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State Auditor

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State of New Mexico
OFFICE OF THE STATE AUDITOR

VIA EMAIL

February 26, 2016

Mayor Javier M. Gonzales
City Councilors
City of Santa Fe
200 Lincoln Avenue
Santa Fe, New Mexico 87501

Re: City of Santa Fe 2008 Parks Bond Special Audit

Dear Mayor and City Councilors:

In 2008, the voters approved $30 million in general obligation bonds for the purpose of acquiring land and making improvements to public parks, trails and open spaces. During the subsequent economic downturn, the City of Santa Fe ("City") faced revenue shortfalls and possible layoffs of City employees. In 2011, the City Council approved the payment from bond funds of wages for City employees working on park projects and authorized the reprioritization of certain projects. During the implementation of these projects, citizens began to raise questions regarding whether the City was adhering to the intent of the bond and whether the use of in-house labor and the changes to the implementation plan were appropriate.

In an effort to address these concerns, the City engaged an accounting firm in 2015. The resulting report, which was developed without the participation or consent of the Office of the State Auditor ("OSA"), was not designed to, and did not, provide an appropriate level of closure and accountability. In light of continued concerns and unanswered questions, in July 2015, the OSA proactively exercised its legal authority to require a special audit, overseen by OSA, of the City of Santa Fe to bring needed accountability and transparency to this issue.

The City, with the approval of the OSA, contracted with the independent accounting firm Atkinson & Co., Ltd. to perform the engagement. The purpose of the audit was to establish a formal accounting opinion as to the City's compliance with laws, regulations, policies and procedures relevant to the expenditure of the $30 million in general obligation bonds approved by the voters in March 2008 and issued in 2008 and 2010. Such an opinion was lacking in the previous contracted audit work. In reaching its conclusions, Atkinson & Co. engaged the law firm Rodey, Dickason, Sloan, Akin and Robb, PA, for legal guidance.

The special audit report, which was released on February 26, 2016, found that approximately $2 million in bond expenditures authorized by city officials were improperly used for maintenance or other operating expenses. This, along with other issues identified in the report, resulted in a "qualified" opinion and nine findings concerning material weaknesses and significant deficiencies in how the bond proceeds were handled.

While the use of City employees to work on park projects may be permissible under certain circumstances, the City was prohibited from using bond proceeds for non-capital expenses. Based on the audit test work, expenditures appear to have been made for park-related activities. However, the City did not limit the use of park bond proceeds to capital expenses and impermissibly included items for maintenance and operations, which resulted in a number of parks not receiving the improvements that were originally planned for. Inappropriate activities (including shifting certain funds to payroll and golf course maintenance) were deemed acceptable by the City based on overall bond purpose, as opposed to individual project determinations. Furthermore, there were misunderstandings regarding what was legally permissible as an "improvement."

To the extent that City staff believed it was relying on legal advice in approving the use of park bond funds for operations and maintenance, that legal advice was not documented and did not include analysis of federal tax-exempt bond requirements. With regard to the $2 million in bond funds that were used improperly, the City should engage its own legal counsel to determine whether the bond's tax exempt status may have been put at risk and how best to mitigate the concerns that its errors in spending may raise.

After reviewing the draft report, City staff suggested revised figures regarding the amount of costs that had been capitalized. The auditor did not accept these revised figures because they were considered an estimate that was not objectively verifiable and were inconsistent with the City's annual financial statements.

Additionally, the report found:

- Procurement testing of tangible goods and services revealed about $11,000 (computer equipment, printer cartridges, small supplies, etc.) in unallowable non-payroll costs.
- The City did not maintain accurate and sufficiently detailed records of timekeeping for wages paid from the bonds.
- The City did not follow the capitalization policies disclosed in its annual audits ($5,000 or more for qualifying costs) and only capitalized bond expenditures over $100,000.
- The City needs a formal park maintenance plan and dedicated budget to protect City's investment in parks and trails.
- City staff did generally follow proper procedures in obtaining approval from the City Council and its Committees for significant decisions on the parks projects and changes to the parks budget and plans (including changes that differed from the recommendations of the Parks and Open Space Advisory Commission).
- The City has an unspent balance of $803,178 in remaining bond funds from the bond issuances.

Moving forward, as part of the annual audit process the OSA will require the City's financial auditor to test compliance, some of which has already begun, regarding the new procedures. Ensuring adherence to more recently implemented internal controls and adopting the proposed corrective actions identified in the report are critical to ensuring that these types of problems do not occur in the future, and would help preserve the tax exempt status of bonds.

Please do not hesitate to contact me or Deputy State Auditor Sanjay Bhakta, CPA, CGFM, CFE, CGMA at (505) 476-3800 if you have any questions.

Respectfully,

Timothy Keller

Timothy M. Keller
State Auditor

cc: Brian Snyder, City Manager
Oscar S. Rodriguez, Finance Director

CITY OF SANTA FE
2008 AND 2010
PARKS AND BONDS
COMPLIANCE AUDIT

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BACKGROUND

The City of Santa Fe issued general obligation (GO) bonds in the amount of $20,000,000 in 2008 for the purpose of acquiring land and improvement of public parks, trails and open spaces for recreational purposes. A second issuance was made in 2010 in the amount of $10,300,000 for the same purpose. The bonds were approved by a vote of the citizens of Santa Fe on March 8, 2008. There was citizen involvement and input to the planning of the parks project through the conduct of neighborhood meetings and the appointment of a Parks and Open Space Advisory Commission (POSAC) in conjunction with the development of a master plan for the improvement of the City of Santa Fe's parks and trails. POSAC was appointed in 2007 with the following mandate.

> POSAC shall provide ongoing advice regarding all park and open space related issues, including but not limited to acquisition, planning, development, operations, construction and maintenance.

The economic downturn in 2008 significantly affected Santa Fe as well as New Mexico and the United States. There was a mandate given by the City Council (the Council) that there would be no layoffs of city employees based on the economic downturn. The City of Santa Fe Public Works staff, after review, determined that the City had sufficient in-house construction expertise so that significant parks work could be done internally. Approvals were given by the Council for performing internal work, for the payment of city labor with park funds, and for the reallocation of bond funds among projects on an ongoing basis. Parks were constructed and a significant, voluntary monitoring activity was conducted by the POSAC. At a certain point during the bonds implementation, the City Council requested increased activity aimed at renovating more parks in a shorter time.

We observed much documented interaction between POSAC and the City Public Works staff. Over time, various questions and concerns arose principally from POSAC and from citizens of Santa Fe during the implementation of the bond and parks projects. Some significant concerns are summarized as follows:

- Was the intent of the bond fulfilled?
- Were promises made to the public at bond election kept?
- Was it legal to expend bond funds on internal labor for the construction of park assets?
- Detailed concerns over changes to park projects compared to the master implementation plan, cancellation of park projects, and increases and decreases to park budgets were reported. Were these changes properly approved?

During POSAC committee meetings, City of Santa Fe Finance Committee meetings, City of Santa Fe Public Works Committee meetings and City Council meetings, over the period of time from 2009 through 2015, many questions from POSAC were addressed and much discussion took place over the parks projects. Beginning in 2015, the Office of the State Auditor was made aware of concerns and questions.

For full accountability of the Parks Bond project and to address citizen concerns, an agreed upon procedures engagement was conducted in March 2015 by a professional services accounting firm. An agreed upon procedure engagement does not provide an opinion of compliance that an audit engagement is designed to provide.

The agreed upon procedures report did not provide a final close out of the 2008 bond issue that was desired by the City and by citizens. The Office of the State Auditor designated the City of Santa Fe for a special audit and Atkinson & Co., Ltd. was selected to perform the special audit engagement. The Office of the State Auditor participated in the determination of audit scope. The objectives of the audit are to determine whether the City of Santa Fe complied with all legal and statutory requirements that were related to the bond issuance. A complete list of the objectives of the audit are given in the objectives section of this report.

OBJECTIVES

As contractor for the State Auditor and the City of Santa Fe, the auditor shall provide an opinion on the City's compliance with legal, regulatory, and policy constraints for expenditures charged to the bond issue.

The audit shall obtain a legal opinion which is necessary to establish the governing hierarchy of relevant laws, regulations, ordinances, policies, procedures, and documents that relate to the bond expenditures including an analysis of the City plans and policies that were authorized and properly approved. The audit shall:

Required Procedure	Response
Define the types of expenditures that are allowable	A legal opinion was included as part of this report - see brief summary on page 4 and full legal opinion in the appendices
Identify all projects funded by the 2008 General Obligation Bonds	See listing in the Appendices on page 66 for parks, trails and open spaces funded by the Bonds
Identify by project total the amount expended from Bond funds	A table of Bond expenditures by class is presented on page 5
Identify expenditures by payroll and nonpayroll expenditures	A table of Bond expenditures by payroll and nonpayroll expenditures is presented on page 5
Test on a sufficient sample basis expenditures for every project identified	A discussion of the sampling plan is given on page 9
Identify and verify the source documentation to be utilized for the examination	Procedures Performed and Documentation and Information Relied Upon is presented on page 64
Report Findings in accordance with 2.2.2 15.B and 2.2.2. 10 1(3) (c) NMAC	Nine Findings are reported at pages 32 to 46

The audit is an attest examination under professional standards issued by the American Institute of Certified Public Accountants. The subject matter of the engagement is an examination of documents, records and representations from the City and from individuals relating to the City's compliance with requirements for bond expenditures.

EXECUTIVE SUMMARY

LEGAL OPINION – THREE GUIDING AUTHORITIES

Our audit of the City's compliance with laws, regulations, resolutions, policies and procedures is centered in the legal opinion provided by Rodey, Dickason, Sloan, Akin and Robb, P.A. (the Rodey Opinion) and included in this report. Three important points from the Rodey Opinion relevant to the consideration of the City's compliance are summarized below:

> State law prohibits and federal law discourages the expenditures of bond proceeds on noncapital items. Practically speaking, capital items are those expenditures in excess of $5,000 and having a useful life in excess of one year or items that would qualify for capitalization under federal income tax regulations.
>
> An Attorney General opinion 10-004 (2010) provided authority for schools issuing bonds for capital projects to change expenditures from specific items originally presented to voters to new items as long as the new items are consistent with the intent and purposes of the bond issuance. This opinion provides an authority to the City of Santa Fe to change the specifics of the park plans as long as all changes are consistent with the intent and purposes of the bond issue.
>
> Attorney General opinion 51-5426 (1951) provides authority for the utilization of internal labor on governmental projects as long as the government is constructing the project itself. The expenditures of bond funds for internal labor are permissible as long as the labor is directly connected to the construction of capital projects.
>
> **These three legal authorities guide us to conclude (1) that the City can use internal labor to construct city projects, (2) changes can be made to park projects after voter approval as long as the changes are consistent with the intent and purposes of the bond issue, and (3) expenditures of bond proceeds must be for capital projects and not for working capital, maintenance or other operating expense items.**

LEGAL DISCUSSION

We interviewed the former City Attorney, the former Assistant City Attorney and the former external Bond Counsel that were involved with the 2008 bonds. All attorneys agreed that there was no separate documented consideration of compliance requirements applicable to federal bonds that are exempt from income taxes beyond normal bond proceedings. All attorneys interviewed agreed that expenditures of bond proceeds for maintenance or other operating purposes are not allowed by federal and state bond laws. The state law analysis written by the Assistant City Attorney was the sole documented letter that we reviewed in this matter.

There was a difference concerning the legal advice requested and received in connection with the utilization of city employees on internal bond projects between retired City management and the former external Bond Counsel. Retired City management and the former City Attorney indicated that verbal inquiries or other discussions were made concerning bond payroll issues. The external Bond Counsel did not remember conversations about this with these representatives. A documented inquiry and response may have prevented internal payroll expenditures for noncapital items.

TOTAL EXPENDITURES FOR PARKS PROJECTS

Our audit scope required the listing of bond expenditures by classification of expenditure.

The total bond expenditures totaled $29,496,821.87 which was taken from the City's general ledger by year and agreed to the City's Comprehensive Annual Financial Report (CAFR) by year. The breakout of expenditures is as follows:

Description	Amount
Total Bond proceeds issued at premium less issue costs. Bonds face $30,300,000. Premium is $633,478 and issue costs are $31,861. Total Proceeds from Bond Issue	$30,901,617.30
Total Proceeds to the City	$30,300,000.00
Less Expenditures from Bond Proceeds	$29,496,821.87
Unspent Bond Proceeds	**$803,178.13**
Total Capitalized Nonpayroll Costs	$21,479,718.75
Total Capitalized Payroll Costs	$4,031,141.13
Total Costs Expensed	$3,985,961.99
Total Expenditures from Bond Proceeds	**$29,496,821.87**
Total Costs Expensed	$3,985,961.99
Less Additional Costs Capitalized at Fiscal Year End	$1,939,590.53
Add Capitalized Payroll <$5,000	$37,815.26
Total Cost Expensed	**$2,084,186.72**

The listing shows that there are $2,084,187 of expenditures that were expensed in the City's financial records. The table also shows the amount of unallocated bond proceeds left as residual amounts of $803,178. Total costs expensed are 7.07% of total expenditures to date.

Conclusions on Amounts of Bond Expenditures that were Not Capitalized

The identification of amounts of bond expenditures that were not capitalized and therefore noncompliant with bond requirements are a significant objective of the audit. Because of limitations of time sheet records, the lack of close out procedures for parks projects and the City's capitalization practice for land improvements, which differs from its policy disclosed in its annual audit, the determination of amounts proved difficult. The conclusions about the amounts of noncapitalized costs are as follows.

Information Supporting the Incurrence of Operating or Maintenance Expenditures with Bond Proceeds

There were various documented sources of information supporting or explicitly discussing the expenditures of bond proceeds on maintenance or other operating activity. These include minutes of the City Council and its Committees, memorandums written by City officials to City Councilors, job descriptions of city workers, time sheet descriptions and class of employee performing service, operating budgets adopted, and interviews conducted. Interviews conducted were consistent that expenditures did occur on maintenance and operating type items. Maintenance plans for bond expenditures were directly discussed before the Finance Committee on November 14, 2011.

Analytic Procedures Applied to Cost Allocations and Budgets

Our test work found instances of unreasonable allocations of payroll expenses to parks that reflected probable maintenance type activity based on timing of allocations or amounts allocated. In similar fashion, our reading of budgets for changes that took place to initial budgets identified instances of increases to budgets that were not reasonable as the changes in budget were not supported by the timing of the budget change or a corresponding change in construction plans. See Findings PB 2008-003, -004 and -008.

Specific Identification of Activity or Amounts

We read two City memos that described the utilization of 2008 parks bond proceeds for the operating budget of the Municipal Recreation Center Complex (MRC) and the Marty Sanchez (MS) Golf Course. We read one memo discussing maintenance charged to Herb Martinez Park for $66,000. The amount of budget and maintenance allocated to these items from the parks bond was $201,000. Another memo indicated that budget support continues through the present for MRC and MS, possibly from other sources.

City Financial Records for Bond Expenditures Through June 30, 2015

The City's records at the beginning of the audit for the 2008 and 2010 bonds show $2,084,187 of bond expenditures that are not capitalized. The amounts are reconciled to city issued financial statements for years through FY 2015. These are the amounts we were provided at the beginning of the audit.

Specific Analysis of Items Expensed

The City has subsequently reported that it utilized a capitalization threshold for land improvement projects of $100,000 for the accounting of the parks projects. This threshold would have increased the amount of bond expenditures that were expensed and decreased the amount of expenditures that were capitalized.

WHY BOND EXPENDITURES WENT TO OPERATIONS OR MAINTENANCE ACTIVITY

<u>7.07% of bond expenditures were expensed. The following factors contributed in some degree to this outcome:</u>

1. Time sheets did not capture details necessary to identify activities performed or locations where activities were performed. Cost allocations were made after the fact, not intending to be a precise compilation of costs of construction. Hence, in record keeping matters closest to project activity, there was only a general consideration that costs of construction was required information to support bond compliance.

