

La Merced Del Pueblo de Cebolleta

Financial Statements

For the Year Ended June 30, 2017

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## **INTRODUCTORY SECTION**

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**LA MERCED DEL PUEBLO DE CEBOLLETA**

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June 30, 2017

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**LA MERCED DEL PUEBLO DE CEBOLLETA**

Official Roster

June 30, 2017

**Board of Trustees**

William Hocker	President
Richard Jaramillo	Treasurer
Onesimo Armijo	Secretary
Phillip Chavez	Member
Kilino Marquez	Member

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Brian S. Colón, Esq  
New Mexico State Auditor  
Board of Trustees  
La Merced Del Pueblo de Cebolleta  
Seboyeta, New Mexico

### Report on Financial Statements

We were engaged to audit the financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds of the La Merced Del Pueblo de Cebolleta (the "Land Grant"), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Land Grant's basic financial statements as listed in the table of contents.

We do not express an opinion on the accompanying financial statements of the Land Grant. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

### Basis for Disclaimer of Opinion

We were not engaged as auditors of the Land Grant until over two years after June 30, 2017, and, therefore, were not able to perform several auditing procedures, including confirmation and examination of accounting records, that would allow us to obtain sufficient evidence to afford a basis for an opinion in all audit areas.

In addition, the Land Grant has not maintained adequate accounting records and has several material weaknesses in internal control. As a result of the numerous material weaknesses in the internal control structure of the Land Grant, the accounting records are inadequate to substantiate the account balances as of and for the year ended June 30, 2017. Because of the lack of supporting documentation and insufficient evidence available to determine that the account distributions for revenue and expenditure amounts are accurate and management assertions cannot be adequately examined, we were unable to afford a basis for an opinion.

Lastly, the financial statements referred to above do not include financial data for the Land Grant's legally separate component units. Accounting principles generally accepted in the United States of America require financial data for those component units to be reported with the financial data of the Land Grant's primary government unless the Land Grant also issues financial statements for the financial reporting entity that include the financial data for its component units. The Land Grant has not issued such reporting entity financial statements. As noted in finding 2007-011, the financial statements for the component units were not available to be audited. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units are unknown and are not included in the Land Grant's financial statements.



As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the misstatements. We were unable to confirm or verify by alternative means all account balances included in the basic financial statements. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded account balances, and the elements making up the basic financial statements and notes to financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to conduct an audit of the Land Grant's financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of Land Grant and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

#### *Other Information*

We were engaged for the purpose of forming opinions on the financial statements that collectively comprise the Land Grant's basic financial statements and schedules. The additional schedules listed as Other Supplementary Information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the supplementary information referenced to above.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 on our consideration of the Land Grant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Land Grant's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The letter "C" is large and stylized, with the rest of the text written in a cursive-like font.

Cordova CPAs LLC  
Albuquerque, New Mexico  
March 31, 2020

**BASIC  
FINANCIAL STATEMENTS**

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Exhibit A-1

## Statement of Net Position

June 30, 2017

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets	
Cash	\$ 2,438,716
Investments	775,913
Total current assets	<u>3,214,629</u>
Noncurrent assets	
Capital assets, net	<u>3,450,421</u>
Total noncurrent assets	<u>3,450,421</u>
Total assets	<u>\$ 6,665,050</u>
<b>Net position</b>	
Net investment in capital assets	3,450,421
Unrestricted	<u>3,214,629</u>
Total net position	<u>6,665,050</u>
Total liabilities and net position	<u>\$ 6,665,050</u>

The accompanying notes are an integral part of these financial statements.

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Exhibit A-2

Statement of Activities  
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in Net</u>
			<u>Contributions</u>	<u>Position</u>
				<u>Governmental</u>
				<u>Activities</u>
<b>Governmental Activities:</b>				
Land grant administration	\$ 901,555	\$ -	\$ 25,443	\$ (876,112)
<i>Total governmental activities</i>	<u>901,555</u>	<u>-</u>	<u>25,443</u>	<u>(876,112)</u>
 <b>General Revenues:</b>				
				1,057,984
				<u>261,128</u>
				1,319,112
				<u>443,000</u>
				<u>6,222,050</u>
				<u>\$ 6,665,050</u>

The accompanying notes are an integral part of these financial statements.

LA MERCED DEL PUEBLO DE CEBOLLETA

Exhibit B-1

Balance Sheet  
Governmental Funds  
June 30, 2017

	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 2,438,716
Investments	<u>775,913</u>
<i>Total assets</i>	<u><u>\$ 3,214,629</u></u>
<i>Fund balances</i>	
Spendable:	
Unassigned	<u>\$ 3,214,629</u>
<i>Total fund balances</i>	<u>3,214,629</u>
<i>Total liabilities and fund balances</i>	<u><u>\$ 3,214,629</u></u>

The accompanying notes are an integral part of these financial statements.

**LA MERCED DEL PUEBLO DE CEBOLLETA**  
Reconciliation of the Balance Sheet to the Statement of Net Position  
Governmental Funds  
June 30, 2017

Fund Balance - Governmental Funds (Exhibit B-1)	\$ 3,214,629
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>3,450,421</u>
Total net position (Exhibit A-1)	<u><u>\$ 6,665,050</u></u>

The accompanying notes are an integral part of these financial statements.

**LA MERCED DEL PUEBLO DE CEBOLLETA**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended June 30, 2017

Exhibit B-2

	<b>General Fund</b>
<b>REVENUES:</b>	
Mining lease revenue	\$ 1,057,984
Federal revenue-grants	25,443
Miscellaneous	261,128
<i>Total revenues</i>	1,344,555
<b>EXPENDITURES:</b>	
Current:	
General Government	475,445
Capital outlay	355,284
<i>Total expenditures</i>	830,729
<i>Net change in fund balance</i>	513,826
<i>Fund balances - beginning</i>	2,700,803
<i>Fund balances - end of year</i>	\$ 3,214,629

The accompanying notes are an integral part of these financial statements.



**LA MERCED DEL PUEBLO DE CEBOLLETA**  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2017

Exhibit B-2

Net Change in Fund Balance - Governmental Funds	\$ 513,826
The change in net position reported for governmental activities in the statement of activities is different because:	
Depreciation expense	<u>(70,826)</u>
Change in Net Position (Exhibit A-2)	<u><u>\$ 443,000</u></u>

The accompanying notes are an integral part of these financial statements.

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Exhibit C-1

Statement of Revenues, Expenditures and  
Changes in Fund Balance - Budget (Non- GAAP Budgetary Basis) and Actual  
General Fund  
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<i>Revenues:</i>				
Mining revenue	\$ -	\$ -	\$ 712,984	712,984
Federal revenue- grants	-	-	25,443	25,443
Miscellaneous	-	-	261,128	261,128
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>999,555</u>	<u>999,555</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	475,445	(475,445)
Capital outlay	-	-	355,284	(355,284)
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>830,729</u>	<u>(830,729)</u>
<i>Net change in fund balance (budgetary basis)</i>	-	-	168,826	168,826
<i>Fund balance - beginning of year</i>	-	-	3,045,803	3,045,803
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,214,629</u>	<u>\$ 3,214,629</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ 168,826	
Adjustments to revenues for mining lease revenue			345,000	
No adjustments to expenditures			-	
<i>Net change in fund balance (GAAP Basis)</i>			<u>\$ 513,826</u>	

The accompanying notes are an integral part of these financial statements.

**LA MERCED DEL PUEBLO DE CEBOLLETA**  
Statement of Fiduciary Net Position  
June 30, 2017

Exhibit D-1

	<b>Scholarship Private Purpose Funds</b>
<i>Current assets</i>	
Cash	<u>\$ 75,474</u>
<i>Total assets</i>	<u><u>\$ 75,474</u></u>
<i>Net position</i>	
Restricted net position	<u>\$ 75,474</u>
<i>Total net position</i>	<u><u>\$ 75,474</u></u>

The accompanying notes are an integral part of these financial statements.

**LA MERCED DEL PUEBLO DE CEBOLLETA**  
Statement of Changes in Fiduciary Net Position  
June 30, 2017

Exhibit D-2

	<b>Scholarship Private Purpose Funds</b>
<i>Additions:</i>	
Contributions from mining lease agreement	\$ 37,980
Interest income	<u>338</u>
<i>Total additions</i>	<u>38,318</u>
 <i>Deductions:</i>	
Scholarship payments	<u>26,011</u>
<i>Total deductions</i>	<u>26,011</u>
Change in net position	12,307
Total net position, beginning of year	<u>63,167</u>
Total Net Position, end of year	<u><u>\$ 75,474</u></u>

The accompanying notes are an integral part of these financial statements.

## LA MERCED DEL PUEBLO DE CEBOLLETA

Notes to Financial Statements

June 30, 2017

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*History:* In 1800, the La Merced del Pueblo de Cebolleta Land Grant "Land Grant", was awarded by the Spanish Governor to 30 settlers and their families from the Albuquerque-Atrisco area. At the time the Land Grant was awarded, it encompassed approximately 200,000 acres. The settlement was intended as a buffer to forestall Navajo raids on the Río Grande communities. In 1882, US President Chester Arthur issued the Land Grant a patent for 199,957 acres. In 1884, 24,000 acres were sold to Laguna Pueblo through what is known as the Pagate Purchase. In 1907, a partition suit resulted in certain Land Grant lands transferred to attorneys in lieu of cash for payment. Also during the partitioning of the Land Grant, 4,039 acres were transferred to people living in the town of Marquez and surrounding area, which is now organized as the Juan Tafoya Land Corporation. In the 1940s, Lee Evans claimed and was awarded approximately 117,000 acres of the Land Grant by adverse possession. In 1968, 15,000 acres of the Land Grant was purchased by the New Mexico Department of Game and Fish to create the Marquez wildlife area. As of 2017, the Land Grant encompasses approximately 36,000 acres of common lands for the benefit of land grant heirs. Within the Land Grant's current geographical area are three towns: Seboyeta, Bibo, and Moquino.

