



Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
Wednesday, October 3, 2012
2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
September 5, 2012
5. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT:
 - A. Presentation and discussion of benchmarks and targets for accomplishing 2012 CAFR
 - B. Progress report on internal auditor and interview committee
 - C. Water Division Report
 - D. Gross Receipts Tax Report
 - E. Lodger's Tax Report
 - F. (1) identify each CAFR deficiency noted for FY 6/30/2011 audit, (2) identify each department affected and (3) set up proposed audit committee requests to such departments for their proposed plans for corrective action of such deficiencies.
 - G. Investment Report and Cash and Investment Balances
 - H. Status of Audits
6. SUB-COMMITTEE REPORTS:
 - Internal Audit
 - External Auditor
7. OLD BUSINESS
8. NEW BUSINESS
9. OTHER MATTERS FROM THE COMMITTEE
10. NEXT MEETING DATE:
 - A. Next meeting scheduled on November 7, 2012
12. ADJOURNMENT

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CITY OF SANTA FE
AUDIT COMMITTEE
October 3, 2012

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MINUTES OF THE
CITY OF SANTA FÉ
AUDIT COMMITTEE

October 3, 2012
2:00 p.m. – 4:00 p.m.

1. CALL TO ORDER

A regular meeting of the City of Santa Fé Audit Committee was called to order by Vice Chair Randy Randall 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:

Hazeldine Romero-Gonzales
Randy Randall
Clark de Schweinitz
Marc A. Tuppler

Members Absent:

Maurice A. Lierz, Chair [excused]

Others Attending:

Melville L. Morgan, PhD, Director, Department of Finance
Teresita Garcia, Deputy Director, Department of Finance
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

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

4. APPROVAL OF MINUTES – September 5, 2012

Ms. Romero-Gonzales requested the following changes to the minutes:

On page 3, fifth paragraph should clarify it was internal auditor, not external auditor.

On page 4, first paragraph at end should say solid waste not wastewater.

The others were just minor typos.

Mr. de Schweinitz moved to approve the September 5, 2012 minutes as amended. Mr. Tuppler seconded the motion and it passed by unanimous voice vote.

5. STATUS REPORT FROM CITY OF SANTA FÉ FINANCE DEPARTMENT

A. Presentation and discussion of benchmarks and targets for accomplishing 2012 CAFR

Dr. Morgan went to section B since Ms. Garcia was not yet present. It was considered below.

B. Progress report on internal auditor and interview committee

Dr. Morgan said he had tried to keep the Audit Committee informed about progress. The ordinance was published and goes to Council on October 30. Concurrently, the job advertisement has been out for the last three weeks and it closed last Friday. Applications from 14 people were received and after vetting would probably be narrowed to the top 4-5 applicants. The City Attorney felt an outside committee would interview candidates with a couple of members from this committee and one alternate for interviews. None of the applicants were city employees.

Mr. Randall said the Internal Audit Subcommittee met at 1:00 and decided the interview members should be Ms. Romero-Gonzales and Mr. Tuppler and he agreed to be the alternate. Dr. Morgan will find a department director and an HR staff member participate in the interviews.

Mr. Tuppler said he would keep his schedule free for the interviews.

Mr. de Schweinitz asked about the status of the ordinance.

Dr. Morgan said it was published and there would be a public hearing at Council.

Mr. de Schweinitz saw the email sent from Dr. Morgan and the guidance given was that advisory committees were not subject to the Open Meetings Act (OMA).

Mr. Randall agreed, although most choose to follow the OMA. At a commission he had served on, they adopted their own OMA policy. And if the Audit Committee adopted its own it probably would have to have the City approve it. The entire committee could get together and discuss things. So it would be important to have a policy. He offered to bring that commission's policy to the next meeting.

Mr. de Schweinitz agreed to get and share the AG's compliance guide. He thought it could give them a

little flexibility because there were concerns when they just got together to discuss things. They might want to meet with the internal auditor in closed meeting.

C. Water Division Report

Dr. Morgan had prepared a report because of Chair Lierz' request and he handed out the report and suggested they discuss it next time when the Chair was present.

Mr. Randall said the Chair felt it was an unreported asset in the financials and it clearly is an asset but wasn't sure of its value.

Ms. Garcia arrived at 2:16.

Dr. Morgan pointed out that the reservoir storage capacity percentage was at 38-48% so it was not a drought.

Mr. Randall said the Rio Grande resource is hefty.

D. Gross Receipts Tax Report

Dr. Morgan provided a handout of the report. They took last year's actuals and rolled them over for comparison. The first two months are down a little bit but in comparison of details that difference is small. The September report is up 1.2%. For the year, combined, it is only off 0.16% and his statistical deviation was set at $\pm 1\%$.