2. The business unit was defined as the overall bond issuance which also defined the level of budgetary control - hence many detailed activities were undertaken and reallocations made and deemed acceptable based on the perspective of the bonds as a whole, not individual projects.

3. Previously, only external contractors had been utilized for capital projects funded with bond proceeds. The utilization of external contractors facilitates the initial drafting of precise contract details and project close outs, puts in place warranties and makes formal rights and obligations among the parties including the contracted cost of individual projects. These inherent parameters were not automatically in place in all aspects for the city park projects.

4. There appears to be no documented consideration of federal requirements for tax-free bonds issues apart from normal bond proceedings and the resolution to issue bonds. State bond requirements were considered and documented on one occasion. The state law analysis written by the Assistant City Attorney was the sole document that was reviewed in relation to bond compliance considerations apart from normal bond proceedings.

5. There was an apparent misunderstanding between information provided by external Bond Counsel to retired City management in place during the bond period in relation to the permissible uses of bond proceeds. These communications were not documented. A clear documented inquiry and response during the consideration of future payroll expenditures may have prevented noncapital expenditures.

6. Additionally, over time, the concept of "improving" a park assumed a broader meaning to include the "maintenance" of a park. Park projects discussions from the former City Attorney to the City Council about "pulling weeds is improving a park" was not incorrect based on the context of the circumstances but may have contributed to the understandings adopted at the time that maintenance activities were allowed. "Improvements" and "maintenance" have more narrow meanings in federal and state law than their common usage.

7. Maintenance of city parks had historically been difficult to fund and residual funds from the bond issue were thought to be available and were proposed as a good use of bond proceeds in the later stages of the bond projects.

8. City staff has indicated that for land improvement projects, amounts below $100,000 per total project were not capitalized but were expensed. This practice differs from the familiar practice disclosed on its annual financial statements. For two parks, we noted expenditures in excess of $100,000 that were not capitalized. The amount of bond expenditures that were not capitalized is determined to be $2,084,187.

CITY COUNCIL AND ITS COMMITTEES APPROVED SIGNIFICANT PARKS PROJECTS DECISIONS AND BUDGET ADJUSTMENT RESOLUTIONS

The City Council and its Committees approved the initial decision to utilize internal labor for parks projects; it also made the following approvals.

- June 27, 2011. Approval received for reallocation of bonds fund by the Public Works Committee.

- November 14, 2011. Approval received for certain general obligation bond questions by the Finance Committee including reallocations.

- November 14, 2011. Approval for option 2 - Discussion of maintenance and other activities for personnel before the Finance Committee.

- Nov 14, 2011. Finance Committee - Approval of funds to take care of labor, maintenance, construction, and management staff for all previous and current projects through the life of the bond in June 2013. Maintenance type activities and associated payrolls discussed and approved.

- November 30, 2011. The City Council made final approval of reallocation budget changes.

We reviewed 16 budget adjustment resolutions (BARs) including the reallocation approvals noted on November 14, 2011. The November 14, 2011, reallocation was an approval to bring current all changes on parks to that point (the "Giant BAR"). The other approvals were for items greater than $50,000 that were required to come before the City Council for approval. Our test work on BARs was without exception. Most BARs approved were on the consent agenda.

Our test work in relation to cost allocations and budget adjustments that were reported in the audit as reasonable were composed of individual amounts greater than $50,000 for the most part. However, certain cost allocations made in even monthly amounts were individually less than $50,000 and therefore did not exceed the requirement for Council approval. Our conclusion is that the authority of the City Council and its Committees was not bypassed for significant decisions on the parks projects or for changes to parks plans and budgets greater than $50,000 in a single transaction.

PROCUREMENTS OF TANGIBLE GOODS AND SERVICES (NONPAYROLL) TESTWORK

The test work results for tangible goods and services were satisfactory except for the following items.

Total unallowable nonpayroll purchases are summarized as follows. Computer equipment made up most of the unallowable dollar totals.

Tangible Goods and Services	Departures Observed	Total Sample
Items	10	153
Dollars	$11,619	$2,697,138

AUDITORS' OPINION SUMMARIZED

Our audit finds that the parks general obligation bonds were administered and sufficiently documented to demonstrate compliance with statutes, laws, regulations, policies and procedures except in the following area.

Basis for Qualified Opinion

Our audit found that bond expenditures were made for maintenance purposes or other operating expense items in the approximate amount of $2,084,187. This amount is derived from the City's general ledger and subsidiary records for the bond project through fiscal 2015 after additional analysis. State law prohibits and federal law discourages the expenditure of bond funds on noncapital items. Other documented sources supported this conclusion that expenditures of bond proceeds were made for maintenance activities or for operating items. We also found instances of unreasonable payroll expenditures that were allocated to parks or unreasonable increases of budgets that were not supported by specific project changes. These instances of unreasonable expenditures, budget allocations or budget increases are not considered to be in excess of the aggregate amount expensed from bond proceeds of $2,084,187.

Sampling Discussion

Our test items totaled 252 items: 120 items were selected at random and at least two additional items for every park were selected judgmentally; 132 items were tested, judgmentally selecting items that appeared most likely to be in error. Payroll expenditures were deemed higher risk based on concerns identified in planning. The payroll test sample was therefore approximately doubled so that 99 tests were performed raising the test percentage of payroll items compared to total bond expenditures. Budget tests were made for all 66 business units funded by the bonds. 16 BARs greater than $50,000 were tested.

Our audit also noted instances of noncompliance not affecting the auditors' opinion as described in the text. Our audit includes findings made in accordance with the requirements of generally accepted governmental auditing standards. The findings are listed below:

Finding PB 2008-001 Federal Bond Law Not Considered in Determinations of Allowability of In-House Labor for the Construction and Certain Related Labor Activities of Park Projects. (Material Weakness)

Finding PB 2008-002 Time Keeping for Wages Paid from 2008 Bonds (Material Weakness)

Finding PB 2008-003 Cost Allocation Procedures - Timing (Material Weakness)

Finding PB 2008-004 Maintenance and Other Operating Expenditures Made From Bond Proceeds (Material Weakness)

Finding PB 2008-005 Unallowable Nonpayroll Costs Charged to Bonds (Significant Deficiency)

Finding PB 2008-006 Design of Time Sheets and Accounting Systems for Bonds (Material Weakness)

Finding PB 2008-007 Procurement Test Work (Significant Deficiency)

Finding PB 2008-008 Unreasonable Budget Increases (Significant Deficiency)

Finding PB 2008-009 Unspent Proceeds (Significant Deficiency)

The reader should consider management's responses to the findings.

CITY'S CHANGES IN POLICIES SINCE THE END OF THE BOND PERIOD (2013)

The City has made changes in policies and procedures during the public discussions on the bond project implementation. The following changes were made in 2013, 2014 and 2015. Certain changes are in response to the agreed upon procedures report (AUP report) issued March 30, 2015.

The Capital Projects Reporting Procedures policy was adopted July 1, 2015, and was responsive to the AUP report for those items most concerned with project management. Procedures for project file management standards, periodic project reporting, project close out, and assigned roles and responsibilities are adopted as city policy with this document.

The Annual Debt Management and Post Issuance Policy has been in effect since December 2013 and requires annual review and approval by the City Council. The most recent review and approval occurred in June 2015. The content of the policy and the need for annual consideration and approval should assist the City in post issuance bond compliance efforts.

The City has adopted ***Resolution 2015-106 Adopting Best Practices to Help Guide the City***. This Resolution adopts various requirements termed *established best practices* and affirms the requirement of the procurement code that each budgetary change that exceeds $50,000 should be approved by the City Council. This formally rescinds the practice of rolling up BARs into an aggregate amount for approval. The Resolution includes, but is not limited to, guiding principles, performance measures, internal controls, budgeting, investments and reserve requirements.

The **Public Works Division** operating procedures for district maintenance was reorganized in August 2014. Previously each district was responsible for the overall maintenance of its district and had discretion over maintenance activities. The reorganization established dedicated teams by function, such as the irrigation team, the maintenance team and so forth. Teams are receiving training directed to their particular team expertise.

COMPLIANCE PROCEDURES REQUIRED BY RELEVANT STATUTES, LAWS, REGULATIONS, AND POLICIES

The consideration of the City's compliance with laws, regulations, policies and procedures in relation to bond expenditure compliance is centered in the legal opinion (the Rodey Opinion) prepared and included as part of this engagement. The legal opinion is by David Buchholtz and staff of Rodey, Dickason, Sloan, Akin and Robb, P.A., who contracted with Atkinson & Co., Ltd. to provide this part of the audit. The scope of the audit required that a legal opinion be obtained.

Our discussion here and our conclusions thereon are derived solely from that legal opinion received from the contracted attorney. Please see the full text of the opinion included in the appendix.

Under federal bond law as detailed in the Rodey Opinion, requirements discourage expenditures of bond proceeds on "working capital" which is defined as anything that is not a capital project. Capital projects are defined in accordance with government accounting standards as those project activities that cost greater than $5,000 and have a useful life greater than one year. Federal bond law is relevant because the bonds were sold as tax-free bonds. As part of our audit, we requested but did not receive any written memorandum from any former legal staff member or counsel on the requirements of federal bond law. Interviews with former legal staff or counsel indicated that there were no specific documented discussions, inquiry or research provided on federal bond law requirements.

State law was considered by the City in a memorandum authored by the Assistant City Attorney. The memorandum was issued in response to questions pertaining to permissible uses of bond proceeds. State law governing state agencies was discussed in detail in this memo which indicates bond fund expenditures must be directly connected to the bond projects. The memo further advises that decisions as to propriety of expenditures must be on a case by case basis in consideration of particular circumstances. The memo requested additional facts and information in order to progress with any further analysis.

The requirement for consistent and direct uses between expenditures and bond purposes indicates that state law requirements appear to follow closely the requirements of federal law. Operating expenses or indirect expenses are not permissible for state purposes. There is further discussion of the memo and the appropriate citations to law in the Rodey Opinion. We requested but did not receive any further written documents providing any additional information or inquiry to the Assistant City Attorney for further discussion or for any other bond compliance purpose. The City Council did assert in the resolution to issue the bonds that no actions would be taken to endanger the tax-free status of the bonds. It was considered whether bond documents issuing the bonds contained operating and maintenance content or language. No such content or language was identified.

It was represented in an interview by retired or former city staff, both City management and City Attorneys that telephone consultations with external Bond Counsel took place about the use of internal labor in connection with bonds expenditures on projects. This advice received per interview was that the use of internal labor on bond projects was permissible as long as the expenditures were directly involved with the purpose of the bonds. These consultations by telephone were not recalled by the external Bond Counsel. The interview did confirm that there was no other documentation provided in relation to specific labor issues, inquiries or advice given from external Bond Counsel. All three attorneys - the former City Attorney, the former Assistant City Attorney and the former external Bond Counsel that were in place at the time of the bond issuance are of the opinion that general obligation bond expenditures cannot be made for operating or maintenance purposes.

We emphasize that the Rodey Opinion indicated that normal bond proceedings and the due diligence that are required with any bond issue took place and were in order.

Based on our work, we recommend that federal requirements for tax-free bonds be detailed and presented to governing council in future resolutions in connection with the issuance of tax-free bonds. We further recommend that the City should not rely on nonroutine bond compliance advice unless such advice is in writing.

See Finding PB 2008-001 for inclusion of detailed federal bond requirements, definitions and risk factors in future bond issue resolutions.

See Finding PB 2008-001 for recommendation to not rely on nonroutine advice from external bond counsel unless it is in writing.

TIME SHEET TEST WORK AND PAYROLL

Parks workers and temporary employees hired by the City for parks assignments were paid through the City's payroll system which provides certain controls over the processing of payroll. Job descriptions for parks maintenance workers specifies duties that include duties that qualify for capitalization and duties that would be considered maintenance.

Time sheets were maintained for all employees working on parks projects funded by the 2008 bonds once the decision was made to do significant project work internally. We were able to review an approved time sheet in 97 out of 99 instances tested. However, in many cases the time sheet served as little more than a time clock documenting that the employee was at work and did not capture specific time expended if multiple parks were worked on or if maintenance or construction activity took place that day. Per interviews with retired city staff, the decision was made to not record time efforts in detail by the city staff working on parks bonds because it had not been done previously and didn't seem to be necessary. Personnel identified with certain city work crews did record time to projects that appeared to be more detailed in some instances. It was represented to us in interviews that individuals charged to the bond projects included project supervisors and lower job level employees who were considered to have worked 100% of their time on bond projects.

Our test work was designed to determine whether: time records could be relied upon to determine cost of construction for each park project; activities were in compliance with bond requirements and; normal payroll controls were observed.

The following criteria were tested:

- Do time sheet hours agree to what was paid to each employee or charged to a particular park? Was time charged by a "park maintenance worker"?

- Do time sheets indicate what work was done or activities performed? Do time sheets have supervisor approval?

- Does payroll posted to a project agree to supporting time sheets or records?

- Is timing of labor charge unreasonable, early, late or continuous?

We saw various errors in our test work. Ninety-nine individuals were tested. Over half the time sheets did not indicate what work was done or activities performed due to the design and requirements of time sheet recording. In certain cases, time was recorded to the wrong park or the recorded time on a time sheet did not reconcile to that recorded in park summary records. The timing of labor charged through time sheets appeared unreasonable in certain cases. In only one instance did we not locate a time sheet, and in two cases the time sheet did not have the supervisor approval documented. We did not note any personnel above the level of project supervisor charged to the bond who would normally have other responsibilities in addition to parks bond activities and management.

Conclusion

Based on our work, our conclusion is that the design of time sheets and recording procedures were not intended to record all costs of construction or document all aspects of bond compliance.

See Finding PB 2008-006 for adequacy of design of time sheet.

See Finding PB 2008-002 for observed time sheet errors.

EXPENDITURE ALLOCATIONS TO PARKS PROJECTS

Costs were collected in suspense accounts and allocated to parks spreadsheet records and the City general ledger based on (1) incurred capital costs (tangible goods and materials or externally contracted costs) and (2) payroll expenditures incurred in connection with parks projects. Interviews indicated that payroll costs in some cases were allocated after the fact and in equal amounts to various parks. This confirmed that the allocation made was not intended to be a contemporaneous record of actual construction activity made on a park.

City accounting personnel, as part of year end closing procedures, interviewed project managers, reviewed ledger and source document details and recorded entries to record the proper amount of increase to construction work in process. All amounts, (capital costs or incurred payroll) were recorded in a capital projects fund account before transfers were made to work in process or other capital outlay accounts. Work in process amounts where a park was completed were then transferred from work in process to capital assets of the City. This process did identify and routinely record maintenance or operating costs that did not qualify as capital cost items. The identified expenditures each year were recorded to expense rather than to work in process.

Per discussions documented in City Council minutes, Finance Committee minutes, Public Works Committee minutes and POSAC minutes we noted both as general procedure and in specific details that bond expenditures did occur for noncapital items, i.e. operations and maintenance. We noted other sources and references in relation to bond expenditures made for noncapital items. These included job descriptions of the Public Works Department which assigned noncapital type job responsibilities to parks workers; one job description was titled "maintenance worker."

We also noted numerous maintenance workers identified on time sheets reviewed. Per job descriptions, a maintenance worker may be assigned construction duties as well as maintenance type assignments.

Our test work on cost allocations resulted in instances where the timing of allocated amounts of payroll expenditures to parks projects was unreasonable for such costs to normally be included as capital costs. Similarly, our test work identified instances where the amounts of payroll allocated to parks when compared to the nonpayroll amounts or to other expectations based on circumstances were unreasonable. We also found three memos written by City officials discussing maintenance allocated to parks operating budgets partially funded by the 2008 parks bond.

Other detail test work identified various instances of expenditures made for noncapital items.

1. Approximately $67,500 of bond funding each year for two fiscal years was included in the operating budget of the Marty Sanchez Golf Course and MRC Complex. A response from the City to a POSAC inquiry suggests the possibility that additional years were funded by 2008 or CIP bond proceeds.

2. $131,495 of administrative allocations was charged to the St. Francis Crossing prior to the beginning of any construction activity.

