



Agenda

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CITY OF SANTA FE AUDIT COMMITTEE MEETING
CITY COUNCILORS' CONFERENCE ROOM
MARCH 7, 2012
2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
February 1, 2012
5. DISCUSSION AND RECOMMENDATION OF NEW MEMBER
6. STATUS REPORT FROM CITY OF SANTA FE, FINANCE DEPARTMENT:
 - A. Plans & Progress
 - B. Railyard Audit
 - C. Gross Receipts Tax Report
 - D. Lodgers' Tax Report
 - E. Cash and City's Investment Portfolio
7. SUB-COMMITTEE REPORTS:
Internal Auditor
External Auditor
8. OLD BUSINESS
9. NEW BUSINESS:
 - A. Committee Status Communication
10. OTHER MATTERS FROM THE COMMITTEE
11. NEXT MEETING DATE:
 - A. Next meeting scheduled on April 4, 2012
12. ADJOURNMENT

Persons with disabilities in need of accommodations, contact the City Clerk's office at 955-6520 five (5) working days prior to the meeting date.

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CITY OF SANTA FE AUDIT COMMITTEE

March 7, 2012

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**MINUTES OF
THE
CITY OF SANTA FE
AUDIT COMMITTEE**

CITY COUNCILORS CONFERENCE ROOM

March 7, 2012

1. CALL TO ORDER

A regular meeting of the City of Santa Fe Audit Committee was called to order on Wednesday, March 7, 2012 at approximately 2:00 p.m., by Chair Maurice A. Lierz, in the City Council Conference Room, City Hall, Santa Fe, New Mexico.

Roll call indicated the presence of a quorum as follows:

2. ROLL CALL:

MEMBERS PRESENT:

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

OTHERS ATTENDING:

Dr. Melville L. Morgan, Director, Finance Department
Charmaine Clair, Stenographer

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

3. APPROVAL OF AGENDA

MOTION: Randy Randall moved to approve the Agenda as published. Hazeldine Romero-Gonzales seconded the motion.

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

4. APPROVAL OF MINUTES – February 1, 2012

MOTION: Randy Randall moved to defer the approval of the February 1, 2012 meeting minutes until the next meeting with corrections submitted to Dr. Morgan in the meanwhile. Clark de Schweinitz seconded the motion.

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

5. DISCUSSION AND RECOMMENDATION OF NEW MEMBER

Dr. Morgan said two people came to his office a couple of weeks ago that seemed interested in the finances of the City. He told them the Committee is looking for a member and explained the process and they had no objection to him submitting their names.

Dr. Morgan said the two, Mary Walta and John Gordiere, are both attorneys and Ms. Walta has worked with Tax and Revenue or a similar department.

Mr. Randall said he wants to be sure both were interested and supportive of the effort of the Audit Committee and neither has a cause and looked at the membership as a way to be disruptive.

Dr. Morgan described the meeting with Ms. Walta and Mr. Gordiere and said the *minutes* of the meeting would be on their website. He was asked to suggest changes but found none; the minutes were very supportive of him and his administration at the Finance Department.

Mr. Randall asked where the meeting minutes would be posted. He said it troubled him that the minutes of a private meeting would be posted on a website.

Dr. Morgan said the minutes were to be gathered in a public information request and the two wanted more backup for the request.

Mr. Randall said he had to submit a resume for the Committee. He suggested Ms. Walta and Mr. Gordiere be asked to submit a resume with a brief statement of how they thought they could benefit the Committee.

Dr. Morgan said he gave the contact information to Chair Lierz and made it clear that the Chair would be communicating with the two.

Chair Lierz said he could send a letter on behalf of the Committee with Dr. Morgan's help in drafting the letter. He suggested two members of the Committee meet with the individuals after the Committee receives the information.

Dr. Morgan suggested the Committee review their charge and the process by which Committee members are selected. The process states the information is submitted to the judge who would make a selection.

