Northern New Mexico College

Financial Statements
Independent Auditor's Report and Single Audit

June 30, 2017

REDW LLC
CPAs | Business & Financial Advisors

Northern New Mexico College

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Northern New Mexico College

Official Roster
Year Ended June 30, 2017

Board of Regents

Ex Officio Members:	
The Honorable Susana Martinez	Governor of the State of New Mexico
Christopher N. Ruszkowski	Cabinet Secretary-Designate, Public Education Department of NM
Dr. Barbara Damron	Cabinet Secretary, Higher Education Department of NM
Appointed Members:	
Kevin F. Powers	President
Rosario "Chayo" Garcia	Vice President
Damian Martinez	Secretary/Treasurer

Principal Administrative Officials

Dr. Richard J. Bailey, Jr.	President
Ricky A. Bejarano	Interim Vice-President for Finance and Administration

Independent Auditor's Report

To the Board of Regents
Northern New Mexico College
and
Mr. Wayne Johnson
New Mexico State Auditor

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the business-type activities and the discretely presented component unit of Northern New Mexico College (the "College") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on conducting the 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. Because of the matters described in the "Basis for Disclaimer of Opinions" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the College's financial statements.

Basis for Disclaimer of Opinions

During the course of the audit, we discovered the College's accounting records, reconciliations, and supporting documentation were not complete, and also became aware of an embezzlement which occurred during the fiscal year. The College could not provide adequate supporting documentation for certain transactions and balances during fiscal year ended June 30, 2017, which was a result of both insufficient and circumvented internal controls over financial reporting for all activities, including the College's component unit, the Northern New Mexico

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Foundation. It was impracticable to extend our audit procedures sufficiently to determine the extent to which the College's financial statements as of and for the year ended June 30, 2017, may have been affected by these matters.

Disclaimer of Opinions

Because of the significance of the matters described in the "Basis for Disclaimer of Opinions" paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the College and its component unit, the Foundation. Accordingly, we do not express an opinion on the financial statements of the College or the College's component unit, the Foundation.

Emphasis of Matter

As discussed in Note1, the financial statements of the College are intended to present the net position, changes in net position and cash flows, where applicable, of only that portion of the State of New Mexico that is attributable to the transactions of the College and its discretely presented component unit. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2017, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, the College elected to change its method of accounting for the New Mexico Land Grant Permanent Fund, as of July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability, and the schedule of contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such 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. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the matters discussed in the "Basis for Disclaimer of Opinions" paragraph above. We do not express an opinion or provide any assurance on the information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of deposit accounts, schedule of pledged collateral, schedule of collaborative partnerships, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal regulations (CFR) Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards,* are presented for the purposes of additional analysis and are also not a required part of the basic financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We were unable to subject such information to the auditing procedures applied in the audit of the basic financial statements, certain additional procedures, or other additional procedures in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the "Basis for Disclaimer of Opinions" paragraph above. Accordingly, we do not express an opinion on this information.

The schedule of deposit accounts, schedule of pledged collateral, and schedule of collaborative partnerships, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the College'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 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 College's internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico
March 26, 2018

Northern New Mexico College
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Overview of the Financial Statements

For financial reporting purposes, Northern New Mexico College (the College) is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

This report consists of Management's Discussion and Analysis, the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the College and its component unit, the Northern New Mexico College Foundation (the Foundation). This Management's Discussion and Analysis (MD&A) focuses on the College and the Foundation.

An agreement between the Foundation and the College was entered into on March 12, 1997. This agreement formalizes the relationship between the Foundation and the College and establishes the sole purpose of the Foundation as raising supplementary funds for the College.

The Management's Discussion and Analysis of the College's financial statements provides an overview of its financial activities as of and for the year ended June 30, 2017.

Financial Highlights

GASB Statement 68, *Accounting and Financial Reporting for Pensions*, effective for years beginning after June 30, 2014, requires the recording of the College's share of the pension plan activities of the cost-sharing pension plan administered by the Education Retirement Board. This has resulted in the reporting of the net pension liability $21,071,157, deferred inflows of resources of $2,786,275, deferred outflows of resources of $2,855,657.

Decrease in endowment investments of $2,940,187, due to the removal of the Land Grant Permanent Fund.

The College's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the June 30, 2017, fiscal year by $14,049,234 (net position).

The College was able to build its unrestricted operating net position. This occurred through building in the desired net increase into the budgeting formula, targeting specific areas for decrease and by closely monitoring expenses and responding to changing revenues. Overall, total net position increased by $2,850,086 from the previous year.

The College's cash and cash equivalents reflect $2,434,327 at June 30, 2017, all of which are with local banking institutions.

Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report the College's net position and how it has changed. Net position, the excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources, is one way to measure the College's financial health or position. Over time, increases or decreases in the College's net position are an indicator of whether its financial health is improving or deteriorating. Nonfinancial factors are also important to consider, including student enrollment and the condition of campus facilities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following table summarizes the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30:

	2017	2016 (As Restated)
Assets		
Current assets	**$ 4,447,460**	$ 4,019,575
Capital assets	**33,394,261**	31,654,307
Total assets	**37,841,721**	35,673,882
Deferred Outflows of Resources	**2,855,657**	1,974,933
Liabilities		
Current liabilities		
Current liabilities	**2,648,496**	2,851,027
Noncurrent liabilities	**21,213,373**	20,939,221
Total liabilities	**23,861,869**	23,790,248
Deferred Inflows of Resources	**2,786,275**	2,659,419
Net Position		
Net investment in capital assets	**33,394,261**	31,654,307
Unrestricted	**(19,345,027)**	(20,455,159)
Total net position	**$ 14,049,234**	$ 11,199,148

Northern New Mexico College
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Composition of Net Position

	2017		2016 (As Restated)	
Unrestricted operating position	**$ 1,656,748**	**11.79 %**	$ 1,428,318	12.75 %
Net fiduciary position	**(21,001,775)**	**(149.48)**	(21,883,477)	(195.40)
Net capital assets	**33,394,261**	**237.69**	31,654,307	282.65
	$ 14,049,234	**100.00 %**	$ 11,199,148	100.00 %

The following table summarizes the College's revenues, expenses, and changes in net position for the years ended June 30:

	2017	2016 (As Restated)
Operating revenues	**$ 9,295,887**	$ 10,169,931
Operating expenses	**19,695,390**	20,595,516
Operating loss	**(10,399,503)**	(10,425,585)
Nonoperating revenues	**10,705,898**	11,132,965
Other nonoperating revenues	**2,543,691**	327,914
Increase in net position	**2,850,086**	1,035,294
Net position at beginning of year	**11,199,148**	10,163,854
Net position end of year	**$ 14,049,234**	$ 11,199,148

Operating Revenues

The following table summarizes the College's operating revenues for the years ended June 30:

	2017	2016
Student tuition and fees	**$ 3,891,758**	$ 3,546,230
Scholarship allowance which applies to tuition and fees	**(2,842,575)**	(2,530,034)
Federal grants and contracts	**6,244,034**	6,945,631
State grants and contracts	**889,568**	1,101,869
Other grants and contracts	**315,538**	324,314
State land and permanent fund income	**187,666**	180,437
Sales and service of auxiliary enterprises	**672,490**	696,823
Scholarship allowance which applies sales from auxiliary enterprises	**(208,565)**	(282,625)
Other operating revenues	**145,973**	187,287
Total operating revenues	**$ 9,295,887**	$ 10,169,932

Operating Expenses

The following table summarizes the College's operating expenses for the years ended June 30. There were no unexpected changes in operating expenses.

	2017	2016
Instruction	**$ 7,083,859**	$ 5,991,294
Institutional support	**3,770,525**	5,748,895
Student aid grants and stipends	**1,477,881**	953,549
Student services	**1,413,460**	2,028,199
Academic support	**1,070,191**	996,959
Public service	**546,957**	546,226
Operations and maintenance support	**1,335,324**	1,600,925
Research	**5,840**	41,419
Student activities	**85,044**	79,760
Auxiliary enterprises	**835,864**	745,096
Athletics	**570,439**	665,768
Depreciation	**1,500,006**	1,197,426
Total operating expenses	**$ 19,695,390**	$ 20,595,516

Nonoperating Revenues and Expenses

The following table summarizes the College's nonoperating revenues and expenses for the years ended June 30:

	2017	2016
State appropriations	**$ 10,705,100**	$ 11,472,900
Capital appropriations	**2,543,691**	327,914
Loss contingency	**-**	(250,000)
Loss on disposal of capital assets	**-**	(652)
Investment income (loss)	**798**	(89,283)
Total nonoperating revenues	**$ 13,249,589**	$ 11,460,879

Capital Assets

At June 30, 2017 and 2016, the College had the following amounts invested in capital assets net of accumulated depreciation:

	2017	2016
Paintings	**$ 28,500**	$ 28,500
Construction in progress	**1,991,242**	330,621
Land and improvements	**6,880,864**	6,880,864
Automobiles	**418,028**	446,832
Buildings and improvements	**53,129,463**	52,195,589
Furniture, fixtures and equipment	**3,145,928**	2,564,610
Library books	**3,180,588**	3,154,731
	68,774,613	65,601,747
Accumulated depreciation	**(35,380,352)**	(33,947,440)
Total capital assets, net	**$ 33,394,261**	$ 31,654,307

Capital expenditures were undertaken during the year ended June 30, 2017, which included additions to the both campuses for safety and security enhancements as well as upgrade to the infrastructure for higher internet speeds.

Foundation

The Foundation ended fiscal year 2017 with total assets in the amount of $3,986,788. This balance was primarily made up of cash and cash equivalents ($473,222) and endowment investments ($3,509,822). The Foundation had a total of $170,677 in liabilities at year-end, which primarily consisted of monies owed to the College for scholarships paid. The Foundation's net position at year-end was $3,816,111, which consisted of endowment restrictions, $3,509,822, and unrestricted in the amount of $306,289.

The Foundation had an increase in net position during the year of $186,420, which was a result of operating revenues of $353,779, investment income of $233,859 and operating expenses of $401,218.

Budgetary Highlights Fiscal Year 2017

In fiscal year 2017 the College's total approved budget was $26.7 million as appropriated in House Bill 2, which includes $10.7 million in General funding; $8.1 million in Other State funding; and $8.9 million in federal revenue. Anticipating continued general fund appropriation reductions, which included the 0.6% budget solvency reduction pursuant to Laws of 2016, Chapter 11, the College implemented strict budget controls and monitoring at the line item level. This resulted in no budget overruns and with a better than expected ending fund balance.

The College's total capital outlay budget was $3.1 million. The largest portion of this amount was in General Obligation bond appropriations which accounted for approximately $2.0 million and Severance Tax Bond appropriations which amounted to approximately $1.0 million.

In light of the fact that the Joseph Montoya Building renovation project encountered setbacks due to asbestos that was discovered and remediation was necessary. The remediation required that an additional $93,939 be transferred in from I&G funding to cover the unanticipated cost overruns.

As a budgetary measure the College held positions vacant and delayed expenditures as appropriate in order to alleviate further budget reallocations.

Economic Outlook

The College continues to monitor budgets at the line item level in order to prevent budgetary overruns and to maximize College resources and to prevent unnecessary spending. The 2018 budget was appropriated at a flat level which will require the College to monitor the budget even more closely due to rising costs and unanticipated expenditures. It is already anticipated that throughout 2018, the College will have to expend additional resources toward forensic reviews, attorney's fees, contract services to support the College in re-establishing strong internal controls and re-aligning business office processes and procedures as appropriate. It is also anticipated that the College will have to invest in new qualified business office resources.

In spite of the above, it appears that the economy both at a national and local levels is on a continuously improving trajectory. The College anticipates that it will benefit from this upward economic trend.