3. Only administration costs of $60,835 were charged for a year to the Arroyo Chamisa trail.

4. For three parks, payroll expenditures or administrative charges continued to be charged to parks after construction was completed. (Cathedral Park, Las Acequias Park, and Nava Ade Park approximately $10,000)

5. For one park, a memo written by a City official to a City Councilor documented that $66,000 was charged to maintenance which accounted for a budget overrun on Herb Martinez Park.

6. For one park, only payroll was charged to the park in equal amounts for 10 consecutive months after construction was concluded. (Larragoite Park approximately $13,000)

7. For one park, $21,623 of payroll was allocated to the park for no apparent activity. (Monica Roybal Park)

8. For two parks, one-time administrative charges were made after construction was complete or the park was transferred to other uses. (Espinacitas Park and Amelia White Park approximately $19,000)

9. For one park, a budget increase of $70,831 was made for additional work which was not identified and the project was done internally. (Cross of the Martyrs Park)

10. For one park, only labor was charged for 2009 where the implementation plan would require materials. (Ashbaugh Park $33,923)

11. For one park, only labor was charged starting in March 2011 after a gap of activity from June 2010. (Ashbaugh Park $23,323)

12. For four parks, incurred expenditures were not capitalized. This appears to be an allocation of maintenance costs after completion. (Galisteo Tennis Courts $198,504, Frank Ortiz Dog Park $122,264, Rancho Del Sol Park $74,005, and Sunnyslope Meadows Park $42,499.) The expenditures incurred for the Galisteo Tennis Courts and the Frank Ortize Dog Park were above the $100,000 capitalization level that was disclosed as a working capitalization limit by the City. These costs were not capitalized.

There are valid reasons that expenditures could be incurred and capitalized before or after construction occurred. In advance of construction, engineering estimates and construction drawings for planning purposes and suitable to solicit bids on contracts would have to be prepared. Contracts themselves would have to be prepared. Such costs are capital items.

After a park is constructed, there may be a need to replace items; for instance replacement of dead trees or to repair irrigation breaks. There would be a need to repair any destruction due to vandalism. There could also be a need to change the final design. The amount of costs capitalized due to these reasons might be significant on occasion but normally would not account for the magnitude of expenditures allocated to specific parks discussed above.

Our schedule of total expenditures found on page 22 reports $2,084,187 of expenditures not capitalized based on the City's accounting. This amount represented bond expenditures that were not capitalized but expensed due to the determination that they were not capital items. The total expenditures not capitalized are the result of the City's normal payroll and closing procedures and controls directed to correctly recording capital projects in accordance with government accounting standards. The examples above are not considered to be in excess of this aggregate amount.

Conclusion

Our test work on time sheets concluded that payroll activity that should have been capitalized or not capitalized to park projects could not be determined from time sheets. Our test work on cost allocations identified instances of unreasonable payroll costs allocated to parks projects based on timing, or due to the nature or amount of expenses allocated to parks compared to the implementation plan, changes in the implementation plan or to other circumstances. The City did track expenditures for the bond and routinely accounted for such expenditures as capital or noncapital items throughout the years of the bond and parks projects implementation. Information from other documented sources confirmed that noncapital expenditures were made from bond proceeds.

We chose to rely on the City's determination of the amount of expenditures for noncapital items from bond proceeds. It considers all expenditures made with bond proceeds for the entire bond project period.

See Finding PB 2008-008 for a discussion of unreasonable budget increases.

See Finding PB 2008-003 for unreasonable cost allocation procedures.

See Finding PB 2008-004 for the expenditure of bond proceeds on operational expenses, maintenance expenses or other noncapital expenditures.

EFFECTIVENESS AND EFFICIENCY OF PARKS PROJECTS UTILIZING INTERNAL PAYROLL CREWS

A mandate was given by the City Council to avoid layoffs of city employees in 2008 when faced with the economic downturn affecting the nation. A plan took shape for the City to perform significant parks projects with its own internal labor where the expertise and skill was there to do the project. The prospect for saving money, avoiding layoffs and keeping Santa Fe going appeared to make a lot of sense.

Performing work internally compared to outside contracting for parks projects should normally save money if other factors are equal. City crews (primarily temporary workers hired) performing parks projects were paid starting at $9.92 per hour, and other costs to the City included the City's share of payroll taxes, PERA and some other fringe benefits. Vacation, sick and personal leave was not paid to these workers. Per current and retired City management, contracting with external vendors could cost $35 to $60 per hour for projects depending on specific circumstances. The difference in rates is due mostly to the overhead costs of a separate business that must be recovered.

There were references made and opinions shared during our audit that money was saved and budgets were met for the parks bonds projects. Certain information supports the general idea that money was saved performing work internally. Parks projects are deemed complete for 57 parks. The final report compiled by public works for the 66 parks, trails and open spaces is posted on the City's website. POSAC observed 36 of the 57 parks as part of the final report preparation. As a rough comparison, the original master implementation plan called for approximately 240 construction (line) items to be implemented and the final report contains 313 implemented items completed. Approximately $2,084,000 was also expended on parks and expensed, principally for maintenance or other operations. However, amounts spent on trails came in under budget. It may or may not be that funds were available for additional capital expenditures for parks or continued maintenance due to cost savings from performing work internally.

Except for amounts that may have come from the 2012 bond to finish certain parks, the parks projects are complete and an amount of maintenance after construction was expended on them.

POSAC provided photographs of parks as they existed in 2007 before any parks projects work was begun. For new parks constructed with bond money and observed by the audit team, a before-and-after comparison was startling (very favorable). For parks existing in 2007 which is almost all of them, current observations of the parks were favorable but an in-depth study of current conditions compared to the prior park conditions was not made.

Due to certain unreasonable cost allocation procedures employed for payroll and the lack of a close out procedure for parks completion, comparisons to budget are not easily made. Such comparisons would measure the City's efficiency compared to plan. These budget considerations point to effectiveness and efficiency standards for inclusion in a city accounting system for projects. Accounting should provide an accurate measure of cost of construction, it should demonstrate compliance with bond requirements, and it should indicate the efficiency and effectiveness of efforts applied to projects.

NORMAL CITY PROCESSES WERE FOLLOWED FOR THE PROCUREMENT OF PARKS PROJECTS GOODS AND SERVICES

The City Public Works Department followed normal city processes in the administration of the parks bond projects including utilization of the City Code procurement requirements for the purchase of goods and external services. Procurement Code documents including purchase requisitions, purchase orders, and support invoices and contracts were filed in specific parks project files. We tested for the proper utilization and documentation of activities subject to the procurement requirements and successfully tested 152 transactions out of 153 selected. The one exception was judged insignificant.

As a separate procedure, we tested an additional procurement file of a vendor who supplied road and path type materials for 15 parks projects. Our test work determined that certain noncompliance of the City Code regarding conflict of interest took place for procurements with this vendor.

See Finding PB 2008-007 for a discussion of observed noncompliance in relation to procurements.

CITY COUNCIL AND COMMITTEE APPROVALS WERE OBTAINED AS FOLLOWS

We reviewed minutes of the City Council, Public Works/CIP and Land Use (Public Works) Committee and Finance Committee for the City of Santa Fe and noted approvals for significant changes to parks and bond projects.

The most significant approvals were those on June 27, 2011, and November 14, 2011, when the proposed bond reallocation was approved by the Public Works/CIP and Land Use Committee and the City Council respectively. Approvals were also given for certain general obligation bond questions and approval for Option 2 of General Obligation bond funds for payroll purposes together with CIP funding. These approvals of significant bond issues and changes requiring governing body approval are also further discussed and affirmed by the Rodey Opinion.

Significant Bond Change Approvals Identified

June 27, 2011. Approval received for reallocation of bonds fund by the Public Works Committee.

November 14, 2011. Approval received for certain general obligation bond questions by the Finance Committee.

November 14, 2011. Approval for Option 2 - Discussion of maintenance and other type activities for personnel before the Finance Committee.

November 14, 2011. Finance Committee - Approval of funds to take care of labor maintenance, construction, and management staff for all previous and current projects through the life of the bond in June 2013. Maintenance type activities and associated payrolls discussed. Approved.

November 30, 2011. The City Council made final approval of reallocation budget changes.

Budget Adjustment Resolutions

We tested 16 Budget Adjustment Resolution (BAR) documents and related approval procedures for changes to parks greater than $50,000 requiring Governing Body approvals. One BAR was to transfer $100,000 to Patrick Smith Park in 2009. The other 15 BARs tested were dated in 2012 and occurred after the 2011 bond reallocation passed on November 14, 2011. The 2012 BARs tested pertained to the following items:

- $1,700,000 of reallocated money from the Park Bond Resources account to the Park Bond Projects account for payroll.
- Many BARs tested transferred remaining budget from completed parks to parks with construction in process that required additional budget.
- Other necessary funds were transferred to parks budgets with cash deficits.

- $100,000 was transferred to the Plaza Park project. We reviewed this project file focusing on the actions taken to determine feasibility and practicality of placing Plaza electrical equipment underground. There was an extensive evaluation of cost of the planned activity. It does not appear unreasonable that transferring electrical equipment was cancelled based on cost information that came to the Council.

For the three parks where the original implementation plan was cancelled, approvals given to reallocation of funds in effect approves the park cancellations.

Interviews conducted consistently indicated among all individuals that planning and supervisory meetings took place on a bi-weekly basis between the division director, project administrators and support staff to discuss status of projects and changes to parks implementation. This appears to be the key supervisory procedure for management approvals of park project status and changes. The changes and decisions made in these meetings were not directly documented.

All 16 transactions tested were found to be in accordance with City of Santa Fe documented policies and procedures.

The 2011 bond and parks reallocation passed on November 14, 2011, was composed of various changes to parks "rolled up" into one BAR proposal. The approval of the reallocation brought current all changes to parks projects and funding through the date of approval. The magnitude of the changes contained within a single "Giant BAR" was a surprise to POSAC and was difficult for them to sort through. Although an established practice of the City at the time, the City has ceased using the "roll up" procedure and has passed City **Resolution 2015-106** to implement this decision.

Conclusion

Significant changes to parks projects requiring City Council approval including significant changes to projects, reallocations of funding and the utilization of city payroll to construct parks were all approved. Discussion of utilization of internal payroll resources for construction and maintenance type items was made before the Finance Committee and approved by City Council. Sixteen BARs for budget additions greater than $50,000 tested were in accordance with City of Santa Fe policies and procedures; $50,000 or greater of budget authority is the amount that must be approved by the City Council.

Our conclusion is that the authority of the City Council and its Committees was not bypassed for major decisions examined or for the BARs tested.

TOTAL EXPENDITURES FOR PARKS DETAIL IS AS FOLLOWS

The total bond expenditures totaled $29,496,821.87 which was taken from the City's general ledger by year and agreed to the City's Comprehensive Annual Financial Report (CAFR) by year. The breakout of expenditures is as follows:

Description	Amount
Total Bond proceeds issued at premium less issue costs. Bonds face $30,300,000. Premium is $633,478 and issue costs are $31,861. Total Proceeds from Bond Issue	$30,901,617.30
Total Proceeds to the City	$30,300,000.00
Less Expenditures from Bond Proceeds	$29,496,821.87
Unspent Bond Proceeds	**$803,178.13**
Total Capitalized Nonpayroll Costs	$21,479,718.75
Total Capitalized Payroll Costs	$4,031,141.13
Total Costs Expensed	$3,985,961.99
Total Expenditures from Bond Proceeds	**$29,496,821.87**
Total Costs Expensed	$3,985,961.99
Less Additional Costs Capitalized at Fiscal Year End	$1,939,590.53
Add Capitalized Payroll <$5,000	$37,815.26
Total Cost Expensed	**$2,084,186.72**

Total costs expensed and not capitalized is 7.07% of total bond expenditures to date. All expenditures from bond funds should have normally been expended on capital projects and capitalized.

WHY BOND EXPENDITURES WENT TO OPERATIONS OR MAINTENANCE ACTIVITY

The above table reports 7.07% of bond expenditures were expensed. The following factors contributed to this outcome.

1. Time sheets did not capture details necessary to identify activities performed or locations where activity was performed. Cost allocations were made after the fact not intending to be a precise compilation of costs of construction. Hence, in record keeping matters closest to project activity, there was only a general consideration that costs of construction was required information to support bond compliance.

2. The business unit was defined as the overall bond issuance which also defined the level of budgetary control - hence many detailed activities were undertaken and reallocations made and deemed acceptable based on the perspective of the bond as a whole, not individual projects.

3. Previously, only external contractors had been utilized for capital projects funded with bond proceeds. The utilization of external contractors facilitates the initial drafting of precise contract details and project close outs, and puts in place warranties and makes formal the expectation of cost of individual projects. These inherent parameters were not wholly in place in all aspects for the City project.

4. There appears to be no documented consideration of federal requirements for tax-free bonds issues apart from normal bond proceedings and the resolution to issue bonds. State bond requirements were considered and documented on one occasion. The state law analysis written by the Assistant City Attorney was the sole document that was reviewed in relation to bond compliance considerations apart from normal bond proceedings.

5. There was an apparent misunderstanding between information provided by external Bond Counsel to retired City management at the time in relation to the permissible uses of bond proceeds.

6. Additionally, over time, the concept of “improving” a park gravitated to include the "maintenance" of a park. Park projects discussions about “pulling weeds is an improvement” were not incorrect on the face of it but may have contributed to the understandings at the time that maintenance activities were allowed. "Improvements" and "maintenance" have more narrow meanings in federal and state law than their common usage.

7. Maintenance of city parks had historically been difficult to fund and residual funds from the bond issue were thought to be available and were proposed as a good use of bond proceeds in the later stages of the bond period.

8. City staff has indicated that for land improvement projects, amounts below $100,000 per total project were not capitalized but were expensed. This practice differs from the familiar practice disclosed on its annual financial statements. For two parks, we noted expenditures in excess of $100,000 that were not capitalized. The amount of bond expenditures that were not capitalized is determined to be $2,084,187.

LEGALITY OF CHANGES TO PROJECTS AFTER INITIAL PLANS ARE APPROVED

Our discussion and conclusion here is based on the Rodey Opinion. The full text of this opinion is included in this report.

An Attorney General (AG) opinion for the state of New Mexico (2010-04) was issued in 2010. The opinion is given in response to questions about the legality of subsequent changes made in specific school projects that were funded by school bonds and presented to voters. The opinion indicates that use of bond proceeds not in strict agreement with information originally presented to voters is permissible under constitutional doctrine so long as new uses are consistent with the questions presented to the voters. No other significant authority was noted in the Rodey Opinion.

The application of this AG opinion provides support and authority to responsible City of Santa Fe management for changing parks projects in response to citizen input, governing body input, and circumstances encountered in actual construction activity and changing business and budget circumstances. Changes to activities presented to voters in the bond election are also permissible if the new activities are still in accordance with the bond purposes. Such authority must be considered together with all other city policies including the procurement code for the City and established budgetary procedures.

The Parks and Open Space Advisory Commission (POSAC) was created in 2007 with the following mandate:

> POSAC shall provide ongoing advice regarding all park and open space related issues, including but not limited to acquisition, planning, development, operations, construction and maintenance.

POSAC as a whole and certain members of POSAC individually performed a voluntary and significant monitoring function of parks implementation from its creation in 2007.

We note that POSAC is advisory in character and does not have authority over the parks projects implementation plan or changes made to the plan. City Public Works representatives attended almost all POSAC meetings and reported on project details as documented in the Commission's minutes. There were documents included in city reports on occasion but most of the time, the reports were verbal, documented only in the minutes of POSAC.

It was noted that the reallocation of parks budgets made in 2011 incorporated many changes and was a surprise to POSAC. In several cases, POSAC posed inquiries and concerns to the City about these and other matters. The City responded in documented reports but these reports were drafted after the fact. Although the City had full authority to modify park projects and informed POSAC of changes to projects and current status of projects, the communications were verbal for most meetings and the character of such communications was made after the fact. POSAC's inquiries, reviews of City reports and documents, meetings and discussions, park observations and the resultant concerns and issues raised provided impetus to this audit engagement.