An important natural resource of the Land Grant is uranium. The Laguna mining district, which includes a portion of the area of the Cebolleta Land Grant, has been of considerable interest to the US uranium mining industry since the early 1950's. The first discovery of uranium mineralization in the Laguna mining district was made by geologists and engineers of the Anaconda Copper Company in late 1951.

Climax Uranium, a subsidiary of American Metals Climax, leased certain properties from the Land Grant and discovered several uranium deposits that subsequently became the St. Anthony group of uranium deposits. Climax operated a small-scale underground mine between 1953 and 1960, when their lease was acquired by United Nuclear Corporation (later to become UNC Resources, now a subsidiary of General Electric). UNC developed two open pits and one underground mine at St. Anthony. UNC's mining activities commenced in 1977 and continued through 1980.

Reserve Oil and Minerals and Sohio (then a subsidiary of the Standard Oil Company of Ohio) formed a joint venture in 1969 and discovered extensive uranium mineralization on the Land Grant prior to the development of an underground mine and construction of a uranium mill (L-Bar mill). Sohio operated the property between late 1976 and 1981. Sohio acquired Reserve Oil's interests in the property in 1982, and subsequently deeded their property interests in the area to the Land Grant in 1989, fulfilling a portion of their reclamation and restoration obligations.

Collectively, the L-Bar operation is credited with production of 1.9 million pounds of Uranium (U3O8), and the St. Anthony mines produced approximately 1.13 million pounds of Uranium (U3O8).

In April 2007, as more fully described in Note 3, the Land Grant entered into an Advance Royalty Lease Agreement with a Uranium company.

## LA MERCED DEL PUEBLO DE CEBOLLETA

Notes to Financial Statements

June 30, 2017

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

This summary of significant accounting policies of the Land Grant is presented to assist in the understanding of the Land Grant's financial statements. The financial statements and notes are the representation of the Land Grant's management who are responsible for their integrity and objectivity. The financial statements of the Land Grant conform to accounting principles generally accepted in the United States of America as applied to governmental units except for the departures from GAAP described in these notes. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's policies are described below.

During the year ended June 30, 2017, the Land Grant adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, No. 79, *Certain External Investment Pools and Pool Participants*, No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, are required to be implemented for the fiscal year ending June 30, 2017. The Land Grant did not have any disclosure requirements for tax abatements as of during the year ended June 30, 2017.

#### A. *Financial Reporting Entity*

The Land Grant, located in Cibola County, was established as a political subdivision of the State of New Mexico in 2004. The Land Grant is considered to be a special purpose government.

Generally accepted accounting principles (GAAP) requires that financial statements present the Land Grant (primary government) and its component units. The Land Grant has three component units (Moquino Water Association, Seboyeta Water Association and Bibo Water Association) that are required to be presented in accordance with Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*.

*Blended Component Units*—The Land Grant does not have any component units reported as blended component units.

*Discretely Presented Component Units*—The Land Grant has three component units which should be reported as discretely presented component units under GAAP. However, the Land Grant has not included the financial information of the component units due to not having accounting records and the underlying source documents and financial data available for fiscal year 2017. The effect of this GAAP departure has not been determined.

#### *Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Land Grant. For the most part, the effect of inter-fund activity has been removed from these statements.

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Notes to Financial Statements

June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*A. Financial Reporting Entity (continued)*

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Land Grant considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues received during the year but are applicable to subsequent years are reported as deferred inflows of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Expenditures incurred during the year that are for the benefit of subsequent years are reported as deferred outflows of resources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Land Grant.

The Land Grant reports the following major governmental fund:

*General Fund* — The General Fund is the Land Grant's primary operating fund. It accounts for all financial resources of the general government.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

The Land Grant reports the following fiduciary funds

*Scholarship Custodial Funds* — This fund is used to account for a Scholarship Trust Fund. The Scholarship Trust Fund allows for both principal and interest to be used for scholarships of eligible Land Grant members.

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Notes to Financial Statements

June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*A. Financial Reporting Entity (continued)*

Fiduciary Funds are used to account for assets held by the Land Grant in an agency or custodial capacity for others and, therefore, are not available to support Land Grant functions. Fiduciary Funds are never considered to be a major fund and typically use the economic resources measurement focus concept of accounting. Since agency funds are custodial in nature, they have no measurement focus and are not incorporated into the government-wide financial statements.

Cash and Investments. Cash includes amounts in demand deposits accounts. Cash deposits are reported at their carrying amount, which reasonably estimates fair value.

Investments consist of certificates of deposit and money market accounts. All investments are stated at fair value that is determined by using selected bases. Interest income, realized gains and losses on investment transactions are included for financial statement purposes as investment income.

The Land Grant does not have an investment policy. Land Grant funds are invested in accordance with New Mexico State Statute 6-10-36 which provides for the following investments:

United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.

Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.

Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.

Investments in the New Mexico State Treasurer external investment pool (Local Government Investment Pool).

Prepaid Items. Payments made to vendors for services that will benefit periods beyond the year-end are recorded as prepaid items. There were no prepaid assets at year-end.

Capital Assets. GAAP requires capital assets and related depreciation be reported in the accompanying financial statements. Capital assets, which include property, buildings, and equipment are not reported as the Land Grant has not maintained records for 2007 and prior years. The effect of this GAAP departure is not determinable until an inventory of capital assets has been completed and the cost of capital assets and accumulated depreciation has been compiled in capital asset records.

Capital assets are defined by the Land Grant as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.



**LA MERCED DEL PUEBLO DE CEBOLLETA**

Notes to Financial Statements

June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*A. Financial Reporting Entity (continued)*

Assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Intangible Assets. Under Statement of ASC 350, *Intangibles - Goodwill and Other*, intangible assets with indefinite lives are no longer amortized. Indefinite lived intangible assets, such as water rights, are tested for impairment on an annual basis. There were no intangible assets at year-end.

Deferred Inflows of Resources. In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Land Grant has only one type of this item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from mining lease revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balances. The Land Grant follows GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – Represents amounts that are not in a spendable form, cannot be spent, or required by legal or other contractual reasons to be maintained intact. This classification includes permanent fund principal, inventory, assets held for sale, prepaids, and long-term receivables net of deferred revenue. At June 30, 2017, the Land Grant did not have nonspendable fund balances.

Restricted – Represents amounts that have been constrained by specific purposes stipulated by external providers, creditors, grantors and other governments, constitutionally, or through enabling legislation. At June 30, 2017, the Land Grant did not have restricted fund balances.

Committed – Includes amounts that have been committed by formal action by the highest level of authority for specific purposes (via Board of Trustees action, resolution or adopted ordinance- both equally binding) and can only be changed or lifted by the same formal action. At June 30, 2017, the Land Grant did not have committed fund balances.

Assigned – Amounts that are intended to be used for specific purposes by the Land Grant, but do not meet the definition of other fund balance classifications. The general fund is the only fund that may have assigned fund balance due to the restricted nature of other fund types. The authority to assign fund balance can be that of the Board of Trustees, or by an official (usually the President or Treasurer) that has been delegated that authority. At June 30, 2017, the Land Grant did not have assigned fund balances.

## LA MERCED DEL PUEBLO DE CEBOLLETA

Notes to Financial Statements

June 30, 2017

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### A. *Financial Reporting Entity (continued)*

Unassigned – This is the fund balance that is the residual classification for the General Fund not contained in other classifications. Only the General Fund can report a positive unassigned fund balance. Other governmental funds may have a negative unassigned fund balance after all restrictions or commitments have been accounted for via other classifications. In the General Fund, the unassigned fund balance at June 30, 2017, was \$3,214,629 and represents residual fund balance undesignated by other classifications.

Net Position. In the government-wide financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds and deferred outflow of resources related to refunding of bonds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Land Grant or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. Unrestricted net position represents assets of the Land Grant not restricted for any other project or purpose.

Budgetary Information. Budgets for the general fund are prepared by management and are approved by the Land Grant's governing Board and the New Mexico Department of Finance and Administration. The budget information was not available or legally adopted and is not presented in the basic financial statements for the year ended June 30, 2017. Budgetary authority is at the fund level. As stated in finding 2007-020, the Land Grant had expended in excess of the budget of \$830,729 as listed in the finding.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### NOTE 2. DEPOSITS

*Custodial Credit Risk.* Custodial credit risk is, in the event of the failure of a depository financial institution, the Land Grant will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Land Grant does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Land Grant's name. As of June 30, 2017, the Land Grant's bank balance total of \$3,214,629 was exposed to credit risk and there was no evidence of collateral pledged.

The total balance in any single financial institution may at times exceed the FDIC coverage available to deposits. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Land Grant is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account.

#### *Interest Rate Risk*

The Land Grant does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### *Concentration of Credit Risk*

The Land Grant places no limit on the amount that may invested in any one issuer.

## LA MERCED DEL PUEBLO DE CEBOLLETA

Notes to Financial Statements

June 30, 2017

### NOTE 3. LEASE AGREEMENT FOR SURFACE AND MINERAL RIGHTS

In April 2006, the Land Grant received an offer from an individual for the exploration, development, and production of uranium on the common lands of the Land Grant. In June 2006, the Land Grant received a second offer from Neutron Energy Inc. (Neutron).

From June 2006 through January 2007, working with a consultant on a contingency fee basis, the Land Grant reviewed and evaluated a number of offers of interested companies active in uranium exploration. On January 27, 2007 the Board of Trustees of the Land Grant, evaluated two final offers and selected and voted for Neutron, which offered the Land Grant the highest pre-production economic potential defined as the direct potential economic benefit to the Land Grant prior to the production of minerals. To formally document and record the outcome of the vote, the Board signed a Resolution declaring the Grant's intention to sign a Letter Agreement and to negotiate and sign a Definitive Agreement with Neutron. Also, on January 27, 2007, the Board signed a Letter Agreement with Neutron.

On March 11, 2007, the Land Grant entered into an advance royalty lease agreement (Lease Agreement) with Neutron Energy Inc., (Neutron) to lease approximately 6,700 acres of fee (deeded) surface and mineral rights. The Lease Agreement was affirmed by the New Mexico District Court in Cibola County on April 6, 2007. The Lease provides Neutron with the right to explore for, mine, and process uranium deposits present on the Land Grant Property.