Contacting Northern New Mexico College's Financial Management

The financial report is designed to provide a general overview of Northern New Mexico College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ricky A. Bejarano
Interim Vice-President for Finance and Administration
Northern New Mexico College
921 Paseo De Onate
Espanola, NM 87532

Financial Statements

Northern New Mexico College
Statement of Net Position
June 30, 2017

	Primary Institution	Component Unit
Assets		
Current assets		
Cash and cash equivalents	$ 2,434,327	$ 473,222
Receivables	1,619,502	3,744
Due from component unit	119,218	-
Inventories	267,451	-
Prepaid expenses	6,962	-
Total current assets	4,447,460	476,966
Noncurrent assets		
Endowment investments	-	3,509,822
Capital assets, net	33,394,261	-
Total noncurrent assets	33,394,261	3,509,822
Total assets	37,841,721	3,986,788
Deferred Outflows of Resources		
Deferred outflows related to pension liability	2,855,657	-
Total deferred outflows of resources	2,855,657	-
Liabilities		
Current liabilities		
Accounts payable	536,223	479
Accrued salaries and other benefits	844,857	-
Accrued compensated absences	338,330	-
Loss contingency	746,402	-
Due to primary institution	-	119,218
Unearned revenue	182,134	50,980
Deposits held in trust for others	550	-
Total current liabilities	2,648,496	170,677
Noncurrent liabilities		
Funds held for other	142,216	-
Net pension liability	21,071,157	-
Total noncurrent liabilities	21,213,373	-
Total liabilities	23,861,869	170,677
Deferred Inflows of Resources		
Deferred inflows related to pension liability	2,786,275	-
Total deferred inflows of resources	2,786,275	-
Net Position		
Net investment in capital assets	33,394,261	-
Restricted		
Endowments	-	3,509,822
Unrestricted (deficit)	(19,345,027)	306,289
Total net position	$ 14,049,234	$ 3,816,111

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

Northern New Mexico College
Statement of Revenues, Expenses and Changes in Net Position
For the Year June 30, 2017

	Primary Institution	Component Unit
Operating Revenues		
Tuition and fees, less scholarship allowance $2,843,915	$ 1,049,183	$ -
Federal grants and contracts	6,244,034	-
State and local grants and contracts	889,568	-
Sales and services of auxiliary enterprises, less scholarship allowance $208,565	463,925	-
Other grants and contracts	315,538	-
State land and permanent fund income	187,666	-
Contributions	-	206,240
Other	145,973	147,539
Total operating revenues	9,295,887	353,779
Operating Expenses		
Instruction	7,083,859	-
Instructional support	3,770,525	87,994
Student aid grants and stipends	1,477,881	-
Student services	1,413,460	-
Operations and maintenance support	1,335,324	-
Academic support	1,070,191	-
Auxiliary enterprises	835,864	-
Athletics	570,439	-
Public service	546,957	-
Student activities	85,044	-
Research	5,840	-
Scholarships	-	106,984
Other	-	206,240
Depreciation	1,500,006	-
Total operating expenses	19,695,390	401,218
Operating loss	(10,399,503)	(47,439)
Nonoperating Revenues		
State appropriations	10,705,100	-
Capital appropriation	2,543,691	-
Investment income	798	233,859
Net nonoperating revenues	13,249,589	233,859
Increase in net position	2,850,086	186,420
Net position, beginning of year, as previously reported	14,139,335	3,629,691
Restatement (see Note 15)	(2,940,187)	-
Net position, beginning of year, as restated	11,199,148	3,629,691
Net position, end of year	$ 14,049,234	$ 3,816,111

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

Northern New Mexico College
Statement of Cash Flows
For the Year June 30, 2017

	Primary Institution
Cash flows from operating activities	
Tuition and fees	$ 926,234
Grants and contracts	6,580,212
Sales and services of educational activities	463,925
State and local grants and contracts	889,568
State and local permanent income	187,666
Other grants and contracts	400,888
Other operating receipts	38,991
Payments to employees for salaries and benefits	(12,339,619)
Payments to suppliers	(5,146,342)
Loans and grants issued to students and employees	(1,572,895)
Net cash used by operating activities	(9,571,372)
Cash flows from noncapital financing activities	
State appropriations - noncapital	10,705,100
Net cash provided by noncapital financing activities	10,705,100
Cash flows from investing activities	
Purchases of capital assets	(3,248,549)
Sale of capital assets	8,589
Investment income	798
Net cash used by capital and related financial activities	(3,239,162)
Cash flows from capital and related financing activities	
State appropriation - capital	2,543,691
Net cash used by capital and related financial activities	2,543,691
Net increase in cash and cash equivalents	438,257
Cash and cash equivalents, beginning of year	1,996,070
Cash and cash equivalents, end of year	$ 2,434,327

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

Northern New Mexico College
Statement of Cash Flows — continued
For the Year June 30, 2017

	Primary Institution
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	$ (10,399,503)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	1,500,006
Pension liability adjustment	(384,702)
Changes in assets and liabilities	
Receivables	213,229
Due from component unit	(106,982)
Inventories	(88,913)
Prepaids	(6,962)
Accounts payable	(39)
Accrued liabilities - other	(247,000)
Accrued salaries and other benefits	86,754
Accrued compensated absences	(127,596)
Unearned revenue	85,150
Deposits held in trust for others	200
Funds held for other	(95,014)
Net cash used by operating activities	$ (9,571,372)

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

1) Organization and Summary of Significant Accounting Policies

Creation and Purpose of Entity

Northern New Mexico College (the College) was created under Section 21-8-1 New Mexico Statutes Annotated (NMSA) 1978, Article XII, Section 11 of the New Mexico State Constitution. Under Article XII, Section 13 of the New Mexico Constitution, the College is governed by a five-member Board of Regents appointed by the Governor, with the advice and consent of the Senate, for six-year terms.

The College was originally founded in 1909 by the New Mexico Territorial Legislature. The original mission of the College was to teach English to Spanish speaking teachers in the area. Technical-vocational programs were instituted during the 1960's. In 1969, the College became a full-time post-secondary technical-vocational school. In 1977 the New Mexico Legislature passed enabling legislation to merge the College and the Northern Branch of the University of New Mexico. In 2005, the College changed its name and it began offering four-year degree programs.

The College is a two-year and four-year degree granting institution of higher learning. The College offers degrees in biology, business administration, elementary education, engineering, environmental science, information technology, and nursing. The College's main campus is located in Española, New Mexico, and its branch campus is located in El Rito, New Mexico.

Basis of Presentation

The College and the Foundation present their financial statements in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The statement presentation required by GASB 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB 34*, provides a comprehensive entity-wide perspective of the College's assets, liabilities, and net position; revenues, expenses and changes in net position; and cash flows.

Reporting Entity

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The College is part of the primary government of the State of New Mexico; however, these basic financial statements are intended to present the net position, changes in net position and cash flows, where applicable, of only that portion of the State of New Mexico that is attributable to the transactions of the College and its discretely presented component unit. They do not purport to and do not, present fairly the net position of the State of New Mexico as of June 30, 2017, and the changes in net position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements of the College include all funds and activities over which the College has oversight responsibility, including its discretely presented component unit, the Northern New Mexico Foundation (the "Foundation").

An agreement between the Foundation and the College was entered into on March 12, 1997. This agreement formalizes the relationship between the Foundation and the College and establishes the sole purpose of the Foundation as raising supplementary funds for the College.

<u>Basis of Accounting</u>
For financial reporting purposes, the College is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

<u>Budget</u>
Operating budgets are submitted annually for approval to the Board of Regents, the New Mexico Higher Education Department (HED), and the New Mexico Department of Finance and Administration - State Budget Division (DFA). These state agencies develop consolidated funding recommendations for all higher education institutions, which are considered for appropriation during the annual legislative sessions. In general, unexpended state appropriations to the College do not revert at the end of each fiscal year. All state appropriations are accounted for separately in the accounting system.

The legal level of budgetary control is at the fund type and functional level, in accordance with NMAC 5.3.4.10. There were no violations in fiscal year 2017. The modified accrual basis of accounting is used for budgetary comparison. If expenditures by budgetary control line are expected to exceed the approved budget, the College is required to submit a budget adjustment request which has been approved by the Board of Regents to HED, which is subsequently forwarded to DFA.

Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly-liquid investments with original maturities of three months or less. For purposes of the Statement of Cash Flows, cash and cash equivalents include demand deposits and money market accounts with an original maturity of three months or less.

Investments

The Foundation has a specific investment policy, but its investments are not regulated by the State of New Mexico.

The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 72 (*Fair Value Measurement and Application*). Changes in the unrealized gain (loss) on the carrying value of investments are reported as a component of investment income (loss) in the Statement of Revenues, Expenses, and Changes in Net Position.

The Foundation originally records marketable securities purchased at cost. Marketable securities received by gift are recorded at estimated fair value at the date of donation. Marketable securities are carried by the Foundation at fair value. Third-party investment managers administer substantially all marketable securities of the Foundation. Gains and losses resulting from securities transactions are recorded in investment income.

Donor restricted endowment disbursements of the net appreciation of investments are permitted in accordance with the Uniform Management of Institutional Funds Act (46-9-1 to 46-9-12 NMSA), except where a donor has specified otherwise.

Receivables

The College has the following types of receivables.

Contracts and Grants Receivable. Contracts and grants receivable are amounts due from the federal government, state and local governments or private resources in connection with reimbursement of allowable expenditures made pursuant to the College's grant awards. Contract and grant receivables are recorded net of estimated uncollectible amounts.

Student Accounts Receivable. The College records student accounts receivable at the time a student registers for classes. Provisions for uncollectible student accounts are recorded to maintain an adequate allowance for probable losses.

Loan Receivables. Loan receivables are amounts due from Perkins loans made by the College to students. Loan receivables are recorded net of estimated uncollectible amounts.

Inventories

Inventories are generally stated at the lower of cost (average cost) or market. Cost is determined by using the retail method for bookstore items and the average cost method for other items. Inventories consist of items which are available for resale to individuals and other College departments.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Pursuant to the College's capitalization policy, capital assets with a unit cost of $5,000 or greater are capitalized. The College includes software purchased with a piece of equipment in the cost of capitalization. Software purchased for internal use is capitalized and depreciated. Renovations to buildings, infrastructure, or land improvements that significantly increase the value, increase the productivity, or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The College does not currently capitalize historical treasures or works of art.

Depreciation for the College is computed using the straight-line method over the estimated useful lives of the assets. Generally, buildings and improvements are depreciated over 40 years; certain types of infrastructure are depreciated over 25 years; library books are depreciated over 10 years; and equipment is depreciated over 5 years. Land is not depreciated.

Compensated Absences

Accumulated annual leave is reported as a liability. Annual leave earned is immediately vested unless the employee is in a six month probationary period, but only 192 hours of annual leave are available for carryover at year-end.

Unearned Revenue

Revenue for each academic session is reported within the fiscal year during which the session is completed. Receipts for the summer session beginning in May, and amounts charged to the accounts of students pre-registering for fall semester, are reported as unearned revenue in the accompanying financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Board (ERB) and additions to and deductions from ERB's fiduciary net position have been determined on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Net Position

The College's net position is classified as follows:

Net Investment in Capital Assets. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The College does not have any related debt associated with its investment in capital assets.

Restricted Net Position—Nonexpendable. Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted Net Position—Expendable. Restricted expendable net position consists of resources that the College is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

Unrestricted Net Position. Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board of Regents to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted, and then toward unrestricted resources.

Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues, according to the following criteria:

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) most federal, state and local grants and contracts and federal appropriations, and 3) interest on institutional student loans.

Tuition and Fees. Student tuition and fees are recorded as revenue during the fiscal year in which the session is completed. The Board of Regents determines the rates to be charged to students.

Grant and Contract Revenue. Grant and contract revenues are recognized at the time the expenditure is incurred, if the expenditure of funds is the prime factor for determining eligibility for reimbursement.

Nonoperating Revenues. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That use Proprietary Fund Accounting,* and GASB 34.

State Appropriations

Unexpended appropriations generally do not revert to the State of New Mexico at the end of the year and are available to the College in subsequent years.

Tax Status

As a post-secondary College, the College's income is exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code to the extent the income is derived from essential governmental functions.

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation had no material unrelated business income during the year ended June 30, 2017; therefore, no provision for income taxes has been included in the financial statements.

2) Cash and Cash Equivalents

A summary of cash and cash equivalents as of June 30, 2017, is as follows:

The College

Cash and cash equivalents		
Cash on hand	$	2,544
Deposits with financial institutions		2,431,783
Total cash and cash equivalents	$	2,434,327

The Foundation

Cash and cash equivalents		
Deposits with financial institutions	$	473,222
Total cash and cash equivalents	$	473,222

Custodial Credit Risk
The custodial credit risk for deposits is the risk that, in the event of a depository institution failure, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

New Mexico statutes, Section 6-10-16 and 6-10-17 NMSA 1978, require that financial institutions with public monies on deposit pledge collateral in an amount not less than 50 percent of the public monies held on deposit that are not insured by the federal deposit insurance corporation.

At June 30, 2017, the College's deposits had carrying amounts of $2,431,783 and bank balances of $2,422,446.

Of the bank balances, $702,404 was covered by federal depository insurance corporation at June 30, 2017, and $1,720,042 was covered with securities held by the financial institution in the College's name. The College has no policy regarding custodial credit risk for deposits.

At June 30, 2017, the Foundation's deposits had carrying amounts of $473,222 and bank balances of $477,518.

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk. As of June 30, 2017, $184,299 of the Foundation's bank balance was uninsured and exposed to custodial credit risk.

3) Investments-Foundation

Investment Policy
The Foundation's investment policy authorizes monies to be invested in equity and debt securities of United States institutions, corporate and government securities.

Credit Risk
Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Presented below is the minimum rating required for each type debt investment.

Rating	Equity Exchange Traded Products	Equity Mutual Fund	Bond Mutual Fund	Fixed Income Exchange Traded Products	Fixed Income Mutual Fund	Commodities Exchange Traded Products	REIT Exchange Traded Fund	REIT
AAA	- %	- %	2.00 %	34.00 %	9.00 %	- %	- %	- %
AA	-	-	7.00	8.00	4.00	-	-	-
A	-	-	38.00	11.00	4.00	-	-	-
BBB	-	-	53.00	16.00	7.00	-	-	-
BB	-	-	-	3.00	3.00	-	-	-
B	-	-	-	3.00	3.00	-	-	-
Below B	-	-	-	-	2.00	-	-	-
Unrated	100.00	100.00	-	25.00	68.00	100.00	100.00	100.00
Total	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Foundation does not have formal investment policies that limit investment maturities as a means of managing its exposure to changing interest rates.

The Foundation's investments were not interest-bearing obligations, so they were not subject to interest rate risk at June 30, 2017.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributable to the magnitude of the Foundation's investment in a single issuer. Investments in any one investment type that represent 5% or more of total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. For the year ended June 30, 2017, the Foundation had 8.03% of its investments with a nonpublicly traded Real Estate Investment Trust. Investments issued and explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

The Foundation's policy is that investments should be divided between fixed income and equity securities with a target allocation of 60% (plus or minus 10%) fixed income and 30% (plus or min us 10%) equity (investments in REITs will be weighted at 50% fixed income and 50% equity).

a. The fixed income portion will be governed by the following:

   1) Not more than 10% of the fixed portion, at cost, is to be invested in obligations of any one issuer, excluding obligations of the U.S. government.