Conclusion

The City had authority to change parks projects in response to citizen input, governing body input, circumstances encountered in actual construction activity, and changing business and budget circumstances. Changes had to be consistent with the intent and purposes of the bond projects. POSAC performed a significant and voluntary monitoring function in addition to their advisory mandate.

The City appears to have spent significant resources and efforts to inform POSAC of park project status and changes to original plans on a consistent basis. Such reports were predominantly verbal and made after the fact.

PUBLIC WORKS MAINTENANCE BUDGET HAS BEEN FUNDED IN PART FROM CIP BONDS – NO FORMAL MAINTENANCE PLAN

In recent years, the City Public Works Department budget has come from the general fund, from occasional smaller grants and from CIP bond resources. Up to $750,000 per year has been provided by the CIP bonds.

We note the recommendation of the City Finance Director during 2015 that CIP money not be considered for the Public Works budget. We also heard opinions during our engagement that the Public Works Department has always had funding difficulties

A member of our audit team observed 22 City parks. Dead trees were identified in several parks which were thought to be from natural causes, from changes in maintenance procedure occurring subsequent to construction of the specific park or from budget challenges.

Based on unavailability of CIP funding, a formal maintenance plan and dedicated funding seems to be imperative to protect the City's parks and trails including the recent large investment made through the 2008 parks and bonds project. We acknowledge the difficulty of formulating current year budget solutions for parks maintenance responsibilities that are now presenting themselves. We note the City's **Resolution 2015-106** which specifies that City property will be maintained based on available funds. A previous **Resolution 2008-22** provided additional funding for staff for the Parks Division for the years 2008-2012. <u>We recommend that a formal maintenance plan be set up.</u>

A Legislative Finance Committee Study in July 2012 reviewed the City's bike trails partially funded by the State of New Mexico. That report also identified the lack of a formal maintenance plan and lack of dedicated budget for the City's trails several years ago.

FACTORS ENCOUNTERED IN PARKS IMPLEMENTATION REQUIRING ADDITIONAL TIME OR CHANGE IN PLANS

It was represented to us that Americans for Disability Act (ADA) issues were not considered in the initial stages for most parks. For certain parks, accessibility to the park for a disabled person, including grade modification, required budget increases and led to the elimination of certain master plan original additions. Reducing park benches in some parks also reduced ADA compliance expenditures by a corresponding amount.

It was represented to us that cultural (archaeology) requirements for every park project was a factor that was not fully anticipated at the start of the projects. Cultural and archaeology reviews were a new development impacting the 2008 parks and bonds implementation.

One contractor went out of business before fully completing the parking lot project portion for Salvador Perez Park. It was not determined if the contractor was bonded.

Our auditor observed remnants from vandalism at a park which required that the shade structure be replaced. We observed dead trees in orchards in a few instances that required or will require replacement. Outside contractors usually provide a one-year warranty on work done for City projects once complete. If irrigation systems fail and cause trees to die in this one year period, this would trigger the outside contractor's responsibility to perform. The same conditions apply for park replacements for those constructed with internal payroll resources. Some follow-up activity is usually required in the year following the completion of a significant project.

It was represented that there was installation of boulders at a park to prevent all terrain vehicle traffic from damaging the park. This modification was made after construction was complete.

It was determined that citizen input led to certain changes in the original master plans for the MRC, specifically the elimination of lighting for fields and for the elimination of scheduled dog parks in Patrick Smith Park and Calle Lorca Park.

Certain landscaping plans were changed in parks as the planned landscaping would have necessitated expanded irrigation systems that were not initially budgeted for.

QUESTIONABLE OR UNALLOWABLE EXPENDITURES FOR NONPAYROLL TANGIBLE PROPERTY OR EXTERNAL CONTRACTING

The Legislative Finance Committee (LFC) audited the bike trails project of the City of Santa Fe and issued a report in July, 2012. The State of New Mexico provided partial funding for the trails project to supplement overall trails projects funding. The LFC report identified questionable costs of approximately $66,000 out of $3.5 million of funding. The questionable costs were used to purchase easements, rights of way, a heavy piece of equipment and some smaller items. The easements and rights of way were not permissible expenditures per the legislation appropriating the fundings.

The report also noted that the City did not have a formal maintenance plan or dedicated budget for maintenance purposes to protect their investment in bike trails, to reduce future maintenance and for safety. These questioned amounts were paid from a source of funding other than the 2008 general obligation bonds. Land easements and rights of way to secure trail routes would have been a capitalizable (permissible) cost if funded from general obligation bond funds.

Our audit reviewed 153 specific tangible expenditures. The following items are specifically discussed. Other items reviewed are without exception

<u>Garden Fountain Purchased but Not Identified</u> - The Garden Fountain was a significant item identified by a member of POSAC as missing. Per our observation, the Fountain was not installed at Cornell Park as planned. Subsequently, we observed it in storage at a city yard. Per city staff, it was not installed due to water shortages in 2010 and the image that an operating fountain might portray in that circumstance. This is not considered an exception.

<u>Four Computers Purchased and Two Monitor screens purchased</u> - We asked for responses from retired and current city staff regarding the purchase of four computers and two computer monitors and printer equipment found on two invoices. In one case, we were told the equipment *was badly needed and was used to maintain park project subsidiary records*. Secondly, two different responses from current city staff indicated that computers *could be plugged into irrigation systems at larger parks or at Marty Sanchez Golf Course to monitor water usage overnight and detect if the system did not perform.* The staff offering this information were a little unsure about the overall status of this protocol at the City.

Purchases of computer equipment should be taken out of the general fund for general purpose computers from available budget. We could justify the purchase of one dedicated computer for parks accounting including screen and printer but not multiple units. The purchase of computers, if for irrigation monitoring, was not fully explained to us. The invoices for the computer equipment were allocated to two city trail projects. The computers would not be relevant for trails which do not need irrigation. The purchase of this computer equipment is deemed to be unallowable for purchase with bond funds except for one unit.

<u>One Invoice for Uniforms, Eight Sets of Overalls</u> - We found one invoice where the purchase of uniforms was charged to a park project. Uniforms are not required by the Public Works Department and are therefore not a permissible expenditure. Eight pairs of overalls were purchased and are deemed not permissible.

Additional Expenses - We noted printer cartridges purchases, welding services for a trailer modification, drill bits and small supplies and a space heater invoice that were office items or general purpose items and all are deemed unallowable.

Summary

Total unallowable nonpayroll purchases are summarized as follows. Computer equipment made up most of the unallowable dollar total.

Tangible Goods and Services	Departures Observed	Total Sample
Items	10	153
Dollars	$11,619	$2,697,138

CHANGES IN CITY'S POLICIES AND PROCEDURES SINCE THE END OF THE BOND PERIOD AND IN RESPONSE TO THE AGREED UPON PROCEDURES REPORT AT MARCH 30, 2015

The public discussion concerning the 2008 and 2010 bond issues has been significant. Some initial concerns were about the use of internal payroll paid from bonds funds. It is probably fair to say that the public discussion and corresponding concerns increased in 2012 after the reallocation of bond proceeds was approved during the last part of 2011. In 2015, an independent accountant's report was contracted for and issued on March 30, 2015 (the agreed upon procedures report or AUP report). That report noted various deficiencies and test work exceptions and made recommendations to the City. For items drafted as formal findings, the City responded. The City's response acknowledged the findings in the report and outlined various promised actions or changes in methods that it agreed were necessary. This section details some changes noted during the audit that have been in place subsequent to the end of the bond period at the end of 2012.

The City has adopted a comprehensive policy entitled ***Capital Projects Reporting Procedures*** that was signed by the City Attorney, the City Manager and the City Finance Director dated July 1, 2015. The policy requires tight procedures be employed for capital project type activities and transactions. The project process will consist of project file management standards, assigned roles and responsibilities, periodic reports and project close out procedures. The close out procedures will create a clear completion date for the project which will help ensure bond compliance. The policy and the significant changes described appear to be responsive to selected findings in the agreed upon procedures report.

We reviewed the annual approval of the ***Annual Debt Management and Post Issuance Policy***. The policy appears to have first been adopted and effective in December 2013. The 2015 annual policy approval occurred on June 10, 2015. The policy outlines parameters for managing current and issuing new debt, identifies the types and amount of permissible debt, provides guidance on the purposes for which debt may be issued, and verifies that IRS regulations regarding post issuance compliance are met. The IRS encourages and recognizes the adoption of such a policy. The general content of the policy is excellent and the need for annual consideration and approval is also an excellent control procedure.

See Finding PB 2008-001 which in part discusses the creation of a post issuance bond compliance including definitions, examples and risk factors to further support annual policy approvals of compliance as presented by city staff to the governing body, especially for new bonds issued or retired bonds.

In discussions with public works staff, it was represented to us that in August 2014, maintenance activity and service structure was reorganized. Formerly the maintenance function was administered by district and each of the four district administrators had authority and discretion to conduct maintenance on city parks in their district as they saw fit. Beginning in August of 2014, the Public Works Department implemented specialized teams that served all four districts. In other words, there was one irrigation team, one maintenance team, and one projects team. Teams are receiving training directed to their particular team expertise.

We have noted the approval of the "Giant BAR" in July and November 2011 by the Public Works Committee and the City Council. While this was established practice at the time and approved by the City Council and its Committees, it did not meet a strict interpretation of the City Code for approval of changes. The practice has been stopped. Further, the City has adopted ***Resolution 2015-106 Adopting Best Practices to Help Guide the City,*** which adopts various requirements termed *established best practices* and affirms the requirement of the procurement code that each budgetary change that exceeds $50,000 should be approved by the City Council. The resolution is wide ranging and includes but is not limited to guiding principles, performance measures, internal controls, budgeting, investments and reserve requirements.

Two items that specifically relate to our audit are user fees and maintenance resolutions.

1. The City will attempt to recover the full cost of the use of city facilities by users unless a City interest is identified and the governing body approves charges less than the full cost of providing the facility or service.

2. The City resolves to maintain capital assets and infrastructure with the resources available each year to protect the investment and minimize future replacement.

Finally, we note the City has undergone an agreed upon procedures engagement, this audit engagement, an LFC audit of bike trails capital projects in 2012 and has drafted an irrigation report of park irrigation systems. These audits and the report have been agreed to and funded by the City.

FINDING PB 2008-001 FEDERAL BOND LAW NOT CONSIDERED IN DETERMINATIONS OF ALLOWABILITY OF IN-HOUSE LABOR FOR THE CONSTRUCTION AND CERTAIN RELATED LABOR ACTIVITIES OF PARKS PROJECTS (Material Weakness)

CONDITION

The City of Santa Fe issued tax-exempt bonds in 2008 and 2010 that were for the purpose of acquiring land and constructing and improving parks and trails for recreation purposes. The tax-exempt character of the bonds requires specific procedures for compliance so that the bonds may be tax-free to the investor. Interviews with former City Attorneys and with former external Bond Counsel all indicated that there were no specific discussions or written memorandums with the City in connection with federal law compliance requirements for this specific bond issuance. All attorneys indicated that it was their opinion at the time of bond issuance and currently that maintenance expenditures are not permissible with tax-free bond proceeds. Our tests of expenditures made from bond proceeds identified amounts that were expended for maintenance and operating expenditures and therefore not in compliance with federal law for tax exempt bonds.

Certain inquiries were made by retired City management and by City Attorneys to external Bond Counsel about allowability of internal payroll expenditures with bond proceeds during the bond period. The inquiries were made by telephone but were not recalled by the Bond Counsel. Such inquiries made and advice given is not documented.

CRITERIA

Federal law requires that spent funds from bonds should be used for capital projects that are consistent with the purposes of the bond issue. This rule discourages the expenditure of any bond proceeds on what is called "working capital." Working capital is defined as anything that is not a capital project. The definition of capital project is anything that is properly capitalized under federal tax law. State law closely follows federal law.

CAUSE

The City of Santa Fe issues and administers bonds on a regular basis. Bond compliance information for many bond matters is available to the City through select city personnel and City counsel. Familiarity with most bond matters and the previous issuances of tax-free bonds by the City may have obscured the need to perform research on certain specific circumstances that arose with this bond issue.

During administration of the 2008 bonds projects, the concept of "improving" parks found in the bond resolution appeared to assume a broader meaning that spilled over to encompass "maintenance" of parks. A documented discussion with City Council by the former City Attorney on this issue was not in error but may have contributed to a misunderstanding of the allowability of maintenance expenditures.

Additionally, there may have been misunderstandings between retired City officials and former City counsel and external Bond Counsel on the extent of allowability of internal payroll expenditures. Inquiries made to external Bond Counsel were by telephone and were not recalled by Bond Counsel. There was no documented inquiry or documented response for inquiries made for specific questions about allowability of bond expenditures for internal payroll purposes.

EFFECT

The City did not have documented research conclusions in relation to allowability of bond expenditures for all internal payroll expenditures that took place. Amounts were expended on operating items and maintenance of parks which are nonallowable expenditures of bond proceeds. Expenditures of bond proceeds for nonallowable purposes could affect the tax-free nature of the bonds

RECOMMENDATION

The City should explicity consider applicable federal regulations in addition to state laws in all future bond questions and inquiries for special situations that may confront it. The City should not rely on nonroutine advice from external professionals unless it is documented.

The City has adopted a ***Post Issuance Compliance Policy*** in 2013 and approves such policy annually. We recommend that a checklist with specific requirements be drafted to add more detail to the policy. The checklist or other equivalent procedures should <u>include definitions of key terms, specific identification of unallowable expenditures and a risk anlaysis of most likely noncompliance.</u>

VIEWS OF RESPONSIBLE OFFICIALS

The City did not seek a written bond counsel opinion on the question of what was/not an allowable expense for the bond program because it saw no exposure on this question. Its intent was to use all of the bond proceeds for capital improvements on parks and trails in accordance with the spirit and letter of the bond program. It saw using city workers to do a lot of the work as consistent with this intent. The decision was publicly and formally vetted and approved at the start with the approval of the implementation plan and subsequently when a budget was approved and amended for workforce account using bond proceeds. Furthermore, the City believed at the time that the necessary controls were in place to abide by all applicable federal and state laws and limit the use of workforce account to the projects in the implementation plan, all of which were eligible capital improvements. At the time, it was not aware of the particular section of federal bond law limiting non-capitalized expense to 5% of total proceeds from tax-exempt bonds. *Lacking this knowledge, the City did not ask for a written opinion on it from expert legal counsel.*

The fact of the 5% limit for non-capitalized expenses is now clearly established.

The City will immediately seek a written bond counsel opinion on the exposure it faces with regard to federal law for how it now uses and has in the past used tax-exempt bond proceeds and request recommendations for addressing it.

The City will also incorporate a formal checklist that will guide project managers and support staff on the specific compliance requirements into the <u>Post Issuance Compliance Policy</u> it adopted in 2013).

RESPONSE OF AUDITOR

State laws strictly prohibit the use of bond proceeds for noncapital items. It is pointed out that discussion of a 5% limit for federal expenditures in *Views of Responsible Officials* is on an exception basis for this matter only. Adherence to a 5% limit for noncapitalized expenditures in future bond administration matters would violate the requirements of state law and the intent of federal law. We encourage the City to adopt a 0% policy limit for the incurrence of noncapital items for bond expenditures.

FINDING PB 2008-002 TIME KEEPING FOR WAGES PAID FROM 2008 BONDS (Material Weakness)

CONDITION

In our test work of time sheets there were several classes of errors observed in preparing time sheets as follows:

- For 55 of 99 payroll transactions tested employee time sheets do not indicate what work was done so there is no way to determine if approved project work or other (noncapital) activities were performed.
- For 6 of 99 payroll transactions tested the hours on time sheets did not agree to the total hours paid to the employee or to the total hours charged to a specific project/fund.
- For 5 of 99 payroll transactions tested labor costs charged to specific projects were not supported by related documentation.
- For 41 of 99 payroll transactions tested, labor costs charged were performed by "Maintenance Worker" or Laborer. A "Maintenance" worker's job duties per the City's job description includes both construction and maintenance duties.

We tested for sufficiency of the time sheet information that would allow accurate park construction data to be accumulated and simultaneously document bond compliance.

