

Daniel Mayfield
Commissioner, District 1

Virginia Vigil
Commissioner, District 2

Robert A. Anaya
Commissioner, District 3



Kathy Holian
Commissioner, District 4

Liz Stefanics
Commissioner, District 5

Katherine Miller
County Manager

MEMORANDUM

To: Board of County Commissioners
From: Teresa Martinez, Finance Director *TM*
RE: Establishing the Santa Fe County Audit Committee and Defining its Purpose,
Function, Membership, Structure, and other Requirements
Date: May 31, 2011

ISSUE

On August 10, 2010 Commissioners and Staff received training from the Office of the State Auditor on the topic of Internal Controls, Compliance and Occupational Fraud and Abuse. During the training a recommendation was made by Steve Archibeque, Senior Audit Manager at the Office of the State Auditor, that the County considers forming an Audit Committee to perform a variety of financial oversight functions, and make appropriate recommendations to the Board of County Commissioners (BCC).

Subsequent to this training, the Finance Division was instructed by the Board of County Commissioners to research and make recommendations regarding the formation of a Santa Fe County Audit Committee for consideration by the BCC. Below is the result of this research and the Finance recommendation.

RESEARCH FINDINGS

The Finance Division researched the function of audit committees in various sectors, but with specific focus on the public sector. The Audit Committee function is essentially the same across all sectors. However, where the Sarbanes-Oxley legislation, which passed as a result of the Enron and WorldCom financial scandals, and the Securities and Exchange Commission, dictate the Audit Committee requirements for publicly traded companies, there is no such regulation or requirement of local governments. The U.S. Government Accountability Office (GAO) has recommended that public sector entities consider the benefit of using an audit committee, and revised Government Auditing Standards to require that auditors communicate certain information to the audit committee or the individuals with whom they have contracted for the audit.

Further, the Government Finance Officers Association (GFOA) recommends the use of an audit committee for all governmental entities, regardless of size, and has established recommendations for the Committee's core functions and responsibilities, many of which have been incorporated into the "Responsibilities and Requirements of the Santa Fe County Audit Committee" document attached to the Resolution which, if passed, will define the Audit Committee's functions and other responsibilities among other things.

As sound financial reporting is at the core of government accountability, so too, an effective audit committee is at the core of sound financial reporting. The audit committee ensures that all parties responsible for the financial statements are meeting their individual responsibilities. Those parties are the governing body, the independent auditors, and management.

An effective audit committee can increase the integrity of the audit process, the system of internal controls and financial reporting, as well as the legal and ethical conduct of management and employees. This is accomplished by defining the functions of the audit committee to include oversight of the County's internal financial control processes, oversight of the audit process and production of the financial statements, oversight of the internal audit function, and ongoing review and assessment of management's financial reporting practices. Critical to this is establishing direct communication between the independent or internal auditor and the audit committee apart from management.

Finally, as the body that is ultimately responsible for the financial control, compliance and accountability of Santa Fe County, an ongoing more direct involvement with these issues can lead to more informed decisions about financial matters.

RECOMMENDATION

It is the recommendation of the Finance Division that the Board of County Commissioners establishes the Santa Fe County Audit Committee and defines the responsibilities and requirements of that Committee as proposed in the *"Responsibilities and Requirements of the Santa Fe County Audit Committee"* document.

SANTA FE COUNTY

Resolution 2011 - _____

A RESOLUTION TO ESTABLISH THE SANTA FE COUNTY AUDIT COMMITTEE AND TO DEFINE ITS PURPOSE, FUNCTIONS, MEMBERSHIP, STRUCTURE, AND OTHER REQUIREMENTS

WHEREAS, The Office of the State Auditor provided training and identified that the role of County Commissioners shall be to oversee the financial reporting process, set the proper tone at the top in the County's control environment, and to establish an audit committee; and

WHEREAS, Santa Fe County recognizes that sound financial reporting is an essential element of public sector accountability and transparency; and