   2) Marketable bonds, at the time of purchase, must be rated at an investment grade and commercial paper must have a rating of not less than A+ by Standard & Poor's or "Pl" by Moody's. Noninvestment grade bond funds can be considered as long as no more than 20% of the investment portfolio is invested in this type of investment.

The following is the breakdown of the investment types for the Foundation.

Investment Type	Amount	Percentage
Equity Mutual Fund	$ 973,503	27.74 %
Bond Mutual Fund	703,827	20.05
Fixed Income Exchange Traded	245,705	7.01
Equity Exchange Traded Fund	1,193,727	34.01
Real Estate Investment Trust (REIT)	281,880	8.03
Bond Exchange Traded Fund	40,514	1.15
Commodities Exchange Traded Fund	48,575	1.38
REIT Exchange Traded Fund	22,091	0.63
Total foundation investments	$ 3,509,822	100.00 %

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party.

Of the investments in federal agency and corporate obligations and marketable securities, the Foundation had custodial credit risk exposure at June 30, 2017, because the related securities are held by the Foundation's brokerage firm, which is also the counterparty for these securities.

During fiscal year 2016, the Foundation adopted the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which establishes fair value standards for certain investments held by governmental entities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

U.S. generally accepted accounting principles establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2. Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies.

Investments held in cash and cash equivalents, certificates of deposit, and money market funds were valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

Investments in common stock, mutual funds, and debt securities are valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the fair value measurements of the assets at June 30, 2017:

	Fair Value Measurements Using		
	Fair Value	Level 1	Level 3
Mutual Funds	$ 3,205,851	$ 3,205,851	$ -
Real Estate Investment Trust	303,971	22,091	281,880
	$ 3,509,822	$ 3,227,942	$ 281,880

Beneficial Interest

The New Mexico Land Grant Permanent Fund (LGPF) was originally established pursuant to the Enabling Act for New Mexico passed by the U.S. Congress on June 20, 1910 (which encompassed the Ferguson Act of 1898) and was made the law of New Mexico by its reference in the New Mexico Constitution. The Enabling Act (and its acceptance in the New Mexico Constitution) set forth certain parcels of land granted by the United States in trust to the state for the purposes of establishing a permanent fund, which could only be used for the purposes set out in the Enabling Act, namely, the funding of schools and state institutions throughout New Mexico. Highly restrictive criteria governing permitted uses of the assets of the LGPF are specifically prescribed in the New Mexico Constitution. The beneficiaries of the LGPF are also specifically prescribed in the New Mexico Constitution and in state statute. The College is one of the specific entities identified that has a beneficial interest in the LGPF.

On July 1, 2016 the State of New Mexico (State) changed its policy regarding the presentation of the College's beneficial interest in the LGPF within the State's Comprehensive Annual Financial Report (CAFR). As a result of the State's change in policy the College no longer presents its beneficial interest in the LGPF in its stand-alone Statement of Net Position. The income received from the beneficial interest by the College continues to be presented in its stand-alone Statement of Revenue, Expenses, and Changes in Net Position. For more information regarding the LGPF, Please refer to the New Mexico State Investment Council's financial statements at http://www.sic.state.nm.us/sic-annual-audit-reports.aspx. Also, see prior period adjustment at Note 15 related to this disclosure.

As an entity with a beneficial interest, the College receives monthly distributions of income from the LGPF as required by law. The College's beneficial interest and income received from this beneficial interest as of and for the year ended June 30, 2017, was as follows:

Balance of the College's Beneficial Interest	$ 3,227,485
Income Received from the College's Beneficial Interest in the LGPF	127,771

4) Receivables

The various sources of receivables at June 30, 2017, were as follows:

Grants and Contracts Receivable		
Amounts due from state and local agencies, as well as amounts due from the federal government represent expenditures to be reimbursed under various cost-sharing agreements. It is the opinion of management that no allowance for doubtful accounts was needed.		$ 841,613
Student Accounts Receivable		
Amounts due from students are for tuition and fees not covered by financial aid.		
Total due	$ 1,540,891	
Allowance for doubtful receivables	(1,217,981)	
Net reported balance	322,910	322,910
Loan Receivable		
Federal Perkins loans		133,951
Other Receivables		
Capital grants		243,511
Miscellaneous receivables		77,517
Total receivables		$ 1,619,502

5) Inventories

Inventory at June 30, 2017, was as follow:

Bookstore inventory	$ 263,478
Cafeteria inventory	3,973
	$ 267,451

6) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2017, as follows:

	Balance at June 30, 2016	Additions	Deletions/ Adjustments	Transfers	Balance at June 30, 2017
Capital assets not being depreciated					
Art	$ 28,500	$ -	$ -	$ -	$ 28,500
Construction in progress	330,621	1,740,304	-	(79,683)	1,991,242
Land and improvements	6,880,864	-	-	-	6,880,864
Total capital assets not being depreciated	7,239,985	1,740,304	-	(79,683)	8,900,606
Capital assets being depreciated					
Automobiles	446,832	17,995	(46,799)	-	418,028
Building and improvements	52,195,589	854,191	-	79,683	53,129,463
Furniture, fixtures and equipment	2,564,610	610,202	(28,884)	-	3,145,928
Library materials	3,154,731	25,857	-	-	3,180,588
Total capital assets being depreciated	58,361,762	1,508,245	(75,683)	79,683	59,874,007
Total capital assets	65,601,747	3,248,549	(75,683)	-	68,774,613
Less accumulated depreciation for					
Automobiles	388,042	33,827	(46,799)	-	375,070
Building and improvements	28,858,784	1,002,335	-	-	29,861,119
Furniture, fixtures and equipment	1,873,225	308,309	(20,295)	-	2,161,239
Library materials	2,827,389	155,535	-	-	2,982,924
Total accumulated depreciated	33,947,440	1,500,006	(67,094)	-	35,380,352
Total capital assets being depreciated, net	24,414,322	8,239	(8,589)	79,683	24,493,655
Total capital assets, net	$ 31,654,307	$ 1,748,543	$ (8,589)	$ -	$ 33,394,261

The College's outstanding commitments for contracts at June 30, 2017, were $594,611. The largest portion of this is for renovations of laboratories and bathroom renovations, HVAC system repairs, and resurfacing of lots and roadways at the College's Espanola Campus. The remaining commitments are as follows.

PROJECT	Total Cost	Remaining Commitment
Student Services Center Renovations	$ 592,016	$ 34,182
Lots and Roadway	504,845	124,480
HVAC System Repairs	380,823	62,619
Laboratories and Bathroom Renovations	171,971	328,028
Farmer's Market Bathroom	14,686	45,302
	$ 1,664,341	$ 594,611

7) Compensated Absences

A summary of changes in compensated absences for the year ended June 30, 2017, follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017	Due within One Year
Compensated absences	$ 465,926	$ 492,092	$ (619,688)	$ 338,330	$ 338,330

8) Operating Leases

The College leases certain office space and office equipment under lease agreements with terms ranging from one year to five years. Expenditures for operating leases for the year ended June 30, 2017, were $170,474. Future minimum lease payments under these operating leases are as follows:

2018	$ 140,276
2019	114,044
2020	7,044
2021	6,457
	$ 267,821

9) Retirement Programs

The College offers three retirement plans. All eligible employees working more than 25% full-time equivalent are required to participate in one of the first two plans described below. Student employees do not participate in these plans.

<u>Educational Retirement Act</u>
Plan Description. Substantially all of the College's eligible employees, except those who participate in the Alternative Retirement Plan (ARP) described below, participate in a public employee retirement system authorized under the Education Retirement Act (ERA) of the State of New Mexico (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members (certified teachers and other employees of the State's public school districts, institutions of higher learning, and agencies providing educational programs)

and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, New Mexico 87502. The report is also available on ERB's website at www.nmerb.org.

Return to Work Program. Effective January 1, 2002, the ERB implemented a retiree Return-To-Work (RTW) program whereby the College is required to make regular employer contributions on eligible retiree wages. As of July 1, 2011, House Bill 129 was passed requiring returning retirees to contribute the employee portion.

Funding Policy. The contribution requirements of plan members and the College are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by the acts of the Legislature.

A summary of member and employer contributions to the Educational Retirement Board is provided below:

	2017	2016	2015
Employee's earning $20,000 or less:			
College contribution	**13.90%**	13.90%	13.90%
Employee contribution	**7.90%**	7.90%	7.90%
Employee's earning more than $20,000:			
College contribution	**13.90%**	13.90%	13.90%
Employee contribution	**10.70%**	10.70%	10.70%
College's contribution to ERB	**$ 1,050,029**	$ 1,106,630	$ 1,205,703
Employee's contribution to ERB	**796,137**	840,684	913,122

A summary of member and employer contributions to the Educational Retirement Board for the Return to Work program is provided below:

	2017	2016	2015
Employee's earning $20,000 or less:			
College contribution	**13.90%**	13.90%	13.90%
Employee contribution	**7.90%**	7.90%	7.90%
Employee's earning more than $20,000:			
College contribution	**13.90%**	13.90%	13.90%
Employee contribution	**10.70%**	10.70%	10.70%
Employee's contribution to ERB for Return to Work Program	**$ 8,817**	$ 6,819	$ 9,906
College's contribution to ERB for Return to Work Program	**11,547**	9,035	13,179
College's contribution to ERB for PERA Return to Work Program	**27,334**	34,810	34,694

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The total ERB pension liability, net pensions liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. At June 30, 2017, the College reported a liability of $21,071,157 for its proportionate share of the net pension liability. The College's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2016. The contribution amounts were defined by Section 22-11- 21, NMSA 1978. At June 30, 2016, the College's proportion was 0.29280%, which was a decrease of 0.03681% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the College recognized pension expense of $599,502. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actuarial experience	$ 91,414	$ 200,413
Change in assumptions	428,924	
Net difference between projected and actual earnings on pension plan investments	1,257,773	-
Changes in proportion and differences between College contributions and proportionate share of contributions	-	2,585,862
College contributions subsequent to the measurement date	1,077,546	-
Total	$ 2,855,657	$ 2,786,275

The $1,077,546 reported as deferred outflows of resources related to pensions relating from College contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflow of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ending June 30,		
2018	$	(964,535)
2019		(595,238)
2020		244,889
2021		306,720
Total	$	(1,008,164)

Actuarial Assumptions. As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year June 30, 2016, using generally accepted actuarial principles. Specifically, the liabilities measured as of June 30, 2016, incorporate the following assumptions:

1) All members with an annual salary of more than $20,000 will contribute 10.70% during the fiscal year ending June 30, 2015, thereafter.
2) Members hired after June 30, 2013, will have an actuarially reduced retirement benefit if they retire before age 55 and their Cost of Living Adjustment (COLA) will be deferred until age 67.
3) COLAs for most retirees are reduced until ERB attains a 100% funded status.
4) These assumptions were adopted by ERB on June 12, 2015, in conjunction with the six-year experience study period ending June 30, 2014.

For the purpose of projecting future benefits, it is assumed that the full COLA is paid in all future years.

The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 0.75% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75% compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75% real rate of return.

Average of Expected Remaining Service Lives	3.77 years
Mortality	Healthy males: RP-2000 Combined Mortality Table with White Collar Adjustment, generational mortality improvements with Scale BB Healthy females: GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB form the table’s base year of 2012
Retirement Age	Experience based on table of age and service rates
Cost-of-Living Increases	2% per year, compounded annually
Payroll Growth	3.5% per year
Contribution Accumulation	5.5% increase per year for all years prior to the valuation date
Disability Incidence	Approved rates applied to eligible members with at least 10 year of service
Actuarial Cost Method	Entry Age Normal

The long-term expected rate of return on pension plan investments is determined annually using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	**Target Allocation**	Long-Term Expected Real Rate of Return
Equities - Domestic	**20%**	8.00%
Equities - International	**15%**	8.57%
Fixed Income	**28%**	4.35%
Alternatives	**36%**	7.38%
Cash	1%	3.25%
Total	**100%**	

Discount rate. A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the ARP, ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Decrease (8.75%)
The College's proportionate share of the net pension liability	$ 27,908,259	$ 21,071,157	$ 15,398,295

Pension Plan Fiduciary Net Position
Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2016, which is publicly available at wwww.nmerb.org.

Alternative Retirement Program
Plan Description. The New Mexico Alternative Retirement Plan (ARP) was established by amendment to Chapter 22, Article 11, Section 47 to 52. Certain faculty and professional staff hired on or after July 1, 1991, may elect to participate in an alternative defined contribution retirement plan in lieu of participation in the ERA in accordance with policies stipulated by the Board of Regents. The two carriers approved by the ERB are the Teachers Insurance and Annuity Association/College Retirement Equities Fund and Fidelity Investments. Employees are allowed to transfer between carriers once each year. Vesting is immediate and benefits may be distributed as an annuity, a roll over, or a withdrawal.

Effective July 1, 2009, employees, after 7 years of contribution to the ARP, have a one-time opportunity to move to the ERB's defined benefit plan. Section 51 allows members of the ARP the option to cash out or rollover the ARP account once they have left employment.