CRITERIA

Generally accepted accounting principles as applied to governments requires the capitalization of transactions and activity that are betterments to parks benefitting one or more future years. The State of New Mexico and the City of Santa Fe capitalize transactions and qualifying activity in excess of $5,000 for any single project or item that has a useful life of greater than one year per stated policy in its Comprehensive Annual Financial Report.

Federal bond law and related state bond law require the determination of amounts that are capital projects as opposed to working capital or operations.

A principle of government accounting systems is that records should demonstrate stewardship of public money. Detailed time records should agree to the amount paid to employees for a particular pay period and the distribution of time charged to cost centers.

CAUSE

From interviews of current and former city employees, the parks department decided not to prepare expanded time sheets detailing construction and individual park activity as it had not been a practice of the City to that point. City employees constructing or performing other tasks in relation to 2008 parks projects completed time sheets or time summaries for each day worked. The procedures for filling out the time sheets required that time worked be recorded, but a specific park or time spent on each park when more than one park was worked on in a day may or may not have been documented on the time sheet. An eight hour day was accounted for, but the specific activities performed were not recorded. The design of the time sheet documentation procedures were inadequate to calculate cost of construction applied to parks projects or whether such labor expended was maintenance. Maintenance expense was primarily charged to projects in 2011 and forward.

EFFECT

The records necessary to determine costs of construction of parks projects, to demonstrate bond compliance through activities performed and to evaluate the comparison to budgeted plans and the cost savings that might have occurred from using in-house staff were not available.

RECOMMENDATION

We recommend that the time keeping process be amended to ensure that activities that must be specifically accounted for are captured. For signficant construction activity this includes the nature of the activity, the hours expended, the locations where work was performed, including multiple locations, and other supplemetary information. Additionally, time sheets need to be input and city records updated as soon as is practical.

VIEWS OF RESPONSIBLE OFFICIALS

At the core of the challenges the City faced with the 2008 Park Bond program was the weakness in the time keeping function. The process and supporting practices in place were manual and rudimentary and intended to control for an overall workforce account budget set by the Governing Body as part of the total budget for the program. They were not designed to support detailed project accounting, like staff time spent exclusively on a given project or the nature and progress of their work while on site. Name, hours worked, general work site (i.e. Centennial Park), and a brief comment about the work done was all that was provided for on the timesheet, which was filled out by hand and turned into a clerk who typed the information into a desktop spreadsheet and sent the information on to Accounting and Payroll. There was little interest in any nuances in the workforce account beyond this, and with the few exceptions noted above staff complied with the system that was in place.

Effective July 1, 2015, the City promulgated a new management policy requiring detailed time accounting for projects, including the specific work done by each individual. Along with this new requirement, the new policy also prescribes a standard record-keeping system for each project and a quarterly status report that will be presented to the Governing Body and posted on the City's web site. To further ensure compliance, Finance staff will periodically provide training to project managers and audit their files. Any findings of non-compliance with this new policy will be reported to the City Manager.

FINDING PB 2008-003 COST ALLOCATION PROCEDURES – TIMING (Material Weakness)

CONDITION

As a result of audit procedures performed we noted that the timing and amounts of payroll charged to 18 projects is significantly earlier or later than timing of materials purchased indicating that costs were for maintenance or were otherwise outside of capital project scope. Significant amounts of unreasonable cost allocations indicating noncapital expenditures are detailed in the report on pages 15 to 17. The amount of the costs charged in this manner totaled $377,768.

CRITERIA

Costs including allowable labor should be directly allocated to specific projects, and indirect costs, where appropriate, should be allocated on a reasonable basis that has been approved by management. Indirect costs should not be charged when no direct costs exist.

CAUSE

Expenditures funded by the 2008 bonds, principally labor, contractors, and materials needed for parks, were accumulated in suspense accounts pending allocation to parks. From interviews of current and former city employees, it was determined that many cost allocations made to parks were done after the fact and were allocated on a pro rata basis which was not related to direct materials and labor that may have been expended on the park.

EFFECT

The audit reports that signficant amounts of maintenance or other operational costs were charged to parks projects that are not capital in nature. Noncapital expenditures are not allowed by state bond law and discouraged by federal bond law.

RECOMMENDATION

The City has adopted its **Capital Projects Reporting Procedures** policy during 2015 to address its procedures. We recommend the City consider any additional procedures that might assist in the cost allocation of internal construction costs.

VIEWS OF RESPONSIBLE OFFICIALS

The City's program management approach was to control for an overall workforce account budget and for overall council district allocations, using the implementation plan as a guide. That is, detailed, specific project accounting was not the point of control. This approach led to the use of suspense accounts and then to the practice of allocating costs and reconciling budgets after the fact.

The new project management policy now in place both mandated the discontinuation and made obsolete the use of suspense accounts. Project costs are now recorded in real time, and the control point is the budget formally appropriated for each project, not an overall budget, by the Governing Body as part of an annual capital budget. The new policy directs that deviations from the budget are addressed as budget adjustment requests for the specific project, not an overall or program budget.

The City will establish a new policy and supporting procedures to account for legitimate indirect costs associated with capital projects.

FINDING PB 2008-004 MAINTENANCE AND OTHER OPERATING EXPENDITURES MADE FROM BOND PROCEEDS (Material Weakness)

CONDITION

Various discussions, memoranda, meeting minutes of City Council and its Committees, POSAC meeting minutes, budget adjustments, job descriptions, and completed time sheets supported the occurence of expenditures of bond funds on maintenance or other operating items. Our audit identified $684,033 of specific expenditures that were made for operating or maintenance purposes which are not in compliance with bond requirements: $437,272 of expenditures were made for parks with no costs capitalized. Overall, the City of Santa Fe expensed and did not capitalize a total of $2,084,187 of bond expenditures according to the City's records.

CRITERIA

Federal bond laws and regulations discourage the use of bond proceeds for working capital which is defined as everything that is not a capital project. State law closely follows federal law and specifies that expenditures from bond proceeds must be directly related to construction of capital projects. Generally accepted accounting principles as applied to governments define a capital asset, acquired or constructed, as an asset with a useful life greater than one year. Operating expenditures, working capital amounts or maintenance expenditures are contrasted with capital projects in that they are not betterments that improve the project or extend the life more than one year. The general principle is that bond debt should not be incurred for operations.

CAUSE

Contributing factors are identified and discussed as items 1-8 on pages 6 and 7 of this report.

EFFECT

Expenditures were made for maintenance and operating items, or otherwise not capitalized, which are noncompliant to the requirements of the bond issue.

RECOMMENDATION

We recommend that the City adopt a checklist on bond compliance to supplement its Post Issuance compliance process. We further recommend that the City report financial information on bond compliance annually including amounts capitalized and noncapitalized as part of the post issuance compliance process.

VIEWS OF RESPONSIBLE OFFICIALS

The City accounting practice until this year had been to capitalize land improvements projects, which were a big part of the bond program, only when they exceed $100,000. Generally accepted accounting practices (GAAP) prescribe a much lower standard of $5,000. The City's higher standard led to a larger number of capitalization-eligible expenses to be characterized as non-capital. and unnecessarily and artificially exposed the city to exceeding the 5% limit on non-capitalized expenditures in tax-exempt bonds. Under the GAAP-prescribed standard, the non-capitalized amount from the $30.4 million program would be $788,436, or 2.6% of the total, well within the 5% limit.

The City will modify its capitalization practice and adopt the standard prescribed by GAAP.

RESPONSE OF AUDITOR

The $788,436 of noncapitalized amounts presented in *Views of Responsible Officials* is considered an estimate that in our judgment is not objectively verifiable based on accounting procedures employed for parks and bonds projects. Different estimates can be generated given the current data. The City's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2015 discloses its capitalization policy for all classes of assets as $5,000. The $100,000 policy for land improvements should have been disclosed in its annual CAFR as required by Government Accounting Standards. The FY 2015 CAFR is silent in relation to disclosing a $100,000 capitalization limit for capital improvements. Our audit reported incurred costs for two parks that should have been capitalized in accordance with the higher $100,000 limit but were not, indicating inconsistency in this matter.

Based on this disclosure of a different capitalization limit used, the City should consider the possible effects on its financial statements for Fiscal Year 2015 and prior years of any amounts not capitalized and the depreciation effects that might result that are contrary to its stated policy.

FINDING 2008-005 UNALLOWABLE NONPAYROLL COSTS CHARGED TO BONDS (Significant Deficiency)

CONDITION

As a result of testing and other analysis performed we noted the following:

For 10 of 153 nonpayroll transactions tested, it was determined that the good/service purchased, or administrative cost was not a permissible expenditure as it was not directly related to capital projects funded by bonds. Total expenditures for these items was $11,619.

CRITERIA

Deviation from the implementation plan for purchases of items that have no discernible use in a park or trail or that were not directly used for the improvement of the park is not an allowable use of bond proceeds.

CAUSE

Overall, there was inadequate understanding of and communication to employees regarding what expenditures were allowed to be paid using bond funds.

EFFECT

Materials were improperly paid using bond proceeds totaling $11,619.

RECOMMENDATION

We recommend that specific policies and procedures be put into place to ensure that employees are aware of and understand the types of costs that may be applied to internally constructed capital assets.

VIEWS OF RESPONSIBLE OFFICIALS

Use of bond proceeds on non-program items or activities have never been allowed by city policy. The City will research these actions further and take appropriate personnel action. In the meantime, all project managers and support staff, including those from Finance, will be alerted to the seriousness of this error and called to a yearly training session to ensure that non-program expenditures are not made with bond proceeds.

FINDING PB 2008-006 DESIGN OF TIME SHEETS AND ACCOUNTING SYSTEM FOR BONDS (Material Weakness)

CONDITION

Through interviews and through test work performed, it was determined that the time sheet procedures utilized for park bond workers were not designed to accurately capture all costs of construction activities nor document compliance with bond requirements by recording the detail activities performed each day and locations where the activity was performed.

Budgets were set for each project and costs were accumulated in suspense accounts that would normally permit the assessment of budget to actual outcomes even after making after-the-fact allocations from suspense accounts. However, certain unreasonable payroll allocations noted and reported in Finding PB 2008-003 and the lack of a formal close out date made the assessment of budget to actual outcomes not possible in most cases. Many parks recorded costs in excess of budgeted amounts in the final phases of completing the parks projects due to significant changes made to parks projects or after construction activities for a park were complete.

CRITIERIA

Principle 1 of 13 of the basic principles of a governmental accounting and financial reporting system (GASB Cod. Sec. 1200) states that a governmental accounting system should make it possible to determine and demonstrate compliance with finance-related legal and contractual provisions.

Federal and State bond law regulations or other authorities set forth various compliance conditions and requirements that should be followed by a government when issuing tax-free bonds. Demonstrating compliance with these requirements is essential to complete and successful administration of bond programs.

Fundamental government performance objectives are to properly and economically serve the constituents. Accounting systems should assist in determining accountability of government employees.

In this case, the accounting system should capture the information necessary for:

1. Accurate recording of capital assets in accordance with Generally Accepted Accounting Principles (GAAP).

2. Demonstrating compliance with bond related legal provisions.

3. Demonstrating budgetary compliance with legally adopted budgets.

4. Permitting evaluations of efficiency and effectiveness (accountability) of programs.

CAUSE

Time sheet design and required procedures were not sufficient to capture the necessary information to document results for system criteria discussed. Detailed procedures such as detailed time sheets to support construction had not been done before and it was not determined that such records were necessary. Construction teams also recorded time differently.

Individual budgets were set for each park but the overall level of budgetary control was managed at the aggregate bond level of $30,300,000. This total level of budgetary control perspective led to moving available budget amounts from certain parks to other parks with limited available budgetary authority. Ultimately, funds were spent on maintenance or operating items, and as such, project status was deemed to be "under budget" and funds were therefore available for other purposes.

EFFECT

Contemporaneous time sheet records created at the time of performance did not capture necessary information to support capital costs and document bond compliance. The adopted budgetary perspective, while not incorrect, may have facilitated the decision to allocate residual funds to maintenance or operations because excess funds were deemed to be available for other purposes. Our report indicates that amounts were expended for unallowable purposes.

RECOMMENDATION

The following items were recommended in the Agreed Upon Procedures report (the AUP report) and appear to have been implemented by the City.

- The cessation of suspense accounts for capital project accounting.
- Formal close out procedures for projects.
- Formal interim reporting for projects.
- Maintenance of formal change logs on projects.
- File management.

In response to the agreed upon procedures report (the AUP report) the City adopted its new policy, ***Capital Projects Reporting Procedures,*** as of July 1, 2015. The policy apppears responsive to the findings of the AUP report for those items concerned with capital project management.

<u>We further recommend:</u>

In order to continue to assure full adoption of the stated polices, the internal auditor for the City should add to her risk profile plans to review the documented reports that are required by the new policy. Compliance can be tested individually by function or by project during the coming year.

The City should add ADA considerations, cultural reviews and anticipated irrigation needs to the planning phase requirements of its ***Capital Projects Reporting Procedures*** policy.

We recommend that the City take photographs at key time intervals on more significant projects to enhance its capital project reporting documentation.

We recommend the City consider the policy of providing (to the extent possible) documented reports to city stakeholder groups in future circumstances where there might be advisory groups involved with city projects. The City's new ***Capital Projects*** policy has provisions for interim reporting that may assist this process.

We recommend that the City research and consider policies from other governments that may serve as best practices to the City. Such policies might include:

- Reconciliation of project spreadsheets to City financial records on an ongoing basis.
- A Capital Project Fund for each bond.
- Use of third party trustees.
- The Board of Finance for the State of New Mexico may have policies and procedures to strengthen bond compliance.

VIEWS OF RESPONSIBLE OFFICIALS

As was explained in Finding 002 above, the design of the time sheets and the ancillary accounting systems and practices were focused on overall budget limits and basic payroll needs, not detailed project accounting and reporting. Starting at the beginning of this fiscal year, the City completely reformed how workforce accounts are managed. A new time sheet and project management regime is now in place. Now all workforce account time spent on a project is recoded daily and directly, that is, without the use of a suspense account to reconcile budgets after the fact. The time sheet instructs the supervisor to note the specific work performed, as well as the time, location, and name of the individual. Finance has provided training to project managers and their support staff on how to complete this new time sheet. Project managers have been instructed not to process any time sheets that don't have the required information. They will also be instructed to include in their project files a picture of the target project site before any work begins to allow for better performance evaluation during the course of the project and for a more thorough close-out of the project.

FINDING 2008-007 PROCUREMENT TEST WORK (Significant Deficiency)

CONDITION

For procurements made with a certain vendor for 15 different projects, it was noted that many purchase orders were executed after the goods were received which is contrary to City policy. We noted only one instance where this vendor's price exceeded that of the other quotes/bids received – in all other instances this vendor's price was slightly lower than the others. There was one fiscal year in which purchases from this vendor exceeded the threshold for the competitive sealed bid process, but no such process was undertaken.

We requested documentation of the City's resolution of a conflict of interest circumstance with this vendor. The City indicated that a possible conflict of interest was disclosed to Public Works management when a city employee was promoted and became part of the decision making process for procurement. This circumstance appears to be undocumented.

CRITERIA

Section 1.2.1 of the City's purchasing policy states that, "It is unlawful for any city employee to participate directly or indirectly in procurement when the employee knows or has reason to know that the employee or any member of the employee's immediate family has a financial interest in the business seeking or obtaining a contract."

Section 8 of the City's purchasing policy states that, "No procurement transaction should begin until the transaction has been approved by means of a completed purchase order or otherwise approved by the Purchasing Director."

CAUSE

Unknown.

EFFECT

Purchases were made in violation of a city ordinance for the timing of completion of purchase orders. Purchases totaled $115,163. Possible conflict of interest considerations and their resolutions are not documented.

RECOMMENDATION

We recommend that the City enhance the training of employees in regard to purchasing regulations. Additionally, the procurement process should be used to increase efficiency in purchasing for large, long-term projects by the creation of a blanket purchase order or price agreement. Names of family members or other potential conflicts of interest should be compiled periodically and circulated to the purchasing department.