The Lease Agreement provides for:

- i. a term of ten years and so long thereafter as Neutron is conducting operations on the Land Grant;
- ii. initial payments to the Land Grant of \$5,000,000 (\$3,000,000 in April 2007 and \$2,000,000 October 2008);
- iii. a recoverable reserve payment equal to \$1.00 multiplied by the number of pounds of recoverable uranium reserves upon completion of a feasibility study to be completed within six years, less;
  - a. the \$5,000,000 referred to in (ii) above; and
  - b. not more than \$1,500,000 in annual advance royalties previously paid pursuant to (iv);
- iv. annual advanced royalty payments of \$500,000;
- v. gross proceeds royalties from 4.50% to 8.00% based on the then current price of uranium;
- vi. employment opportunities and job-skills training for the members of the Cebolleta Land Grant; and
- vii. funding of annual higher education scholarships for the members of the Cebolleta Land Grant (\$30,000 in the first year of the contract).

In February 2012, Neutron and the Land Grant amended the Lease Agreement. Pursuant to the amendment, the date by which the Borrower must complete a feasibility study was extended from April 2013 to April 2016. As of June 19, 2018, the feasibility study has not been completed. In addition, the date may be further extended subject to a reduction in the \$6,500,000 initial payment and annual advance royalty payments deduction to the recoverable reserve payment.

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Notes to Financial Statements

June 30, 2017

**NOTE 3. LEASE AGREEMENT FOR SURFACE AND MINERAL RIGHTS**

On August 31, 2012, 100% of the equity of Neutron Energy Inc. was acquired by Uranium Resources, Inc.

As noted above, the Lease Agreement provides \$30,000 per year (increased each year after 2007 using the Higher Education Inflation Index) to be used for scholarships to Land Grant residents. The Land Grant Board is the Trustee of the Plan and is responsible for selecting recipients and providing the requirements for renewal of scholarships. Scholarship America, an unrelated third-party, has been contracted to provide management services associated with the scholarship disbursement. The contract between the Land Grant and Scholarship America was entered into in June 2007 and continues on a year to year basis unless terminated by either party. The balances and activity of the scholarship fund are accounted for in a fiduciary custodial fund.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ending June 30, 2017 was as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Capital assets not being depreciated				
Land	<u>\$ 2,008,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,008,253</u>
Total capital assets not being depreciated	<u>2,008,253</u>	<u>-</u>	<u>-</u>	<u>2,008,253</u>
Capital assets being depreciated				
Buildings	599,855	-	-	599,855
Infrastructure	938,271	-	-	938,271
Improvements	<u>217,342</u>	<u>-</u>	<u>-</u>	<u>217,342</u>
Total capital assets being depreciated	<u>1,755,468</u>	<u>-</u>	<u>-</u>	<u>1,755,468</u>
Total capital assets	<u>3,763,721</u>	<u>-</u>	<u>-</u>	<u>3,763,721</u>
Less accumulated depreciation	<u>(242,474)</u>	<u>(70,826)</u>	<u>-</u>	<u>(313,300)</u>
Total accumulated depreciation	<u>(242,474)</u>	<u>(70,826)</u>	<u>-</u>	<u>(313,300)</u>
Capital assets, net of accumulated depreciation	<u>\$ 3,521,247</u>	<u>\$ (70,826)</u>	<u>\$ -</u>	<u>\$ 3,450,421</u>

Depreciation expense for the year ended June 30, 2017 was \$70,826.

## LA MERCED DEL PUEBLO DE CEBOLLETA

Notes to Financial Statements

June 30, 2017

### NOTE 5. ENVIRONMENTAL REMEDIATION

The Land Grant is the site of several former open pit and underground uranium mines. Below is the current status of the environmental remediation of the two largest mines. The Land Grant does not have a remediation obligation for either site.

*L-Bar Mine.* Sohio Western Mining developed and operated an underground mine and a uranium mill on a portion of the Land Grant. Surface disturbances associated with the former mine and mill complex have been restored by the successor company to Sohio, with the formal approval of the Mining and Minerals Division of the New Mexico Department of Energy and Minerals. The area of the former Sohio L-Bar uranium processing mill and tailings storage facility were previously reclaimed, and the site has been deeded to the US Department of Energy for long-term monitoring.

*St Anthony Mine.* UNC Resources (now a subsidiary of General Electric) operated the former St. Anthony open pit and underground mines. Extensive surface disturbances associated with these mines have not been restored, but are subject to a pending reclamation permit application filed by UNC Resources with Mining and Minerals Division. The most recent estimated cost of reclamation (September 2011), is approximately \$25.8 million. In 2013, UNC Resources provided the Mining and Minerals Division financial assurances for the 2011 estimated cost of reclamation. As of June 19, 2018, another permitting process is currently on-going with the New Mexico Environment Department Mining Environmental Compliance Section (NMED MECS) to determine how to reclaim the pit. Once the NMED MECS process is completed, a new reclamation plan and an updated financial assurance amount will be available.

### NOTE 6. RISK MANAGEMENT

The Land Grant did not have risk management insurance during fiscal year 2017.

### NOTE 7. CONTINGENCIES

The Land Grant does not have any knowledge of actual or pending lawsuits against the Land Grant. There is an assessment against the Land Grant by the New Mexico Taxation and Revenue Department of approximately \$40,000 for unpaid gross receipts tax on the sales of water by the three component unit water associations. There is no other available information as of the date of release of this report.

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Notes to Financial Statements

June 30, 2017

**NOTE 8. SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 31, 2020, which is the date the financial statements were available to be issued. The following are the material subsequent events occurred:

*Mining revenue received after June 30, 2017*

The Lease Agreement (Note 3), requires an additional cash payment in October of 2007 of \$2,000,000, and payment of advance royalties every year in the amount of \$500,000 until the completion of a feasibility study. The feasibility study has not been completed as of June 30, 2017.

*Scholarship cash receipts received after June 30, 2017*

The Lease Agreement (Note 3) requires annual payments to the Scholarship Fund. Subsequent to June 30, 2017, an additional \$77,365 has been collected through June 30, 2018.

## **SUPPLEMENTARY INFORMATION**

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## **SUPPORTING SCHEDULES**

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**LA MERCED DEL PUEBLO DE CEBOLLETA**  
 Schedule of Deposits and Investments  
 June 30, 2017

Schedule I

<b>Bank Account Type/ Name</b>	<b>Bank of Albuquerque</b>
Cash Deposits:	
Account 9085	\$ 2,277,161
Account 2609	8,175
Account 2598	7,908
Account 0412	883
Account 1106	2,014
Account 2433	23,797
Account 5768	3,232
Account 5779	13,000
Account 6089	44,035
Account 8889	53,359
Escrow	5,152
Money Market- Operational *	675,851
Certificate of Deposit	100,062
 Total Deposits	 3,214,629
 Plus: Endowed Money Market- Scholarship America	 75,474
 <i>Reconciled balance June 30, 2017</i>	 <i>\$ 3,290,103</i>
 Reconciliation to financial statements:	
Cash and cash equivalents:	
Government-wide statement of net position - Exhibit A-1	\$ 2,438,716
Investments:	
Government-wide statement of net position - Exhibit A-1	775,913
Cash and cash equivalents:	
Statement of fiduciary net position agency funds - Exhibit D-1	75,474
 <i>Cash and cash equivalents per Financial Statements</i>	 <i>\$ 3,290,103</i>

See independent auditors' report.

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## **COMPLIANCE SECTION**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITORS' REPORT**

Brian S. Colón, Esq.  
New Mexico State Auditor  
Board of Directors  
La Merced Del Pueblo de Cebolleta  
Seboyeta, New Mexico

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparison of La Merced Del Pueblo de Cebolleta (the "Land Grant") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Land Grant's basic financial statements, and related budgetary comparisons presented as supplementary information, and have issued our report thereon dated March 31, 2020. We were unable to express an opinion on those financial statements because the Land Grant did not maintain sufficient internal controls and adequate accounting records.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Land Grant's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Land Grant's internal control. Accordingly, we do not express an opinion on the effectiveness of the Land Grant's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-002, 2007-003, 2007-004, 2007-005, 2007-006, 2007-008, 2007-009, 2007-010, 2007-011, 2007-012, 2007-013, 2007-014, 2007-015, 2007-017, 2007-018, 2007-020, 2007-021, 2007-026, 2007-029, 2007-035, and 2007-036, to be material weaknesses.

A significant deficiency is a deficiency, or a 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2007-027 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Land Grant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-001, 2007-007, 2007-020, 2007-024, 2007-026, and 2010-001.

We noted certain matters that are required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of Section 12-6-5 NMSA 1978 findings as items 2007-009, 2007-021, 2007-022, 2007-025, 2007-028, 2007-031, 2007-035, and 2016-001.

### **The Land Grant's Responses to the Findings**

The Land Grant's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Land Grant's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Land Grant's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Land Grant's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Cordova CPAs LLC  
Albuquerque, New Mexico  
March 31, 2020

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**Section I – Summary of Auditors’ Results**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditors’ report issued   | Disclaimer |
| 2. Internal control over financial reporting:                                    |            |
| a. Material weaknesses identified?   | Yes        |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes        |
| c. Noncompliance material to the financial statements noted?                     | Yes        |

**2007-001 Late Independent Public Accountant (IPA) Recommendation and Audit Report (Material Non-Compliance) (Repeated)**

*Condition:* The IPA recommendation was not submitted by the May 1, 2017 due date. Also, the audit report for the Land Grant's fiscal year ended June 30, 2017 was not submitted by the due date of December 15, 2017 as required OSA Rule 2.2.2.9 (A). The audit report was submitted August 7, 2020. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* OSA Rule 2.2.2.8 establishes a due date for the IPA recommendation of May 1<sup>st</sup> for local public bodies that do not qualify for the tiered system.

OSA Rule 2.2.2.9 (A) establishes a due date for submission of this audit report to the Office of the State Auditor by December 15<sup>th</sup>.

