,237,747	-2.16%	8,126,772	-1.35%	7,373,937	-9.26%	7,692,859	4.32%	7,651,436	-0.54%	7,557,228	-1.23%	(94,208)	7,651,436	-1.23%	(94,208)
SEPT	7,534,469	9.30%	7,711,349	2.35%	7,220,436	-6.37%	6,865,871	-4.91%	7,162,003	4.31%	7,251,040	1.24%	89,037	7,162,003	1.24%	89,037
OCT	7,792,052	4.44%	7,750,530	-0.53%	7,133,369	-7.96%	7,300,775	2.35%	7,456,520	2.13%	7,541,435	1.14%	84,916	7,456,520	1.14%	84,916
NOV	7,767,989	2.05%	7,590,931	-2.28%	6,887,336	-9.27%	6,788,772	-1.43%	7,169,747	5.61%	7,047,078	-1.71%	(122,669)	7,169,747	-1.71%	(122,669)
DEC	7,385,740	-2.52%	7,808,652	5.73%	6,665,415	-14.64%	6,492,101	-2.60%	6,576,396	1.30%	7,114,531	8.18%	538,134	6,576,396	8.18%	538,134
JAN	6,986,767	4.62%	6,511,739	-6.80%	6,118,876	-6.03%	6,284,002	2.70%	6,653,844	5.89%	6,672,604	0.28%	18,760	6,653,844	0.28%	18,760
FEB	8,725,121	8.61%	7,679,717	-11.98%	7,568,323	-1.45%	7,786,459	2.88%	8,240,913	5.84%	7,731,934	-6.18%	(508,979)	8,240,913	-6.18%	(508,979)
MAR	6,680,180	-4.15%	6,307,310	-5.58%	5,774,583	-8.45%	5,705,183	-1.20%	6,242,865	9.42%	6,728,219	7.77%	485,354	6,242,865	7.77%	485,354
APR	5,957,049	-4.68%	6,038,594	1.37%	5,685,314	-5.85%	5,775,585	1.59%	6,318,974	9.41%				6,318,974		
MAY	6,903,178	-34.00%	6,517,131	-5.59%	6,580,129	0.97%	6,821,323	3.67%	7,132,860	4.57%				7,132,860		
JUN	7,201,012	-4.48%	6,123,927	-14.96%	6,212,278	1.44%	6,687,665	7.65%	6,249,687	-6.55%				6,249,687		
TOTALS	$88,547,033	2.07%	$85,689,145	-3.23%	$80,021,871	-6.61%	$ 80,454,380	0.54%	$ 83,723,413	4.06%	$ 64,483,814		$ 461,921	$83,723,413		$ 461,921
Prior Years' Comparison: July - Mar	$68,485,794	**3.71%**	$67,009,493	**-2.16%**	$61,544,149	**-8.16%**	$61,169,807	**-0.61%**	$64,021,892	**4.66%**	$64,483,814		$461,921	$64,021,892		461,921
											Amount over(under) budget				**0.72%**	461,921
											Cumulative yr-to-date comparison to prior yr-to-date:				**0.72%**	461,921
											Cumulative yr-to-date comparison to FY 07-08 yr-to-date:				**-5.84%**	(4,001,981)