VIEWS OF RESPONSIBLE OFFICIALS

The City will amend its procurement code to (1) require any city employee who is in a potential conflict of interest to file an affidavit declaring the conflict and acknowledging what is required by city policy to address the conflict and (2) that he/she must stand completely out of the procurement process associated with the conflict, including the initiation and execution of purchase orders and the receipt of the goods or services from the conflicted vendor and his/her competitors.

FINDING PB 2008-008 UNREASONABLE BUDGET INCREASES
(Signficant Deficiency)

CONDITION

Analysis of budget increases indicates that certain budget increases did not appear reasonable based on the implementation plan, scope of project, and/or actual activities performed. The following conditions were noted (all 66 business units/funds indicated as being bond-funded were included in the analysis):

- Certain parks (Monica Roybal Park, Cathedral Park, and John F. Griego Park) had significant increases to the original budgeted amount per the implementation plan, which were used predominantly for labor costs which occurred late in the project or were almost all of the project's total cost. Where labor cost was the majority, if not all, of the project's cost, the implementation plan was not executed.

- Cross of the Martyrs Park was to be constructed using in-house labor per the implementation plan, but had significant budget increases from the implementation plan ($70,831 or 162%) that were used for labor costs. The majority of the labor costs were incurred prior to substantive purchases of materials or contractual services.

- The Municipal Recreation Center (MRC) and Marty Sanchez Golf Course had operating costs of approximately $135,000 over two fiscal years paid for with bond funds. Another $275,000 of operating costs were paid for with a combination of bond and other funding over several fiscal years.

Unreasonable budget increases amounted to $306,265.

CRITERIA

The implementation plan was the basis for the bond question and setting the project's budget and scope. Deviations from the implementation plan for activities that were not directly for the purpose of improving the park are not an allowable use of bond proceeds. Costs incurred for activities that were outside of the reasonable scope of a project do not evidence good stewardship of public funds.

CAUSE

City Council and members of management were intent on maintaining employment levels during the economic downturn and appear to have used bond funds for noncapital activities to accomplish this.

EFFECT

There may be maintenance or other operational costs charged to parks projects not allowed by federal bond law.

RECOMMENDATION

The City should consider any additional policies in relation to multiple capital projects that are funded by a single bond that might be needed so that budgetary control is strengthened at the project level in addition to the overall bond level.

VIEWS OF RESPONSIBLE OFFICIALS

The City's lack of a project close-out procedure allowed for the impression that costs landing on a given project account may not necessarily be related or justified. This is particularly the case when workforce accounts are used to improve land. Costs will appear in a project long after it was launched and well after the ancillary goods and/or services were received. In some of these cases, the work being performed is of an operation nature but integral to a legitimate capital project.

A common example in the park bond program was the resurfacing of parks and playgrounds and the planting of trees and bushes, particularly when the central task was to seed or lay down new turf. Had the project been performed by a private contractor, the subsequent watering and tending of the new sod would have been performed by the contractor for months as part of the contract until the grass was accepted by the City. Upon "delivery," a final, major payment is made for both the goods and the work it took to keep it alive. When a workforce account is used, however, the follow up and maintenance routine is performed by a staff person, and the invested time shows up on the City's accounting ledgers as many different activities over a long period.

Without an assiduous project accounting system in place, it is very difficult to control time invested in a capital project when it is done sporadically over a long period of time, as is required with projects like reseeding turf or planting trees.

A further complication of the project accounting function during the 2008 park bond program was imprecision of the original implementation plan. In many cases, project managers found project tasks to be general in scope and their associated budgets not aligned with what was called for. Moreover, project manager found conditions on the ground had changed from what they were when the plan was first drafted years earlier. As accommodations for the facts and the respective budget adjustments were made, original budgets varied—sometimes greatly—from the estimates in the original implementation plan. Again, since detailed accounting was not kept for each project, it is hard to establish with certainty that a given budget variance was reasonable or not.

The City instituted a formal close-out procedure on July 1, 2015 as part of a broader reform of the way it manages and reports progress on capital projects. The reforms include a 5-year capital project plan supported by detailed descriptions and realistic budget estimates, a formal project close-out procedure, detailed timesheets, and periodic performance reporting, among other things intended to improve project management and increase transparency. The City expects to remove doubt about budget increases over time with these new measures.

A formal financial management policy that includes the requirement that only projects approved in the 5-year capital projects plan be incorporated into any future bond package was also approved by the Governing Body. It is expected that this will serve as an extra control measure that will ensure than any future capital project paid from bond proceeds is fully vetted and thoroughly described and costed so budget variances are kept at a minimum.

RESPONSE OF AUDITOR

We have noted in our report that there can be legitimate reasons for costs to be incurred on a park project either before or after construction. This is discussed on page 16. Such costs may or may not be integral to the construction project depending on the activity performed. Information on activity performed is necessary to accurately record costs incurred. Our report further states on page 16 that the amount of costs capitalized due to these reasons might be significant on occasion but normally would not account for the <u>magnitude</u> of expenditures, the <u>pattern</u> of expenditures, or <u>timing</u> of expenditures or <u>other circumstances</u> that we detailed on page 15 and 16 and are also detailed on page 44 in the conditions section for unreasonable budget adjustments.

FINDING PB 2008-009 UNSPENT PROCEEDS (Significant Deficiency)

CONDITION

Our audit reports unspent proceeds of the 2008 and 2010 bond issues at June 30, 2015, of $803,178 (see table on page 5.) Assuming a first-in, first-out use of expenditures, this remaining amount is from the 2010 bond issue. At February 18, 2016, these unspent bond proceeds are being held and being readied for reprogramming. The bonds were issued in 2008 and 2010. The parks projects were completed at various dates with some completed in 2011 according to certain sources or information.

CRITERIA

IRS Publication 4079 summarizes federal regulations for tax-free government bonds in the area of allocation of expenditures. Federal bond law and regulations specify that bond proceeds must be timely allocated to expenditures. An issuer must allocate proceeds to expenditures not later than 18 months after the later of the date each expenditure is paid or the date the project, if any, that is financed by the issue is placed in service. This allocation must be made in any event by the date 60 days after the fifth anniversary of the issue date.

CAUSE

The issuance of the bonds in two parts in 2008 and 2010, the long-term nature of building 66 construction projects with bond proceeds and the various questions that have arisen around this bond issuance have required additional time for implementation.

EFFECT

A longer length of time has passed so that there is some possibility that remaining federal bond proceeds are due to be expended. A remaining amount of bond proceeds of $803,178 was issued in 2010.

RECOMMENDATION

We recommend that a plan of reprogramming and timetable be set for expenditures of these unspent proceeds.

VIEWS OF RESPONSIBLE OFFICIALS

Although the uncommitted balance comes primarily from the budgets of projects that were re-scoped with major components deemed unnecessary or unfeasible, it is acknowledged that it is a shortcoming to still not have spent such a significant part of the bond proceeds almost six years after they were received. Only better planning and more efficient and effective execution can prevent this.

The City will learn from the lessons of the 2008 park bond program to better plan and manage its capital projects.

Staff has prepared for submission to the Governing Body in March a budget adjustment request that will re-program the balance of the proceeds to projects from the implementation plan in time for the construction season. It is anticipated that, if approved, this reprogramming will result in all of the remaining balance of the bond proceeds being efficiently invested in parks and trails improvements as envisioned in 2008 when the voters approved the bond program.

EXIT CONFERENCE

An exit conference was held on February 23, 2016, in a closed meeting and attended by the following:

For the City of Santa Fe, New Mexico

Liza Kerr	Internal Audit
Cheryl Sommer	Audit Committee Member
Clark de Schweinitz	Audit Committee Member
Oscar Rodriguez	Finance Director
Richard Thompson	Parks Division Director
Zack Shandler	City Attorney
Isaac J. Pino	Director, Public Works Department
Teresita Garcia	Assistant Finance Director
Brian Snyder	City Manager
Rob Carter	Parks and Recreation Director
Matt Ross	Public Information
Patti Bushee	City Councilor

Via Telephone:

Javier Gonzales	Mayor
Joe Maestas	City Councilor

For Atkinson & Co., Ltd.:

Martin Mathisen, CPA, CGFM	Shareholder/Audit Director
Sarah Brack, CPA, CGFM, CGMA	Audit Manager

For the Office of the State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA	Deputy State Auditor
Sunalei Stewart, JD, CFE	Chief of Staff
Kevin Sourisseau, CPA	Director of Special Investigation

For Rodey, Dickason, Sloan, Akin & Robb, P.A.

David Buchholtz	Attorney/Shareholder

APPENDIX

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February 18, 2016

Atkinson & Co. Ltd.
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Albuquerque, NM 87110

RE: City of Santa Fe 2008 and 2010 General Obligation Bonds Special Audit

Ladies and Gentlemen:

You are party to a contract (the "Contract") with the City of Santa Fe, New Mexico (the "City") made and entered into on October 14, 2015, pursuant to which you were engaged to provide an examination, which will result in an audit on the City's compliance with legal, regulatory and policy constraints for expenditures charged to the proceeds of the City's $20,000,000 General Obligation Bonds Series 2008 (the "Series 2008 Bonds"), and $10,300,000 General Obligation Bonds Series 2010 (the "Series 2010 Bonds", and, collectively with the Series 2008 Bonds, the "Bonds") issued to acquire land for, and to improve, public parks, trails and open space for recreational purposes. In connection with the Contract, you have engaged this firm to obtain a legal opinion necessary to establish the governing hierarchy (including but not limited to, a detailed analysis of the City's plans and policies that were authorized and properly approved) on which you will rely in rendering your opinion and, to define the types of expenditures that are allowable from the proceeds of the Bonds.

This opinion is submitted pursuant to Sections 1 A. and 1 F. of the Contract.

2140531.5

Materials Examined and Assumptions

In connection with this submission, we have examined, among other things, copies of the following documents (collectively the "Documents"):

1. A Transcript of Proceedings relating to the Series 2008 Bonds.

2. A Transcript of Proceedings relating to the Series 2010 Bonds.

3. Excerpts of the minutes of proceedings of selected meetings of the City's Parks and Open Spaces Advisory Commission ("POSAC") during the period 2007-2015.

4. Excerpts of the minutes of proceedings of selected meetings of the Special Task Force Park Bond Audit of the City during the period 2014-2015.

5. Excerpts of the minutes of proceedings of selected meetings of the Finance Committee of the City Council of the City during the period 2007- 2015.

6. Excerpts of the minutes of proceedings of selected meetings of the Public Works/CIP & Land Use Committee of the City Council of the City (the "Public Works Committee") during the period 2007-2015.

7. Excerpts of the minutes of proceedings of selected meetings of the City Council of the City during the period 2007-2015.

8. The 2008 Parks Bond Implementation Plan approved by City Council June 25, 2008 (the "Implementation Plan").

9. The Independent Accountant's Report on Applying Agreed-Upon Procedures submitted to the City by REDW, LLC dated March 30, 2015 (the "Independent Accountant's Report").

10. The Final Accounting Report relating to the Bonds submitted on July 8, 2015, by Brian K. Snyder, City Manager, to the City Council of the City (the "Final Accounting Report").

11. Attorney Client Privileged Memorandum dated July 11, 2011 (since released by the City), from the City Attorney's Office to the Public Works Department Director and the Finance Department Director (the "Salary Memo").

12. Confidential Memorandum dated November 14, 2011, from the City Finance Department Director to a City Councilor (the "Finance Director Memorandum").

13. Such other matters of law (including the constitution of the State of New Mexico (the "State"), State statutes, published State judicial decisions, State attorney general opinions, the City Municipal Charter (the "Charter"), the City Code of 1987, as amended (the "Code"), and federal tax law and federal tax regulations), certificates, other financial information and data attached to publicly available information of the City and such other documents as we have deemed appropriate.

Additionally, we have interviewed current and former city employees and advisors, POSAC members and outside counsel to verify or supplement the Documents.

For purposes of this opinion we have assumed that the Documents and representations made to us in interviews, do not, as to matters of fact, contain any untrue statement of a material fact or omit to state a material fact necessary to make the factual statements relied upon in light of the circumstances, misleading. To the extent, if any, that the information referenced in the preceding sentence contained inconsistent or conflicting statements of fact, we have assumed that any such inconsistency or conflict did not present circumstances materially affecting our analysis.

Governing Hierarchy.

In order to determine the extent to which existing plans and policies of the City were established and followed to authorize expenditures of proceeds from the Bonds and in order to analyze the information in the Documents relating to proceedings set forth above, we specifically examined (i) the Charter, particularly Article VI relating to the duties and powers of the governing body; (ii) the Code, particularly Chapter II concerning administration, and Chapter XI relating to finance and budget matters, specifically Sections 2 (preparation and approval of annual budget), 4 (budget adjustments), 5 (yearly expenditures), 9.1 (general obligation bonds) and 13 (procurement) and (iii) Appendix C of the Code relating to City organization.

The Charter (Article VI, Section 6.01) establishes the mayor and councilors as the governing body (or, for convenience, sometimes referred to in this letter as the "City Council"). The City Council is the principal policy maker of the City, vested with all legislative powers, except as otherwise required by law. (Article VI, Section 6.02). Chapter II-1. 4 of the Code authorizes the appointment of standing and special committees. Standing committees are advisory committees whose work is generally continuous and part of the fundamental concerns of the City Council. Among the standing committees are the Finance Committee and the Public Works Committee, which shall consist of members of the governing body only.

In early 2007, the City Council adopted a resolution (Resolution No. 2007-22) establishing a Parks and Open Space Advisory Commission ("POSAC") to replace the Parks Advisory

Committee. The purpose of POSAC was to make recommendations to the governing body regarding the priorities for funding parks and open space improvements in anticipation of the presentation to voters in March 2008, of a general obligation bond proposal to acquire and to improve, public parks, trails and open space for recreational purposes. POSAC was not delegated financial authority over projects; its role was to make non-binding recommendations and provide ongoing advice. See Sections 2 and 3, Resolution No. 2007-22.

During 2007 and continuing into 2008, POSAC worked with city staff, the Public Works and Finance Committees of the City Council, the City Council and the public to develop the Implementation Plan. The last draft (Draft 4) of the Implementation Plan is dated October 31, 2007. In March 2008, the voters of the City approved the question authorizing the issuance of the Bonds. In June 2008 (and later, in November 2010, with respect to the Series 2010 Bonds), the City's bond counsel advised that the Bonds, when issued, constituted legal, valid and binding general obligation debt of the City. We have found no reason to believe the conclusions of the bond counsel were incorrect at the time they were delivered to the City. After the issuance of the Bonds, the City had the continuing duty to meet all federal, state, city and contractual obligations imposed as a result of the issuance of the Bonds.

In June 2008, the City Council approved the last draft as the Implementation Plan. Beginning in June 2008, the Public Works Department of the City (in conjunction with the Parks and Recreation Division) began internal bi-weekly staff meetings relating to the Implementation Plan. The purpose of these meetings, among other things, was to keep abreast of projects and the implementation process under the City's purchasing procedures, budget requirements and other requirements of the Code and applicable State law. Included in the implementation process was the development from time to time of budget adjustment resolutions, or "BARs". Plans and policies established by the City and in particular Chapter 11-4 of the Code allows small budget adjustments (less than $5,000) to be made by the finance director, larger budget adjustments (up to $50,000) to be made by the City Manager, and significant budget adjustments (over $50,000) to be presented to and approved by the City Council.

At the time, recognized City practice was to do a "roll up" of budget changes in excess of $50,000 into BARs, presumably to avoid the presentation of piecemeal changes to standing committees (and particularly the Finance Committee) and the City Council. This roll up process, particularly in regard to adjustments between funds posted with unspent proceeds of the Bonds and funds available for payroll purposes, created controversy. Under the current administration at the direction of the current finance director and pursuant to Resolution 2015-106, discussed below, the use of "roll up" BARs has been ended.