*Effect:* The recommendation and report were not submitted as required. Without the audit report being delivered on time, regulatory agencies as well as legislative committees do not have the financial data available to make funding decisions. Heirs to the Land Grant also do not have the financial data available for review. Capital projects funding is currently withheld from the Land Grant until all currently due audits are completed and released through the Office of the State Auditor.

*Cause:* Turnover at board members roles as well as key finance roles did not allow for the financial and accounting operations to be carried out during the year, which did not allow for the proper IPA recommendations or the Audit to take place. Also, several months without board members did not allow the FY 2017 audit to be started in a timely matter.

*Auditors' Recommendations:* We recommend the Land Grant work to create all proper financial information to complete all outstanding audits as soon as possible to ensure the Land Grant completes the FY 2018 through FY 2020 audits as soon as possible.

*Agency's Response:* The current board has hired a different CPA firm to help assist in getting all audits up to date and eliminate late audit reports. The board hopes to continue to work diligently to have this accomplished by end of FY 2020.

**2007-002 Inadequate Accounting and Internal Control Processes (Material Weakness) (Repeated)**

*Condition:* During the entity-wide internal controls evaluation, it was noted that an accounting procedures manual has not been adopted, and policies and procedures that adequately define accounting and reporting responsibilities have not been documented. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls with financial close functions to produce accurate and timely financial information in accordance with generally accepted accounting principles.

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Section 49-1-3 (A) NMSA 1978 states that the Board of Trustees has the power to control, care for and manage the land grant-merced and real estate, prescribe the terms and conditions under which the common lands may be used and enjoyed and make all necessary and proper by-laws, rules and regulations that shall be in substantial compliance with applicable statutes for the government thereof.

*Effect:* The Land Grant is susceptible to errors or fraud not being timely detected and corrected due to the weaknesses in the internal control structure of the Land Grant. Also, account balances in the accounts noted above were not adjusted as part of the monthly and/or annual financial close, and audit adjustments not identified by management were required to fairly present balances.

*Cause:* There are no employees, and therefore, the Board operates as management. With the turnover at the board level, and the lack of accounting personnel has resulted in weak-to-nonexistent internal controls, accurate balances, and policies and procedures.

*Auditors' Recommendations:* We recommend that the Land Grant perform hire and train proper staff in order to ensure financial operations and reporting are performed. Also, a complete risk assessment of the internal control policies and processes throughout the Entity should be performed as soon as possible. Also, we recommend the Land Grant perform a thorough year end analysis on all account balances prior to closing out the fiscal year to ensure all required adjustments are reflected for year-end reporting.

The Board should also monitor that corrective action is being taken and that all audit findings are resolved.

Lastly, the by-laws, rules and regulations approved by the Board must comply with any applicable laws related to land grants found in the general provisions of Chapter 49-1-1 through 49-1-23 as well as any other statutory chapters in the law that relate to land grants or political sub-divisions of the state in general.

**2007-002 Inadequate Accounting and Internal Control Processes (Material Weakness) (Repeated)-  
(continued)**

*Agency's Response:* The current board will be working with the auditors to help with any recommendations and support in helping staff get proper training, knowledge, and direction in making sure financial accounting and internal controls are improved on and resolved each fiscal year and ongoing. The board currently has a financial consultant on contract and that person will help in this process. The board hopes to have this resolved by FY end 2020.

**2007-003 Insufficient Accounting Records and Document Retention (Material Weakness) (Repeated)**

*Condition:* The Land Grant did not maintain sufficient accounting records for all transaction types.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls that includes process to properly retain accounting information to ensure accurate and timely financial information in accordance with generally accepted accounting principles. Management has not had any progress towards implementing its prior year corrective action plan.

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

49-1-14(C) NMSA 1978 states in part that the Board of Trustees shall keep permanent and legible records capable of audit.

In the New Mexico Land Grant Governance Guidebook 2011, Financial Reporting and Audit Guidelines section, it gives very clear instructions for audits, financial reporting, and document retention, stating that one of the most important things the Land Grant can do in preparation for an audit is properly file and safeguard their records. It is necessary to save copies of all financial records including purchase receipts, bank statements, check registers, withdrawal and deposit receipts, reconciliation reports, approved budgets, budget adjustment requests and financial statements. Also, it is important to keep on file copies of the meeting agendas, approved meeting minutes and resolutions passed throughout the fiscal year. All of these documents are what must be included in the annual report required by statute (Land Grant General Provision 49-1-12 NMSA 1978).

All of the above listed records should be categorized and place in a folder or binder for safekeeping and easy access by an auditor. In addition, electronic records of all this should be maintained as well in archives for permanent access. All records should be filed in order by date. Bank Statements and reconciliations should be kept together in one binder. Along with this binder there should be a file kept with all the receipts for deposits and withdrawal from the bank as well as a file with any and all check registers used. All receipts for purchases should be filed by month throughout the fiscal year. The original approved budgets as well as any approved Budget Adjustment Requests should be all in one file or binder. The same goes for any monthly or quarterly financial statements produced throughout the fiscal year. The Secretary of the Board must also ensure that a binder is kept with all meeting agendas, approved minutes, and resolutions. This is important because the minutes are a record of what actions the Board took throughout the year. The resolutions as well as any actions documented in the minutes set the policies of the land grant-merced over time. They are the official record which the auditor must go by to ensure that an entity is in compliance with its own operating standards.

Once records have been properly filed it is important that they are stored in a safe place so that they may be utilized in the future by the Board of Trustees, an auditor or in order to comply with an Inspection of Public Records Act request from a member of the public. The New Mexico Administrative Code (NMAC) sets forth the requirements for how long certain types of records must be maintained by a government entity before they can dispose of them. The NMAC outlines these retention requirements in Title 1, Chapter 15 in various parts. They are known as General Records Retention and Disposition Schedules (GRRDS).

The Guidebook includes a chart for records maintenance which has been compiled from the various parts of the aforementioned NMAC, namely parts 2, 4, and 6. The list was compiled based on the typical records a land grant-merced might be required to keep, for a complete listing of the GRRDS please refer to the NMAC.

**2007-003 Insufficient Accounting Records and Document Retention (Material Weakness) (Repeated)**  
**(continued)**

In addition, Section 49-1-19 NMSA 1978, states that any member of the board of trustees who fails or refuses to perform any of the duties required to be performed by the board of trustees of the land grant-merced or any member of the board pursuant to Sections 49-1-1 through 49-1-18 NMSA 1978 or by any other law of New Mexico is guilty of a misdemeanor and upon conviction shall be punished by a fine of not less than twenty-five dollars (\$25.00) nor more than one hundred dollars (\$100) or by imprisonment in the county jail for a period of not less than thirty days nor more than ninety days, or both.

*Effect:* We could not gather sufficient audit evidence to support balances on the financial statements.

*Cause:* The Land Grant has not adopted a formal document retention policy, has not created a proper accounting department, and has not implemented any of the 5 critical elements that must be present in organization to ensure proper financial records, reporting, and asset safeguarding.

*Auditors' Recommendations:* The Land Grant should perform a complete risk assessment of the internal control policies and processes throughout the Entity to establish proper policies and procedures. Also, consider adding a part-time accounting personnel, with proper accounting experience, to perform financial close duties as well as formalizing some minimal accounting records including a general ledger.

*Agency's Response:* The current board will be reviewing all accounting transactions to ensure that proper accounting records, procedures, and systems will be in place by FY ending 2020. There will be an assessment of any software, program, files, procedures, and personnel needed to accomplish this task, as well as board training.

**2007-004 Insufficient Segregation of Duties (Material Weakness) (Repeated)**

*Condition:* During internal control walkthroughs, it was noted that the same person who receives the cash receipts also makes the deposit into the bank accounts. It was also noted the same person that receives the invoices for goods or services also writes the checks. There is no formal process for reviewing and approving cash disbursement. There is a lack of controls in place to ensure separation of duties among the Board. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls to properly safeguard assets and ensure accurate and timely financial information in accordance with generally accepted accounting principles.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

*Effect:* Theft or errors could occur and remain undetected when proper controls are not in place over cash receipts and disbursements.

*Cause:* Separation of duties over cash receipts and disbursements is difficult to achieve in a small office environment, especially when the work is all performed by Board members. It has also been difficult because the Land Grant has not kept consistent contract accountants over time.

*Auditors' Recommendations:* Although the Land Grant Board has only five members, steps could be taken to separate incompatible duties. The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction.

*Agency's Response:* The current board is aware of this and has taken some steps to resolve this, but understands that more segregation may be warranted. This board will review with the current auditors what steps can be added or modified to accomplish true segregation of duties. The board would like to improve on this by end of FY 2020.

**2007-005 Insufficient Internal Controls over Cash Receipts (Material Weakness) (Repeated)**

*Condition:* During cash receipts testwork we noted the Land Grant could not provide a listing of cash receipts or documentation to support review and approval of revenues the overall balance being \$1,344,555. We could not select a sample to test because no records exist for cash receipts. We could not test for compliance with the Public Monies Act regarding the requirement to deposit funds within 24 hours after receipt. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls to properly safeguard assets and ensure accurate and timely financial information in accordance with generally accepted accounting principles.

*Effect:* The lack of strong controls surrounding receipts greatly increases the risk for misappropriation of funds.

*Cause:* The Land Grant has not set up a cash receipting procedure that allows for does not have sufficient controls over receipts.

*Auditors' Recommendations:* The Land Grant should develop and implement strong policies and procedures to ensure that receipts are processed, recorded accurately, and approved.

*Agency's Response:* The current board has implemented a receipt system that allows for great improvement of this concern. This was put in place in later fiscal years and currently in place. The board has pre-numbered receipt books, verification of type of receipt, date of receipt, and reconciliation to deposits.



