



Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
Wednesday, March 6, 2013
2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
February 6, 2013
5. Report from External Auditor: Status of 2012 Audit Completion
6. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT:
 - A. Status of Audits
 - B. Internal Auditor: Report on Audit Plan
 - C. Gross Receipts Tax Report
 - D. Lodger's Tax Report
 - E. Debt Management and Cash Policies Discussion/Work
7. SUB-COMMITTEE REPORTS:
 - Internal Audit
 - External Auditor
8. OLD BUSINESS
 - Second Yearly Report Discussion (Committee)
9. NEW BUSINESS
10. OTHER MATTERS FROM THE COMMITTEE
11. NEXT MEETING DATE:
 - Next meeting scheduled on April 3, 2013
12. ADJOURNMENT

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CITY OF SANTA FÉ
AUDIT COMMITTEE
March 6, 2013

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MINUTES OF THE
CITY OF SANTA FÉ
AUDIT COMMITTEE

March 6, 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 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:

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

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

3. APPROVAL OF AGENDA

Mr. Randall moved to approve the agenda as presented but with #5 deferred until the auditor arrived. . Mr. Tupler seconded the motion and it passed by unanimous voice vote.

4. APPROVAL OF MINUTES

February 6, 2013

Ms. Romero-Gonzales requested a change on page 2 where the last four paragraphs under Status of Audits should be moved up to 5 A.

Mr. Boaz acknowledged he misspelled Mr. Tupler's name.

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

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

This was deferred until the auditor arrived.

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

A. Status of Audits

Ms. Kerr distributed copies of a spreadsheet on the status report. She reported that the audit was completed and now at the State Auditor. That was the only change from last time.

Chair Lierz asked where they were on the Buckman Direct Diversion audit.

Ms. Garcia said she was finalizing the work on it. The operations material should be ready soon. Their financial manager left and she was keeping them current on billing and reviewing financial statements now.

Mr. Matheson, the auditor, arrived at this time.

Chair Lierz asked if there were any other incomplete audits. He was curious about the 2012 Railyard audit. He noted the Housing Authority delivered their final report to the Committee.

Dr. Morgan didn't think the Railyard audit was finished yet.

Mr. de Schweinitz pointed out that the report said it was completed. Chair Lierz said it was for 2011 but not for 2012.

Ms. Garcia said the Housing Authority audit was completed for 2012.

Mr. Randall recalled it was in the last packet.

Ms. Garcia announced that the FTA auditors were back for a follow up on the Transit audit.

Ms. Kerr agreed to put the FTA Review back on her list.

Dr. Morgan said FTA gave a lot of items in their findings.

Ms. Kerr agreed to add that in for future meetings.

The consideration of Status of Audits was arrested at this point and the Committee went back to the External Auditor Report.

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

Mr. Matheson showed a copy of the 2012 Audit and reported that he turned it in to the State Auditor yesterday. It was complete, subject to their review. The State Auditor's office called him this morning that they were fast tracking their review and might be finished with it next week.

Chair Lierz said the Committee wanted to get it for the budget season. He wanted to read it.

Mr. Matheson said the audit was submitted on February 19th. Albuquerque finished theirs by February 14.

Chair Lierz asked if he covered the CAFR.

Mr. Matheson said he did and had a shorter report this month.

Ms. Garcia cautioned that since the Committee meeting was a public meeting the members couldn't see the audit until the State Auditor released it so it could be shared at the next meeting.

Mr. Matheson agreed to save copies of the audit for next time.

Mr. de Schweinitz asked if the State Auditor had to do something to it before the Audit Committee could talk about it. Mr. Matheson agreed. The State Audit Rule specified that audits were not to be released until the State Auditor approved them.

Mr. Matheson clarified that he submitted the audit electronically and the statute had provision of order to print which would come in a letter from Carla Martínez or Hector Balderas. From the date of that letter there was a five-day confidential period for boards, committees and councils to review it first and then must release to the public. He would have those for the next meeting.

Chair Lierz asked if Audit Committee was considered one of the committees. Mr. Matheson didn't know the answer.

Mr. Randall asked if the members could individually receive the report as part of the five-day internal review as opposed to receiving it as a committee and have the discussion.

Ms. Garcia said she usually asked the State Auditor's office to waive the five days and they usually did.

So once they agreed to have it printed, then it became a public document.

Mr. Randall asked how soon the members of the Audit Committee would receive it.

Ms. Garcia said they could receive it as soon as the City was allowed to print it.

Chair Lierz asked that the Committee members be notified on that day.