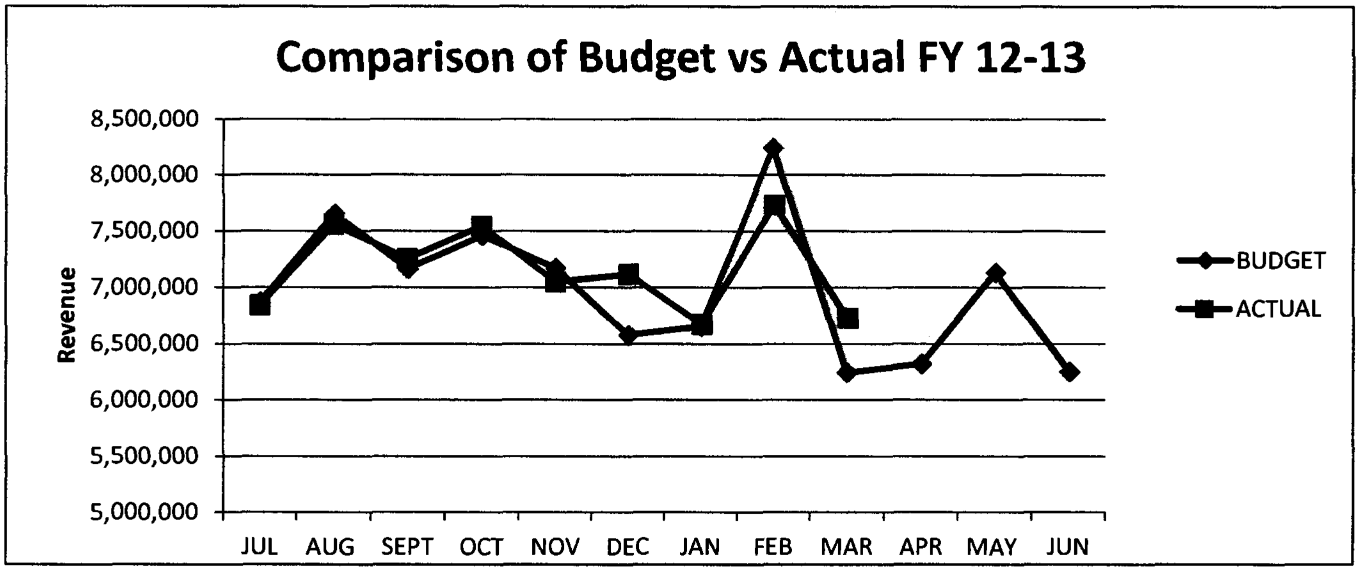
July 2005 1/4% GRT increase: WATER

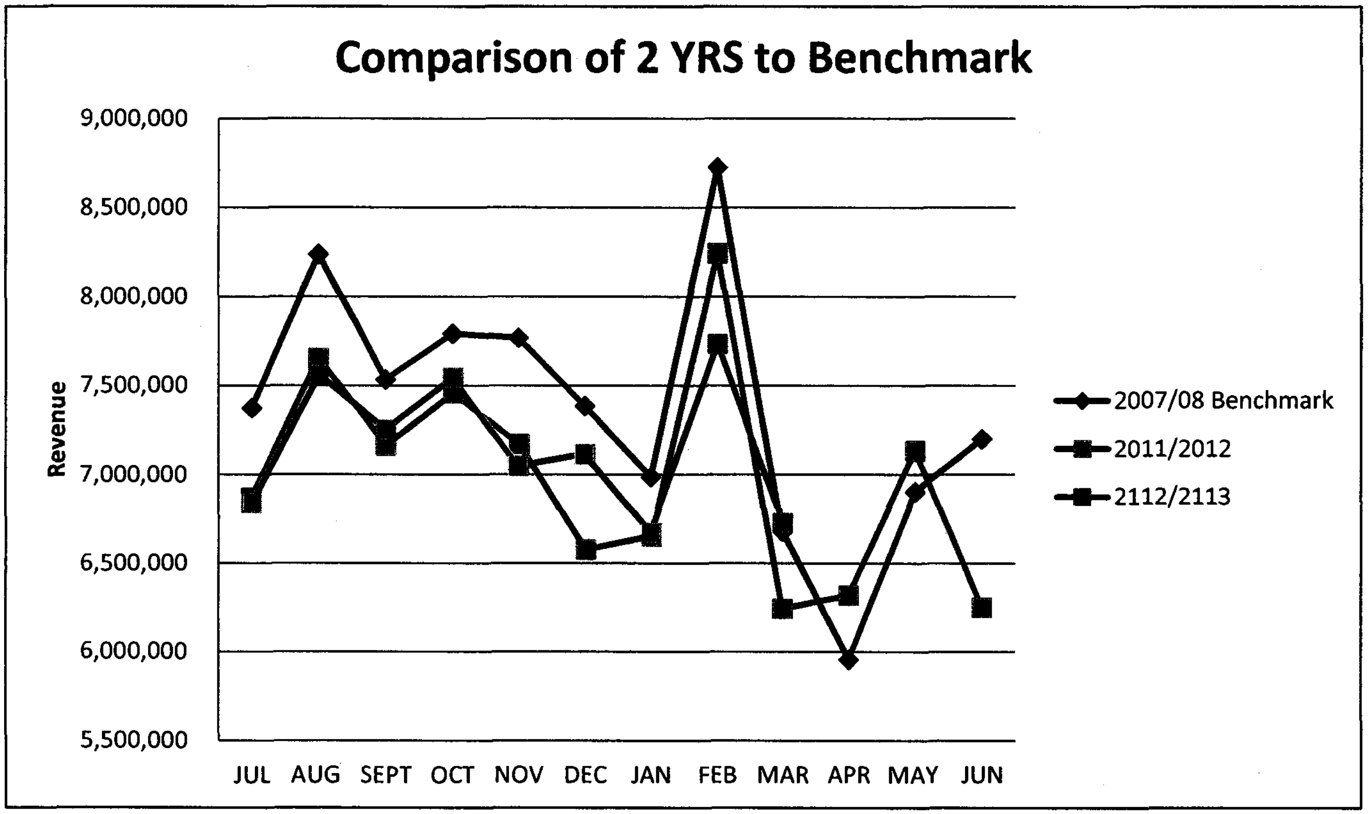
MONTH	FY Actual 2007/08	% Inc/Dec	FY Actual 2008/09	% Inc/Dec	FY Actual 2009/10	% Inc/Dec	FY Actual 2010/11	% Inc/Dec	FISCAL YR 2011/12	% Incr/Decr	FISCAL YR 2012/13	% Incr/Decr	$ Diff to PY	FY Budget 2012-13	% Actual to Budget	Over/Under Budget
JUL	633,957	14.35%	654,025	3.17%	592,723	-9.37%	545,951	-7.89%	598,654	9.65%	600,324	0.28%	1,670	598,654	0.28%	1,670
AUG	714,599	-95.00%	710,669	-0.55%	641,975	-9.67%	671,821	4.65%	667,629	-0.62%	659,002	-1.29%	(8,627)	667,629	-1.29%	(8,627)
SEPT	653,432	9.04%	670,318	2.58%	629,159	-6.14%	597,858	-4.98%	625,006	4.54%	634,132	1.46%	9,125	625,006	1.46%	9,125
OCT	676,530	3.87%	679,674	0.46%	622,467	-8.42%	636,744	2.29%	648,133	1.79%	659,894	1.81%	11,761	648,133	1.81%	11,761
NOV	679,250	4.49%	662,766	-2.43%	596,377	-10.02%	590,905	-0.92%	625,532	5.86%	616,187	-1.49%	(9,345)	625,532	-1.49%	(9,345)
DEC	647,257	2.30%	683,888	5.66%	580,333	-15.14%	566,931	-2.31%	573,490	1.16%	622,564	8.56%	49,074	573,490	8.56%	49,074
