

**Timothy M. Keller**  
State Auditor



**Sanjay Bhakta**, CPA, CGFM, CFE, CGMA  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

July 24, 2015

VIA EMAIL AND REGULAR MAIL

Javier M. Gonzales, Mayor  
City Council Members  
City of Santa Fe  
PO Box 909  
Santa Fe, New Mexico 87504-0909

**Re: Designation for City of Santa Fe 2008 Parks Bond Special Audit**

Dear Mayor and City Councilors:

On March 27, 2015, the Office of the State Auditor (OSA) notified the Mayor and City Council (the "Governing Body") that the OSA would designate the City for a special audit focused on the 2008 parks and trails bond projects. This letter serves as the official designation for the special examination.

The examination will be performed by an Independent Public Accountant (IPA) recommended by the City after an RFP process and approved by the State Auditor. Please be advised that the City is required to bear the cost of the engagement pursuant to Section 12-6-4 NMSA 1978.

The previous agreed upon procedures (AUP) engagement conducted by REDW, LLC, which was completed without the involvement of the OSA, did not require the IPA to give an opinion on the use of the funds. The OSA has determined that in the interest of accountability it is important to have the City contract for an *examination* engagement, in adherence with the applicable American Institute of Certified Public Accountants (AICPA) standards, requiring an *opinion* by the IPA. Attachment A explains the different types of engagements that IPAs may perform.

The Audit Rule provides that the State Auditor may specify the scope and any procedures required for the audit. The OSA has developed a scope of work for the special audit RFP, which is attached as part of Attachment B. Since the IPA will be required to provide an opinion based on his or her professional judgement, the IPA will be responsible for the sufficiency of audit procedures. As previously indicated, the OSA will consider input of the Governing Body regarding the scope.

The City will be required to follow the procedures set forth in Section 2.2.2.15(B) NMAC to solicit and request proposals for a special audit or examination to be performed pursuant to the AICPA Statements on Standards for Attestation Engagements (SSAEs), AT Section 101. The City's RFP shall include the scope of work and other elements outlined in Attachment B. In addition, the OSA will require that the City provide, for our review, the proposal evaluation criteria, prior to the

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publication of the request for proposal. The OSA also requires that the City notify the OSA of all evaluation committee meetings, no later than 48 hours prior to the meeting, so that the OSA may attend and observe the selection process and be available to answer any questions. Attachment C to this letter is the timeline that OSA is requiring to expeditiously complete the examination and provide answers to management and the public.

In order to conduct the examination, the IPA must have unrestricted access to all documents pertaining to the issues outlined above as well as access to City of Santa Fe staff that may have knowledge and information about these areas.

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

Thank you for your attention to this very important matter.

Respectfully,

A handwritten signature in cursive script that reads "Timothy Keller". The signature is written in black ink and includes a long horizontal flourish extending to the right.

Timothy Keller  
State Auditor

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

Attachments: RFP Scope of Work, Engagement Type Overview, Timeline



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Attachment 1  
SCOPE OF WORK

The City of Santa Fe (City) presented a general obligation bond issue to the voters on March 8, 2008. The \$30,300,000 bond was to be used to acquire land for, and to improve, public parks, trails and open spaces for recreational purposes. The City is requesting a proposal for an examination which will result in an opinion on the City's compliance with legal, regulatory and policy constraints for expenditures charged to the bond issue. The examination must comply with: The Audit Act 12-6 NMSA 1978, 2.2.2. NMAC Requirements for Contracting and Conducting audits of State Agencies and AICPA standards relevant to an examination engagement requiring *an opinion* by the IPA.

- A. The contractor must understand the governing hierarchy of all laws, regulations, ordinances, policies, procedures and documents that relate to the bond expenditures. The contractor must detail its approach to identifying the hierarchy.
- B. The contractor must identify the in-house or subcontracted legal counsel and the approach to selection of the legal counsel that the contractor will utilize to provide the legal opinion necessary to establish the governing hierarchy (including, but not limited to, a detailed analysis of what City plans and policies were duly authorized and properly approved) and to define the types of expenditures that are allowable.
- C. The contractor must detail its approach to identifying what types of expenditures are allowable per the governing hierarchy.
- D. The contractor and any subcontractor(s) must demonstrate a strong knowledge in governmental auditing and local government bond issues.
- E. The contractor must detail its plan to:
  - a. Identify all projects funded by the 2008 General Obligation Bond.
  - b. Identify by project the total amount expended from bond funds.
  - c. Test, on sample basis, expenditures for *every* project identified (sample size must be sufficient to support the contractor's opinion provided by the engagement).
    - i. The testing must examine the expenditures for compliance with the governing hierarchy, which should include at a minimum the following:
      - 1. Compliance with all bond document restrictions and covenants.
      - 2. Compliance with Federal, State, and local laws.
      - 3. Compliance with the City's ordinances.
      - 4. Compliance with the City's policies and procedures (procurement, personnel, budget, etc).
  - d. Identify and verify the source documentation to be utilized for the examination.