Mr. Randall said he and Ms. Romero-Gonzales attended the exit conference and it was attended by all the right people. And at the meeting they heard the external auditor could come to the monthly Committee meeting when there was something to report and if there was nothing to report could just notify us they were not coming.

He asked if the audit findings changed much from what was discussed at the exit conference.

Mr. Matheson agreed that they did. Two findings went away and one was the fire department and one was just a signature. Ms. Garcia and Dr. Morgan gave him support for those so that left two findings.

Ms. Garcia added it also reduced the findings for the budget.

Ms. Romero-Gonzales asked if there was anything else the Committee needed to discuss on the rest of the audit.

Mr. Matheson said they usually walk through the CAFR and point out the basic financial issues and review the final findings - the milestone plan for next year was part of a major finding that had a lot in it. It turned out well he thought. Since he just turned it in yesterday he didn't think they would discuss the findings.

Ideally the CAFR was about 20 pages of information. He brought an article entitled, "Key indicators in the Government Sector" and an article called, "Successful financial close practices."

Ms. Garcia agreed to email a copy of them to the members.

Mr. de Schweinitz asked how many bound copies there were now.

Mr. Matheson explained that the City prepared this CAFR and bound it. The State Auditor would review and then give permission to print. There could be a few little tweaks to make first. Their report would be definitive.

Mr. de Schweinitz asked if the State Auditor's comments would become part of the CAFR.

Mr. Matheson said no but the State Auditor could correct what they wanted corrected and that would be the final version. They administered the State Audit Act.

Mr. de Schweinitz asked if the Committee could have the list of those requested changes. Mr. Matheson had no problem with that.

Ms. Garcia said they would send the City a letter on it and then the City would send the corrected copy to them.

Mr. de Schweinitz asked if City staff ever disagreed and filed an appeal.

Ms. Garcia said she usually called the reviewer and worked it out. It was very rare but we had lots of findings when they went to GASB 44.

Chair Lierz thought if they could get it complete, print it would give them time to go over it. He asked when the auditor could make a presentation to the Finance Committee.

Dr. Morgan recalled last year they scheduled it for April but it didn't happen until July.

Chair Lierz said he was trying to get ahead of the curve this year ahead of the budget cycle.

Dr. Morgan agreed to get it on the calendar and speak to the City Manager but he couldn't do anything until he got the letter.

Ms. Garcia agreed to distribute the CAFR to the Committee before going to the Finance Committee.

Chair Lierz added that he wanted to meet with the auditor before the Finance Committee's budget cycle.

Mr. Matheson agreed and he wanted that too.

Mr. Randall asked staff to put it on the next agenda and then it could be withdrawn if needed.

Chair Lierz noted the BDD construction audit for two years was not concluded and the operations audit for last full year was still pending. He asked Mr. Matheson where they stood with BDD.

Mr. Matheson said he sent drafts of all of those audits to the City in the fall and he attended a meeting in December on it. They put the operational audit in cover and he assumed it was final. That meeting was not an exit conference so for the operational audit one more meeting was needed and then to issue it. It has been in final draft for some time. The construction audit had the final numbers.

He said Ms. Garcia agreed those were the final numbers for the construction audit but she wanted to look at one more thing so Mr. Matheson said it was 95% done.

Chair Lierz asked if these three BDD audits went through the State Auditor process.

Mr. Matheson had been informed BDD was not subject to the State Audit Act. It was under the JPA. There were no billing rules to follow. The State Auditor didn't want to look at it. So the City was going to be the final user and approvers of those so those findings were important.

Chair Lierz asked if the auditor could schedule the exit conference in the next month.

Mr. Matheson agreed and then could go to print and distribution.

Chair Lierz said Ms. Garcia had the idea that on the milestone report we needed to incorporate "PBC" (Prepared By Client) meaning that certain schedules she would prepare for the auditor's benefit. In that milestone chart, he asked if it was easy to put in those PBC documents and deadlines. Ms. Garcia agreed.

Ms. Garcia said she would also include staff training on the system.

Mr. Matheson said he had an empty milestone chart and would meet with Ms. Garcia to accomplish this task. They would document the whole thing so it would build from year to year to do the audit per SOP.

Dr. Morgan asked the auditor if the Committee could look at a milestone chart at the next meeting

Mr. Matheson agreed the proper completion was very important to give the Committee confidence. He was willing to commit to a report that was far along but perhaps not yet final.

Ms. Garcia said they needed to bring other departments on board because, for example, lease agreements which were not under her control. Another was the Water Division since the Bureau of Reclamation gives them a report in September. Part of the milestones was to get them involved.

Mr. de Schweinitz asked if that was that what the Committee called the benchmark chart too. Ms. Kerr agreed.