JAN	612,303	2.59%	570,156	-6.88%	534,889	-6.19%	549,104	2.66%	580,657	5.75%	583,650	0.52%	2,993	580,657	0.52%	2,993
FEB	765,368	9.23%	672,413	-12.15%	661,900	-1.56%	680,339	2.79%	722,984	6.27%	676,802	-6.39%	(46,182)	722,984	-6.39%	(46,182)
MAR	585,468	-0.35%	550,145	-6.03%	503,595	-8.46%	499,794	-0.75%	543,902	8.83%	589,701	8.42%	45,800	543,902	8.42%	45,800
APR	546,057	4.90%	527,862	-3.33%	496,228	-5.99%	499,776	0.71%	551,043	10.26%				551,043		
MAY	951,790	57.65%	570,683	-40.04%	572,672	0.35%	594,603	3.83%	622,468	4.69%				622,468		
JUN	631,448	4.36%	534,251	-15.39%	541,828	1.42%	580,691	7.17%	543,012	-6.49%				543,012		
TOTALS	$8,097,459	8.74%	$7,486,850	-7.54%	$6,974,146	-6.85%	$7,014,517	-1.37%	7,302,510	3.55%	$ 5,642,256		$ 56,269	$7,302,510		$ 56,269
Prior Years' Comparison: July-Mar	5,968,165	4.81%	5,854,053	-1.91%	5,363,418	-8.38%	5,339,447	-0.45%	5,585,987	4.62%	5,642,256		56,269	5,585,987		56,269
											Budget vs Actual year-to-date comparison				**1.01%**	$56,269
											Current year-to-date comparison to prior year-to-date:				**1.01%**	56,269
											Current year-to-date comparison to FY 07-08 year-to-date:				**-5.46%**	(325,908)