WHEREAS, the Board of County Commissioners recognizes that three parties share responsibility for the quality of the County's financial reporting: management, the independent auditors, and the Board; and

WHEREAS, the Board of County Commissioners recognizes that the ultimate responsibility for internal financial controls and financial reporting of the County activities rests with the Board; and

WHEREAS, the Board of County Commissioners recognizes that it is essential to the effectiveness of the audit process to have an audit committee that will provide regular and direct communication between the independent auditors and the Board; and

WHEREAS, the Board of County Commissioners recognizes that the objectivity and independence of a financial statement audit is enhanced by having a forum in which audit-related issues can be discussed candidly with independent auditors.

NOW THEREFORE BE IT RESOLVED that the Board of County Commissioners hereby establishes the Santa Fe County Audit Committee and defines its purpose, function, membership, structure, and other requirements in the "Responsibility and Requirements of the Santa Fe County Audit Committee" document attached hereto as Attachment A.

APPROVED, ADOPTED AND PASSED this 31st day of May, 2011.

BOARD OF COUNTY COMMISSIONERS

Virginia Vigil, Chairperson

ATTEST:

Valerie Espinoza, County Clerk

APPROVED AS TO FORM:

Stephen Ross, County Attorney

**Responsibilities and Requirements of the Santa Fe County Audit Committee
April 26, 2011**

Statement of Purpose

The purpose of the Santa Fe County Audit Committee (Audit Committee) is to perform a variety of financial oversight functions on behalf of Santa Fe County and its Board of County Commissioners (BCC), to ensure ongoing BCC involvement with internal controls and financial reporting, and to ensure that the financial reports presented by Santa Fe County are a reliable and fair representation of the County's financial position.

Core Functions

1. The Audit Committee will ensure that County management is maintaining a comprehensive framework of internal control, and that the established framework is adequate to protect the assets of Santa Fe County.
 - a. Review controls in areas of purchasing, accounts payable, accounts receivable, payroll, fixed assets, and cash on a County-Wide level.
 - b. Make recommendations for changes to the internal control framework, if deemed appropriate, and monitor implementation of recommendations.
 - c. Any other actions necessary to carry out this function.

2. The Audit Committee will ensure that the financial statements are properly audited and that any problems therein are disclosed and properly resolved.
 - a. Review the financial statements and auditors' reports and assist the BCC in interpreting the audit report including the opinion and findings and recommendations.
 - b. Facilitate regular communication with the independent auditor and the BCC to provide an avenue for detailed discussion of internal controls and other audit-related issues.
 - c. If need arises, discuss confidential personnel related matters or litigation as they relate to any audit-related issues in an executive session of a Board of County Commissioners regularly scheduled meeting.
 - d. Ensure resolution of audit findings by making recommendations for corrective action, and monitoring implementation of those recommendations.
 - e. Assess the performance of the independent auditing firm.
 - f. Any other actions necessary to carry out this function.

3. The Audit Committee will oversee and review the internal audit function of the County as applicable.
 - a. Review any requests for internal audit to determine whether staff or a contracted auditor should conduct the internal audit if need arises for a special audit.

- b. Assist in the procurement of any contracted internal auditor including the scope of work and selection process.
- c. Provide a forum for internal auditors to report findings of management abuse or control override.
- d. Review all internal audits and report to the BCC on findings of internal auditor.
- e. Ensure resolution of audit findings by making recommendations for corrective action monitoring implementation of those recommendations.
- f. Any other actions necessary to carry out this function.

Audit Committee Membership and Structure

The Audit Committee will be composed of three voting members. Member One shall be a staff representative from the County's Finance Division as appointed by the BCC. Member Two shall be a staff representative from the County's Legal Division as appointed by the BCC. Member Three shall be appointed by the County Manager or her/his designee. Audit Committee members shall meet the following qualifications.