Chair Lierz said the Committee members would meet with the two as a fact finding and whether to

recommend both people to the judge.

MOTION: Randy Randall moved that the Committee request a resume and a statement of interest from each of the two candidates and any other candidates that come in before the next meeting; and two members of the Audit Committee as appointed by the Chair, meet with the candidates to formulate a recommendation. Hazeldine Romero-Gonzales seconded the motion.

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

It was decided that Chair Lierz and Mr. Randall would meet informally with the candidates after the 25th of March. The purpose of the meeting would be to discuss whether candidates would be comfortable working within the Committee structure, doing the work the Committee does, and supporting the City administration and the Finance Department.

Mr. Randall suggested Judge Yalman be told of the Committee's progress.

Ms. Romero-Gonzales asked that a copy of the Audit Committee ordinance be sent to the candidates with the e-mail.

6. STATUS REPORT FROM CITY OF SANTA FE FINANCE DEPARTMENT

A. Plans & Progress

Dr. Morgan said there was nothing new. He had corrections from Ms. Romero-Gonzales and Mr. Randall and has had a discussion with Chair Lierz.

Dr. Morgan said budgets were due from all departments on Monday. He said inside his budget is the Internal Audit position and the redesign of his organization. He and the City Manager plan to meet with each department director and division leader next week. His goal is to include the auditor in the budget process and is waiting for the budgets to be approved.

Mr. Randall asked Dr. Morgan about news on the position approval.

Dr. Morgan said the position is in the budget but the redesign is in the new budget and he was told to submit his redesign.

Mr. de Schweinitz asked if the redesign is approved if that was when the Committee would need an Internal Audit Committee job description.

Dr. Morgan said he would do that all in the same.

Mr. Randall suggested once Dr. Morgan had everyone's input it would be good to redistribute that to the Committee for another look before the budget was finalized.

Chair Lierz asked how the Committee would move to the next step.

Ms. Romero-Gonzales said the City Manager is supposed to hire the position. She asked if the City Manager would do the interview, etc.

Dr. Morgan said everything is recommended to the City Manager and he would do the approval and if he chose, could interview or sit in on an interview.

Ms. Romero-Gonzales said she wanted to include in the process that this person would report to the City Manager.

Dr. Morgan said the person wouldn't just report to the City Manager; the person is in his department and someone has to look after them.

Ms Romero-Gonzales acknowledged that the person would report administratively to Dr. Morgan.

Mr. Randall said the Audit Committee felt strongly that while the person would be attached administratively to the department, there should be a sense of independence. The person should have no fear of their job or reprisal.

Dr. Morgan said that is understood and the documents communicate that clearly.

Mr. Randall said it is a wonderful first draft and he could see it evolve when a competent person is in the position. He was comfortable with the position administratively attached to the Finance Department. He said it was a floating position before and because it wasn't attached, did what the City Manager wanted instead of the internal audit.

Dr. Morgan said he felt their support and that everyone matched and was moving ahead. He said everyone has added a piece and that helped him tremendously.

Mr. de Schweinitz said Dr. Morgan mentioned in regard to the two new people, that one qualification was to be supportive of the administration and the Committee's work, but still have a fair amount of independence.

He said Committee members or those coming on wouldn't have to swear allegiance to the City and the administration. The Committee has an independent role and should maintain that sense of distance and independence.

Dr. Morgan said he would keep working on the issue and continue the updates. He thought it would be done by the next meeting.

B. Railyard Audit

A copy of the Santa Fe Railyard Community Corporation Audit distributed by Dr. Morgan to the committee is incorporated herewith as Exhibit "1."

Dr. Morgan said he read the audit and he encouraged the Committee to review the audit and provide input at the next meeting.

Chair Lierz asked about the role of the Rail Yard Corporation and if it is a nonprofit, independent of the City.

Dr. Morgan said they are nonprofit and are required once a year to provide an audit to him.

Mr. Randall confirmed the Corporation was a 5013C and also has to file with the Attorney General's office.