City of Santa Fe
GRT Analysis By Category
Fiscal Years 2012-13 vs. 2011-2012 and 2007-2008

Cumulative July - Mar
(May - Jan Activity)

Category	July-March 2012-2013	July-March 2011-2012	July-March 2007-2008	Dollar Dif FY 12-13 vs FY 11-12	Percent Dif FY 12-13 vs FY 10-11	Dollar Dif FY 12-13 vs FY 07-08	Percent Dif FY 12-13 vs FY 07-08
Agriculture, forestry, hunting, fishing	150,928	164,558	330,513	(13,630)	-8.28%	(179,586)	-54.34%
Mining	3,965	1,043	112	2,923	280.36%	3,853	0.00%
Utilities	1,811,244	1,841,193	1,573,486	(29,950)	-1.63%	237,758	15.11%
Construction	6,510,786	7,054,942	10,446,771	(544,156)	-7.71%	(3,935,985)	-37.68%
Manufacturing	1,098,461	1,262,409	1,576,689	(163,949)	-12.99%	(478,229)	-30.33%
Wholesale	1,052,478	1,244,445	1,488,863	(191,967)	-15.43%	(436,385)	-29.31%
Retail	20,502,850	20,772,875	23,021,749	(270,024)	-1.30%	(2,518,898)	-10.94%
Transportation & warehousing	162,753	431,373	506,582	(268,620)	-62.27%	(343,829)	-67.87%
Information and Cultural Indust	2,583,166	2,602,512	1,208,576	(19,346)	-0.74%	1,374,591	113.74%
Finance & Insurance	878,902	631,491	890,611	247,411	39.18%	(11,708)	-1.31%
Real estate, rental & leasing	1,458,655	1,276,943	1,702,143	181,713	14.23%	(243,488)	-14.30%
Professional, Scientific, Tech	5,358,852	5,190,896	4,756,672	167,957	3.24%	602,180	12.66%
Management of companies	168,642	151,884	263,135	16,757	11.03%	(94,493)	-35.91%
Admin & Support, Waste Mgt	562,973	721,727	346,579	(158,754)	-22.00%	216,394	62.44%
Educational Services	392,853	389,090	199,853	3,763	0.97%	193,000	96.57%
Health care and social assist	3,182,810	3,306,024	2,876,875	(123,214)	-3.73%	305,935	10.63%
Arts, Entertainment & Recr	350,112	333,002	316,913	17,110	5.14%	33,199	10.48%
Accommodation & Food	8,134,652	7,722,636	7,900,631	412,016	5.34%	234,021	2.96%
Other Services	7,053,678	6,362,568	7,675,325	691,110	10.86%	(621,647)	-8.10%
Public Administration	775	1,168	274	(393)	0.00%	500	0.00%
Unclassified	201,202	135,243	1,111,262	65,958	48.77%	(910,061)	-81.89%
State reimb-food/med tax**	8,276,505	7,735,042	6,260,346	541,464	7.00%	2,016,160	32.21%
Muni. Equivalent Distribution	228,829	274,818	0	(45,989)	-16.73%	228,829	100.00%
Total Distribution	**70,126,070**	**69,607,880**	**74,453,960**	**518,190**	**0.74%**	**(4,327,890)**	**-5.81%**


Comparison of Budget vs Actual FY 12-13
8,500,000
8,000,000
7,500,000
7,000,000
6,500,000
6,000,000
5,500,000
5,000,000
Revenue
JUL
AUG
SEPT
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY
JUN
BUDGET
ACTUAL


Comparison of 2 YRS to Benchmark
9,000,000
8,500,000
8,000,000
7,500,000
7,000,000
6,500,000
6,000,000
5,500,000
Revenue
JUL
AUG
SEPT
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY
JUN
2007/08 Benchmark
2011/2012
2112/2113