Qualifications of the Committee as a whole -

1. A sufficient level of financial literacy to perform each core function as stated above.
2. Ability to deliberate meaningfully on any issue likely to be brought before the Audit Committee.
3. Ability to exercise an appropriate degree of "professional skepticism" when dealing with all audit-related issues.
4. Specific expertise in accounting, auditing, financial reporting or internal controls (a Certified Public Accountant is preferred but not required).
5. Knowledge of multiple processes within the financial structure of the County.
6. Must be able to maintain confidentiality when exposed to information about County employees or Elected Officials.

All members must adhere to the requirements of the Code of Conduct Ordinance No. 2010-12.

The members of the Audit Committee shall serve on staggered terms according to the following schedule:

1. Member One shall serve for an initial term of two (2) years and may be appointed to serve for one subsequent term of two (2) years.
2. Member Two shall serve for an initial term of one (1) year, and may be appointed to serve for one subsequent term of two (2) years.
3. Member Three, first appointed under this Resolution, shall serve for a term of three (3) years but may not serve a subsequent term. Thereafter, this Member shall serve a two (2) year term and may serve a subsequent term of two (2) years.
4. Any Audit Committee member who is absent without prior permission from the Chair, from two or more meetings in a one-year period shall be considered no longer active and the position vacant. A new member shall be appointed by a majority vote of the BCC to complete the term, and may serve one subsequent term.

5. A vacancy due to the resignation or removal of an Audit Committee member shall be filled as soon as possible. The new Member shall complete the term of the departing Member and may serve for a subsequent term, the duration of which is outlined above.

The Audit Committee shall hold six regularly scheduled meetings per year and may hold special meetings as needed. At a minimum, meetings must be held according to the following:

1. Two voting members shall constitute a quorum.
2. One meeting shall be at the start of the audit process to discuss audit-related matters with the independent auditing firm.
3. One meeting shall be at the completion of the audit process to discuss audit-related matters with the independent auditing firm as well as any findings of the auditors resulting from the audit.
4. The Audit Committee may require the presence of any County employee or Elected Official at any of its meetings.

Evaluation and Reporting Requirements


The Audit Committee shall re-evaluate its core functions on an annual basis to ensure that they meet the needs of the County, and to identify ways to improve its own performance. Such a review should specifically address changes needed as a result of changes in laws, regulations and professional standards as may occur from time to time.

The Audit Committee shall provide a written report to the BCC within two months of the completion of the annual independent audit and official release by the NM Office of the State Auditor. At a minimum, the report should provide information about the audit, including the financial statements, the conduct of the auditing firm, any findings brought to the Committee's attention, the management response to those findings, and any corrective actions to be undertaken. Further, the report shall outline how the Committee discharged its duty within each core function. Finally, the report should put forth proposed changes to the core functions of the Audit Committee, if any, with an explanation as to why the change is needed. This report shall become a matter of public record.

The Audit Committee may also provide updates to the BCC at any other time as deemed necessary. These updates may be verbal or in writing and shall be a matter of public record.

The *Responsibilities and Requirements of the Santa Fe County Audit Committee* may be amended, rescinded, or superseded by the Santa Fe County BCC at any time by a properly executed and recorded Resolution.

Memorandum

To: Santa Fe Board of County Commissioners
From: Teresa C. Martinez, Finance Director 
Via: Katherine Miller, County Manager
Date: May 31, 2011
Re: *Financial report for the month ending 04/30/2011*

ISSUE:

Enclosed is a report summarizing the financial activities of the County through the month ending April 30, 2011.