A summary of member and employer contributions to the Educational Retirement Board for the Alternative Retirement Program is provided below:

	2017	2016	2015
Employee's earning $20,000 or less:			
College contribution	**10.90%**	10.90%	10.90%
Employee contribution	**7.90%**	7.90%	7.90%
Employee's earning more than $20,000:			
College contribution	**10.90%**	10.90%	10.90%
Employee contribution	**10.70%**	10.70%	10.70%
3% Contribution to ERB for ARP Participants	**3.00%**	3.00%	3.00%
Payroll expenses-ARP Wages	**$ 283,913**	$ 405,957	$ 355,446
3% Contribution to ERB for ARP Wages	**8,517**	12,179	10,663

10) Post-Employment Benefits—State Retiree Health Care Plan

Plan Description
The College contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New

Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plan 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure that actuarial soundness of the benefits provided under the Retiree Health Care Act.

The College's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015, were $148,086, $159,133, and $173,141, respectively, which equal the required contributions for each year.

11) Risk Management

New Mexico Statutes (Section 15-7-2 NMSA 1978) require Risk Management Division (RMD) to be responsible "for the acquisition and administration of all insurance purchased by the State." Various statutes allow RMD to insure, self-insure and use a combination of both for all risks administered by it. RMD operates under the supervision of the Secretary of New Mexico, General Services Department.

The College is exposed to various risks of loss related to general, automobile and aircraft liabilities, including those relating to civil rights (torts); theft of, damage to and destruction of state property assets; errors and omissions; injuries to employees; group insurance; and natural disasters, all of which are insured against by participation in the public entity risk pool described above, subject to limits of coverage set by RMD. All employees of the College are covered by a blanket fidelity bond up to $5,000,000, with a $1,000 deductible per occurrence, by the State of New Mexico for the period July 1, 2016 through June 30, 2017. The College is currently a party to litigation claims in the ordinary course of business and which is anticipated to be within the coverage provided by RMD.

The College is involved in litigation related to employment through the RMD. As each claim is reviewed on a claim by claim basis, the impact to the College is unknown.

The College is involved in litigation based on a series of contracts related to capital improvement projects to build dorms. The dispute between the College and the construction company alleges breach on contract. The College has recently changed legal representation. Prior the change, the College offered $100,000 to settle the claim which was rejected and a counteroffer was received. In light of new approach the current legal representation has taken, management's estimate of the settlement value is $40,000 to $50,000 and that would be primarily to avoid any liability exposure and the defense costs that are associated with a trial on the merits.

The College is involved in litigation related to a Whistleblower Protection Act claim. The College has recorded a total amount of $496,402 as a loss contingency related to this claim.

12) Related Party Transactions

The Northern New Mexico College Foundation (the Foundation) is a not-for-profit corporation established to acquire and manage charitable gifts, including endowed funds, to be used solely for the benefit of the College. The following transactions occurred during fiscal year ended June 30, 2017, between the College and the Foundation. The Foundation does not issue separate financial statements.

	Foundation to College	College to Foundation
Operating costs	$ -	$ 206,240
Scholarships	106,984	-
Total	$ 106,984	$ 206,240

The College is currently in negotiations to settle an employment claim brought against the College by an employee that is the spouse of the Vice President of the College Foundation Board and the College's Athletic Director.

13) Intra-Agency Disclosure

Since fiscal year 2011, the College has been providing instruction and general funding to the Athletics Department to offset expenses incurred by Athletics. In fiscal year 2017, the College funded the Athletic Department with instruction and general funding in the amount of $1,262,132 which was needed to offset unfunded costs incurred.

14) Commitments and Contingencies

The various federal and state grants and programs are subject to audit by governmental agencies. These audits may result in disallowance of claimed reimbursable expenditures under rules and regulations of the various grants and programs. Management believes that the amounts of potential disallowances, if any, will not be material to the financial position or the operations of the College.

The College is currently party to various litigation claims brought against the College in the ordinary course of business. After conferring with legal counsel concerning pending litigation and claims, College administration has recorded liabilities for the estimated claims and believes that the outcome of pending litigation should not have a materially adverse effect on the financial position or operations of the College.

During the course of the June 30, 2016, routine audit, potential embezzlement and larceny of College funds was uncovered. As of March 26, 2018, the impact of this on the College's finances and compliance has not been determined. Management of the College has recorded a $250,000 loss contingency for this matter. The loss amount could be higher since the actual loss amount is unknown at this time. Restitution and amounts owed to the College are an unrecorded receivable to the College, as it would be fully offset by an allowance and the receivable amount is unknown.

15) Prior-Period Restatement – Land Grant Permanent Fund

Effective July 1, 2016, the State of New Mexico (State) changed its policy regarding the presentation of the Land Grant Permanent Fund (LGPF) within State's Comprehensive Annual Financial Report (CAFR). The State's institutions of higher education have a beneficial interest in the LGPF. Previously, the State presented the College's LGPF beneficial interest as an asset in the educational institution enterprise fund. Consistent with this presentation, the College recorded its LGPF beneficial interest as an asset in its stand-alone financial statements. The presentation of the LGPF as an asset in the educational institution enterprise fund and as an asset on the College's stand-alone financial statements is an acceptable presentation in accordance with U.S. generally accepted accounting principles (GAAP). However, with the adoption of the State's new policy on July 1, 2016, the College's beneficial interest in the LGPF will now be presented within a special revenue fund in the State CAFR and will no longer be presented in the educational institution enterprise fund. GAAP requires consistency between the State CAFR presentation and the presentation in the College's stand-alone financial statements. As a result, this change in policy will no longer permit institutions of higher education to record their respective beneficial interests in the LGPF as an asset within their stand-alone financial statements. Accordingly, the College has removed its respective beneficial interest in the LGPF as of July 1, 2016.

The following table presents the impact of the change in accounting principle on the College's net position:

	Total Net Position
Net position, July 1, 2016, as previously reported	$ 14,139,335
Impact of change in accounting principle	(2,940,187)
Net position, July 1, 2016, as restated	$ 11,199,148

This change in presentation does not impact the College's beneficial interest in the LGPF assets and the College will continue to receive its beneficial interest in the earnings of the LGPF as required by law.

Required Supplementary Information

Northern New Mexico College

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions

For the Year Ended June 30, 2017

Schedule of the College’s Proportionate Share of Net Pension Liability

Education Retirement Board (ERB) Plan - Last 10 Fiscal Years*

	2017	2016	2015
College's proportion of the net pension liability (asset)	**0.29280%**	0.3196%	0.354010%
College's proportionate share of the net pension liability (asset)	**$ 21,071,157**	$ 20,701,991	$ 20,198,278
College's covered - employee payroll	**8,117,792**	8,726,377	9,820,806
College's proportionate share of the net pension liability (asset) as a percentage of covered payroll	**259.57%**	237.23%	205.67%
Plan fiduciary net position as a percentage of total pension liability	**61.58%**	66.65%	66.54%

Schedule of the College’s Contributions

Education Retirement Board (ERB) Plan - Last 10 Fiscal Years*

	2017	2016	2015
Contractually required contribution	**$ 1,077,546**	$ 1,262,881	$ 1,283,113
Contributions in relation to contractually required contributions	**1,077,546**	1,262,881	1,283,113
Contribution deficiency (excess)	**-**	-	-
College's covered - employee payroll (actual)	**8,117,792**	8,726,377	9,820,806
Contributions as a percentage of covered-employee payroll	**13.27%**	14.47%	13.07%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Notes to Schedules

Changes of benefit terms and Assumptions There were no benefit or assumption changes adopted since the last actuarial valuation. However, the actual cost of living adjustment (COLA) was less than the expected 2.0%, which resulted in a net $138 million decrease in the overall ERB unfunded actuarial accrued liability.

Supplementary Information

Northern New Mexico College
Budgetary Comparison – Restricted and Unrestricted – All Operations (Modified Accrual)
For the Year Ended June 30, 2017

	Budgeted Amounts		**Actual Amounts (Modified Accrual)**	Variance Favorable (Unfavorable)
	Original	Final		
Beginning, net position balance (modified accrual basis)	$ 627,099	$ 935,787	**$ 935,787**	$ -
Revenues				
State government appropriations	13,684,179	13,827,326	**13,248,791**	(578,535)
Federal government contracts and grants	6,198,095	6,659,545	**6,244,031**	(415,514)
State government contracts and grants	766,734	913,226	**889,567**	(23,659)
Private gifts, grants, and contracts	222,161	335,782	**315,537**	(20,245)
Tuition and miscellaneous fees	3,635,325	3,870,787	**3,891,758**	20,971
Land and permanent fund	165,263	121,124	**187,666**	66,542
Sales and services	693,600	652,663	**673,836**	21,173
Other	78,885	172,239	**146,776**	(25,463)
Total revenues	25,444,242	26,552,692	**25,597,962**	(954,730)
Expenditures				
Instruction	7,150,496	7,331,275	**7,188,650**	142,625
Student social and cultural activities	82,009	91,512	**86,920**	4,592
Academic support	1,198,566	1,168,353	**1,095,149**	73,204
Student services	1,521,975	1,714,674	**1,457,148**	257,526
Institutional support	4,897,898	4,878,993	**3,879,692**	999,301
Operation and maintenance of plan	1,935,500	1,947,978	**1,827,800**	120,178
Research	1,979	5,839	**5,839**	-
Public service	616,552	563,321	**561,476**	1,845
Internal service	26,816	36,666	**(41,078)**	77,744
Auxiliary enterprises	935,826	886,470	**843,677**	42,793
Capital outlay	2,419,579	3,254,148	**2,637,630**	616,518
Renewal and replacement	155,227	170,640	**142,664**	27,976
Student aid, grants, and stipends	4,215,473	3,944,834	**4,530,367**	(585,533)
Intercollegiate athletics	695,776	712,468	**582,314**	130,154
Total expenditures	25,853,672	26,707,171	**24,798,248**	1,908,923
Net transfers - in (out)	-	-	**-**	-
Change in net position (modified accrual basis)	(409,430)	(154,479)	**799,714**	(2,863,653)
Ending, net position (modified accrual basis)	$ 217,669	$ 781,308	**$ 1,735,501**	$ (2,863,653)

Northern New Mexico College
Budgetary Comparison – Restricted –
Instruction and General (Modified Accrual)
For the Year Ended June 30, 2017

	Budgeted Amounts		**Actual Amounts (Modified Accrual)**	Variance Favorable (Unfavorable)
	Original	Final		
Beginning, net position balance (modified accrual basis)	$ -	$ -	**$ -**	$ -
Revenues				
State government appropriations	-	-	**-**	-
Federal government contracts and grants	2,802,937	3,392,825	**2,506,742**	(886,083)
State government contracts and grants	-	176,635	**163,895**	(12,740)
Local government contracts and grants	-	-	**-**	-
Private gifts, grants, and contracts	15,161	127,545	**101,845**	(25,700)
Tuition and miscellaneous fees	-	-	**-**	-
Land and permanent fund	-	-	**-**	-
Sales and services	-	-	**-**	-
Other	-	-	**-**	-
Total revenues	2,818,098	3,697,005	**2,772,482**	(924,523)
Expenditures				
Instruction	1,922,537	2,150,854	**2,315,032**	(164,178)
Student social and cultural activities	-	-	**-**	-
Academic support	25,172	20,343	**14,707**	5,636
Student services	354,364	574,975	**337,890**	237,085
Institutional support	494,021	853,322	**15,400**	837,922
Operation and maintenance of plan	-	10,759	**8,063**	2,696
Research	-	-	**-**	-
Public service	-	-	**-**	-
Internal service	-	-	**-**	-
Auxiliary enterprises	-	-	**-**	-
Capital outlay	-	-	**-**	-
Renewal and replacement	-	-	**-**	-
Student aid, grants, and stipends	-	-	**-**	-
Intercollegiate athletics	-	-	**-**	-
Total expenditures	2,796,094	3,610,253	**2,691,092**	919,161
Net transfers - in (out)	(22,004)	(86,752)	**(81,390)**	5,362
Change in net position (modified accrual basis)	-	-	**-**	-
Ending, net position (modified accrual basis)	$ -	$ -	**$ -**	$ -

Northern New Mexico College

Budgetary Comparison – Unrestricted – Instruction and General (Modified Accrual)

For the Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Modified Accrual)	Variance Favorable (Unfavorable)
Beginning, net position balance (modified accrual basis)	$ 546,980	$ 747,368	**$ 747,368**	$ -
Revenues				
State government appropriations	10,734,700	10,197,900	**10,201,400**	3,500
Federal government contracts and grants	3,000	3,280	**13,300**	10,020
State government contracts and grants	-	-	**-**	-
Local government contracts and grants	-	-	**-**	-
Private gifts, grants, and contracts	-	-	**-**	-
Tuition and miscellaneous fees	2,987,535	3,271,554	**3,264,600**	(6,954)
Land and permanent fund	165,263	121,124	**187,666**	66,542
Sales and services	300	434	**673,836**	673,402
Other	41,385	147,844	**131,256**	(16,588)
Total revenues	13,932,183	13,742,136	**14,472,058**	729,922
Expenditures				
Instruction	5,227,959	5,180,421	**4,873,618**	306,803
Student social and cultural activities	-	-		-
Academic support	1,173,394	1,148,010	**1,080,436**	67,574
Student services	1,167,611	1,139,699	**1,119,255**	20,444
Institutional support	4,403,877	4,025,671	**3,864,292**	161,379
Operation and maintenance of plan	1,935,500	1,937,219	**1,819,738**	117,481
Research	-	-	**-**	-
Public service	-	-	**-**	-
Internal service	-	-	**-**	-
Auxiliary enterprises	-	-	**-**	-
Capital outlay	-	-	**-**	-
Renewal and replacement	-	-	**-**	-
Student aid, grants, and stipends	-	-	**-**	-
Intercollegiate athletics	-	-	**-**	-
Total expenditures	13,908,341	13,431,020	**12,757,339**	673,681
Net transfers - in (out)	(357,661)	(387,744)	**(164,225)**	223,519
Change in net position (modified accrual basis)	(333,819)	(76,628)	**1,550,494**	1,627,122
Ending, net position (modified accrual basis)	$ 213,161	$ 670,740	**$ 2,297,862**	$ 1,627,122