Dr. Morgan agreed to put it on April agenda.

B. Internal Auditor: Report on Audit Plan

Ms. Kerr went out with Mr. Matheson to speak briefly with him and Dr. Morgan went to the GRT Report.

C. Gross Receipts Tax Report

Dr. Morgan commented that people usually spend more in December but this year did not. That was true also for the nation. The City's GRT revenue in February was down in general. They have self-reporting that determines the categories. In January the City went up but now was down 0.04%. So in the broader scope the City was still even but they had been about a half million dollars ahead.

Mr. Randall noted they were way ahead in December so October was very big for some people.

Dr. Morgan said that wasn't just in Santa Fé. He had a list for every city in New Mexico for every month. Comparing Los Alamos, Española and Albuquerque, Los Alamos was down about \$10 million in GRT. Española was down about \$300,000. In Albuquerque last year they projected a 4% growth and based

raises on that but their GRT had not gone up so they revised from 2.5% down to 1.7%.

He spoke briefly about the impact of the sequester and commented that the impact signals were wildly fluctuating. For the City, GRT was coming in flat and Lodgers' Tax was up so he felt they were holding their own.

Ms. Kerr asked about the effect on Lodgers' Tax.

Dr. Morgan answered that he didn't see any.

Ms. Garcia said they were aware that legislators were here for 60 days so that would be a factor.

Mr. Randall asked how much the lag there was for Lodgers Tax was.

Chair Lierz said it was one month.

D. Lodgers' Tax Report

Ms. Garcia reported she was working on a contract for the Lodgers' Tax audit.

Ms. Romero-Gonzales asked if the Audit Committee would be involved in that contracting process.

Ms. Kerr welcomed that.

Mr. Randall didn't recall being involved in that before.

Ms. Kerr was glad to share that with a Committee member.

Ms. Garcia pointed out that the contract would be less than \$10,000 per year on a three-year contract.

Chair Lierz said he would be gone for ten days and asked Ms. Romero-Gonzales if she wanted to participate.

Ms. Garcia was going to just renew the present contract but said it could go out if the Committee wanted.

Mr. Randall asked when it was last bid.

Ms. Garcia said it had not gone out to bid.

Mr. de Schweinitz wanted the number of unfinished audits to be shown on Ms. Kerr's report.

Ms. Kerr said there wouldn't be another construction audit.

Mr. de Schweinitz went through them.

Ms. Kerr wouldn't be following up on housing findings.

Mr. Randall thought the Committee should verify that the contracted auditors were doing their work to ensure they were following up on their findings.

Ms. Garcia said they usually asked the fiscal agent to do that and let their Board or their Director follow through.

B. Internal Auditor: Report on Audit Plan

Ms. Kerr handed out the internal audit plan (Attachment "A"). They had the entrance conference this morning on Data Center.

In the follow up review on Parking she had initial meetings with Sevastian Gurulé and was still gathering information. She noted that last year they had pages and pages of findings.

She was doing follow up on the auditor's findings for Transit also.

Chair Lierz asked if she had the police report on her radar screen noting it was difficult to read and to understand.

Ms. Kerr agreed that it was not done in a traditional way. Sometimes there were several findings in one or more recommendations in the findings. She spent hours in his office going over each of the findings. She never found his files. They might exist but can't be found.

Mr. Randall asked if the follow up on external audits was part of Ms. Kerr's work.

Ms. Kerr agreed. It was part of the 320 audit hours.

Chair Lierz could see her available time being exhausted with that task and asked if she was thinking about more staff.

Ms. Kerr said she hadn't but she was creating a list for who needed to get what. She thanked the Audit Committee for help in reducing the number of questions.

Mr. Randall suggested a little better definition of GNA/Planning. Taken out of context, one could suggest the internal auditor wasn't doing much internal auditing so the Committee couldn't take it out of context and a little more explanation about what else was going on would be helpful.

Ms. Kerr thought about 48% went into planning but it made the rest look huge.

Mr. de Schweinitz asked if after her start up work, not all of this would need to be replicated.

Ms. Kerr agreed. She had done a lot of bench marking and once in place it should help. She had to build the audit programs from the ground up and then fine tune them to have general auditing procedures.

Chair Lierz wanted to see a column on execution as well as the plan. The Committee discussed how to tweak the plan. Chair Lierz explained he wasn't asking for a lot of detail. He thought it would help to have administrative at 50%.

Ms. Kerr wanted to know if the Committee wanted to contract out or to hire additional staff.

She explained the skew that happened when the IT system went down just as she arrived. She added that the federal Transit audit came out of nowhere and she didn't know they were here. She was surprised by their findings shown as material weaknesses.