**2007-006 Insufficient Internal Controls over the Cash Disbursements Process (Material Weakness) (Repeated)**

*Condition:* We were unable to select a sample due to the Land Grant being unable to provide a listing of disbursements for the year the overall balance being \$830,729. During testwork, it was noted that the Land Grant was unable to locate and provide invoices to support any expenditures. Due to the lack of documentation, we could not document that invoices paid went through a review and approval process and we could not test the validity of payments. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls to properly safeguard assets and ensure accurate and timely financial information in accordance with generally accepted accounting principles.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

49-1-14(C) states in part that the Board of Trustees shall keep permanent and legible records capable of audit, and no money or funds shall be paid by the Board of Trustees or by any person authorized to expend money except by written check drawn upon vouchers. Additionally, sound internal control practices require invoice review and approvals prior to a cash disbursement being made.

In addition, Section 49-1-19 NMSA 1978, states that any member of the board of trustees who fails or refuses to perform any of the duties required to be performed by the board of trustees of the land grant-merced or any member of the board pursuant to Sections 49-1-1 through 49-1-18 NMSA 1978 or by any other law of New Mexico is guilty of a misdemeanor and upon conviction shall be punished by a fine of not less than twenty-five dollars (\$25.00) nor more than one hundred dollars (\$100) or by imprisonment in the county jail for a period of not less than thirty days nor more than ninety days, or both.

*Effect:* Fraudulent payments could go undetected or be processed in error. In addition, without controls over the accounts payable transaction cycle it may be difficult to retain documentation to support and substantiate the account balance of expenses.

*Cause:* The Land Grant does not have policies and procedures related to processing of invoices. The Land Grant was unable to obtain vendor invoices and related supporting documentation to be audited.

*Auditors' Recommendations:* It is recommended that the Land Grant develop and implement sound policies and procedures related to the review and approval of vendor invoices that comply with the statute. Additionally, supporting documents must be maintained.

*Agency's Response:* The current board is in the process of updating all policies and procedures including processing of invoices and payments. This will be accomplished by end of FY 2020.

**2007-007 Lack of Supporting Documentation over Travel and Per Diem Expenses (Material Non-Compliance) (Repeated)**

*Condition:* During our testwork over travel and per diem expenditures, we noted the Land Grant did not maintain sufficient records related to the review and approval of travel and per diem the overall balance being \$23,167. The Land Grant could not provide supporting documentation for any of the travel and per diem related expenditures. Due to the lack of records being provided for testing of travel, we were not able to determine if review and approval took place prior to the payments being made. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* 49-1-14 NMSA 1978 states in part that Board members may be authorized per diem and mileage pursuant to the Per Diem and Mileage Act [10-8-1 NMSA 1978]. Section 10-8-4 NMSA 1978 sets forth the rates to be paid. Per 2.42.2.7 (L), "Travel" means: for per diem purposes, being on official business away from home and at least 35 miles from the designated post of duty of the public officer or employee. The Land Grant does not have internal policies and procedures that require a supervisory approval of all travel and per diem vouchers prior to payment.

*Effect:* The Land Grant is not in compliance with state statutes.

*Cause:* The Land Grant does not have a proper accounting structure in place to ensure records are created and maintained. It could not be determined if the information was lost, misplaced, withheld, or never completed.

*Auditors' Recommendations:* The Land Grant should design a Travel and Per Diem expenditure review and approval process to ensure compliance with the Per Diem and Mileage Act.

*Agency's Response:* The current board has a travel voucher in place for review and payment by the board treasurer and president. The process will be updated in the policies and procedures that are ongoing each year. The board shall have this accomplished by end of FY 2020.

**2007-008 Insufficient Internal Controls over Investments (Material Weakness) (Repeated)**

*Condition:* The Land Grant does not have an investment policy in place to govern the types of investments allowed. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* As per 6-10-10(H) NMSA 1978, a local public body, with the advice and consent of the body charged with the supervision and control of the local public body's respective funds, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of the investor that is entrusted to the local public body's care and custody and all money not immediately necessary for the public uses of the investor and not otherwise invested or deposited in banks, savings and loan associations or credit unions in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. As used in this subsection, "local public body" includes all political subdivisions of the state and agencies, instrumentalities and institutions thereof; provided that home rule municipalities that prior to July 1, 1994 had enacted ordinances authorizing the investment of repurchase agreements may continue investment in repurchase agreements pursuant to those ordinances.

*Effect:* The Land Grant's investments may not be in compliance with state statutes or policies.

*Cause:* The Land Grant has not formally adopted an investment policy or procedures or controls over Investments. Also, all investment statements were not made available for the auditors to be able to ascertain whether investments complied with state statutes.

*Auditors' Recommendations:* The Land Grant should develop and formally adopt an investment policy and implement procedures and internal controls over Investments.

*Agency's Response:* The current board as mentioned prior is working on all policies and procedures. The investment policy will be included in this undertaking as well. Currently the board only has investments in bank accounts that draw interest. This will be completed by end of FY 2020.

**2007-009 Insufficient Internal Controls over Capital Assets and Construction in Progress (Material Weakness/ Other Non-Compliance) (Repeated)**

*Condition:* During our capital asset testing, we noted that the Land Grant was unable to provide a listing of capital assets as of June 30, 2017. Capital assets owned prior to June 30, 2007 were not included on the trial balance prepared for the June 30, 2017 audit though buildings, building improvements and equipment did exist at June 30, 2007. It was also noted that the Land Grant does not have policies or procedures in place related to capital assets and that a physical inventory of capital assets was not completed as of June 30, 2017. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Audit Act (Section 12-6-10 NMSA 1978) requires agencies to conduct an annual inventory of movable chattels and equipment costing more than \$5,000 and under the control of the governing authority. The inventory shall list the chattels and equipment and the date and cost of acquisition. The inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files. Governmental Accounting Standards Board Statement 34 requires the recording and disclosing of all capital assets and related policies material to the governmental entity.

*Effect:* There is an increased risk that the loss, misuse, or theft of capital assets would be undetected. Capital assets and expenditures may be materially misstated on the financial statements.

*Cause:* The Land Grant does not have policies or procedures in place to purchase, place in service, account for, assess for impairment, or safeguard capital assets.

*Auditors' Recommendations:* We recommend the Land Grant procure services to compile a listing of capital assets and to develop and implement policies and procedures to safeguard assets in order to be in compliance with both State Laws and GASB accounting standards surrounding capital assets. The Land Grant should ensure that capital assets are procured, capitalized, inventoried, and reported properly.

*Agency's Response:* This current board will also be reviewing and developing policies and procedures for Capital Assets, and Construction in Progress. The board does have a good knowledge of all assets and construction, but needs these policies and procedures.

**2007-010 Insufficient Internal Controls over Journal Entries (Material Weakness) (Repeated)**

*Condition:* The Land Grant could not provide documentation to show review and approval of journal entries posted to the general ledger, the total amount of journal entries is undeterminable. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls to properly safeguard assets and ensure accurate and timely financial information in accordance with generally accepted accounting principles.

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

*Effect:* There is no accounting system in place to account for transaction.

*Cause:* The Land Grant does not have a process in place for the processing financial data including journal entries.

*Auditors’ Recommendations:* The Land Grant should develop a process for journal entries, including a standard form, preparation guidelines, posting, and approvals.

*Agency’s Response:* The current board as mentioned prior is in process of updating all policies and procedures that will include internal controls over journal entries as well. The board will work with a consultant to accomplish this by end of FY 2020.

**2007-011 Insufficient Internal Controls over Trial Balance, Financial Reconciliations, Component Unit Identification and Reporting (Material Weakness) (Repeated)**

*Condition:* A trial balance was not able to be provided by the Land Grant at the time for the audit; the primary government's component units were not identified timely, and source documents could not be provided. As a result, the Land Grant had to use bank statements that were available by the bank in order to create a general ledger and trial balance. Management has not had any progress towards implementing its prior year corrective action plan.

Due to the Land Grant using bank statements in order to create a general ledger and trial balance, no accrual accounts including accounts payable, accounts receivable, interest receivable, advance royalties' receivable, and certain other balances, could be produced.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls with financial close functions to produce accurate and timely financial information in accordance with generally accepted accounting principles.

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

*Effect:* The Land Grant is susceptible to errors or fraud not being timely detected and corrected due to the weaknesses in the internal control structure of the Land Grant. Also, account balances in the accounts noted above were not adjusted as part of the monthly and/or annual financial close, and audit adjustments not identified by management were required to fairly present balances.

Also, an internal control weakness in financial reporting exists because material adjustments were identified by the auditor's procedures and not by the Land Grant. As a result, there is the risk that financial statements and disclosures may be materially inaccurate. Insufficient controls over the preparation of financial statements and related disclosures limits the ability to prevent or detect a misstatement in its year-end financial statements. They are not able to provide timely financials to the Board, oversight agencies, and heirs of the Land Grant. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

A proper audit could not be performed due to insufficient records. The audit opinion is a disclaimer, as balances could not be audited due to lack of evidence.

*Cause:* The Land Grant does not have controls in place regarding financial reporting and retention of records. They did not provide adequate documentation and have not attended adequate training necessary to properly maintain and reconcile these accounts and create disclosures for audit and financial reporting purposes. The Land Grant's 2017 general ledger was created using only the bank statements (except for certain account

**2007-011 Insufficient Internal Controls over Trial Balance, Financial Reconciliations, Component Unit Identification and Reporting (Material Weakness) (Repeated) (continued)**

distributions due to lack of records). Many bank account transactions could not be identified. Accounts were not reviewed timely or corrected prior to the onset of the audit.

*Auditors' Recommendations:* We recommend the Land Grant develop and implement a process to ensure that its trial balance is maintained consistently, adjusted, safeguarded, backed up and reconciled on a regular basis. We recommend the Land Grant develop month-end and year-end close and reconciliation processes in order to facilitate and complete a transparent set of financial statements resulting in an efficient and timely audit process.

*Agency's Response:* The current board will work with auditors, consultants, and accountants to establish good internal controls of financial items, and include procedures with such items. We hope to complete this by end of FY 2020.

**2007-012 Insufficient Internal Controls Over Related Party Transactions and the Governmental Conduct Act (Material Weakness) (Repeated)**

*Condition:* During our review of entity-wide internal controls, and fraud inquiries, we noted that the Land Grant lacks internal controls and policies over procedures, initiation, voting, approving, and disclosing of related party transactions. Management has not had any progress towards implementing its prior year corrective action plan.