Northern New Mexico College
Reconciliation of Budgetary Basis (Modified Accrual) to
Financial Statement Basis (Accrual) – Restricted and Unrestricted – All Operations
For the Year Ended June 30, 2017

Total Restricted and Unrestricted Revenues

Budgetary basis (modified accrual)	$ 25,597,962
Reconciling item	
Scholarship allowance (not in modified accrual basis)	(3,052,486)
Financial statement basis	$ 22,545,476

Basic Financial Statements

Operating revenues	$ 9,295,887
Nonoperating revenues	13,249,589
Total restricted and unrestricted revenues according to financial statements	$ 22,545,476

Total Restricted and Unrestricted Expenditures

Budgetary basis (modified accrual)	$ 24,798,248
Reconciling items	
Scholarship allowance (not in modified accrual basis)	(3,052,486)
Capital outlay (not in financial statements)	(3,265,965)
GASB 68 Pension liability adjustment (reduction) expense	(275,824)
Depreciation expense (not in modified basis)	1,500,006
Loss on disposal of capital asset	(8,589)
Total reconciling items	(5,102,858)
Financial statement basis	$ 19,695,390

Basic Financial Statements

Operating expenditure	$ 19,695,390
Total restricted and unrestricted revenues according to financial statements	$ 19,695,390

Other Supplementary Information

Northern New Mexico College
Schedule of Deposit Accounts
For the Year Ended June 30, 2017

Depository Account Name	Type of Account	Cash Per Bank June 30, 2017	Add Deposits in Transit	Less Outstanding Checks	Other Reconciling Items	Adjusted Cash Balance June 30, 2017
COLLEGE						
Century Bank						
General	Checking*	$ 463,541	$ -	$ (211,449)	$ 233,739	$ 485,831
Payroll	Checking*	367,917	-	(17,646)	-	350,271
Student	Checking*	2,741	-	-	-	2,741
Savings	Savings*	301,322	-	-	-	301,322
Bank of America						
Payroll	Checking*	6,385	-	-	2,160	8,545
Perkins	Checking*	8,094	320	-	-	8,414
Luis Bustos	Checking*	6,677	-	-	-	6,677
Federal	Checking*	1,063,365	-	-	-	1,063,365
New Mexico Bank and Trust						
General	Checking*	202,404	2,213	-	-	204,617
Cash in bank		2,422,446	2,533	(229,095)	235,899	2,431,783
Petty cash and cash drawers		2,544	-	-	-	2,544
Total college cash and cash equivalents		$ 2,424,990	$ 2,533	$ (229,095)	$ 235,899	$ 2,434,327
FOUNDATION						
Charles Stephen and Company						
Money market account	Money market*	$ 43,219	$ -	$ -	$ -	$ 43,219
Century Bank						
Operating	Checking*	38,499	-	(4,296)	-	34,203
Unrestricted	Checking*	177,645	-	-	-	177,645
Temporary restricted	Checking*	89,262	-	-	-	89,262
Permanently restricted	Savings*	128,893	-	-	-	128,893
Cash in bank		477,518	-	(4,296)	-	473,222
Petty cash and cash drawers		-	-	-	-	-
Total foundation cash and cash equivalents		$ 477,518	$ -	$ (4,296)	$ -	$ 473,222

* Indicates the account is interest bearing.

Northern New Mexico College
Schedule of Pledged Collateral
For the Year Ended June 30, 2017

Pledged Collateral Safekeeping Location/Type of Security	College Century Bank	 New Mexico Bank and Trust	 Bank of America	 Total	Foundation Century Bank
Funds on deposit					
Demand deposits	$ 834,199	$ 202,404	$ 1,084,521	$ 2,121,124	$ 305,406
Savings deposits	301,322	-	-	301,322	128,893
Total	1,135,521	202,404	1,084,521	2,422,446	434,299
FDIC insurance					
Demand deposits	(250,000)	(202,404)	(250,000)	(702,404)	(250,000)
Total Uninsured Public Funds	$ 885,521	$ -	$ 834,521	$ 1,720,042	$ 184,299
Fifty percent collateral required per Section 6-10-17 NMSA	$ 442,761	$ -	$ 417,261	$ 860,022	$ 92,150
Pledged Collateral					
FHDA Albuquerque NM MunSchDis No012 Nominal Return 5.0000 Mkt Value $638,615 Trans #: W151007001 FHLB-Dallas Matures 8/1/2027 CUSIP #3138LQZY3	608,350	-	-	608,350	-
FHDA Gadsden NMIndPtSchDistNo016 Nominal Return 2.0000 Mkt Value $632,502 Trans #: W151014002 FHLB-Dallas Matures 8/15/2020 CUSIP #: 362550MX0	274,437	-	-	274,437	-
FHDA Luna Cty NMSchDistNo001 Deming Nominal Return 3.6000 Mkt Value $120,258 Trans #: C75210 FHLB-Dallas Matures 8/1/2017 CUSIP #: 550340DM2	612,360	-	-	612,360	-
FNCL Pool-AO0758 Nominal Return 3.5000 Mkt Value $262,554.20 Symbol: FNMA3842022 Richmond, VA Matures 4/1/2042 CUSIP #: 3138LQZY3	-	-	981,261	981,261	-
Total pledged collateral	1,495,147	-	981,261	2,476,408	-
Deficiency/(excess) in pledged collateral	$ (1,052,386)	$ -	$ (564,000)	$ (1,616,386)	$ 92,150

Northern New Mexico College
Schedule of Collaborative Partnerships
For the Year Ended June 30, 2017

Participants	Beginning and Ending Dates	Amount Incurred in Current Year	Contract	Description
Memorandum of Agreement				
NNMC and Pojoaque High School	May 1, 2016 June 30, 2019	$ 44,475	Superintendent	**Allow high school students to enroll in college-level courses offered by NNMC that may be academic or career technical but not remedial of developmental**
NNMC and McCurdy Charter School	May 2, 2016 June 30, 2019	$ 67,606	Director	
NNMC and Espanola Valley Schools	July 1, 2016 June 30, 2018	$ 143,750	Superintendent	
NNMC and Jemez Mountain Public Schools	July 1, 2016 June 30, 2018	$ 7,743	Superintendent	
NNMC and Los Alamos Public Schools	July 1, 2015 June 30, 2017	$ 4,170	Superintendent	
NNMC and Mesa Vista Schools	July 1, 2016 June 30, 2018	$ 8,141	Superintendent	
NNMC and Penasco Independent Schools	July 1, 2015 June 30, 2017	$ 110,692	Superintendent	

Single Audit

Northern New Mexico College
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Agency/Pass-Through Agency/Name of Program	Pass-Through Number	Federal CFDA Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Education				
Direct Programs				
Student Financial Assistance Cluster				
Federal Supplemental Education Opportunity Grant		84.007	$ 103,454	$ -
Federal Work Study Program		84.033	79,436	-
Federal Pell Grant Program		84.063	2,446,282	-
Federal Direct Loans-Subsidized		84.268	379,647	-
Federal Direct Loans-Unsubsidized		84.268	224,316	-
Total Student Financial Assistance Cluster			3,233,135	-
Higher Education Institutional Aid		84.031	893,048	533,917
Educational Opportunity Centers Program		80.066	74,196	-
Migrant Education High School Equivalency Program		84.141	437,114	-
Migrant Education College Assistance Migrant Program		84.149	412,278	-
Passed-through State of New Mexico:				
Career and Technical Education - Basic Grants to State Grants	V046A110031	84.048	51,284	-
Career and Technical Education - Basic Grants to State Grants	V048A140031	84.048	11,933	-
Adult Education Basic Grants to States	V002A110032	84.002	78,352	-
Total U.S. Department of Education Programs			5,191,340	533,917
National Institutes of Health				
Passed-through University of Texas at El Paso:				
Trans-NIH Research Support	8UL1GM1189700-02	93.310	10,518	-
Passed-through New Mexico State University:				
Biomedical Research and Research Training	2P20GM103451	93.859	88,340	6,504
Total National Institutes of Health Programs			98,858	6,504
National Science Foundation				
Research and Development Cluster:				
Direct programs				
Education and Human Resources		47.076	457,031	-
Geosciences		47.050	56,590	-
Computer and Information Science and Engineering		47.070	299,558	-
Passed-through New Mexico Tech:				
Education and Human Resources	DUE-1161334	47.076	55,251	-
Passed-through New Mexico State University:				
Education and Human Resources	HRD-0803171	47.076	16,872	-
Passed-through University of New Mexico:				
Office of Cyberinfrastructure	IIA-13-1346	47.080	7,591	-
Total Research and Development Cluster			892,893	-
Total National Science Foundation			892,893	-
U.S Department of Agriculture				
Passed-through New Mexico State University:				
Hispanic Servicing Institutions Education Grants Program	Q01820	10.223	46,908	-
Total U.S. Department of Agriculture			46,908	-
Total of schedule of expenditures of federal awards			$ 6,229,999	$ 540,421

Northern New Mexico College
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the College under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

2) Summary of Significant Accounting Policies

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles under Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for all others.

3) Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time, although the College expects such amounts, if any, to be immaterial.

4) Student Financial Assistance

The College administers the Perkins Loan Program. The Schedule of Expenditures of Federal Awards includes an amount, which represents administrative costs and new loans processed during the year ended June 30, 2017. As of June 30, 2017, the outstanding student loan balance under the federal Perkins Loan Program was $135,406.

5) Indirect Cost Rate

The College has elected to use 30 percent indirect cost rate as approved by the U.S. Department of Health and Human Services.

Independent Auditor's 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*

To the Board of Regents
Northern New Mexico College
and
Mr. Wayne Johnson
New Mexico State Auditor

We were engaged to audit, in accordance with the 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 business-type activities and the discretely presented component unit of Northern New Mexico College (the "College"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 26, 2018. Our report disclaims an opinion on such financial statements because of incomplete accounting records, reconciliations and supporting documentation, and because of an embezzlement we were made aware of during the course of the audit.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the College, we considered the College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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

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deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, 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 questioned costs as items 2013-001, 2013-002, 2013-003, 2016-002 to 2016-010, 2016-012, 2016-019, 2016-021, 2016-026, 2016-027, 2017 – 001, and 2017-002 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-007, 2015-001, 2016-013, 2016-016, 2016-017, 2016-023 to 2016-025, 2016-028, and 2017-003 to 2017-011 to be significant deficiencies.

Compliance and Other Matters

In connection with our engagement to audit the College's financial statements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. We also noted certain other matters that are required to be reported pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs and Section 12-6-5 NMSA 1978 Finding as 2013-001, 2013-002, 2013-003, 2015-001, 2016-005, 2016-011, 2016-012, 2016-013, 2016-014, 2016-023, 2016-029, 2017-005, 2017-007 and 2017-008. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

The College's Responses to Findings

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 results of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Albuquerque, New Mexico
March 26, 2018

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Regents
Northern New Mexico College
and
Mr. Wayne Johnson
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We were engaged to audit the Northern New Mexico College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of the of College's major federal programs for the year ended June 30, 2017. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We were engaged to conduct the audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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Because of the matters described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the College's compliance with each major federal program. Our audit does not provide a legal determination of the College's compliance.

Basis for Disclaimer of Opinion

As described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-003, 2016-002, 2016-004, 2016-006, 2016-007, 2016-009, 2016-010, 2016-017, 2016-019, 2016-025, 2016-026, 2016-027, and 2017-001, during the course of the audit, we discovered the College's accounting records, reconciliations, and supporting documentation were not complete, and also became aware of an embezzlement which occurred during the fiscal year. The College could not provide adequate supporting documentation for certain transactions and balances during fiscal year ended June 30, 2017, which was a result of both insufficient and circumvented internal controls over compliance. It was impracticable to extend our audit procedures sufficiently to determine the extent to which the College's compliance for each major federal program as of and for the year ended June 30, 2017, may have been affected by these matters.

Disclaimer of Opinion

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance for each major federal program.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-030, 2016-032, 2017-013, 2017-014, 2017-015, and 2017-016. These matters do not affect our disclaimer of opinion discussed above.

The College's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-030, 2016-032, 2017-012, 2017-013, 2017-014, 2017-015, and 2017-016 that we consider to be material weaknesses.

The College's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

REDW LLC

Albuquerque, New Mexico
March 26, 2018

Northern New Mexico College

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Disclaimer
Internal control over financial reported: Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Type of auditor's report issued on compliance for major programs:	Disclaimer
Internal control over major programs: Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None reported
Any audit findings disclosed that are required to be reported in accordance the 2CFR200.516(a)?	Yes

Northern New Mexico College
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2017

Section I — Summary of Auditor's Results — continued

Identification of major programs:

CFDA Number	Name of Federal Program
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.031	Higher Education Institutional Aid
47.050, 47.070, 47.076, 47.080	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Other Matters

Auditee's Summary Schedule of Prior Audit Findings:

Required to be reported in accordance with 2CFR200.511(b)?	Yes

FS - Material Weaknesses and/or Noncompliance

Section II — Financial Statement Findings

2013 – 001 Bank Reconciliations—Timeliness and Review Process—Material Weakness and Noncompliance (Repeated and Updated)

Condition: The College is preparing some of the bank account reconciliation and outsourcing the remaining; however, not all bank accounts have been reconciled, including review as of March 2018. Lack of the bank reconciliations limit the identification of outstanding items including stale dated checks and timing deposits.