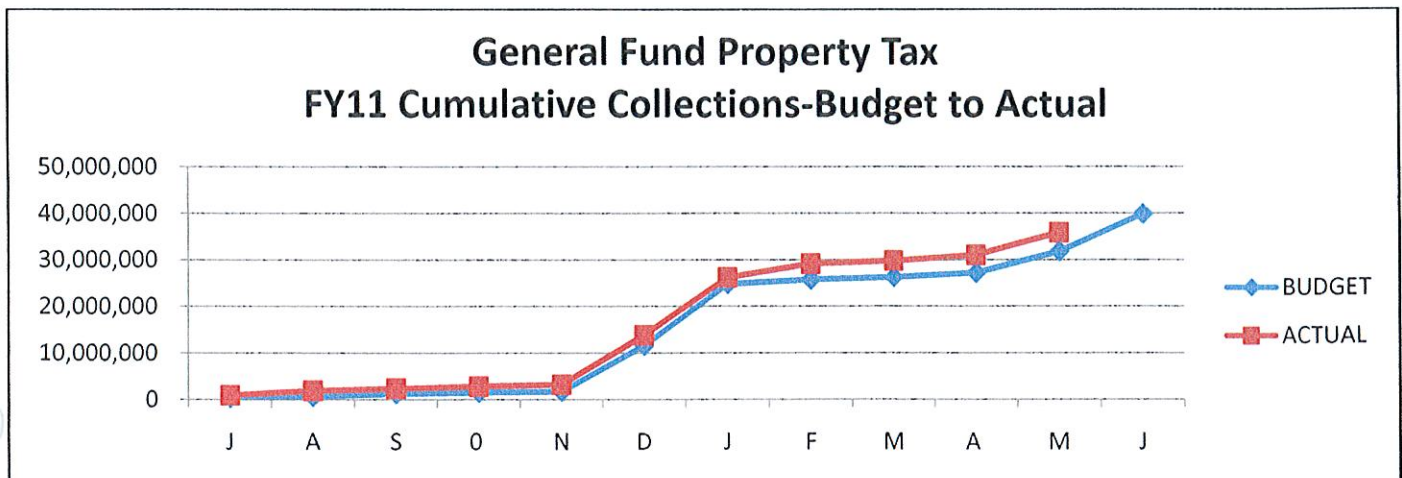
BACKGROUND:

Through April 30th, the County collected total revenue of \$97,058,324, which is down \$58.1 million from the previous year's collections of \$155,134,309 for the same time period. The majority of the difference can be attributed to a bond issuance (\$55.7 million) in the previous fiscal year as well as decreased investment income. Additionally, both capital projects (mainly road projects) and grants are down from the previous fiscal year. An increase was witnessed in property tax collections over the previous fiscal year attributable to increased valuations and delinquent tax collection efforts by the Treasurer's Office.