Furthermore, there are currently no internal controls or policies in place to ensure compliance with the Governmental Conduct Act, which extended to local government officers and employees (including water associations and Spanish and Mexican land grants).

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls to properly safeguard assets and ensure accurate and timely financial information in accordance with generally accepted accounting principles.

Per AU Section 334.09, the auditor should apply the procedures considered necessary to obtain satisfaction concerning the purpose, nature, and extent of these transactions and their effect on the financial statements. The governmental entity must have procedures to identify and properly account for related party transactions. NMSA 1978, Chapter 10, Article 16 relates to the Governmental Conduct Act.

*Effect:* Without these controls, the entity has increased risk for fraud, waste, abuse, and noncompliance.

*Cause:* The Land Grant does not have specific policies or procedures regarding related party transactions.

*Auditors' Recommendations:* We recommend that the Land Grant formally implement policies and procedures and monitoring to ensure compliance and set a tone of ethical behavior as the standard of conduct for the Land Grant. The policy should include disciplinary action to be taken for violation of policy.

*Agency's Response:* The current board does not have any specific related party transactions, but does need a policy and procedure for such items. The board will develop and implement one by end of FY 2020.



**2007-013 Insufficient Internal Controls Over Information Technology (Material Weakness) (Repeated)**

*Condition:* During our audit, we noted that IT General Computer Control and overall environments controls, policies, and procedures were non-existent. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* According to NMAC 1.12, provides guidance on an Enterprise Security Policy for the protection of information technology (IT) assets and resources including data and information. The policy establishes that protection must be provided for IT assets, resources, and data/information from unauthorized access, use, disclosure, disruption, modification, or destruction to provide integrity, confidentiality, availability, accountability, and assurance, and establishes that controls must be maintained over information systems, resources, and data/information sufficient to contain risk of loss or misuse of information. In addition, the Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of good internal controls over IT general computer controls within the organization.

*Effect:* These deficiencies resulted in weaknesses in internal controls and could have contributed to the loss of data and records.

*Cause:* The Land Grant has not implemented a proper accounting and finance department or developed a proper IT structure.

*Auditors' Recommendations:* The Land Grant should perform a complete risk assessment of the IT General Computer Controls and IT environment and develop appropriate and timely responses to reduce and mitigate the risks identified in such risk assessment.

*Agency's Response:* The current board will also make sure by end of FY 2020 that a policy and procedure over information technology will be adopted and implemented.

**2007-014 Lack of Ethics Policy (Material Weakness) (Repeated)**

*Condition:* During our review of entity-wide internal controls, it was noted that the Land Grant lacks a code of conduct or ethics policy to set the tone for standard of conduct. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes setting the tone from the top.

*Effect:* Without an ethics policy or code of conduct, violations or departures from policy cannot be given a clear and appropriate disciplinary action. Without an ethics policy or code of conduct to guide behavior, the Land Grant is at risk of an inappropriate ethical tone.

*Cause:* The Land Grant does not have a specific policy regarding ethics or code of conduct.

*Auditors' Recommendations:* We recommend that the Land Grant formally implement an ethics policy or code of conduct to set a tone of ethical behavior as the standard of conduct for the Land Grant. The policy should include disciplinary action to be taken for violation of policy.

*Agency's Response:* The current board has a good code of ethics, but does not have the policy and procedure in place to ensure everyone is understanding and following same rules. This will be in place by end of FY 2020.

**2007-015 Insufficient Practices for the Identification, Mitigation and Monitoring of Risk (Material Weakness) (Repeated)**

*Condition:* During our review of internal controls surrounding the Land Grant's risk assessment process, we noted that mechanisms are not in place to identify risks applicable to the Land Grant and financial reporting objectives, including fraud risk, and then mitigate and monitor them. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls to properly safeguard assets and ensure accurate and timely financial information in accordance with generally accepted accounting principles.

*Effect:* Without a risk assessment approach to identify potential risks applicable to the Land Grant, the Land Grant is vulnerable to errors and/or fraud. Without a proactive risk assessment, errors or fraud could occur and go undetected.

*Cause:* The Board's approach to risk has historically been reactive rather than proactive. They do not proactively evaluate risks applicable to the Land Grant.

*Auditors' Recommendations:* It is recommended that the Board of Trustees establish a practice for the identification of risks affecting the Land Grant. Mechanisms that should be in place to identify risks applicable to the Land Grant and financial reporting objectives include a) changes in operating, economic, and regulatory environments; b) participation in new programs and activities. The Land Grant should consider routine events or activities that may affect the Land Grant's ability to meet its objectives as well as non-routine events. The Land Grant should develop forward looking mechanisms to provide early warning of potential risks relevant to preparation of financial statements. Any risks related to the ability to initiate and process unauthorized transactions should be appropriately identified.

Fraud assessments should be part of the risk identification process. The assessment of fraud risk should consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud. The assessment of fraud risk should consider risk factors relevant to its activities and to the geographic region in which the Land Grant operates. Plans should be implemented to mitigate identified risks and then monitor them.

*Agency's Response:* The current board will work with the auditors, consultant, and review procedures to identify risk factors that need attention, and implement mechanisms to resolve any concerns or problems with regard to land grant practices and procedures, along with policies for this concern.

**2007-017 Unavailable Bank Statements and Related Bank Reconciliations (Material Weakness)**  
**(Repeated)**

*Condition:* During our testing of cash balances, we noted certain bank statements and bank reconciliations were not available and the related general ledger transactional activity were not recorded in the 2017 fiscal year, the cash balance being \$3,214,629 at year-end. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* 6-10-2 NMSA 1978 states that it is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. Except as may be otherwise provided by law, the cash record is a public record and is open to public inspection.

*Effect:* Lack of recording and reconciliation increases the risk that public funds will be lost, stolen or used for unauthorized purposes. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

*Cause:* There are no employees, and therefore, the Board operates as management. With the turnover at the board level, and lack of accounting personnel has resulted in weak-to-nonexistent internal controls, accurate balances, and policies and procedures. Also, with a lack of a formal bank reconciliation and accounting policies created an environment that allowed these bank accounts to not be recorded in the general ledger and reconciled.

*Auditors' Recommendations:* We recommend the Board institute a formal bank reconciliation monthly process, including review, and bank statement retention policy.

*Agency's Response:* The current board was aware of this as a new board and the older board members leaving. This board currently has all bank statements on hand and reconciliations are occurring now. This we feel has been resolved.

**2007-018 Untimely Bank Reconciliations (Material Weakness) (Repeated)**

*Condition:* We requested monthly reconciliations of cash and investment accounts. However, the Board was unable to provide bank reconciliations for the audit. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls with financial close functions to produce accurate and timely financial information in accordance with generally accepted accounting principles.

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Section 6-10-2 NMSA 1978 states that it is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. Except as may be otherwise provided by law, the cash record is a public record and is open to public inspection.

*Effect:* Potential fraudulent disbursement of Land Grant funds or theft of cash receipts could go undetected for long periods of time if bank and investment accounts are not reconciled and approved in a timely manner.

*Cause:* There are no employees, and therefore, the Board operates as management. With the turnover at the board level, and lack of accounting personnel has resulted in weak-to-nonexistent internal controls, accurate balances, and policies and procedures.

*Auditors' Recommendations:* We recommend the Land Grant perform bank reconciliations on a monthly basis and make any necessary corrections at the time of reconciliation. For future years, all supporting documentation for accounts should be provided with the reconciliations.

*Agency's Response:* The current board was aware of this in 2017 but the new board is now reconciling monthly and has all statements available for review. The prior board did keep on top of this. We feel this has been resolved.

**2007-020 Budgetary Compliance (Material Weakness/ Material Non-Compliance) (Repeated)**

*Condition:* The Land Grant was not able to find a copy of the original budget, final budget, or any budget adjustment requests. It was not possible to determine if the Land Grant has complied with DFA LGD's budget requirements. The Land Grant had expenditures in excess of budgetary authority for the general fund of \$830,729. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* 6-6-2 NMSA 1978 requires that the Land Grant submit a proposed budget to the Local Government Division on or by June 1 of each year. LGD is to then approve and certify the budget by July 1 of each year. The budget should then be adjusted as needed by Board Resolution and LGD approval. In addition, the submittal of quarterly financial reports to the LGD is required.

*Effect:* The Land Grant is not in compliance with budget statutes.

*Cause:* There are no employees, and therefore, the Board operates as management. With the turnover at the board level, and lack of fiscal accountability during the year has resulted in weak-to-nonexistent internal controls, accurate balances, and policies and procedures.

*Auditors' Recommendations:* The Land Grant Board of Trustees should approve and submit their annual budget to LGD timely. Additionally, when significant changes in financial condition occur, the Land Grant should approve and submit Budget Adjustment Requests to the LGD.

*Agency's Response:* The current board has worked on a budget process, and is currently implementing budget, controls, processes, and records for budgets now and into the future. We feel that this has been resolved.

**2007-021 Board Minutes and Open Meetings Act Compliance (Material Weakness / Other Non-Compliance) (Repeated)**

*Condition:* The Land Grant does not prepare draft minutes within ten working days, properly maintain hardcopy and/or electronic copies of the prepared drafts. Additionally, as we were not able to obtain any final Board approved minutes for fiscal year 2017 (to review for possible subsequent events or other pertinent information), we were unable to determine, in most cases, if the Board did approve all the Board minutes from fiscal year 2017. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Open Meetings Act (OMA), specifically Section 10-15-1 NMSA 1978 requires that “the Board, commission or other policymaking body shall keep written minutes of all its meetings. The minutes shall include at a minimum the date, time and place of the meeting, the names of members in attendance and those absent, the substance of the proposals considered and a record of any decisions and votes taken that show how each member voted. Draft minutes shall be prepared within ten working days after the meeting and shall be approved, amended or disapproved at the next meeting where a quorum is present. Minutes shall not become official until approved by the policy making body.”

Additionally, 41-1-13(C) states in part that the secretary of the Board shall reduce to writing, in a book kept for that purpose, minutes of the business transacted at each meeting of the Board.