The current bank reconciliation process is a very manual process in Excel. Detail from both the bank and general ledger is entered manually. Because the monthly process to add the bank amount, book amount (general ledger), deposits in transit, checks outstanding, reconciling items, etc. is manual, the entry and movement of data is open to error and or manipulation before finalization. This manual process occurs each month on each of the College's nine bank accounts, for which not all bank accounts may be necessary.

In addition, it was noted that the College has not updating their check signers on all bank accounts since March 2017.

Further, the College's bank account descriptions in the general ledger do not agree to bank account. For example, the student activity account relates to the credit card bank account.

Additionally, the College made huge cash withdrawals for book buy-back day, which was then to be paid back by the vendor in the form of a check. There does not appear to be any controls in place over these cash withdrawals which would leave the funds at risk for embezzlement.

Criteria: Appropriate internal controls over cash require timely reconciliation and review of institutional accounts to the general ledger in order to ensure adequate control over cash receipts and disbursements. Best practices dictate that bank reconciliations should be performed monthly in order to enhance timeliness of the financial information as well as timely authorization of corrections necessary. To fully comply with NM State Statutes, the College must provide complete books and records for audit.

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.

Section II — Financial Statement Findings — continued

2013 – 001 Bank Reconciliations—Timeliness and Review Process—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Section 7-8A-7(D) NMSA 1978 requires the College to provide information about the payees and the related funds (by November 1 of each year and covering the twelve month period preceding July 1 of that year) to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year. Additionally, according to Section 7-8A- 7(F) NMSA 1978, the College shall send a written notice to the apparent owner, not more than one hundred twenty days or less than sixty days before filing the report.

Effect: Not reconciling and reviewing cash accounts timely and thoroughly on a monthly basis creates the opportunity for errors or inappropriate transactions to occur undetected. Additionally, since the prior College Vice President is still a valid signatory on certain bank accounts, the College would have no recourse against the bank if funds were withdrawn by this individual.

Carrying numerous bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds. The College did not implement an internal control policy to account for stale dated outstanding checks and did not void or escheat these checks on a timely basis.

Cause: The College did not have the personnel or procedures in place to prepare the bank reconciliations on a timely basis. During fiscal year 2018, the College contracted with an outside consultant to prepare the bank reconciliation.

Auditor's Recommendations: We recommend all bank reconciliations are prepared for all bank accounts through present day. A schedule of all bank account reconciliations should be kept in order to inform management and those in charge of governance their current status. Additionally, the bank reconciliation module in the College's accounting software (Banner) should be activated. Data could then be imported through an automated process from both the cash general ledger (book) and the bank. In addition to set-up time for each account, the College will need to determine a cut-off date and import. We recommend utilizing Banner's built in bank reconciliation module software as it has a built in audit trail. This will enable any changes to the bank reconciliation data to be documented for both the preparer and the reviewer, which will result in a stronger internal control structure.

Section II — Financial Statement Findings — continued

2013 – 001 Bank Reconciliations—Timeliness and Review Process—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Auditor's Recommendations — continued:

All checks outstanding over one year should be reclassified from the bank reconciliation to a liability for escheatment. The College should also send a written notice to the apparent owner, not more than one hundred twenty days or less than sixty days before filing the unclaimed property report. The College should provide information about the payees and the related funds (by November 1 of each year and covering the twelve month period preceding July 1 of that year) to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

Check signers must be updated once employees or Regents leave the College.

The College should revise their Banner chart of accounts to ensure their account titles describe the purpose for which the account is used.

The College should not be making cash withdrawals related to buy-backs, instead the vendor should supply their own cash for the sale.

Management's Response: The College agrees with this finding. The College realizes the importance of current bank reconciliations and has been working diligently to bring bank reconciliations up-to-date. By the end of March 2018 for the fiscal year ended 2017, the largest bank accounts (general fund, Federal, and payroll) had been reconciled. The remaining (smaller) bank accounts are in the process of reconciliation.

The bank reconciliation module in Banner had already been activated; however, it was not used. During June 2017, the College began using the reconciliation module. There were challenges when the College began utilizing this module. The largest challenge that the College had to resolve was that of bank deposits. The College worked with our bank to institute a numbering system for bank deposits so that bank deposits could be matched between banner and the bank account in an automated manner similar to checks. Since October 2017, the bank reconciliation module within Banner has been fully utilized in the bank reconciliation process.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: No later than March 31, 2018.

Section II — Financial Statement Findings — continued

2013 – 003 Capital Assets—Physical Inventory Certification and Safeguarding—Material Weakness and Noncompliance (Repeated and Updated)

Condition: During our testwork over capital assets the following was noted.

- The College was not able to present supporting schedules and documentation related to the balances of land and land improvements on the financial statements.
- Several capital assets are not being properly depreciated based on their useful lives.
- The College is capitalizing assets based on purchase order amount instead of paid invoices.
- The College has not performed an inventory that certifies the capital assets on hand at or near year-end.

As stated in the prior year's corrective action plan for this specific finding the anticipated completion of this project is by the end of fiscal year 2018. Management is working toward meeting this goal.

Criteria: GASB Statement No. 34 paragraphs 18 to 22 requires capital assets to be recorded at their historical cost and include ancillary charges necessary to place the asset into its intended location and condition for use. Further, 2.20.1.16(E) NMAC requires certification of all governmental entities capital assets at or near year-end and 2.20.1.18 NMAC has specific requirements over dispositions. Good accounting practices to ensure compliance should include formal policies and procedures over treatment of assets in accordance with 2.20.1 NMAC.

Effect: The College is not in compliance with regulations over capital assets and without proper accountability or tracking of assets, the assets and related records are more susceptible to theft and errors.

Cause: The process in place over recording the physical control over capital assets was not functioning properly. The process to reconcile the general ledger to the physical inventory was a significant process and the College was unable to complete the process; and therefore, was unable to certify its capital assets on a timely basis.

Auditor's Recommendations: We recommend the College draft and adopt policies over the disposals and physical control of capital assets to be in compliance with laws and regulations. The College needs to request or find supporting documentation for capital assets listed on the capital asset inventory listing. Additionally, we recommend the College perform a thorough annual physical inventory of its capital assets and have the detailed list certified.

Section II — Financial Statement Findings — continued

2013 – 003 Capital Assets—Physical Inventory Certification and Safeguarding—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Management's Response: The College agrees with this finding and realizes that it must comply with NMAC. An inventory of capital assets was completed but not until late August 2017. The current Vice President for Finance and Administration did not certify the capital assets inventory because it was too early in his tenure for him to feel he could attest to its accuracy. In addition, the deadline for certification (at or near year-end) had long passed.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: April 2018.

Section II — Financial Statement Findings — continued

2016 – 001 College and Foundation—Late Audit Report—Noncompliance (Repeated and Updated)

Condition: The required submission date of the audit report for the fiscal year ended June 30, 2017, to the New Mexico State Auditor was November 1, 2017. The audit report was not submitted by the specified due date.

Criteria: 2.2.2.9(A) NMAC establishes a due date of November 1 for submission of this audit report to the Office of the State Auditor.

Effect: Without the audit report being delivered on time, the Board of Regents, the Administration, regulatory and funding agencies, legislative committees, and the public do not have the financial data available to make funding decisions. The public did not have the financial data available for review.

Cause: The College was involved with fraud inquiries, forensic investigations and staff changes during the prior audit; therefore, the contract submission was late and caused the audit report to be late.

Auditor's Recommendations: We recommend the College submit future audit reports timely and create a time schedule that will enable the College to become compliant with the Office of the State Auditor's deadlines and the Audit Act moving forward.

Management's Response: The College agrees with the finding.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: November 1, 2018.

Section II — Financial Statement Findings — continued

2016 – 002 Potential Fraud, Forgery, Embezzlement, Larceny and Noncompliance—Material Weakness and Noncompliance — (Repeated and Updated)

Condition: During this year, the bank reconciliations were not prepared (see current year finding 2013-001). In prior year, after auditing the reconciliations, the conclusion was made that that the General Operating Account bank reconciliation's outstanding checks appeared to be intentionally altered to exclude certain outstanding checks and even portions of outstanding checks in order to force the book to bank difference to reconcile. The bank reconciliations were not made available to the auditors and led to the resignation of the former Financial Services Director and her admitting to taking funds in excess of $200,000 in February 2017. The NM State Auditor's Office was notified as is required by Section 12-6-6 NMSA 1978 and a forensic investigation was conducted after the admission.

Criteria: Pursuant to 2.2.2.10(K)(2) NMAC and Section 12-6-6 NMSA 1978 (criminal violations), an agency [College] or IPA [external auditor] shall notify the state auditor immediately, in writing, upon discovery of any violation of a criminal statute in connection with financial affairs.

If any information comes to our attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. Additionally, the external auditor's consideration of fraud in a financial statement audit includes reporting to management and/or governance any evidence that fraud may exist.

Section 10-16-2(I) NMSA 1978 of the Governmental Conduct Act indicates that "[p]ublic employees" include employees of local governmental agencies, officers, elected or appointed officials, and those eligible to receive per diem or mileage.

Public employment or office is a public TRUST. Officers and employees must maintain integrity and high ethical standards. Public officers and employees shall:

Section 10-16-3(A): Not use their position to advance personal or private interests, and

Section 10-16-3(C): Disclose real or potential conflicts of interest.

Section 10-16-2(I): Not offer, request or receive any money or thing of value in exchange for performance of an official act, or take official act which primarily enhances personal financial interest. Imposes 4th degree felony penalties, Sections 10-16-3D and 10-16-4A.

Section 10-16-3.1C: Not use or allow use of governmental property for unauthorized purposes.

Section 10-16-4B, C: Not engage in an official act directly affecting personal financial interest (unless greater benefit accrues to the public) or acquire financial interest which will be affected by the officer's or employee's official action.

Section II — Financial Statement Findings — continued

2016 – 002 Potential Fraud, Forgery, Embezzlement, Larceny and Noncompliance—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Criteria — continued:

NMSA 1978 30-16-6 *Fraud* consists of the intentional misappropriation or taking of anything of value which belongs to another by means of fraudulent conduct, practices or representations.

NMSA 1978 Section 30-16-1 *Larceny* consists of: A) Larceny consists of the stealing of anything of value that belongs to another. B) Whoever commits larceny when the value of the property stolen is two hundred fifty dollars ($250) or less is guilty of a petty misdemeanor. C) Whoever commits larceny when the value of the property stolen is over two hundred fifty dollars ($250) but not more than five hundred dollars ($500) is guilty of a misdemeanor. D) Whoever commits larceny when the value of the property stolen is over five hundred dollars ($500) but not more than two thousand five hundred dollars ($2,500) is guilty of a fourth degree felony. E) Whoever commits larceny when the value of the property stolen is over two thousand five hundred dollars ($2,500) but not more than twenty thousand dollars ($20,000) is guilty of a third degree felony. F) Whoever commits larceny when the value of the property stolen is over twenty thousand dollars ($20,000) is guilty of a second degree felony.

NMSA 1978 Section 30-16-8 *Embezzlement* consists of the embezzling or converting to his or her own use of anything of value with which he or she has been entrusted, with fraudulent intent to deprive the owner thereof.

NMSA 1978 Section 30-16-10 *Forgery* consists of: A) falsely making or altering any signature to, or any part of, any writing purporting to have any legal efficacy with intent to injure or defraud; or B) knowingly issuing or transferring a forged writing with intent to injure or defraud. "Legal efficacy" is a writing which could be made the foundation of liability, that would apparently operate to the legal prejudice of another.

We usually think of forgery as altering a document for financial gain but it can also be "any document required by law to be filed…or necessary…to the discharge of a public official's duties."

NMSA 1978 Section 30-23-3 Making or permitting false public voucher consists of knowingly, intentionally or willfully making, causing to be made or permitting to be made, a false material statement or forged signature upon any public voucher, or invoice supporting a public voucher, with intent that the voucher or invoice shall be relied upon for the expenditure of public money. Whoever commits making or permitting false public voucher is guilty of a fourth degree felony.

Section II — Financial Statement Findings — continued

2016 – 002 Potential Fraud, Forgery, Embezzlement, Larceny and Noncompliance—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Criteria — continued:

NMSA 1978 Section 30-26-1 *Tampering with Public Records* consists of: A) knowingly altering any public record without lawful authority; B) any public officer or public employee knowingly filing or recording any written instrument, judicial order, judgment or decree in a form other than as the original thereof in fact appeared; C) any public officer or public employee knowingly falsifying or falsely making any record or file, authorized or required by law to be kept; D) any public officer or public employee knowingly issuing or causing to be issued, any false or untrue certified copy of a public record; or E) knowingly destroying, concealing, mutilating or removing without lawful authority any public record or public document belonging to or received or kept by any public authority for information, record or pursuant to law. Whoever commits tampering with public records is guilty of a fourth degree felony.