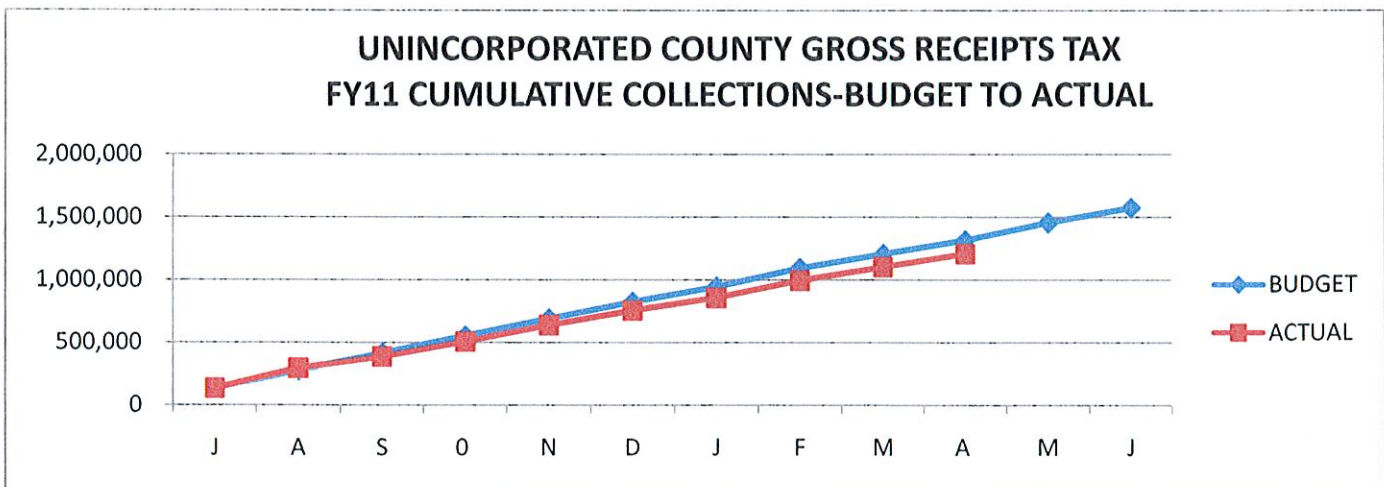
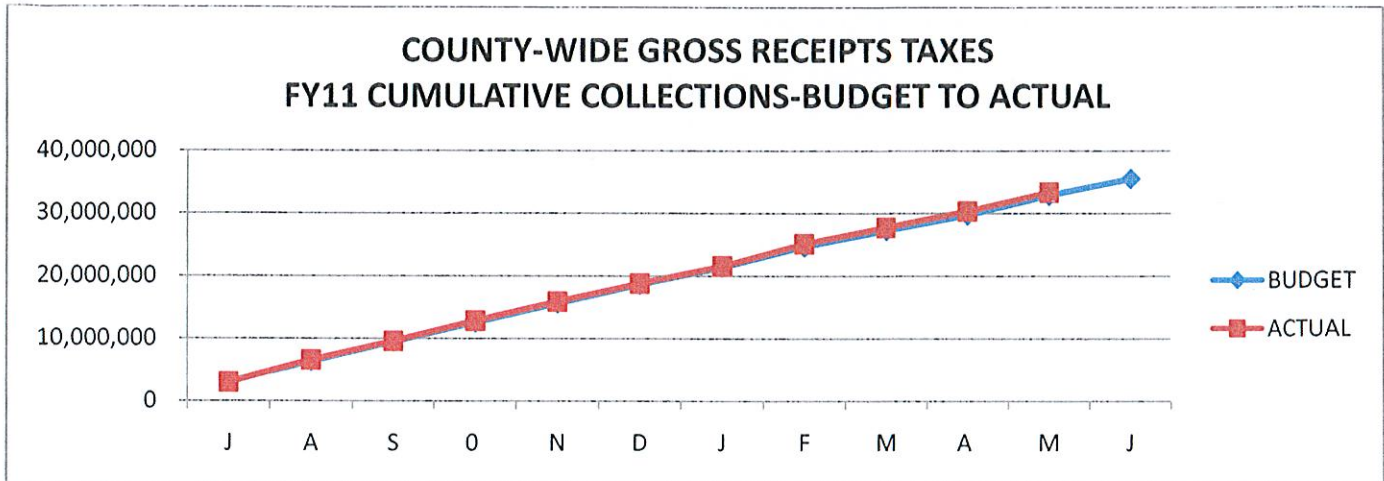
Total expenditures of \$120,853,115 are down from the previous fiscal year amount of \$150,107,303. The difference is related to decreased salaries and benefits resulting from the hard freeze, decreased contractual services and supplies due to cost saving measures, and reduced capital expenditures. Capital purchases are down \$26.0 million mainly due to the acquisition of the Santa Fe Canyon Ranch and Buckman Direct Diversion (BDD) capital project expenditures reimbursed to the City of Santa Fe in the previous fiscal year.

REVENUE: (charts included reflect actual collections through April and May)

Actual property tax collections of \$31.1 million through the end of April and \$35.9M through the end of May exceed the projected budget of \$31.8 million by \$4.1 million.



Cumulatively, both the county-wide and the unincorporated gross receipt taxes collected through April total \$31.5 million and through May total \$34.6 million and are \$330K greater than the budgeted amount of \$34,271,756. The May collection fell under budget by \$155K. Tax collections had been less volatile and more consistent for the months of February through March. May collections, which are reflective of March business activity, did materialize at a level less than budgeted. The unincorporated GRT collections continue to fall under budget for ten of the eleven months collected to date. In FY 2012, the unincorporated GRT's were forecasted with a 13% downturn.