Ms Romero-Gonzales asked if the audit had separate manager letter comments.

Dr. Morgan replied there were none because there were no Findings.

Mr. Randall asked about page five where it stated "provides property management and lease administration services for the College of Santa Fe property."

Dr. Morgan said the Rail Yard Corporation provides a piece and the City has a project manager that does the other side.

Chair Lierz said the relationships are by legal agreement. He said originally a lease was done with the City for the Rail Yard and its development. Later the College of Santa Fe was going bankrupt and there is a lease agreement from the City with Laureate.

Dr. Morgan said Laureate runs the College of Santa Fe and the City carries the notes etc. for the purchase and operation. In addition to one staff member, a project manager and engineer there is money that totals to a yearly payment to pay the debt and debt service.

He said the amount paid is a little over the (actual) amount and has been running in the red. He said that has to pay the salary of the project manager and should go into the account and he fixed the problem.

Mr. Randall said as he continued to read the audit it stated "it is the intent of the board to keep CSF as an entity in the event it is needed in the future contracts." He said apparently CSF assisted in the contract process and then went dormant.

Dr. Morgan said he was the contract and money manager.

Chair Lierz thought a portion of the property would eventually go to the State of New Mexico.

Dr. Morgan confirmed that had happened and the State owns the land.

Ms. Romero-Gonzales said Laureate made a lot of big expenditures to improve the College.

Dr. Morgan said the City made them and was part of the agreement. He said amounts for two accounts were set aside when the College was purchased; \$15 million for deferred maintenance and \$1.6 million for electrical.

Dr. Morgan said the \$15 million has to be spent in the first three years of the contract and is on track. The \$1.6 million has to be spent in the first five years of the contract. He explained that after five years if the College wanted to purchase outright, the funds not spent in the account would go to the College. He said in addition the purchase price of the College would be reduced by that amount.

Dr. Morgan said the City doesn't have a payoff option on the loan until the 10th year. He said if the College purchases before then, the City's payoff would be interest and principal to the 10th year and principle past the 11th year.

Ms. Romero-Gonzales asked if the expenditures on improvements went through the City approval process.

Dr. Morgan said he went to Public Works and saw that there is a break out.

Chair Lierz confirmed that what was just disclosed by Dr. Morgan was in the financials and footnotes. He said the Committee needs to read with interest, the relationship with the College of Santa Fe property.

Dr. Morgan said the GRT and Lodger's Tax Reports were not any different than previously reported.

- C. Gross Receipts Tax Reports- There was no change.
- D. Lodgers' Tax Report- There was no change.
- E. Cash and City's Investment Portfolio

Dr. Morgan said the Selected Fund Cash Report doesn't get to what he wants yet but does give him an idea of where the cash would go starting July first.

Chair Lierz said he was surprised to see a total of \$66 million in the Cash Report and thought it should be between \$175-\$200 million dollars.

Dr. Morgan said that was only part of the cash and the next report had the next piece. He said Ms. Hausman's Cash Management Report is investments and average interest rates. The front page shows the average weighted interest rate as 8.6; up from November's .84. He said it was inflated because of sales and actually was around .75 to .84. He made note that the December cash (page 3) is \$204 million.

Chair Lierz said since the cash is pooled, the City should see the 600 cash account documents tie to the \$204 (million) and a break down by CAFR (Comprehensive Annual Financial Report.)

He said City Council and others in the budget process did not know the makeup for solid waste the previous year for the \$19 million and that was part of the 600. He said the Committee has been stonewalled particularly in the past year, from the breakdown of the 600 accounts.

Dr. Morgan said everyone is asking the same questions and he agreed they should see what funds comprise the \$10 million CD. He said he doesn't have that but is working on it.

Dr. Morgan said he described liquid assets to the City Manager as "if the City doesn't get another dollar - in addition to the \$204 million there is \$50 million pledged against bonds etc. and the City could operate for one to two years.