## OTHER REQUIRED RFP ELEMENTS

The contractor must affirmatively acknowledge that they:

- a. Possess the qualifications necessary to perform the work to the standards identified.
- b. Possess an understanding of the RFP and the scope of work sufficient to complete the work required.
- c. Will provide an examination report with an opinion on the City's compliance with the governing hierarchy, consistent with the standards issued by the AICPA, pertaining to an examination engagement and the audit rule. The report will contain, at a minimum, the following:
  - i. An opinion on the City's compliance with legal, regulatory, and policy constraints for expenditures charged to the bond issue.
  - ii. An executive summary.
  - iii. A listing of the governing hierarchy of laws, regulations, ordinances, and duly approved policies, procedures and documents that govern the 2008 parks bond expenditures.
  - iv. A listing of the types of expenditures that are allowable per the governing hierarchy.
  - v. A listing of all projects funded by the bond issue.
  - vi. A listing of bond funds expended by project.
  - vii. A schedule of findings which includes the following elements as required by 2.2.2.15 B and 2.2.2.10 I (3) (c) NMAC.
    1. Condition
    2. Criteria
    3. Cause
    4. Effect
    5. Recommendation
    6. Management's response to findings
- d. Will comply with the review and release requirements of 2.2.2.15 B NMAC.

**CPA****Agenda Item SA****Comparison of Various Types of Services**

Type of Service	Auditing	Attestation - assertion based			Type of Service	Proposed Attestation - non assertion based		Consulting
Engagement Type	Audit	Examination	Review	Agreed-Upon Procedures	Engagement Type	Specified Procedures	Direct Engagements	Consulting Engagements
<b>What are the applicable professional standards for this engagement?</b>	AICPA Statements on Auditing Standards	AICPA Clarified Statements on Standards for Attestation Engagements (under development)			<b>What are the applicable professional standards for this engagement?</b>	New proposed section of AICPA Statements on Standards for Attestation Engagements		AICPA- Statement on Standards for Consulting Services
<b>Is the responsible party required to provide a written assertion?</b>	AU-C 580 requires written representation that management has fulfilled its responsibilities ... for preparation and fair presentation of financial statements in accordance with U.S. GAAP.	Yes	Yes	-Practitioner is required to request a written assertion. If the assertion is not provided, practitioner indicates that in the report	<b>Is the responsible party required to provide a written assertion?</b>	No	No	No
<b>Who may develop the subject matter information?</b>	Usually the responsible party	Usually the responsible party	Usually the responsible party	Responsible party	<b>Who develops the subject matter or subject matter information?</b>	Practitioner or responsible party	Practitioner or responsible party	Practitioner or responsible party
<b>Who is the initial measurer or evaluator of the subject matter or subject matter information?</b>	Often the engaging or responsible party, except for small and medium entities (SMEs) where it may be the auditor subject to	Often the engaging or responsible party, except for SMEs where it may be the practitioner subject to independence rules	Often the engaging or responsible party, except for SMEs where it may be the practitioner subject to independence rules	Often the engaging or responsible party, except for SMEs where it may be the practitioner subject to independence rules	<b>Who is the initial measurer or evaluator of the subject matter or subject matter information?</b>	Usually the practitioner	Usually the practitioner	Practitioner or responsible party