BUDGET VS ACTUAL:

MONTH	BUDGET	ACTUAL
JUL	6,868,168	6,839,744
AUG	7,651,436	7,557,228
SEPT	7,162,003	7,251,040
OCT	7,456,520	7,541,435
NOV	7,169,747	7,047,078
DEC	6,576,396	7,114,531
JAN	6,653,844	6,672,604
FEB	8,240,913	7,731,934
MAR	6,242,865	6,728,219
APR	6,318,974	
MAY	7,132,860	
JUN	6,249,687	
	83,723,413	64,483,814

2 YEARS VS BENCHMARK:

MONTH	2007/08 Benchmark	2011/2012	2112/2113
JUL	7,375,729	6,868,168	6,839,744
AUG	8,237,747	7,651,436	7,557,228
SEPT	7,534,469	7,162,003	7,251,040
OCT	7,792,052	7,456,520	7,541,435
NOV	7,767,989	7,169,747	7,047,078
DEC	7,385,740	6,576,396	7,114,531
JAN	6,986,767	6,653,844	6,672,604
FEB	8,725,121	8,240,913	7,731,934
MAR	6,680,180	6,242,865	6,728,219
APR	5,957,049	6,318,974	
MAY	6,903,178	7,132,860	
JUN	7,201,012	6,249,687	
		83,723,413	

2012 AUDIT COMMITTEE ACTIVITIES

SECOND REPORT TO THE CITY COUNCIL as GOVERNING BODY

The City of Santa Fe, by resolution No 2010-83, established the City of Santa Fe Audit Committee. The Committee is advisory with the purpose of providing advice to the City Manager and the Governing Body regarding financial audits and investigations and related policies and procedures. The City Municipal Judge solicited and appointed the five volunteer Committee members with the consent of the Governing Body. During 2012, the second full year of its operations, the Committee met monthly with the exception of two months for ten (10) meetings. The Committee's activities and accomplishments during 2012 are discussed below.

The Committee:

1. ***Audit Processes*** - Met with the City Manager, several City Department staff and, on several occasions, the City's external auditor, and where necessary consulted with the City Attorney staff. It has had a continuous and beneficial relationship with the City Finance Director during this year. The Committee continued the two sub-committees to focus on the external audit and the internal audit processes.

2. ***Internal Audit Process*** - Expended extensive and ultimately worthwhile time on the restructuring of the City internal audit process. The Committee, in coordination with the present Finance Director, developed an Internal Audit Department mission statement, Code of Ethics, job description, and Plan of Work Guidelines defining the types of audits, how to develop an audit plan and steps for auditing and reporting. It also developed a comprehensive Internal Audit Department ordinance and the Governing Body later passed this ordinance. The Committee prepared interview questions and participated on the team to interview candidates for the Internal Auditor vacancy. The City Manager accepted and hired the recommended candidate. The Internal Auditor will attend future Committee meetings and work with the Committee to create a risk assessment tool to generate a risk-based Audit Plan and further clarify work guidelines.

3. ***Cost Allocation Methodology*** - Reviewed and made comments on the Finance Director's cost allocation method and formulas that ultimately became an ordinance passed by the Governing Body. A cost allocation method is a formulated approach to fairly assess enterprise divisions/sections (i.e., City utilities, convention center, Railyard, etc.) for allowable direct overhead costs of providing services from general fund divisions/sections (i.e., finance, human resources, payroll, legal, etc). The Committee was concerned that the Finance Office's administrative fees, in previous years, did not sufficiently cover the costs to meet its fiscal agency responsibilities for these City functions. The Committee felt that the City Finance staff were overburdened and understaffed. The Committee thinks the City should expand the use of the cost allocation method to charge future City projects, grants, contracts and ultimately all City departments for their fair share of these general fund services. The Committee will, during 2013, monitor its expansion.

4. ***Financial Disclosures*** - Continued working with the Finance Department and external auditors to understand the methodology for establishing the stated values of the various City assets and liabilities, and their subsequent disclosures in the Comprehensive Annual Financial Reports (CAFR). The standards for accounting and reporting of assets and liabilities are constantly changing and more complex, particularly

disclosing unfunded liabilities for employee pension plans and post-employment benefits. These disclosures could have a future bearing on the City's bond ratings.