*Effect:* The Land Grant is in noncompliance with the OMA provisions relating to the preparation of Board of Trustee minutes. The official actions of the Land Grant are not fully transparent to the public. The Land Grant’s minutes are not readily available for public inspection as the Land Grant does not prepare and approve them in a timely fashion.

*Cause:* For the minutes that do exist and were not provided to the contract accountants and auditors, it is unknown why they were not provided to the contract accountants and auditors.

*Auditors’ Recommendations:* The Land Grant should prepare minutes that comply with the requirements of the OMA, maintain minutes (draft and Board approved) on-file, and have them available when requested.

*Agency’s Response:* The current board was not able to gain access to minutes and resolutions until this board took over. We currently have recorded minutes of all meetings, posted agendas, and have adopted an Open Meetings Resolution as required by law. We feel that this has been resolved.

**2007-022 Liability Insurance Coverage (Other Non-Compliance) (Repeated)**

*Condition:* The Land Grant does not have insurance coverage for items not waived under the provisions of the Tort Claims Act or any liability imposed under Section 41-4-4 NMSA 1978. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* 41-4-20 NMSA states that it shall be the duty of governmental entities to cover every risk for which immunity has been waived under the provisions of the Tort Claims Act or any liability imposed under Section 41-4-4 NMSA 1978 as follows:

1. Local public bodies shall cover every such risk or liability as follows:
  - a. for a risk for which immunity has been waived pursuant to Sections 41-4-9, 41-4-10 and 41-4-12 NMSA 1978, the local public body shall cover the risk, and for any commercially uninsurable risk for which public liability fund coverage is made available, the local public body may insure the risk in accordance with the provisions of Section 41-4-25 NMSA 1978;
  - b. for excess liability for damages arising under and subject to the substantive law of a jurisdiction other than New Mexico, including but not limited to other states, territories and possessions and the United States of America, the local public body shall provide coverage in accordance with the provisions of Subsection B of Section 41-4-27 [41-4-28] NMSA 1978, if coverage is available; and
  - c. (for a risk or liability not covered pursuant to Subparagraphs (a) and (b) of this paragraph, the local public body shall purchase insurance, establish reserves or provide a combination of insurance and reserves or provide insurance in any other manner authorized by law; and

*Effect:* The Board is uninsured and exposed to liabilities not waived by the Tort Claims Act.

*Cause:* The Land Grant has not purchased required coverage.

*Auditors' Recommendations:* The Land Grant should purchase required coverage immediately.

*Agency's Response:* The current board has looked into liability insurance coverage and consulted with several agencies to procure this coverage and make sure that it is affordable. This is in process and will be taken care of by end of FY 2020.



**2007-024 IRS Form 1099s and W9s (Material Non-Compliance) (Repeated)**

*Condition:* The Land Grant could not provide support that it issued vendors IRS Form 1099s and retained W-9s on file as required. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The IRS requires issuance of 1099s to individuals, partnerships, LLCs, Limited Partnerships or estates that have been paid over \$600.

*Effect:* The Board is not in compliance with IRS regulations and could be subject to penalties.

*Cause:* There are no employees, and therefore, the Board operates as management. With the turn over at the board level, and the Lack of contracted or W-2 employees has resulted in weak-to-nonexistent internal controls, accurate balances, policies and procedures, and the end of the year close-out processes.

*Auditors' Recommendations:* The Land Grant should complete and file all IRS and New Mexico Taxation & Revenue Department forms as required in order to be in compliance and avoid penalties.

*Agency's Response:* The current board was aware of this when they took over and have since resolved this matter. We currently have W-9 and 1099's on file for review.

**2007-025 Payments of New Mexico Gross Receipts Taxes (NMGRT) by Water Associations (Component Units) (Other Non-Compliance) (Repeated)**

*Condition:* The Water Associations (component units) have failed to pay NMGRT for sales of water to Land Grant customers, the total amount owed is undeterminable. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* 7-9-4 (A) NMSA 1978 states for the privilege of engaging in business...gross receipts tax is imposed on any person engaging in business in New Mexico. Per 7-9-3 (I) "person" includes cooperatives, such as the water utilities.

*Effect:* The water utilities entities have a cumulative liability for the unpaid tax and related penalties and interest.

*Cause:* Lack of recordkeeping and communication amongst the governing bodies.

*Auditors' Recommendations:* The Land Grant should pay any outstanding NMGRT and related penalties and interest and continue their current established process with a contracted accountant to ensure that they are paid on time in the future.

*Agency's Response:* The current land grant president was made aware of this when he took office and has since contacted the State of New Mexico Taxation and Revenue Department. There was much discussion and review of this matter and we feel that this has since been resolved.

**2007-026 Security of Records (Material Weakness/ Material Non-Compliance) (Repeated)**

*Condition:* The Land Grant does not have sufficient control over records. During a site visit we noted that the filing cabinets where records were expected to be stored at had been opened and records removed without approval or knowledge of Board members. It was later determined that a vendor of the Land Grant had custody of certain records, however, it is not known if the vendor turned all the records from the filing cabinets to the contract accountants for audit preparation. Some records were also stored in a different location not in the office but off site at an individuals house. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls with financial close functions to produce accurate and timely financial information in accordance with generally accepted accounting principles.

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters..

*Effect:* By not knowing where the records are, the Land Grant is unable to provide documents for audit resulting in a disclaimer of opinion.

*Cause:* The Land Grant does not have a system in place for securing or archiving documents. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

*Auditors’ Recommendations:* The Land Grant should locate and archive all documents for audit and other purposes.

*Agency’s Response:* The current land grant president and board have procured some fire proof safe’s and filing cabinets as well as records on computers these are saved on flash drives and keep in safe keeping.

**2007-027 Transitioning Between Boards (Significant Deficiency) (Repeated)**

*Condition:* The Land Grant has no system in place to ensure a smooth transition between Boards. All five Board members positions are up for election every two years, with no rotation. We have also noted that although former Board members have indicated they turned over all records to the next Board, many documents are still missing. Without a transition plan, capital plan, and strategic plan, operating the Land Grant's business from Board term to Board term becomes very difficult. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* Good governance includes a process to efficiently transition between Boards. The New Mexico Land Grant Council's NM Land Grant Governance Guidebook 2011 states that each land grant-merced must also designate terms of service for the Board of Trustees in its by-laws. Terms should be for either 2 or 4 years and therefore elections should be held accordingly. Land grants-mercedes can choose to stagger the terms for Trustees so that an entire Board is not replaced at every election cycle.

*Effect:* The lack of a transition process has led to the Board to not be able to provide documentation for audit.

*Cause:* The Land Grant does not have a transition process.

*Auditors' Recommendations:* The Land Grant should meet to create long-term planning and operational documents, such as a Capital Improvement Plan, Strategic Planning, Master Plan, etc. We also recommend that the Board members be elected in rotation – see Land Grant Handbook 2011 version for recommended processes on this matter.

*Agency's Response:* The current board was made aware of this when they came in, and now have a plan and possible policy to ensure that transitioning will occur smoothly, effectively, and professionally.

**2007-028 Board Treasurer and Others Not Bonded (Other Non-Compliance) (Repeated)**

*Condition:* The Land Grant has not received a surety bond on the Treasurer and other members that collect money, which could potentially be any of the members. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* 49-1-8(A) NMSA 1978 states in part that the treasurer shall perform such duties as may be required by the Board and shall furnish to the Board a good and sufficient surety bond and 49-18(C) states in part that the amount of the bond required of the Treasurer and his successor shall at all times be a sum of at least double the amount received by and deposited in the bank by the Treasurer. Additionally, 49-1-8(D) states in part that in the event the Board of Trustee's delegates any other of its members to collect money due the land grant-merced, that person shall be bonded in the same manner as is provided in this section for the bonding of the Treasurer.

*Effect:* The Board has exposure to losses due to members that collect money not being bonded.

*Cause:* The Land Grant has not obtained required surety bonds for members.

*Auditors' Recommendations:* The Land Grant should get members bonded and establish a process to ensure that future members are bonded as soon as they take office.

*Agency's Response:* The current board had taken steps to resolve this matter by contacting several agencies to procure this requirement.

**2007-029 Issuance of Receipts for Money Collected (Material Weakness) (Repeated)**

*Condition:* The Land Grant did not provide evidence that receipts are issued for money collected the total amount collected is undeterminable. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* The Committee of Sponsoring Organizations (COSO) COSO Internal Control – Integrated Framework (2013), consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring, which includes the implementation of internal controls to properly safeguard assets and ensure accurate and timely financial information in accordance with generally accepted accounting principles.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

49-1-8(E) NMSA 1978 states in part that those authorized to collect money shall give receipts for the money collected.

*Effect:* By not issuing receipts, the Land Grant is exposed to the risk of collections of money that may be misappropriated and not make it into Land Grant accounts for benefit of the heirs.

*Cause:* The timing of the audit relative to when the cash collections occurred contributed to the Land Grant not being able to locate these documents. It could not be determined if the information was lost, misplaced, withheld or was never there to begin with.

*Auditors' Recommendations:* The Land Grant should begin issuing receipts for money collected.

*Agency's Response:* The current board has implemented a process and procedure for collection of monies. They currently have a receipt book in triplicate, pre numbered and signed and verified by board president when treasurer collects monies. We feel that this is resolved.

**2007-031 Annual Report (Other Non-Compliance) (Repeated)**

*Condition:* We were unable to obtain copies of the required annual report.

*Criteria:* 49-1-12(B) NMSA 1978 states in part that the Board of Trustees shall annually make public a report of all its transactions for that year. The report shall include agendas, minutes, actions taken and all financial transactions. The report shall be maintained in a public place and available for public view. Management has not had any progress towards implementing its prior year corrective action plan.

*Effect:* By not being able to provide annual reports, the Board may appear to the heirs and other interested parties, that the Land Grant is not being completely transparent. Fraud or errors may occur without a thorough review and approval process of the transactions. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

*Cause:* The timing of the audit relative to when the meeting occurred contributed to the Land Grant not being able to locate these documents. It could not be determined if the information was lost, misplaced, withheld or was never there to begin with.