UPDATE ON FY 2011 BUDGET CUTS:

The budget cuts made by both management and the BCC have continued as of the last financial report to the Board. A slight increase of \$13,000 was witnessed to accommodate part-time staffers for the Pojoaque and Edgewood satellite offices. Any additional (new) waivers for exemption from existing cost saving measures (e.g. take-home vehicles, cell phones, etc.) have not been approved by the County Manager. The variance noted for hard freeze positions will materialize at fiscal year end with a smaller variance. Several of the positions for which the hard freezes had been lifted have not yet been filled or were filled at a later date than forecasted resulting in more savings. A final summary will be presented to the BCC upon completion of the fiscal year.

**STATUS OF FY 2011 BUDGET CUTS
PRESENTED IN FY 2011 FINAL BUDGET**

Actions Taken by County Manager	FY11 Approved Budget Reduction	Revised Est. Savings	Variance
Hard Freeze Positions	1,400,000	1,239,092	(160,908)
Non-Personnel Related Cuts by Directors	967,000	908,892	(58,108)
Eliminate all Travel & Seminars (exc. statutorily required)	210,000	174,766	(35,234)
Reduce Salary of Employees Earning >\$80K	121,000	106,682	(14,318)
Cut Temps & Casual	103,000	45,043	(57,957)
Eliminate Take Home Vehicles (exc. SO and Fire)	22,500	3,000	(19,500)
Eliminate Cell Phones (staff exc. SO, Fire and Dept. Dir.)	73,000	28,000	(45,000)
Change Employee Uniform Vendor and Process	37,000	37,000	0
Restructure Satellite Offices	51,000	13,000	(38,000)
Reduce or Terminate Contract Services	50,000	50,000	0
TOTAL FROM ACTIONS TAKEN BY THE COUNTY MANAGER	3,034,500	2,605,475	(429,025)
Board Directives/Cuts Not Materializing	FY11 Approved Budget Reduction	Revised Est. Savings	Variance
Move staff out of leased Office Space	128,620	50,032	(78,588)
Transition of Services to CSV - Medical Director	45,000	0	(45,000)
Transition of Services to CSV - Pharmaceuticals	268,000	249,680	(18,320)
Espanola Ambulance Service	66,000	33,000	(33,000)
Boys & Girls Club	50,000	35,000	(15,000)
TOTAL BOARD DIRECTIVES/CUTS NOT MATERIALIZING	557,620	367,712	(189,908)
TOTAL CUTS NOT MATERIALIZED	3,592,120	2,973,187	(618,933)

SUMMARY:

The BCC will discuss and approve the FY 2012 budget recommendation on May 31st as well. The finance division will be recommending a capital package for FY 2012. This capital package will be funded by cash and represents a one-time (non-recurring) expenditure. Additionally, the County hasn't completed any major equipment replacement due to the economy. In FY 2012, those needs will have to be addressed in order to continue a basic level of service (e.g. public works and solid waste heavy equipment). The FY 2012 budget recommendation will include a recommended asset replacement schedule for BCC consideration and possible approval.

In FY 2012, finance recommends the continuation of the existing cost saving measures and the hard freezes. A large goal is to maintain the operating transfer from the General Fund to the Corrections Fund to \$6.0M. This goal is directly dependent upon an increase in care of prisoner revenue collections and reduced expenditures, and will be included in the FY 2012 budget recommendation. In order to balance the FY 2012 budget, the use of cash balances is necessary at a minimum for the Water/Waste Water Division, General, Fire and Corrections funds.

Finance has delivered some of the material requested from the May 10th budget study session. Some of the analysis will require more time and will be prepared and provided to the BCC before the final budget preparation and corresponding discussions. The interim budget must be completed and approved by the BCC on May 31st. The approved budget must then be submitted to DFA on June 1st. If the BCC requests further analysis or changes to the recommended interim budget, such changes and recommendations may be made before June 30th.