Effect: Allegations of fraud or actual fraud causes a decrease in public trust of the College. There is potentially fraud, larceny, and embezzlement of public funds that taxpayers, the Board of Regents, Administration, parents, staff, and students worked so hard to obtain for education. There are costs associated with investigating and auditing these situations further.

Cause: The College did not thoroughly take corrective action on previous audit findings over cash and other areas of internal control weaknesses and critical segregation of duties was allowed to be overridden by management and staff. The former Financial Services Director overrode the College's internal control processes that did exist, including taking deposits to the bank and changing the bank reconciliations after the preparer had completed the reconciliations. The previous Vice President for Finance and Administration did not thoroughly review the bank reconciliations as the control was designed and asserted to the auditors in the prior year. Staff involved in the cash transaction cycle questioned the former Financial Services Director on multiple occasions but never took their concerns to a high enough level to be fully addressed.

Section II — Financial Statement Findings — continued

2016 – 002 Potential Fraud, Forgery, Embezzlement, Larceny and Noncompliance—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Auditor's Recommendations: We recommend the Board of Regents, the Finance Committee, Administration, and other staff assess risk and put into place stronger controls and a high level of transparency and accountability to prevent and detect any future fraud or noncompliance. We recommend that the College make it a goal to be the most transparent College in the state and take the lead in transparency on their website and include the following:

- All salary schedules
- All disbursements
- All teacher contracts
- All vendor contracts
- Copies of the budget, including budget adjustments
- Monthly and annual financial statements
- Enrollment information and statistics
- Federal grant results and reports
- Complete Foundation information or link to their website with full information
- Consider disclosing all nonprivacy related correspondence
- Link to the New Mexico State Auditor's Office fraud anonymous hotline

Tone at the top is absolutely critical, along with monitoring and accountability for controls, and including an open door policy to reporting suspicions, ideas, and asking questions to Administration and the Board without fear of retaliation. A separate HR Director whose staff feel safe with is also important. Consider performing credit checks on those who will be working with the College's finances. We also recommend bonding key employees and those working with cash.

Internal Auditing is an important function of successful organizations. Adding an internal auditor that reports directly and independently to the Board of Regents would be valuable in monitoring the controls you will put into place. This function can also be contracted out at reasonable rates and hours you control, perhaps with more effective results than hiring a full-time staff.

Training of staff to not allow internal controls to be circumvented even by a superior and to understand their duties will be helpful in preventing this from occurring in the future. Hiring an outside consultant to assist the College in training, reconciling, designing, implementing, and monitoring compliance with statutes, regulations, controls, policies, procedures, etc. is advisable.

Section II — Financial Statement Findings — continued

2016 – 002 Potential Fraud, Forgery, Embezzlement, Larceny and Noncompliance—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Auditor's Recommendations — continued:

Fraud is rarely discovered by the external audit as it was in the prior year and the current year. It is mainly discovered through anonymous tips, so instituting an anonymous fraud hotline is important.

Management's Response: The College agrees with this finding and recommendations. Post June 30, 2017 the College has worked with a forensic accounting firm and federal oversight agencies. In fact, the forensic audit firm worked closely with the U.S. Department of Education (USDOE) to ensure that their needs and specific questions were addressed. The forensic audits designed fieldwork to respond to our federal oversight agencies' inquiry as to whether or not federal funds had been compromised.

The second report noted numerous specific recommendations that the College will implement as time and resources permit. The College is in the process of addressing the most immediate concerns and recommendations based on the report. It must be noted that the situation the College finds itself in developed over a minimum of a ten-year period; the remediation, while a top priority, will take time and substantial resources. One of the recommendations that must be addressed immediately is that of qualified staffing primarily in the accounting area.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2019.

Section II — Financial Statement Findings — continued

2016 – 003 Insufficient Attention and Accountability over Accounting and Internal Controls—Material Weakness (Repeated and Updated)

Condition: In the prior year's audit it was reported that the "Business Office Procedures by Function" manual, approved in 2015 but not updated for 2016, is missing key procedures and certain controls, such as the cash reconciliation process and segregation of duties access. This issue was not addressed in fiscal year 2017.

Criteria: Good accounting practices require the College to implement and follow sound accounting and internal control policies and procedures. This increases the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

Effect: The College is not adhering to the proper accounting procedures to ensure reliable financial records are generated that can be utilized for reporting and decision making. The audit includes a disclaimer of opinion, as balances may not be accurate and further noncompliance may exist.

Cause: Lack of resources and detailed attention to the risks, along with circumvention of controls has resulted in potential fraud, weak internal controls, inaccurate balances, and conflicting or incomplete policies and procedures.

Auditor's Recommendations: The Board should monitor that corrective action is being taken and that all audit findings are resolved. The Board, in congruence with Administration, should document (or contract out) responsibilities, policies and procedures to correct existing deficiencies in the accounting and internal controls environment and to cover situations where personnel are unavailable.

We recommend that procedures for transaction initiation and processing be formally documented as soon as possible. Written procedures, instructions, and assignments of duties will also prevent or reduce the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

The policies and procedures approved by the Board must comply with any applicable laws related to higher education entities in New Mexico.

Section II — Financial Statement Findings — continued

2016 – 003 Insufficient Attention and Accountability over Accounting and Internal Controls—Material Weakness (Repeated and Updated) — continued

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Management's Response: The College agrees with this finding and the College realizes the importance of addressing the deficiencies noted. As such, immediately after the fiscal year ended 2016 audit was issued, the President initiated an Audit Matrix document in order to track progress in the resolution of the previous year's audit findings and to keep all oversight agencies apprised of progress. From the time the fiscal year ended 2016 audit was issued to today, a number of measures have been taken by the President to address deficiencies and weaknesses such as the following: the College procured forensic reviews and reports have been issued; initiated formalized bank reconciliation processes and procedures; appropriately segregated a number of duties that were previously not segregated; and, hired a CPA with extensive governmental and audit experience as the new Vice President Finance and Administration. While progress may have been slow, it has been steady and continuous. It is important to note that the situation the College finds itself in developed over a period of a minimum of ten years; and will take time and extensive resources to resolve. The College is committed to expending both the time and resources required.

The forensic review resulted in a plethora of recommendations that the College plans to implement by June 30, 2019. Progress will continue as time and resources permit. The College will advertise for a Controller and Accountant (CPA or CGFM with extensive government accounting experience; and preferably, experience with colleges and universities.)

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: May 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 004 Insufficient Security of Accounting Records/Backup of Electronic Documents—Material Weakness (Repeated and Updated)

Condition: During the current year's audit numerous supporting documents were not available or not found.

In the prior year's audit it was reported that electronic work may not all be stored on the College's network and backed up, but rather on staff computers. It also appears the former Financial Services Director also shredded and/or disposed of certain documents without the College's knowledge. Documents are not scanned into a database or an organized backup file. No action has been taken to address this issue.

Criteria: Once records have been created, it is important that they are stored in a safe place, tracked, and backed up so that they may be utilized in the future by the Board of Regents, Administration, management, auditors, and even 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. These are known as the 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, 6. The list was compiled based on the typical records a College might be required to keep, for a complete listing of the GRRDS please refer to the NMAC.

Effect: We could not gather sufficient audit evidence to support certain transactions.

Cause: While the College does have some logs for checking documents in/out, there is no monitoring of the logs or accountability for electronic records.

Auditor's Recommendations: As recommended in the prior year's audit report, the Board of Regents should develop and formally adopt a policy that addresses the security of accounting records and document retention, in compliance with statutes. Utilizing a document retention service would help ensure compliance. We also recommend implementing a document tracking/imaging system such as Banner Document Management System (BDMS) that other Colleges and Universities in the State have. This makes it much simpler to retain and retrieve documents such as: journal vouchers, cashiering supporting documents, invoices/requisitions/purchase orders, and contracts with vendors.

Section II — Financial Statement Findings — continued

2016 – 004 Insufficient Security of Accounting Records/Backup of Electronic Documents—Material Weakness (Repeated and Updated) — continued

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Management Response: The College agrees with this finding and the importance of securing accounting records (both hard copies and electronic). Pursuant to the auditors' recommendations, the College must develop 1) policies and procedures to address security and retention of accounting documentation; 2) determine the most appropriate system of document retention whether electronic or hard copy; and 3) migrate hard copy records to electronic as appropriate. With the implementation of Banner 9, the College's IT Department will work closely with the implementation contractor to ensure that the College maximizes the capabilities of the Banner System when determining the best approach to document security and retention.

Responsible Person: Vice President Finance and Administration and Director of Information Technology

Timeline and Estimated Completion Date: June 30, 2019.

Section II — Financial Statement Findings — continued

2016 – 005 College and Foundation—Procurement Code Violations—Material Weakness and Noncompliance (Repeated and Updated)

Condition: The purposes of the State's Procurement Code is to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds, and to provide safeguards for maintaining a procurement system of quality and integrity.

During our testwork over procurement, the following was noted.

College:

- For 1 of 31 vendors reviewed for procurement, the College had in their documentation one written quote in excess of $74,000 and another partial written quote for $59,999. It appears that the College should have issued formal procurement to ensure competitive bidding. In addition, the policies were not followed as it requires three written quotes.
- For an additional procurement reviewed, the purchase order and the professional service contract were set for an amount not to exceed $10,000; however, the contract and purchase order both exceeded the amount and no further procurement was performed. The total amount expended with the vendor was $53,204.
- For another procurement reviewed, there was no procurement support, contract or purchase order for the vendor. The amount of the purchase was $37,059.
- For 4 of 31 procurements reviewed, the vendor was a utility company and no sole source documentation was prepared.
- For 1 of 31 vendors reviewed for procurement, the purchase order was created in August 2016; however, the sole source documentation was not prepared until December 2016. The total amount expended with the vendor was $171,604.
- For 1 of 31 vendors reviewed for procurement, no procurement was performed. The amount of the purchase was $108,519.

Foundation:

The Foundation's investment managers charge a fee based on services that is deducted through "account fees" on the investment statements. The Foundation procured an investment manager during calendar year 2014. This investment manager was awarded the contract and has been providing services through March 2018. The investment manager has not had an annual contract renewal nor has the procurement been rebid as of March 2018.

As stated in the prior year's corrective action plan for this specific finding the anticipated completion of this project is by the end of fiscal year 2018. Management is working toward meeting this goal.

Section II — Financial Statement Findings — continued

2016 – 005 College and Foundation—Procurement Code Violations—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Criteria: According to 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.

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 procurement;
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
G. The Educational Facility Construction Manager At Risk Act [13-1-124.1 NMSA 1978].

As per 13-1-125. Small purchases:

A. A central purchasing office shall procure services, construction or items of tangible personal property having a value not exceeding sixty thousand dollars ($60,000), excluding applicable state and local gross receipts taxes, in accordance with the applicable small purchase rules adopted by the secretary, a local public body or a central purchasing office that has the authority to issue rules.
B. Notwithstanding the requirements of Subsection A of this section, a central purchasing office may procure professional services having a value not exceeding sixty thousand dollars ($60,000), excluding applicable state and local gross receipts taxes, except for the services of landscape architects or surveyors for state public works projects or local public works projects, in accordance with professional services procurement rules promulgated by the department of finance and administration, the general services department or a central purchasing office with the authority to issue rules.
C. Notwithstanding the requirements of Subsection A of this section, a state agency or a local public body may procure services, construction or items of tangible personal property having a value not exceeding twenty thousand dollars ($20,000), excluding applicable state and local gross receipts taxes, by issuing a direct purchase order to a contractor based upon the best obtainable price.

Section II — Financial Statement Findings — continued

2016 – 005 College and Foundation—Procurement Code Violations—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Criteria — continued:

D. Procurement requirements shall not be artificially divided so as to constitute a small purchase under this section.

Section 14-2-5 NMSA 1978 Inspection of Public Records Act (IPRA) indicates that the public is entitled to the greatest possible information and documents are to be made available to the public.

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

Cause: Although the exact cause is unknown, the College and Foundation did not have appropriate segregation of duties over procurement compliance.

Auditor's Recommendations: We recommend the College and Foundation follow the Procurement Code (13-1-1 to 13-1-199 NMSA 1978) to ensure compliance with the rules and regulations over procurement. In addition, there should be an official process in place to initiate purchases and contracts to ensure management override of controls does not exist.

Management's Response: The College and Foundation agree with this finding and are committed to take all necessary steps to comply with all procurement statutes and regulations. Management also acknowledges the seriousness of the violations and the extensive number of violations cited indicate that a total restructure of the College's procurement processes and procedures must be effected. In addition, Management notes that extensive Procurement Code training will be required not only for staff involved in the procurement process, but for all faculty and staff. Management is currently in the process of evaluating qualifications and capacity of all staff in the areas of business, accounting, and finance. Procurement is inherently a part of this evaluation. In addition, Management is also evaluating processes and procedures for business, accounting, and finance. Both this audit and the forensic reviews that have been conducted over the last six months indicate that procurement must take priority. While Management performs the necessary restructuring and implements appropriate policies and procedures, Procurement Code training will be provided for all staff and faculty. Procurement Code training will become a requirement for all employees—current and future.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: December 31, 2018.

Section II — Financial Statement Findings — continued

2016 – 006 College and Foundation—Segregation of Duties—Material Weakness (Repeated and Updated)

Condition:

College:

In the prior year's audit report it was reporting that several positions were eliminated or terminated, including the Human Resources (HR) and Title IX Directors, Vice President of Advancement, Chief Procurement Officer (CPO), Capital Projects Manager, and the Grants Manager. The former Financial Services Director and the Interim President (from December 31, 2015 through October 16, 2016)/former Vice President for Finance and Administration filled in until such time as these positions could be filled with qualified candidates and/or there is adequate cash and budget to fill them.