*Auditors' Recommendations:* The Land Grant should ensure compliance with the statute in the future.

*Agency's Response:* The current board has made great progress in reporting all transactions, minutes, and agendas for the public, and we feel that this has now been resolved.

**2007-035 By-Laws (Material Weakness/ Other Non-Compliance) (Repeated)**

*Condition:* The by-laws provided for audit are dated 1979 when the Land Grant was operating as a non-profit entity. The Land Grant became a political subdivision of the State in 2004 and is considered to be a local public body. According to Board minutes from fiscal year 2011 and 2012, the Board formed a committee to work on the by-laws and it appears as though some progress was made, it does not appear as though revised by-laws were completed. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* 49-1-3 states that the Board is to make by-laws, rules and regulations, not in conflict with the constitution and laws of the United States or the state of New Mexico as may be necessary for the protection, improvement and management of the common lands and real estate and for the use and enjoyment of the common lands and of the common waters of the land grant-merced.

*Effect:* The Land Grant is operating with outdated by-laws that could be in conflict with the constitution and laws of the United States or the state of New Mexico, which have changed since 1979.

*Cause:* The Land Grant has failed to update their by-laws or if they have, they were not provided for the audit.

*Auditors' Recommendations:* The Land Grant should update by-laws in order to be in compliance with the statute and best serve the heirs to the Land Grant.

*Agency's Response:* The current board has made progress on this finding and currently has adopted new and revised by-laws in a public meeting. We feel that this has now been resolved.



**2007-036 Environmental Remediation (Material Weakness) (Repeated)**

*Condition:* As noted in footnote six to the financial statements, there are currently certain known facts on the Land Grant's two largest closed mines. However, there is some uncertainty as to the full scope of environmental remediation on the Land Grant. This evaluation should be completed in order to identify any commitments or contingencies and proper GASB No. 49 disclosures regarding environmental remediation. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* Statement No. 49 of the GASB, Accounting and Financial Reporting for Pollution Remediation Obligations addresses the standards for pollution (including contamination) remediation obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and changes. Once an obligating event occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or in certain cases, capitalized.

*Effect:* Financial statement disclosures may be incomplete.

*Cause:* The Land Grant has not currently determined the status of all environmental remediation related to former mining activity.

*Auditors' Recommendations:* We recommend a full review of the status of environmental remediation related to past mining activity to best serve the heirs to the Land Grant and to ensure the financial statements are complete and accurate in accordance with GASB No. 49.

*Agency's Response:* The current board has been reviewing and in process of adopting an environmental study and remediation plan that is on-going currently. We feel that this can be accomplished by FY end 2020.

**2010-001 Procurement Violations (Material Non-Compliance) (Repeated)**

*Condition:* During our testing of compliance over the State's Procurement Code, we noted the Land Grant did not properly track disbursements using an accounting system, and from this, no testing could be performed to ensure compliance with State's Procurement Code when procuring. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* Per 13-1-74 NMSA 1978, "Procurement" means A. purchasing, renting, leasing, lease purchasing or otherwise acquiring items of tangible personal property, services or construction; and B. all procurement functions, including but not limited to preparation of specifications, solicitation of sources, qualification or disqualification of sources, preparation and award of contract and contract administration.

Procurement of professional services over \$50,000 - Competitive Sealed Bids: As per 13-1-102, all procurement shall be achieved by competitive sealed bid pursuant to Sections 13-1-103 through 13-1-110 NMSA 1978, except procurement achieved pursuant to the following sections of the Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978]:

- A. Sections 13-1-111 through 13-1-122 NMSA 1978, competitive sealed proposals;
- B. Section 13-1-125 NMSA 1978, small purchases;
- C. Section 13-1-126 NMSA 1978, sole source procurements;
- D. Section 13-1-127 NMSA 1978, emergency procurements;
- E. Section 13-1-129 NMSA 1978, existing contracts;
- F. Section 13-1-130 NMSA 1978, purchases from antipoverty program businesses; and

*Effect:* The Land Grant violated the State of New Mexico's procurement code and may not have obtained the best price for the items received during the year.

*Cause:* There are no employees, and therefore, the Board operates as management. With the turn over at the board level, and the Lack of contracted or W-2 employees has resulted in weak-to-nonexistent internal controls, and also lead to not having policies and procedures over procurement.

*Auditors' Recommendations:* We recommend the Land Grant implement policies and procedures as soon as possible to ensure compliance with procurement requirements pertain to each procurement that occurs during the fiscal year.

*Agency's Response:* The current board has worked with a consultant on making sure all purchases are in compliance with procurement laws. We will be adopting a purchasing policy and procedure that will ensure compliance as well.

**2016-001- Pledged Collateral - (Other Non-Compliance)**

*Condition:* The Land Grant was not able to furnish the collateral information necessary to perform procedures to ensure the proper collateral was pledged during and at year end for all bank deposits, the total amount exposed to custodial credit risk of \$3,214,629. Management has not had any progress towards implementing its prior year corrective action plan.

*Criteria:* Any bank designated a deposit of public money shall deliver pledged collateral with a value equal to one half the amount of the public money in excess of insurance, to a custodial bank and a joint safekeeping receipt issued by the custodial bank to the County (Section 6-10-17 NMSA 1978). Monitoring collateralization of the Land Grant's funds is essential in ensuring compliance with State of New Mexico Statutes.

*Effect:* Lack of proper monitoring of pledged collateral could result in excessive loss of Land Grant's funds if the financial institutions encounter financial difficulties.

*Cause:* There are no employees, and therefore, the Board operates as management. With the turn over at the board level, and the Lack of contracted or W-2 employees has resulted in weak-to-nonexistent internal controls, and also lead to not having the proper supporting documentation on file.

*Auditors' Recommendations:* As part of a formal policy by the Land Grant, an individual should be assigned the responsibilities of reviewing the monthly collateral reports, investigating differences, resolving discrepancies, and properly filing the information.

*Agency's Response:* The current board was aware of not getting this document from the bank, but currently have worked with our banks to ensure these are received monthly, timely, and kept on file for future review. We feel that this has been resolved

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

- 2007-001 Late Independent Public Accountant (IPA) Recommendation and Audit Report (Material Non-Compliance) (Repeated)**
- 2007-002 Inadequate Accounting and Internal Control Processes (Material Weakness) (Repeated)**
- 2007-003 Insufficient Accounting Records and Document Retention (Material Weakness) (Repeated)**
- 2007-004 Insufficient Segregation of Duties (Material Weakness) (Repeated)**
- 2007-005 Insufficient Internal Controls over Cash Receipts (Material Weakness) (Repeated)**
- 2007-006 Insufficient Internal Controls over the Cash Disbursements Process (Material Weakness) (Repeated)**
- 2007-007 Lack of Supporting Documentation over Travel and Per Diem Expenses (Material Non-Compliance) (Repeated)**
- 2007-008 Insufficient Internal Controls over Investments (Material Weakness) (Repeated)**
- 2007-009 Insufficient Internal Controls over Capital Assets and Construction in Progress (Material Weakness/ Other Non-Compliance) (Repeated)**
- 2007-010 Insufficient Internal Controls over Journal Entries (Material Weakness) (Repeated)**
- 2007-011 Insufficient Internal Controls over Trial Balance, Financial Reconciliations, Component Unit Identification and Reporting (Material Weakness) (Repeated)**
- 2007-012 Insufficient Internal Controls Over Related Party Transactions and the Governmental Conduct Act (Material Weakness) (Repeated)**
- 2007-013 Insufficient Internal Controls Over Information Technology (Material Weakness) (Repeated)**
- 2007-014 Lack of Ethics Policy (Material Weakness) (Repeated)**
- 2007-015 Insufficient Practices for the Identification, Mitigation and Monitoring of Risk (Material Weakness) (Repeated)**
- 2007-017 Unavailable Bank Statements and Related Bank Reconciliations (Material Weakness) (Repeated)**
- 2007-018 Untimely Bank Reconciliations (Material Weakness) (Repeated)**
- 2007-020 Budgetary Compliance (Material Weakness/ Material Non-Compliance) (Repeated)**
- 2007-021 Board Minutes and Open Meetings Act Compliance (Material Weakness/ Other Non-Compliance) (Repeated)**
- 2007-022 Liability Insurance Coverage (Other Non-Compliance) (Repeated)**
- 2007-024 IRS Form 1099s and W9s (Material Non-Compliance) (Repeated)**
- 2007-025 Payments of New Mexico Gross Receipts Taxes (NMGRT) by Water Associations (Component Units) (Other Non-Compliance) (Repeated)**
- 2007-026 Security of Records (Material Weakness, Material Non-Compliance) (Repeated)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)**

**2007-027 Transitioning Between Boards (Significant Deficiency) (Repeated)**

**2007-028 Board Treasurer and Others Not Bonded (Other Non-Compliance) (Repeated)**

**2007-029 Issuance of Receipts for Money Collected (Material Weakness) (Repeated)**

**2007-031 Annual Report (Other Non-Compliance) (Repeated)**

**2007-035 By-Laws (Material Weakness/ Other Non-Compliance) (Repeated)**

**2007-036 Environmental Remediation (Material Weakness) (Repeated)**

**2010-001 Procurement Violations (Other Non-Compliance) (Repeated)**

**2016-001- Pledged Collateral - (Other Non-Compliance) (Repeated)**

**LA MERCED DEL PUEBLO DE CEBOLLETA**

Other Disclosures

June 30, 2017

**OTHER DISCLOSURES**

**Exit Conference**

An exit conference was held on March 12, 2020. The following individuals were in attendance.

**Representing La Merced Del Pueblo de Cebolleta**

Kilino Marquez	President
Debbie Lopez	Treasurer
George Perea	Consultant

**Representing Cordova CPAs LLC**

Robert Gonzales, CPA	Engagement Principal
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**Auditor Prepared Financial Statements**

Cordova CPAs LLC prepared the GAAP-basis financial statements and footnotes of the Land Grant from the original books and records provide to them by the management of the Land Grant. The responsibility for the financial statements remains with the Land Grant.