New Services: Comparison of Various Types of Services  
ASB Meeting, May 2015

Type of Service	Auditing	Attestation -assertion based			Type of Service	Proposed Attestation - non assertion based		Consulting
Engagement Type	Audit	Examination	Review	Agreed-Upon Procedures	Engagement Type	Specified Procedures	Direct Engagements	Consulting Engagements
	independence rules							
<b>Who selects the criteria?</b>	Usually the engaging party but auditor may suggest the criteria to be used	Usually the engaging party but practitioner may suggest the criteria to be used	Usually the engaging party but practitioner may suggest the criteria to be used	Specified parties	<b>Who selects the criteria?</b>	Practitioner or engaging party (Report may need to state who selected the criteria)	Practitioner or engaging party	No specified criteria are required but the client would inform the practitioner of the client's objectives for the engagement'
<b>Who is responsible for the sufficiency of the procedures?</b>	Practitioner	Practitioner	Practitioner	Specified parties	<b>Who is responsible for the sufficiency of the procedures?</b>	Engaging party or practitioner with agreement by the engaging party	Practitioner	Practitioner and the engaging party
<b>What level of assurance does the practitioner obtain?</b>	Reasonable	Reasonable	Limited	None	<b>What level of assurance does the practitioner obtain?</b>	None	[TBD]	None
<b>What is the primary communication in the report?</b>	Opinion	Opinion	Conclusion	Description of procedures and findings	<b>What is the primary communication in the report?</b>	Description of procedures and findings	Description of procedures and findings. (No decision yet on whether a conclusion would be required.)	Written report is optional. May include findings, conclusions and recommendations
<b>Is the concept of materiality relevant to the engagement?</b>	Yes	Yes	Yes	Only if specified by the specified parties	<b>Is the concept of materiality relevant to the engagement?</b>	Only if specified in the procedures	Yes	No
<b>May the auditor/practitioner use the work of internal auditors?</b>	Yes	Yes	Yes	Not permitted	<b>May the auditor/practitioner use the work of internal auditors?</b>	Not permitted	Yes	No restrictions
<b>Is management/the RP required to provide written representations?</b>	Yes	Yes, but when the RP is not the EP, the RP may provide oral responses to the practitioner's	Yes, but when the RP is not the EP, the RP may provide oral responses to the practitioner's	Yes, but when the RP is not the EP, the RP may provide oral responses to the	<b>Is management/the RP required to provide written representations?</b>	Optional (The practitioner makes this determination.)	Optional. The requirements for written representations would be no	Not required

New Services: Comparison of Various Types of Services  
ASB Meeting, May 2015

Type of Service	Auditing	Attestation -assertion based			Type of Service	Proposed Attestation - non assertion based		Consulting
Engagement Type	Audit	Examination	Review	Agreed-Upon Procedures	Engagement Type	Specified Procedures	Direct Engagements	Consulting Engagements
		inquiries and the practitioner restricts use of the report	inquiries and the practitioner restricts use of the report.	practitioner's inquiries			more stringent than they are in the attestation standards	
<b>Is use of the report restricted?</b>	Generally not, but permitted.	Generally not, but permitted. Specified circumstances require restriction on use of the report	Generally not, but permitted. Specified circumstances require restriction on use of the report.	Yes, to the specified parties.	<b>Is use of the report restricted?</b>	Generally not, except when the circumstances specified in the standard are applicable.	Generally not, except when the circumstances specified in the standard are applicable.	Generally restricted to the engaging party.

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Attachment 3  
Timeline  
Parks Bond 2008 Special Audit

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|---|----------------------|
| 1. Office of the State Auditor (OSA) notification to the City | July 27, 2015        |
| 2. City response to OSA regarding scope of work               | July 30, 2015        |
| 3. Final scope of work sent to City                           | August 5, 2015       |
| 4. Draft RFP evaluation criteria sent to OSA by City          | August 7, 2015       |
| 5. OSA review and approval of evaluation criteria             | August 12, 2015      |
| 6. RFP advertisement  | August 17 - 21, 2015 |
| 7. Receipt of proposals                                       | September 18, 2015   |
| 8. Evaluation of proposals                                    | September 24, 2015   |
| 9. Interviews with finalists                                  | September 30, 2015   |
| 10. Negotiations with selected contractor                     | October 5, 2015      |
| 11. Approval by Finance Committee                             | October 12, 2015     |
| 12. Approval of award by City Council                         | October 19, 2015     |
| 13. Contractor recommendation to OSA                          | November 2, 2015     |
| 14. OSA contract review and approval                          | November 4, 2015     |
| 15. Contractor field work                                     | November 9-30, 2015  |
| 16. Submission of audit report to OSA                         | December 15, 2015    |
| 17. Review of audit report by OSA                             | December 31, 2015    |
| 18. Release of audit report                                   | January 15, 2016     |