Mr. Randall asked if there was any review of expense to budget, noting that they were only looking at the revenue side.

Ms. Garcia explained that every fund was looked at based on income. The budget was allocated to various funds and if the City didn't get enough revenue, the departments had to use grants or cut expenses at mid-year. The City was required to have a balanced budget. So through the year, the departments analyze those and ask for quarter budget adjustments (BAR) through the Finance Committee. This is just a guideline to tell them that revenue won't meet projected expenses. It is up to each department to do the analysis on their budgets.

She asked why the Audit Committee would want to get involved in that part of the operations.

Mr. Randall said it was not to review for accuracy but just to see what was happening.

Ms. Garcia suggested that the Finance Director and Finance Committee could issue a quarterly report for the Audit Committee based on GRT incomes and adjustments that were made. By midyear each department knew what adjustments were necessary. So there is a mid-year BAR.

She agreed to copy the DFA quarterly reports for the Audit Committee and felt that would help them monitor those changes.

Mr. Tuppler asked if it was safe to say a 3% drop in GRT would mean a 3% drop in expenses.

Ms. Garcia explained the "in transit" part of the report. Grants could affect that change. CIP, Quality of Life, and other things would affect it. Filling staff vacancies could be delayed with reductions in revenue. One time at 5% down, the City Manager said no more travel or contracts not being approved. Police could slow down their overtime.

Dr. Morgan said the GRT report shows that the City is on budget

E. Lodgers' Tax Report

Dr. Morgan said the report showed revenues were off 8% but he didn't think they actually were. There were still arrears coming in and other adjustments were needed. Compared with last year the first quarter was up 6.3%.

Ms. Garcia clarified Lodgers' Tax was done on a cash basis.

F. Deficiencies

- 1). Identify each CAFR deficiency noted for FY 6/30/2011 audit.**
- 2). Identify each department affected.**
- 3). Set up proposed audit committee requests to such departments for their proposed plans for corrective action of such deficiencies.**

Ms. Garcia said they had a vacancy of one analyst so audit preparations had to be done at a higher level. Staff got a certified inventory for the departments so it should take away that finding.

Ms. Garcia said she needed to see what they accomplished in the audit first and she would report to the Committee if it was cleared up or what they had to do to minimize it.

Mr. Randall said if they haven't been resolved at this point they will be an exception but for next year the Committee would like to encourage Finance to provide reminders to the departments about the deficiencies rather than waiting to see that they responded.

Ms. Garcia clarified that most exceptions were a single instance.

Mr. Randall agreed and what was important were the recurring items.

Ms. Romero-Gonzales said the Committee wanted to prevent what happened with the previous internal auditor who waited until all of it was done before reporting.

G. Investment Report and Cash and Investment Balances

Dr. Morgan said the report would be completed later this month

A. Presentation and discussion of benchmarks and targets for accomplishing 2012 CAFR

Ms. Garcia shared copies of this presentation (Benchmarks) with the Committee and announced that the entrance conference is on October 11 at 9:00 a.m.

Ms. Romero-Gonzales agreed to be there.

Ms. Garcia said the State of New Mexico is now requiring audits of grants. The City has had four grants audited so far. She didn't know what criteria they used for choosing which grants to audit. It is federal and state monies that the state is auditing. Among the agencies auditing were NMDOT, Homeland Security, CYFD, and another one.

Mr. Tuppler thought the new internal auditor would be able to handle those requests. He asked if it was all public information.

Ms. Garcia said they report their findings to the LFC. She shared how a non-certified accountant had trouble understanding the formats and made long list of findings based on the format. She had to explain what a trial balance was and distinguish it from a balance sheet.

Mr. Randall wanted to make sure the internal auditor could do the work with a plan and routine. The former internal auditor was constantly pulled away to put out fires.

Mr. Tuppler was sure audits would be more prevalent and the City needed to be prepared.

Ms. Garcia said the Federal Transportation Authority came in just for financial oversight but the federal auditors come in for a full audit.

Ms. Romero-Gonzales said they needed to add those types of audits to this list.

Ms. Garcia explained they already happened and the City didn't have any of the findings.

Mr. Randall felt even if shown as completed they should be included in the list.

H. Status of Audits

Ms. Garcia provided a hand out to the Committee. She said the C Fund is a schedule of federal and the other is a schedule of the federal grants. Single audit compliance meant when they had over \$500,000 it was subject to the single audit requirement.