During the period 2008-2011, the economic downturn, costs unanticipated by staff and not identified in the Implementation Plan, and changing circumstances regarding capital development plans for particular projects resulted in the need to make significant changes to the budget requirements and spending priorities identified in the Implementation Plan. The record of the budget adjustments over the time period, including standing committee minutes, City Council minutes, packet materials presented by staff to standing committees and City Council is extensive. The examination of particular financial aspects of this information is the subject of the audit which accompanies this opinion. These budget adjustments taken as a whole were presented by staff to the Finance Committee and then to City Council for approval in accordance with then accepted City practice. Except as set forth in the section of this opinion relating to the practice of using roll up BARs and the section of this opinion relating to the expenditure of bond proceeds on current operating expenses, or "working capital," as opposed to capital expenditures, we have not independently discovered circumstances beyond those budget adjustments identified in the Independent Accountant's Report (and therein acknowledged by City management), the Final Accounting Report and the audit accompanying this opinion, which did not comply with the Charter, the Code and plans and policies of the City then in effect.

We observe that the use of roll up BARs led to a perception of lack of transparency by certain POSAC members in regard to the adjustment of use of proceeds of the Bonds. This perception is reflected in the circumstances related to the request for reallocation of proceeds of the Bonds presented to the Finance Committee in September 2011, and approved by City Council on November 30, 2011. This reallocation transferred approximately $4,200,000 from a "debt service fund" (presently a fund holding the proceeds of the Bonds) to the payroll account and has led to claims that proceeds of the Bonds had been misspent or reappropriated without necessary approvals. The appropriateness of these expenditures is discussed below.

While City practice may have allowed this procedure, the BAR roll up procedure appears to have violated a strict reading of Chapter XI, Section 11-4 of the Code. That Section requires that, when budget adjustments are needed during a fiscal year: "[t]he governing body shall approve budget increases or decreases in revenue or in transfers-in or expenditures, expenses or transfers-out, that reflect increases or decreases in the budget that are over fifty thousand dollars." The BAR roll up practice appears to have allowed budget adjustments to be retroactively approved by City Council; the Code strongly indicates such changes should be approved before they are made. The City Council appears to have adopted this practice at that time but has now reformed its procedures.

We further observe that since the examination of the expenditure of proceeds of the Bonds has begun, the City has taken several steps to alleviate the criticism of prior budgeting and expenditure policies. In addition to authorizing the Independent Accountant's Report and the audit accompanying this opinion, the City has ended its use of roll up BARs, as part of its adoption of Resolution 2015-106. This resolution is a best practices and standards guide in financial management. The City Council also adopted, in December 2013, a post issuance compliance policy in establishing procedures for ensuring compliance with federal tax regulations regarding outstanding tax exempt bonds.

Allowable Expenditures of Proceeds

In order to determine whether expenditures made with proceeds of the Bonds were allowable under law, we reviewed provisions of the State Constitution, State statutes authorizing the issuance of general obligation bonds, the Charter and Code, published State judicial decisions, State attorney general opinions, federal tax statutes, federal tax regulations, the Transcripts of Proceedings for the Bonds, and minutes of public bodies and conducted interviews of present and former City staff and outside advisors. We conclude that State law requires that proceeds of general obligation bonds issued by municipalities be expended only for capital expenditures accounted for as costs of capital assets, including ancillary charges necessary to place the asset into its intended location and condition for use and not for working capital or on operational expenses. We further conclude that federal law strongly discourages the use of bond proceeds of tax exempt bonds for working capital or operational expense purposes. Federal tax exempt bond regulations and State Administrative Code provisions relating to the use of proceeds of State severance and general obligation bonds provide useful guidance on the requirements imposed on expenditures. Significant working capital and operational expenditures from tax exempt municipal bond proceeds may lead to circumstances that could cause tax exempt bonds to lose their tax free status.

Article IX of the State Constitution regulates the creation of state, county and municipal indebtedness. Article IX, Section 8 regulates the issuance of debt by the state for a specified work or project (cf. State ex. rel. Ryan v. Gonzales, 1992-NMSC-052, 114 N.M. 346 (stating that state general obligation bond questions must identify a specified object)). Article IX, Section 9 requires that any money borrowed by the state or any county, district or municipality thereof shall be applied for the purposes for which it was obtained. Article IX, Section 10 lists specific capital projects for which a county may borrow money; Article IX, Section 11 contains a similar capital expenditure list permissible for school district borrowing. Article IX, Section 12 regulates municipal borrowing, and states in part: "No city, town or village shall contract any debt except by an ordinance . . . which shall specify the purposes to which the funds to be raised shall be applied . . . ."

While it is curious that the State constitution provides distinct and different text in each of the borrowing sections noted above, we find nothing in State law to suggest that the text governing municipal debt requiring an identification of "purposes" should be treated as different from, and more permissive than, restrictions placed on borrowing by other constitutional entities for specified objects or projects. In fact, case law and attorney general opinions in related contexts suggest otherwise. See, e.g., Capitol Addition Bldg. Comm'n v. Connelly, 1935-NMSC-045, 39 N.M. 312 (explaining that the word "debt" as used in Article IX, Section 8 is used in the same sense as in Article IX, Section 12 in regard to sources of repayment), and N.M. Att'y Gen. Op. 76-16 (1976) (opining that interest from temporary investments of municipal general obligation bond proceeds may not be used for general operating expenses of a city but must be used for project purposes). The State statute authorizing the issuance of general obligation bonds by municipalities also strongly indicates that borrowing be done solely for expenditures accounted for as costs of capital assets and not for working capital or operating expenses.

NMSA 1978, Sections 3-30-1 to -9 (1965, as amended through 1985), authorize the issuance of general obligation bonds by municipalities. NMSA 1978, Section 3-30-5 (1973), sets forth the purposes for which municipal general obligation bonds may be issued. In particular Section 3-30-5(D) provides for the building, beautifying and improving public parks, and Section 3-30-5(E) provides for acquiring land or buildings for playgrounds, recreation centers, zoos and other recreational purposes, and the equipment thereof. Pursuant to the introductory text of Section 3-30-5, the application of subsections (D) and (E) are specifically subject to the limitations of, and shall be applied in accordance with, Article IX of the State constitution. While there is not extensive State jurisprudence interpreting the specific words of these sections (particularly in illuminating the meaning of the words "beautifying" and "improving"), older decisions would strongly indicate that provisions of law relating to expenditures of general obligation bond proceeds by municipalities should be narrowly construed. See, e.g., Smith v. City of Raton, 1914-NMSC-017, 18 N.M. 613 (concluding that the erection of an opera house was not within the statutory authorization to erect "public buildings"); N.M. Att'y Gen. Op. 5957 (1954) (opining that the question authorizing the erection of a municipal building does not authorize the purchase of an existing building).

The Code, Section 11-9.1(A), authorizes the issuance of general obligation bonds "for the projects or activities" authorized by Section 3-30-5 or other applicable State law. The Transcripts of Proceedings relating to the Bonds, including the resolutions, ordinances and official statements contain no additional information regarding reliance on different authority for issuance of the Bonds.

We also observe that several sections of the Code relating to budgeting and expense restrict the expenditure of funds in any fiscal year to resources available to that fiscal year. (See, e.g., Chapter XI, Section 11-5.1: "The governing body cannot for any purpose become indebted or contract any debts . . . during any fiscal year which . . . cannot then be paid out of the money actually available at the beginning of the year or collected and belonging to that fiscal year;" Chapter XI, Section 11-2.2: "The total amount appropriated by the governing body in any particular fiscal year shall not exceed the probable amount of available money . . . plus anticipated revenue during the fiscal year.") Borrowing long-term to pay for current expenses (akin to using a credit card to pay for groceries) conflicts with balancing current expenses with current revenues. We would therefore suggest that "balanced budget" provisions strongly implicate a prohibition of borrowing for working capital or operational expense purposes.

In this context, we find N.M. Att'y Gen. Op. 5426 (1951) particularly instructive regarding the scope of permissive payments. In that opinion, the Attorney General responds to an inquiry regarding whether, in connection with the proposed construction of a hospital, a county may pay the salaries of payroll clerks who supervise the time and labor of workers upon the project. The Attorney General states that:

> I am of the opinion that the constitutional provision does not prohibit the use of such funds to pay the salaries of payroll clerks, timekeepers, etc., of all workers upon the job if the County is actually doing the construction work itself and paying for the labor and materials on the project, no more than it would prohibit the payment of the costs of labor and material upon the job. This presupposes that the County is doing the work itself and since the employment of payroll clerks would be necessary, the expenditure of funds from the proceeds of the bond issue would be no less proper than the expenditure of those funds for the cost of work and materials purchased in connection with such project. Conversely, the use of such funds would be prohibited by the Constitution if the County is not actually constructing the building itself.

We read this statement to confirm that bond proceeds may be used for payment of costs directly related to construction activities, but not to pay ongoing maintenance expenses or other working capital costs.

Further, while not addressing directly the use of proceeds of municipal general obligation bonds, 2.61.6 NMAC, dealing with bond project disbursements from state severance tax and general obligation bonds offers further guidance. This Rule states, in part, that bond proceeds expenditures must meet the definition of capital expenditures unless otherwise authorized by law. (As noted above, we have found no such authorization which might be applicable to the proceeds of municipal general obligation bonds). Further, the Rule, following federal guidance discussed below, defines a capital expenditure as a cost of the type that is properly chargeable to a capital account for federal income tax purposes.

Applying these considerations to the facts we have examined, we conclude that the circumstances regarding the expenditure of proceeds from the Bonds on salaries of City employees, as reflected in the BAR request made in the second half of 2011 in which approximately $4,200,000 was reallocated from the "debt service fund" holding proceeds of the Bonds to the payroll account used to pay City employees, may have resulted in both appropriate and inappropriate uses of proceeds of the Bonds.

We begin our examination with the Salary Memo regarding the use of proceeds of the Series 2008 Bonds for certain salaries. The Salary Memo is facially consistent with State law guidance on the use of bond proceeds. The Salary Memo does not address federal tax law implications on the use of bond proceeds for salary purposes. Importantly however, the Salary Memo considered limited factual circumstances on certain presumptions and some of the expenditures actually made appear not to have complied with those circumstances and presumptions.

The Salary Memo addresses the payment of salaries of four City employees and presumes that the work of these employees will be "to improve" parks, trails and open spaces. The memo does not analyze what the word "improve" means in these circumstances. Further, the Salary Memo reaches no conclusion on any particular circumstances, stating that: "Presently the City Attorney's Office has not been presented with specific facts regarding the work being performed by these 4 City employees."

The Salary Memo contains citations to several State law sources. We note that the Salary Memo relies on a recent Attorney General Opinion for the proposition that the use of bond proceeds for projects not originally contemplated as presented to voters is permissible under constitutional doctrine so long as the new uses are consistent with the question presented to the voters. See N.M. Att'y Gen. Op. 2010-04 (2010). That opinion does not, however, address the question of using bond proceeds for working capital or operating expenses, as opposed to expenditures on capital assets.

The Salary Memo does not cite Attorney General Opinion 51-5426. As noted above, this opinion provides guidance in this regard. The Salary Memo also does not cite 2.61.6 NMAC, which, while not applicable to expenditures of municipal general obligation bond proceeds, also provides guidance. We have found no written response to the Salary Memo, or any other memorandum addressing the expenditure issues.

The Salary Memo's cautious advice seems to have taken on a different perspective as reported in the minutes of the City Finance Committee of September 6, 2011, in the discussion of the proposed reallocation of proceeds of the Bonds. In those minutes the City Attorney is quoted as saying, in reference to the meaning of the ballot question:

> And the interpretation working on that is quite liberal which is, if you are pulling a weed, you are improving . . . . So the standard for improving as used in this bond language is quite wide open and as the Legal Department has reviewed it the activities that have been done under this bond have fit within the question that went to the public and was approved by the public.

The City Attorney provided no additional legal or accounting authority for this statement. It is possible that the statement was made with a view toward the permissible scope of expenditures set forth in Attorney General Opinion 51-5426, the State administrative code and accounting guidance; that is to say, if "pulling a weed" was necessary to place an asset in its intended location and condition for use (such as, for example, the laying of sod) it could be justified as a capital expense. However, we have found no authority under State law, or federal tax or accounting guidance (both as set forth below) to conclude that providing maintenance unrelated to capital development is a permissible expenditure and are concerned that the advice of the City Attorney was either misconstrued or inartfully presented.

In November 2011, the Finance Director of the City prepared a memorandum to a City Councilor on, among other things, the salary payment question. The Finance Director Memorandum largely concurred with and expanded upon the advice of the Salary Memorandum. In particular, the Finance Director Memorandum stated:

> The answer to [whether bond proceeds can be used to pay certain employee salaries] has to do with when and whether a person's salary is a direct expense/cost or when and whether the salary is an indirect expense/cost. . . . This means that bond proceeds are limited to the payment of salaries for the number of hours (or % of FTE) of direct field workers or direct project managers.

The City Council approved the BAR request at its meeting of November 30, 2011.

Article IX, Section 9 of the state constitution requires that any money borrowed by a municipality "shall be applied for the purpose for which it was obtained, or to repay such loan, and to no other purpose whatever." The constitution does not provide a remedy for violations of this section, and our research has not shed any additional light on that question.

Provisions of state law, for example, NMSA 1978 Section 6-6-6 (2001) (providing that no official shall allow or approve expenditures in excess of budget); NMSA 1978, Sections 10-16-1 to -18 (1967, as amended through 2011) (the Governmental Conduct Act) regulate expenditures by local government officials. Provisions of the City Code, for example, Chapter XI, Section 11-3 (no official shall allow or approve expenditures in excess of budget); Chapter XI, Section 11-6 (no City employee may make a commitment on behalf of the City without proper authorization); Chapter XI, Section 11-7 (liability of City officials and employees for violations of budget provisions) also regulate expenditures by City officials and employees. None of these provisions, in our view, were violated by individuals in authorizing expenditures made in accordance with City Council approvals and based on advice of counsel. These factors should be considered under state law in evaluating any proposed remedies in connection with improper expenditures.

In regard to federal law considerations, both the 2008 Bonds and the 2010 Bonds were issued with the expectation that interest on the Bonds would be excludable from gross income for federal income tax purposes. Both of the ordinances authorizing the issuance of the Bonds (Nos. 2008-22 and 2010-21) contain a covenant (Section 12) in which the City agrees to refrain from certain uses of proceeds of the Bonds as may be necessary so as to preserve the tax exemption on interest.

Federal tax regulation guidance provides that working capital expenditures, as opposed to capital expenditures, pose particular problems in the expenditure of bond proceeds. Tax exempt bond regulations (define working capital as "any expenditure that is not a capital expenditure"). Treas. Reg. Section 1.150-1(b). Current operating expenses are generally not capital expenditures.

Capital expenditures are any cost of a type that under federal income tax is properly chargeable to a capital account.

Further guidance is provided by Generally Accepted Accounting Principles (GAAP) Governmental Accounting Standards Board (GASB) No. 34. The Government Finance Officers Association's (GFOA) publication Accounting for Capital Assets is a useful commentary to GASB No. 34. Those materials establish the basic principles that the cost of a capital asset should include not only the cost of the asset itself but also "ancillary charges necessary to place the asset into its intended location and condition for use."

As noted by the GFOA publication, there are practical challenges in regard to determining capitalizable costs. As their examples, the GFOA publication states:

> First, general and administrative costs should never be capitalized . . . Second, costs clearly related to the acquisition of a specific asset should be capitalized . . . Finally, costs clearly related to the acquisition of capital assets, but not to specific projects should be capitalized. (Emphasis in text).

We understand from our review of public records and your reports to us about your investigations that at least $4,200,000 of bond proceeds were spent on the salaries of many City employees who worked in both park and administrative capacities. We further understand that you have interviewed City accounting, administrative and parks staff with a view toward categorizing the salary payments as expenditures that can be appropriately capitalized. In connection with your audit procedures, we understand that you received, among other things, actual payroll records, including timesheets with descriptions of work performed, and job descriptions of the employees. We further understand that you were unable to verify with necessary specificity the complete work assignments of many of these employees. You have advised that, as a result, the audit will require that approximately $2,085,000 be treated as working capital or operating expenses and not capitalized as the cost of a capital asset. The audit indicates that approximately $800,000 of proceeds of the Bonds remains unspent. $2,085,000 represents approximately 6.75%, of the total amount of proceeds available from the issuance and 7% of proceeds spent, cumulatively, of the Bonds. The record we reviewed does not reflect how the $2,085,000 will be allocated among the Series 2008 Bonds and Series 2010 Bonds.