Chair Lierz said he saw in the Audit Report for SWAMA (Solid Waste Management Agency) that the City is not earning money on the surplus cash and has debt outstanding. He said looking at part of what the Committee is charged with; it is to support the Finance Director to define the situation for the City Councilors and give them options.

He said he found that staff work has to be done to present information in a manner that decision makers have options. He said that is where things are out of kilter.

Chair Lierz said the Committee is still in evolution and trying to comprehend the City's finances.

Mr. de Schweinitz asked if Chair Lierz was saying that the complete story related primarily to the cash balances and cash on hand.

Chair Lierz said yes and that was only part of it. He said Dr. Morgan as the new Finance Director is trying to get to the same conclusion; where the City has cash and the purpose for which it exists. He said good decisions couldn't be made because of the opaque nature.

Dr. Morgan asked the Committee members to continue to call, e-mail and come to see him.

7. SUBCOMMITTEE COMMITTEE REPORTS

A. Internal Auditor

Mr. Randall said previously discussed was that he and Ms. Romero-Gonzales have provided feedback to Dr. Morgan. He said the status of the City's internal audit is in suspense for a couple of months.

Dr. Morgan explained that the Legal Department is still working on the ordinance.

Chair Lierz clarified that the *ordinance* deals with the internal auditor and is being drafted.

B. External Auditor

Chair Lierz said he and Mr. de Schweinitz haven't met in the past month; the Exit Conference was held and the audit is at the State Auditor's office and the Committee is on hold.

Dr. Morgan said he wanted to continue with his budget to find where the problems are. He thought that he and two External Audit Committee members should meet and discuss why certain things were not found and what could be done differently next year, etc. He anticipated that could be in April.

8. OLD BUSINESS

Mr. de Schweinitz asked the status of the recommendation the Audit Committee made to the City Finance Department.

Dr. Morgan said the recommendation hadn't gone to the full City Council yet.

Mr. Randall said when the recommendation was made there was a sense that the Finance Department hadn't fully embraced the concerns of the Audit Committee about the audit being tardy. The Committee felt they hadn't received much response to their concerns.

He said since the recommendation the Finance Department has demonstrated they are concerned. This year the audit was almost on time and changes have occurred in the Finance Department and the problem has been resolved. He thought it doesn't need to be taken to Council at this point.

Mr. Randall suggested that a simple note say that the Committee felt the problem has been resolved under the new direction and thank them for listening and that the Committee would continue to watch.

Chair Lierz said the Committee knew the recommendation would require management to address the activity and that has been addressed. He said still remaining is when Dr. Morgan gets the final Audit Report. The Report would be presented by the External Auditor to the Finance Committee and have comments from Dr. Morgan.

Chair Lierz said the Audit Committee should make declaratory statements that remind the Finance Department of the recommendation and that the Audit Committee would continue to monitor the situation with management.

Mr. Randall said an independent statement should be made that isn't buried in a letter of what the Committee accomplished last year. The Audit Committee was asked to get back to the Finance Committee with a plan and owes that. The Audit Committee didn't need to bring a plan because a plan was implemented and works.

Chair Lierz said he agreed with Mr. Randall's concept but it was the timing of the release; they haven't seen the finalized Audit Report.

Mr. Randall said the Audit Committee recommendation had nothing to do with getting the final Audit Report; it had to do with getting the audit submitted on a timely basis. He said the recommendation had nothing to do with the quality; it was about the timing of the audit. He said the Committee doesn't need the Audit Report to tell Finance that the concern expressed has been accomplished.

Mr. de Schweinitz said he had no problem with Mr. Randall's statement and was comfortable with a separate clarifying statement to the Finance Committee.

Mr. Randall suggested the Audit Committee look at the specifics of the recommendation. He said the Audit

Committee could say to the Finance Committee that the report went from 7 months late last year to 15 days late this year and now the Audit Committee is confident the report would be done on time next year.

Chair Lierz agreed the statement could be a separate letter and Mr. Randall agreed to draft the statement.