5.A. ***Delinquent Audit Reports*** - Reviewed the City's CAFR, for timeliness of submission to the State Auditor. The State Auditor requires the City to submit the CAFR by December 1 each year. The City's timeliness of the CAFR is as follows:

June 30, 2009 CAFR submitted July 16, 2010—227 days late
June 30, 2010 CAFR submitted July 19, 2011—230 days late
June 30, 2011 CAFR submitted February 13, 2012—74 days late
June 30, 2012 CAFR submitted March 5, 2013—92 days late

Thus, there has been some progress made in these submissions, however, the goal is for the City to submit the CAFR by the statutorily required date of December 1. In the past, when the CAFR was submitted by December 31, the Government Finance Officer's Association awarded the Certificate of Achievement to the City. The City has now lost this award, which has affected City bond issues. It should be noted that many municipalities submit their audit reports to the State Auditor late, but the Committee feels that the City need not be in this delinquent class and should comply with the State Auditor's rule on timeliness.

5.B. ***Future Audit Process*** – Supported the following recommendations from the external auditor in order for the audit to be submitted timely: start the audit process in July; perform interim work before June 30; reconcile key accounts at the start of fieldwork; hire more skilled finance employees, and have the external auditor prepare the CAFR. Furthermore, and in a further effort to meet the timeliness Rule, the City Internal Auditor will now report to the Committee on the status of the benchmark-milestone reports and the progress of correcting prior year findings. The Committee will necessarily keep a persistent eye on timeliness, especially this year, in order to ascertain whether its focused monitoring, regular reporting from staff and the external auditor, and the use of staff created benchmark-milestone reports result in this important audit being submitted on time and in compliance with State Auditor rules.

6. ***Other Report Monitoring*** - Continued to review and monitor other City audits and related findings (i.e., Solid Waste Management Agency, Buckman Direct Diversion (BDD) Construction and Operations, Lodger's Tax, Railyard, federal audits of transit, state agency audits of grants). The City external auditors have not completed the following audits: 2011 BDD Construction audit, 2012 BDD Operations audit, and 2011 Railyard audit. The Committee also participated on the selection team for contracting with an audit firm to perform the forensic audit of the Parking Division.

7. ***Financial Monitoring*** - Requested a breakdown of cash balances by division and department, related to the CAFR, for cash management, debt management and budgetary effects. Staff developed a draft document that needs to be updated with June 30, 2012 audited balances. The Committee regularly monitors gross receipt tax revenues, lodger's tax revenues, and the status of the investment portfolio. The Committee will review a draft debt management policy developed by the Finance Director outlining the parameters for issuing new debt and managing the existing debt portfolio to help ensure the City maintains the current or an improved bond rating and minimize borrowing costs and preserve access to credit. Currently, the City has retained a rating of AA+.

8. ***Delinquent Account Monitoring*** - Helped the Finance Office point out the need for a more direct and consistent collection policy and process for delinquent Lodger Tax payments resulting in City Legal staff acting on this matter prompting delinquent accounts to pay up. The Committee inquired whether specific staff is assigned to deal with delinquent accounts and what staff can do before Legal must get involved in collections. Outstanding receivables ($3 million due from utility customers, unpaid parking tickets, unpaid parking passes, etc.) have serious financial implications to the City. Staff is now reviewing policies to determine how uncollected accounts fit into the policies with possible solutions of contracting with a collection agency to collect delinquent accounts and meeting with City legal counsel on what can be done to place liens on property or otherwise prompt payment of these amounts due to the City.

9. ***Crisis Management*** - In the first report last year, the Committee inquired as to the City's vulnerability to business interruption due to computer system problems and its crisis management. The Committee was informed that at the end of last year, a major computer problem occurred that almost resulted in the failure to meet the last payroll of the year. Only extreme effort by staff, and the help of the City's payroll bank, overcame the problem. The Committee will continue to monitor progress to assure that this vulnerability will not happen again. The City internal auditor is performing an information technology audit to better identify system vulnerabilities.