SWMA would have entrance tomorrow.

Buckman Diversion was sent back to the auditors for changes and then would go to legal to make sure on compliance with the JPA. Since it was not really an agency the City and Buckman Diversion is the same contract so they just combined them.

Lodger's Tax she already shared the report and they were reviewing it now to see what the City would have to bill agencies on the findings. She didn't attach the agencies because this is public meeting and that is confidential information. (Each entity # was a lodger). She was still working on the contract for short term rentals.

Mr. Randall suggested the committee review the Barraclough report and at the November meeting review them.

Ms. Garcia invited members to email questions to her. She would respond at the November meeting.

Mr. Randall agreed.

Housing is preparing their report.

Railyard - she didn't get a response from them.

She needed to add a forensic audit for Parking once the RFP goes out.

Mr. de Schweinitz asked when the CAFR would happen.

6. SUB-COMMITTEE REPORTS

A. Internal Audit

Ms. Romero-Gonzales said the subcommittee had a brief meeting earlier today and created some questions for the interview and they wanted feedback or additions. She handed out the list.

Ms. Garcia wanted some technical questions such as, "Do you know difference of evaluations of internal auditor versus external auditor?" Some questions on knowing the difference between those types of audits. Do you know what work papers are and how would you organize them?

Mr. Tuppler asked if government experience vs. other experience was a criterion.

Dr. Morgan thought a lot of that detail was in the job description.

Ms. Garcia said there was a difference. Some might not know what accrual is and what GASB is. Maybe they are not functioning as auditors.

Mr. de Schweinitz asked what characteristics were needed to maintain their independence. Also, in their previous employment, whether they dealt with an audit committee.

Mr. Randall thought understanding their depth of knowledge was important. The person would have to relate to every department director in the city so they didn't need an introvert.

Ms. Romero-Gonzales added they would have to relate to the Audit Committee and with Finance Committee.

Mr. de Schweinitz suggested previous experience writing reports.

Ms. Garcia said HR would review the questions beforehand. And the same group has to interview all the applicants.

Mr. Tuppler asked how many times a candidate would be interviewed.

Dr. Morgan thought the City Manager might interview finalists.

B. External Auditor

Mr. de Schweinitz said there was nothing to report this month.

7. OLD BUSINESS

Dr. Morgan said he met with Ms. Romero-Gonzales and Mr. Randall on the departmental self-evaluation by departments to determine the level of risk each one has. It is a self-audit process. Hopefully it would be ready to consider at the next meeting.

8. NEW BUSINESS

Dr. Morgan said they were making progress on the Parking Division audits. There was a police investigation on some of their employees and it was referred to the State Police who reviewed everything and they thought our investigation was well done and found no problems. But they recommended a thorough forensic audit of the Parking Division. He contacted Atkinson and shared the State Police letter. The price they quoted was \$9,334 per year for three years. It went to the Finance Committee and recommended approval. At the City Council they decided on auditing eight years and wanted an RFP used.

Staff did the RFP which is at legal review now and could be published in two weeks. A rate was tossed

out at City Council of \$75 per hour which would mean 124 hours per year. It involves interviews and he was not sure 124 hours was enough. They had to send the RFP out and find out.

Mr. Tuppler asked about the investigation.

Ms. Garcia explained that the Parking Division issues permits and violation citations and the City needed to see if any fraud was involved in that. The City did a similar thing for Land Use Department.

Mr. Tuppler pointed out the potential of \$90,000 expense here that could say everything is fine.

Dr. Morgan said the forensic audit is used for legal purposes to detect fraud and also for vindication. He didn't know if it would be \$90,000.

9. OTHER MATTERS FROM THE COMMITTEE

Mr. Randall recalled the Chair had brought up concerns about the potential economic impact of layoffs at LANL if the federal government doesn't approve the contract. While interesting, he didn't see the relevance to the Audit Committee but it is relevant to the Finance Committee. It wasn't the job of the Audit Committee to do economic forecasting. If Dr. Morgan wanted to report back on it, that would be okay but not as a directive for the next meeting. Mr. de Schweinitz has been a good watchdog for the Committee not to expand its scope.

Mr. Tuppler said that wasn't audit related. Ms. Romero-Gonzales agreed.

Mr. Randall agreed and said the Committee didn't expect a report on it at the next meeting.

10. NEXT MEETING DATE: November 7, 2012

Mr. Randall asked to be excused from the November 7 meeting.


11. ADJOURNMENT

The meeting was adjourned at 3:20 p.m.

Approved:

Maurice A. Lierz, Chair

Submitted by:



Carl Boaz, Stenographer