Chair Lierz asked, for future awareness, how many city personnel had computer terminals to do their work. He wondered how many had access rights because if the system went down, they would need to know how many were affected.

Ms. Garcia clarified that the system didn't go down but the software failed to function. When the system would go down it would depend on what software was operating at the time. When the AS 400 went down it was usually because of user error.

Ms. Kerr asked what back up was now and the process for recovery. Without that in place, it wasn't a good system. Mr. Matheson tested the controls for design in IT but not for results. So she would be auditing those controls for the past few years. If the system goes down it would be a disaster.

Chair Lierz asked if they had backup out of the city.

Ms. Kerr said Mr. Matheson didn't list that as a finding.

Chair Lierz said next year the engagement letter should assure IT experience on the auditor's staff or the company could subcontract if they didn't have it on staff.

Mr. de Schweinitz asked what was meant by "open issues."

Ms. Kerr explained she was talking about open findings there and not people. She would call them open audit findings.

Chair Lierz thanked Ms. Kerr for her hard work.

E. Debt Management and Cash Policies Discussion/Work

Dr. Morgan reported that the Debt Management Policy had not changed since last time.

Ms. Romero-Gonzales referred to page 5 where 8.1 said "about 3%" and didn't like "about." It needed to be specific. She quoted in Section 9.2 that the ratio was 15%.

Mr. Tupler said an additional payment would not show up as an expense but a reduction of principal. That would be pure principal and the goal was to reduce it.

Ms. Garcia pointed out that the annual budget included enterprise funds so which budget being looked at needed to be identified. Generated revenue should be the basis.

Dr. Morgan related the history of this document. The City didn't have such a policy so he started to work on one and got help from El Paso. He revised it and then gave it to several people to proof read it.

Chair Lierz asked about integrated use of resources for debt management.

Ms. Garcia referred to 5.0 and Ms. Romero-Gonzales to 6.1.

Mr. Randall recommended making 6.1 stronger.

Ms. Garcia said the reason the City went out for funding it was to avoid borrowing from the General Fund to finance Enterprise funds. For Water the City had some unused CIP funds. The City couldn't leverage bond proceeds for water or wastewater. They had to see what restrictions there were on the resources they had. So she looked at cash balances and what restrictions existed on them.

Mr. Randall suggested moving up 6.0 before 5.0 to give more importance to what Dr. Morgan said - whether the City even need debt or not.

Chair Lierz asked Dr. Morgan to send out those changes by email and if no others were received, to move it forward.

7. SUB-COMMITTEE REPORTS

A. Internal Audit

This report was covered earlier.

B. External Auditor

This report was covered earlier.

8. OLD BUSINESS

A. Second Yearly Report Discussion (Committee)

The second yearly report was a working draft.

Ms. Romero-Gonzales requested a change that the CAFR was submitted on 3/15/13. She also prepared a cover letter like the one from last year.

Chair Lierz noted on page 2, #6 on delinquent reports needed another letter on delinquent audits. It was just factual and keeps it in front of the Committee.

The Committee members agreed.

Mr. Randall asked for consistent adverbs at the beginning of each paragraph.

Dr. Morgan said, "The Committee would continue to monitor this vulnerability (software failure). Extreme effort by staff and the help of the City's payroll bank overcame the problem. The Committee would continue to monitor progress to assure it didn't happen again. An internal audit has been initiated to better identify the issue."

Ms. Romero-Gonzales asked members to email other changes to her so she could get it out by next meeting.

9. NEW BUSINESS

Ms. Kerr said Councilor Bushee met with her to do the internal audit presentation for the Finance Committee.

10. OTHER MATTERS FROM THE COMMITTEE

Mr. Randall suggested having Bill Barr on a subcommittee. Because of his experience as head of procurement for LANL he could be very helpful to the Audit Committee.

Chair Lierz agreed he was a great guy.

Dr. Morgan agreed to ask Mr. Zamora if having a non-committee member on a subcommittee was allowed.

Chair Lierz suggested adding that to the agenda.

11. NEXT MEETING DATE: Scheduled on April 3, 2013

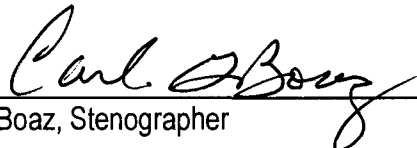
12. ADJOURNMENT

The Audit Committee meeting was adjourned at 4:10 on a motion by Ms. Romero-Gonzales, second by Mr. Randall and unanimous voice vote.

Approved by:


Maurice Lierz, Chair

Submitted by:


Carl Boaz, Stenographer