The expenditure of bond proceeds on other than capital expenditures does not automatically cause interest on the Bonds to become taxable. Under the regulations governing working capital expenditures, the most significant issue raised once a determination is made that the proceeds of the Bonds have been spent on other than capital expenditures, is whether the proceeds will be treated as "spent" for tax exempt bond purposes. If the proceeds are not treated as spent, then a determination must be made whether having unspent proceeds affects the tax free state of the Bonds.

Unfortunately, and as is often the case with federal tax regulatory guidance, the resulting effect on the Bonds of having made working capital expenditures is uncertain. The relevant regulation concerning whether bond proceeds are spent is Treasury Regulation Section 1.148-6, which states that if bond proceeds are spent on working capital expenditures, the allocation method for determining whether the proceeds are spent is based on the "proceeds-spent-last" rule ("PSL rule") unless an exception is satisfied. Based on our limited review of the City's financial condition, it is unclear whether any of the exceptions are likely to apply in this case. These exceptions concern costs of issuance and qualified administrative costs, qualified guarantee fees, payments for qualified hedges, interest on the bonds, rebate related matters, 5% working capital amount directly related to the capital expenditure financed with the project, unexpected excess proceeds, principal or interest on the issue paid from earnings in a reserve fund, extraordinary items and refunding bonds. Of all the exceptions described above, the one most likely to apply is the 5% working capital amount directly related to the capital expenditure financed with the project. However, based on the conclusions of your audit, there may be no convincing evidence to support the satisfaction of this exception, as the amount that will be treated as spent on working capital for which the audit requires reclassification is approximately 6.75% of the available proceeds of the Series 2008 Bonds and Series 2010 Bonds taken as a whole, or 1.75% over the allowable limit. Therefore, a review of the PSL rule will be necessary to determine the extent to which the bonds proceeds will be treated as spent.

The PSL Rule requires a determination of whether there were other moneys ("available amounts") that could be reasonably expected to be spent on the day the bond proceeds were actually spent. If there were available amounts on the day the bond proceeds were expended, those available amounts would be treated as spent before the amount of bond proceeds are treated as spent. The steps that would be taken to evaluate the expenditure of the bond proceeds on working expenditures are complex, and set out in the rule.

One of the difficult parts in applying the rule is determining the available amounts of the City. As a general rule, if there are other funds of the City that were freely available to be spent on the working capital expenditure they will be treated as spent first.

One other factor which may be helpful in making the determination of the available amount is a reasonable working capital reserve analysis. Amounts that are treated as a reasonable working capital reserve will not be included in the available amounts. A reasonable working capital reserve is 5% of the actual working capital expenditures of the City in the immediately preceding fiscal year of the City for which the determination of available amount is made. In making this determination, any expenditure paid out of current revenues may be treated as a working capital expenditure. Therefore, depending on the specific operations of the City, this reasonable working capital reserve may be helpful in an unspent proceeds analysis.

Use of This Opinion

This opinion is limited to the matters specifically covered herein. No opinions are offered or implied as to any matter, and no inferences may be drawn, beyond the strict scope of the opinions expressed in this opinion. This opinion is limited to certain State and federal tax law considerations. This opinion shall not be construed as, or be deemed to be, a guaranty or insuring agreement, or business or financial advice. This opinion is limited to certain legal conclusions as specifically set forth in this opinion and is not, and should not be deemed to be, a representation or opinion as to any factual matters or a guaranty of results, including in the event of challenge to any opinions expressed in this opinion by litigation or otherwise. The opinions expressed in this opinion are rendered as of the date hereof, and we express no opinion as to the possibility or effect of any change of law or fact. In addition, we express no opinion as to matters that may be affected by any pending or proposed legislation, litigation, or administrative proceeding, even though any such legislation, litigation, or administrative proceeding, if completed, might affect the opinions expressed in this opinion. Further, we express no opinion as to, and assume no, and disclaim any, obligation to update or supplement this opinion in response to circumstances, events, or changes in the law, whether by legislation, judicial decision, or otherwise, or any facts that may occur subsequent to the date of this opinion or with respect to the discovery after the date of this opinion of information not previously known or pertaining to events occurring prior to the date hereof. Nothing in this opinion is intended to create any obligation to, and we shall not be deemed to have agreed to, undertake or assume any responsibility or obligation to file or record any documents (including, without limitation any filing required to be made, or amended, by the City in connection with any state or federal securities law), or take any other steps or actions whatsoever.

This opinion may not be relied upon by any person other than the addressee and the City. No part of this opinion may be incorporated, quoted or otherwise referred to by you or the City in any other document or communication or filed with or otherwise furnished to any person or any governmental authority, without our prior written consent which may be withheld, limited or conditioned in our sole discretion.

Very truly yours,

RODEY, DICKASON, SLOAN, AKIN & ROBB, P.A.

Rodey, Dickason, Sloan, Akin & Robb, P.A.

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INDEPENDENT ACCOUNTANTS' REPORT

To Management and City Council
City of Santa Fe, State of New Mexico
and
To Mr. Timothy Keller, State Auditor
Office of the State Auditor
State of New Mexico

As a contractor for the Office of the State Auditor, we have examined the records of the City of Santa Fe, New Mexico with respect to its issuance of $30,300,000 of general obligation bonds in 2008 and 2010 used for acquiring land and improving public parks, trails and open spaces for recreational purposes. The subject matter of this report is the City's compliance with legal, regulatory and policy constraints for expenditures charged to the bond issue. The City's management is responsible for the specified accounting records, control processes, and overall compliance with relevant legal, regulatory and policy constraints in relation to its compliance requirements for the bond issue. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* and 2.2.2. NMAC (New Mexico State Audit Rule) and, accordingly, included examining, on a test basis, evidence supporting the expenditures related to implementing the bond issuance, the compliance process, corresponding controls, and compliance with legal, regulatory and policy requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance.

Our examination disclosed a level of expenditures funded from bond proceeds that were not in compliance with the bond requirements that expenditures from bonds be directed to capital projects. The amount of bond expenditures posted by the City to noncapital accounts totaled approximately $2,084,000 based on the City's accounting records.

In our opinion, except for the level of bond expenditures funded from bond proceeds that were not in compliance with bond requirements that expenditures from bonds be directed to capital projects, the City's compliance with legal, regulatory and policy compliance requirements referred to above is in accordance with those requirements for bond administration.

Internal Control

In planning and performing our examination, we considered the City's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with objectives issued by the New Mexico State Auditor, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did identify deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. They are identified as items PB 2008-001, PB 2008-002, PB 2008-003, PB 2008-004 and PB 2008-006. We also identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and recommendations as items PB 2008-005, PB 2008-007, PB 2008-008, and PB 2008-009. A *significant deficiency* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The City's responses to the findings identified in our examination are described in the accompanying Findings and Recommendations on pages 32 to 46. We did not examine the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the New Mexico State Auditor's Office, the Management and City Council of the City of Santa Fe, New Mexico, appropriate Committees of the City of Santa Fe, citizen groups in Santa Fe, but may be released to other individuals and entities upon proper approvals from the specified users.

Atkinson & Co., Ltd.

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Albuquerque, New Mexico
February 23, 2016

AUDIT PROCEDURES PERFORMED AND DOCUMENTS AND INFORMATION RELIED UPON FOR AUDIT WORK

We performed the following procedures as part of this audit:

We read 561 pages of selected minutes of meetings of the City Council, the Finance Committee of the City, and the Public Works/Land CIP Committee (Public Works) of the City provided by the City. We also reviewed selected resolutions, memos, and reports contained therein. We also reviewed selected minutes of POSAC meetings held over the bond period.

We reviewed materials posted on the City's website in relation to the 2008 and 2010 bond matters.

We compiled total costs of the bond issue from city records for the following categories:

- Total bond expenditures
- Total nonpayroll expenditures
- Total payroll expenditures capitalized at year end
- Total expenditures expensed
- Bond proceeds unexpended to date
- Additional capitalized items not recorded in City records

We performed 15 interviews or telephone conversations with retired and current City management and staff and two members of POSAC.

We performed park observations of 22 parks; 19 with a supervisor of the Public Works department and 2 with a member of POSAC. We observed one park unaccompanied.

We reviewed 3 planning documents; the parks and bond master plan 2007, the implementation plan 2008, and the follow-up plan 2009.

We tested 252 line items; 99 for payroll and 153 on nonpayroll expenditures that were recorded to park project spreadsheets allocated from City computerized records and subsidiary manual records. We reviewed associated invoices, purchase documents, BARs and other documents in connection with this testwork.

We read and analyzed 66 business unit project files containing applicable purchase orders, invoices, budget resolution documents and many other documents for the administration of the parks and bonds projects in the file.

We read budgets and performed budget analytic tests of 66 business unit budgets for reasonableness

We reviewed a CD received from the Office of the State Auditor containing over 50 separate photographs or information pieces in connection with concerns about the bonds from citizens or hotlines maintained by the City of Santa Fe.

We reviewed a flash drive of photographs of parks as they existed in 2007 before the commencement of the parks projects.

We performed tests of 16 BARs, all over $50,000, for items that should have been approved by the City Council.

We read the final projects report prepared by Public Works and referenced it as support for budget changes made to the original implementation plan.

We consulted with our legal contractor, David Buchholtz of the Rodey firm, on a variety of issues.

City of Santa Fe

Summary of General Obligation Bond Project Expenditures

District	Projects	Fund(s)	Salaries	Benefits	Service and Material	Total Year to Date Expenditures
Parks and Trails						
Dist 1	Adam Armijo Park	C.43001	$ 40,806	$ 9,104	$ 31,972	$ 81,882
Dist 1	Alto Bicentennial Pool	C.45001	5,555	1,076	10,340	16,970
Dist 1	Cathedral Park	C.43008	60,730	12,671	5,017	78,418
Dist 1	Cross of the Martyrs Park	C.43011	66,080	18,451	30,050	114,581
Dist 1	Frank S Ortiz (Dog Park)	C.43016	61,950	15,346	44,968	122,264
Dist 1	Frank S. Ortiz Park	C.43017	69,654	8,350	13,799	91,803
Dist 1	Ft. Marcy Complex Facility	C.45002	100,349	17,496	348,071	465,917
Dist 1	John F Griego Park	C.43024	38,842	8,979	12,081	59,902
Dist 1	Mager's Field Park	C.43031	9,169	3,237	579,814	592,220
Dist 1	Melendez Park	C.43033	6,681	2,747	4,102	13,529
Dist 1	Monica Roybal Park	C.43035	21,633	5,400	-	27,033
Dist 1	Peralta Park	C.43039	2,153	10	-	2,163
Dist 1	Plaza Park	C.43040	44,181	10,271	640,546	694,998
Dist 1	Prince Park	C.43042	54,859	17,124	21,851	93,834
Dist 1	Sunnyslope Meadows Park	C.43048	26,829	8,690	6,980	42,500
Dist 1	Thomas Macaione Park	C.43049	26,279	8,165	11,520	45,964
Dist 1	Torreon Park	C.43050	65,172	17,922	126,828	209,921
Dist 2	Amelia White Park	C.43002	11,901	3,324	50,674	65,900
Dist 2	Atalaya Park	C.43005	16,573	4,832	7,154	28,559
Dist 2	Calle Lorca Park	C.43006	105,047	29,030	110,911	244,988
Dist 2	Cornell Park	C.43010	23,124	5,808	14,741	43,673
Dist 2	Don Diego/Entrada Park	C.43014	7,683	3,008	457	11,148
Dist 2	East & West De Vargas Park	C.43012	41,185	14,527	277,582	333,293
Dist 2	Galisteo Tennis Courts	C.43020	129,550	33,656	35,298	198,504

District	Projects	Fund(s)	Salaries	Benefits	Service and Material	Total Year to Date Expenditures
Dist 2	Orlando Fernandez Park	C.43037	12,313	3,771	12,183	28,267
Dist 2	Patrick Smith Park	C.43038	26,603	8,084	285,627	320,314
Dist 2	Power Plant Park /Water History Park	C.43041	46,218	6,720	661,366	714,304
Dist 2	Salvador Perez Pool Facility	C.45004	42,216	8,923	27,214	78,354
Dist 2	Young Park	C.43053	32,537	7,662	34,047	74,246
Dist 3	Ashbaugh Park	C.43004	129,788	30,251	363,952	523,991
Dist 3	Cielo Vista Park	C.43009	133,999	34,121	229,878	397,999
Dist 3	Espinacitas Park	C.43015	7,014	2,714	602	10,331
Dist 3	Frenchys Park	C.43019	91,563	14,763	534,036	640,362
Dist 3	Gregory Lopez Park	C.43022	39,313	7,448	42,812	89,573
Dist 3	Larragoite Park	C.43026	38,954	8,962	221,569	269,486
Dist 3	Las Aceguias Park	C.43027	59,325	10,593	59,546	129,463
Dist 3	Los Milagros Park	C.43029	25,741	5,954	58,995	90,690
Dist 3	Maclovia Park	C.43030	28,394	6,005	15,223	49,622
Dist 3	Rancho Del Sol Park	C.43045	41,420	9,692	22,892	74,004
Dist 4	Candelero Park	C.43007	132,754	17,959	71,915	222,627
Dist 4	Genoveva Chavez Park	C.5722	96,061	24,321	812,663	933,046
Dist 4	Herb Martinez Park	C.43023	150,369	38,640	190,393	379,402
Dist 4	La Villa Serena (MLK) Park	C.43025	19,440	4,262	9,793	33,495
Dist 4	Las Estancias Park	C.43028	18,674	3,985	12,008	34,667
Dist 4	Marc Brandt Park	C.43032	19,902	4,610	4,449	28,961
Dist 4	Monica Lucero Park	C.43034	52,674	10,680	74,973	138,328
Dist 4	Nava Ade Park	C.43036	18,973	7,083	499,103	525,159
Dist 4	Pueblos Del Sol Trails	C.46001	159,941	45,932	436,104	641,977
Dist 4	Villa Caballero Park	C.43051	19,931	5,540	10,959	36,430
Dist 4	Villa Linda Park	C.43052	97,016	22,657	68,447	188,121

District	Projects	Fund(s)	Salaries	Benefits	Service and Material	Total Year to Date Expenditures
Regional	Archuleta Property Park	C.43003	25,618	6,280	2,694	34,592
Regional	Franklin E. Miles Park	C.43018	54,640	16,231	2,080,976	2,151,847
Regional	GCCC Facility	C.5723	104,439	32,095	94,065	230,599
Regional	MRC	C.5602	500,600	83,570	569,682	1,153,852
Regional	Ragle Park	C.43044	282,552	47,077	1,956,238	2,285,867
Regional	Salvador Perez Park	C.43046	48,389	7,544	272,734	328,667
Regional	Santa Fe River Parkway Park	C.43047	234,368	40,387	2,341,630	2,616,385
Trails	Southwest Activity Node	C.3814	-	-	498,576	498,576
Trails	Acequia Trail	C.46002	184,508	60,167	700,297	944,972
Trails	Arroyo Chamiso Trail	C.46003	217,542	73,538	2,202,233	2,493,314
Trails	Northwest Quadrant Open Space	C.46007	248,221	81,962	2,275,151	2,605,334
Trails	Santa Fe River Trails	C.46006	278,083	118,293	2,527,080	2,923,456
Trails	St. Francis Crossing	C.46004	106,404	37,214	558,752	702,370
Projects Not Included in Implementation Plan						
Trails	Parks Trail Head Cameras	C.43055	-	-	143,909	143,909
N/A	Santa Fe Botanical Gardens	C.43054	-	-	49,908	49,908
	Total Funds Used		**$ 4,862,484**	**$ 1,214,916**	**$ 23,419,432**	**$ 29,496,831**

29,496,822 Per GL
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