[Break 3:21-3:25]

9. NEW BUSINESS

A copy of the Communication cover letter and 2011 Audit Committee Activities distributed by Ms. Romero-Gonzales to the Committee is incorporated herewith as Exhibit "2."

A. Committee Status Communication

Ms. Romero-Gonzales said she made the changes recommended.

The committee reviewed the document and discussed changes:

- #1 -*City Internal Auditor was added.*
- #3- *former* internal auditor was removed.
- Deborah Moll was noted as the former chair that resigned and her involvement would be acknowledged in the cover letter.
- A numbering system was recommended instead of bullets.
- #2- on the cash account "related to the CAFR" would be added.
- It was suggested that each bullet start with an "action" word.
- It was suggested the last sentence of the first paragraph be followed by The Committee: with items listed in order of importance.
- # 4-would read The Committee "*worked with*"
- The letter would be on City letterhead and addressed to the Governing Body, Mayor Coss and City Council and Dr. Morgan would be copied at the bottom.
- The draft would be sent to Dr. Morgan to send to the City Clerk, Yolanda Vigil who would put into proper format.
- Mr. de Schweinitz asked that his middle name, Crocker, be taken off of the cover letter.
- The Committee vacancy would be emphasized.
- It would be noted that Judge Yalman would submit a candidate name to Mayor Coss.
- Instead of "one city bond issue" "*the 2012 or latest CIP Bond issue continued funding...*" would be used.
- Business *interruption* and crisis *management* was corrected.

Ms. Romero-Gonzales said she would make corrections to the draft and send to Dr. Morgan *and* the Committee for approval and Ms. Vigil could prepare the final on Monday. Changes should be sent to Dr. Morgan.

MOTION: Clark de Schweinitz moved based on the discussion, that the Audit Committee 2011 Activities Report and cover letter be approved. Hazeldine Romero-Gonzales seconded the motion.

VOTE: The motion was approved unanimously on voice vote.

10. OTHER MATTERS FROM THE COMMITTEE

A copy of the Major Items of Accomplishment in 2011 and Planning for 2012 distributed by Chair Lierz to the Committee is incorporated herewith as Exhibit "3."

Chair Lierz said he wanted to include the major items of accomplishment in the record. He said the previous document was a good executive summary for communication with policy makers and this more of a working document of the nuts of bolts of the operation.

He suggested that a good goal for the City is to look into AAA status and what the City has to do to get there and the cost versus benefits.

Dr. Morgan said besides getting the audit on time and being a good audit, the other part of his work is to extend the bond rating. He was fairly positive the City would maintain though he wanted to see it increase.

Chair Lierz said he heard that the New Mexico Municipal Finance Authority could help subdivisions of government improve a city's rating. He said the question would be what they charged.

Ms. Romero-Gonzales said a couple of meetings ago the External Auditors talked about Citizen Centric Reports. She brought examples from Denver and Maine that she passed on to the Finance Director.

She explained the reports are usually four page documents with community information and key missions and services of the City and contain costs and revenue information and plans for the year ahead.

She said this is part of the Service Efforts and Accomplishments Program.

11. NEXT MEETING DATE

A. Next Meeting Scheduled For April 5, 2012

The Committee discussed the next meeting date and agreed, due to member schedules, to meet a day later than usual on Thursday, April 5, 2012. Dr. Morgan would check with Ms. Vigil and send confirmation.

14. ADJOURNMENT

There was no further business to come before the Committee.

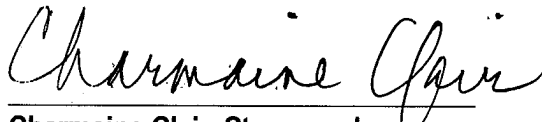
MOTION: Randy Randall moved, seconded by Clark de Schweinitz, to adjourn the meeting.

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

Maurice Lierz, Chair

Reviewed by:

**Dr. Melville L. Morgan, Director
Department of Finance**


Charmaine Clair, Stenographer