The former Financial Services Director functioned as the Controller and had access to all accounting records and processes, including preparing and/or approving journal entries, bank reconciliations, expenditures, cash receipts, Banner (general ledger and payroll) access, personnel files, procurement, supervising financial staff, hiring, firing, and human resources functions. The former Financial Services Director and Interim President (from December 31, 2015 through October 16, 2016)/former Vice President for Finance and Administration were also signatories on the College's cash accounts.

In previous years, although there were controls in place to segregate duties, the former Financial Services Director circumvented these controls.

Foundation:

The Executive Director of the Foundation had access to all accounting records and processes, including preparing journal entries, expenditures, cash receipts, Banner access, procurement, and supervising Foundation staff. The Executive Director also has online access to the bank and investment accounts as well as signatory authority.

After the information related to transactions leaves the Foundation, the College's internal control structure is then utilized.

Criteria: A strong system of controls requires separation between custody of assets, recording of transactions and authorization of transactions. If a small number of employees does not allow for proper separation of duties, supervisory review should be used to compensate for the lack of separation of duties.

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

Section II — Financial Statement Findings — continued

2016 – 006 College and Foundation—Segregation of Duties—Material Weakness (Repeated and Updated) — continued

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Cause: Separation of duties over cash receipts and disbursements and all Information Technology (IT) access is difficult to achieve when positions are not filled.

Auditor's Recommendations: In the prior year's audit report it was recommended that steps must 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.

For the cash receipts transaction cycle, there should be adequate segregation of duties among those who:

- Collect accounts receivable
- Open the mail or copy checks received
- Prepare deposits
- Compare the listing of receipts received daily to the bank receipt of daily deposit
- Post cash receipts to the sub-ledgers (by Student, Bookstore, Third-Party, etc.)
- Review the bank reconciliations in detail
- Authorize write-offs or adjustments, including journal entries
- Independently investigate discrepancies or issues related to revenue
- Process staff/parent/outside organizational calls and complaints
- Reconcile bank accounts, including petty cash
- Perform surprise audits

For the cash disbursements transaction cycle, there should be adequate segregation of duties among those who:

- Review, authorize, or sign checks
- Initiate checks for expenditures such as purchase requisitions and purchase orders
- Prepare checks
- Mail checks
- Order checks
- Edit the vendor master file
- Independently investigate discrepancies or issues involving expenditures
- Process staff and/or vendor calls and complaints
- Open the mail or copy checks received
- Receive invoices to be paid
- Reconcile bank accounts
- Perform surprise audits

Section II — Financial Statement Findings — continued

2016 – 006 College and Foundation—Segregation of Duties—Material Weakness (Repeated and Updated) — continued

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Auditor's Recommendations — continued:

Having duties and even more importantly *access* to the different areas in a particular transaction cycle separated with strong independent reviews is critical to prevent and detect fraud and errors.

Management's Response: The College agrees with this finding and is committed to full implementation of the Auditor's recommendations. In fact, Management has already segregated a number of the duties noted and eliminated inappropriate system access in a number of cases. The remediation is ongoing and will require additional personnel as well as re-shifting of current personnel. The first step will be the hiring of a Controller and an advanced-level accountant (either CPA or CGFM). The combination of these hires and the shifting of current personnel will allow Management to determine the additional resources that will be required to fully implement the segregation recommended.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 007 Financial Close and Reporting—Material Weakness (Repeated and Updated)

Condition: As reported in the prior year the process of closing the fiscal year and financial reporting had not been addressed. The College continued to have issues associated with balance sheet account reconciliations including their review and approval.

During the current year audit it took the College's staff a considerable amount of time to produce a general ledger.

In addition, certain accounts do not have a person assigned to reconcile them, separately from the former Financial Services Director. Additionally, there is not a well-documented detail of how certain information from the various Banner tables flow to related general ledger accounts or what reports the accounting staff need to run in order to ensure the balance sheet accounts are presented correctly.

Lastly, the College may not have employees trained in complex accounting transactions, Governmental Accounting Standards Board (GASB), and Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Controls framework requirements, which is necessary in order to have a successful financial close and reporting process.

Criteria: According to Statements on Auditing Standards, AU Section 325.15, "identification by the auditor of a material misstatement of the financial statements under audit, in circumstances that indicate that the misstatement would not have been detected by the entity's internal control," is considered a material weakness.

Some of the key underlying concepts of AU Section 325 include:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs the auditor's independence;
- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and
- A system of internal control over the financial reporting does not stop at the general ledger or internal financial statements – it includes controls over the presentation of the financial statements.

Recording adjustments and responsibilities over identifying errors or fraud is considered a significant process of internal control performed by the College's staff. The College's system of internal control includes controls over financial statement preparation, including footnote disclosures.

Section II — Financial Statement Findings — continued

2016 – 007 Financial Close and Reporting—Material Weakness (Repeated and Updated) — continued

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Effect: The audit was delayed. A material weakness in financial reporting exists because adjustments and fraud were identified by the auditor's procedures and not by the College's administration. As a result, there is the risk that financial statements and disclosures may be inaccurate. Insufficient controls over the preparation of account balances, financial statements and related disclosures limits the College's ability to prevent or detect a misstatement whether due to error or fraud in its year-end financial statements.

Cause: The College has not had appropriate accountability or training over internal controls, Governmental Accounting Board Standards (GASBS), and the financial close and reporting process.

Auditor's Recommendations: The College should start by documenting the following critical processes:

1. Flowcharting the current transactional flow within and between all bank accounts and the general ledger to determine if efficiencies and cost savings can be gained by having fewer bank accounts and identifying any additional potential fraud risks.
2. Flowcharting the current processes in the Finance, Student Financial Aid, and Student Accounts Receivable modules in order to understand the current transactional flow of information between the modules and feed to the general ledger and identifying any potential fraud risks.

After this process is completed, the College should then begin to strengthen and improve the monthly and annual financial close and reporting process controls by performing the following activities:

- Identifying all sources of financial and nonfinancial data (routine and nonroutine events and transactions) that will be needed in order to maintain and systematically adjust the College's general ledger and sub-ledgers.
- Establishing and implementing procedures and records to initiate, authorize, record, process, correct, transfer to the general ledger, and report the College's transactions with proper segregation of duties and strong levels of review by administration and the Board of Regents.
- Identifying new reports to assist in accuracy of accounts, an audit trail, and management decision-making.
- Monitoring assigned personnel to ensure they are completing their tasks timely, efficiently, and accurately.

Section II — Financial Statement Findings — continued

2016 – 007 Financial Close and Reporting—Material Weakness (Repeated and Updated) — continued

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Management's Response: The College agrees with this finding and is committed to fully implement the Auditor's recommendations. The College is already in the process of upgrading to the latest version of its accounting system, Banner. Along with this upgrade, Management will fully train all staff that works with the Banner system. More extensive training is planned for accounting and all other Business Office staff. In addition, Management will no longer allow the fiscal period end close to be held beyond a reasonable period of time but no later than 45 days.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: December 31, 2018.

Section II — Financial Statement Findings — continued

2016 – 008 Lack of Internal Controls over Cash Receipts Process—Material Weakness (Repeated and Updated)

Condition: In the prior year, it was reported that the cashier's office does not have a log of who took what to the bank. The control policies and procedures were not functioning as they were designed as bank receipts were not consistently received and attached to the batches. These issues continued to be present in fiscal year 2017.

Additionally, the cash receipts for trailer, home, and event rentals related to the El Rito campus did not tie to the general ledger. The cashier was responsible for tracking El Rito housing in an excel spreadsheet. In addition, a resident at El Rito was responsible for invoicing herself and the other tenants, but had fallen behind in those duties. However, in April 2017, the Senior Financial Analyst took over responsibility and the accounts receivable is included in the financials.

The cash receipts cycle has been an issue in the prior year's audit and continues to be an area the College must focus on.

Criteria: Strong internal controls require review and approvals throughout accounting processes. This includes segregation of duties for receiving, depositing and posting receipts. A thorough review and approval of all deposits and retention of related documentation is essential.

Control environment attitudes, awareness, and actions of management, as well as those charged with governance, demonstrate the College's commitment to accurate accounting and financial reporting and compliance with provisions of laws, regulations, contract, and grant agreements relative to federal programs. The College must demonstrate a commitment to integrity and ethical values. The governing body must demonstrate independence from Administration in exercising oversight of the development and performance of internal control over financial reporting and its compliance with laws, regulations, and the provisions of contracts or grant agreements relative to federal award programs. With governing body oversight, administration establishes structures, reporting lines, and appropriate authorities and responsibilities to achieve financial reporting objectives and compliance objectives relative to major programs. The College should demonstrate a commitment to attract, develop, and retain competent individuals in alignment with financial reporting objectives and compliance objectives relative to major programs. The College must hold individuals accountable for their internal control responsibilities and compliance objectives relative to major programs.

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

Cause: The College has not addressed issues reported in the past including the enforcement of sufficient controls over receipts.

REDW's follow up on the control assessment for cash receipts documented that the cash receipts cycle has not been fully addressed and several issues remain including the development and implementation of cash receipt policies and procedures.

Auditor's Recommendations: The College must develop and implement strong policies and procedures to ensure that receipts are processed, recorded accurately, approved, and safeguarded. The three main duties to be segregated are the authorization to execute a transaction, the recording of the transaction, and the custody of assets involved in the transaction. A system of authorization and recording procedures should be adopted by the Board of Trustees and implemented by the College.

Transactions should be recorded properly and thorough reviews should be performed on a timely basis in order to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP).

In addition, the College should establish any other criteria applicable to such statements to maintain accountability for assets. Independent performance checks and proper valuation of recorded amounts such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls in Banner and other software used, management review of reports that summarize the detail of account balances, and user review of computer generated reports should be performed.

Cash receipts are to be deposited intact (in the same form received) promptly or stored in a secure location until the daily deposit is made. An armored service to take deposits to the bank, or the use of campus security (under dual control) is recommendable. The College should also consider the benefit of remote capture of checks (daily running checks through a service into the bank) is also recommended. No petty cash should be used or change made from the receipts. We recommend reviewing who has keys to the "vault" and other areas in Finance. Receipts must be counted under dual control openly, not with closed doors or before/after hours. All receipts must be properly approved, tracked, and reconciled to the bank account receipts. Student Financial Aid and Grants Managers must be involved in reconciling the College's significant, material funding as an independent check.

Section II — Financial Statement Findings — continued

2016 – 008 Lack of Internal Controls over Cash Receipts Process—Material Weakness (Repeated and Updated) — continued

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Auditor's Recommendations — continued:

Individuals who prepare deposits cannot:

- Authorize rates, fees, charges
- Initiate bills to be paid to the College
- Deposit cash receipts
- Reconcile bank accounts
- Investigate discrepancies or issues related to cash

We recommend that procedures for transaction initiation and processing be formally documented as soon as possible. Written procedures, instructions, and assignments of duties will also prevent or reduce the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

It is also critical that the new Administration continue their efforts to encourage staff to bring concerns up the chain of command, consider distributing an anonymous fraud hotline, and ensure that the HR function is a safe place for staff to go to with problems without fear of retaliation.

Management's Response: The College agrees with this finding and had begun the process of remediation. Management recently established a flowchart of the process from receipt of cash to deposit to recording of transactions along with a narrative. Management will now establish and implement a formal policy that incorporates the procedures in the flowchart.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 009 Lack of Internal Controls over Cash Disbursement and Transfers Process— Material Weakness (Repeated and Updated)

Condition: In the prior year's audit it was reported that the testing of cash disbursements revealed that many payments to vendors and grant reimbursement requests were held back, awaiting the former Financial Services Director's approval. It was also noted during the interviews of staff that cash transfers and journal entries were at times performed without adequate backup documentation. This process and its issues continued to be present during fiscal year 2017.

Criteria: A strong system of preparing, approving, and processing payments, transfers, and reimbursement requests is vital to the financial stability and reputation of the College.

Effect: Delay of approval to pay invoices and submit grant reimbursement requests indicates a lack of accountability for this process. The College was not paying vendors timely or receiving cash reimbursements timely.

Cause: There was lack of accountability and staff did not take their concerns to a high enough level in the organization.

Auditor's Recommendations: It is recommended that the College develop, implement, and monitor sound policies and procedures related to the review and approval of cash disbursements, transfers, journal entries, and grant reimbursements. Additionally, documents must be safeguarded and staff should not record things without understanding them and/or without a proper audit trail.

Management's Response: The College agrees with this finding. The current Vice President Finance and Administration, now reviews every cash disbursement generated through accounts payable, as well as transfers, and journal entries. The recently hired Grants Manager now reviews Grant reimbursements. Each and every transaction is reviewed for allowability, necessity, and budget. It should be noted that, while the new procedures help to prevent misappropriation and errors, the procedures require more time and can cause delays. However, Management believes that delays are acceptable if they prevent misappropriation and errors.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 010 College and Foundation—Lack of Internal Controls over Journal Entries—Material Weakness (Repeated and Updated)

Condition:

College:

In the prior year it was reported that certain journal entries did not have adequate backup documentation, some were missing. During our expanded testing of journal entry preparers and approvers, we noted that there may be a missing control in Banner resulting in a journal entry originally unfinished to be prepared and later approved by the same user.

It came to our attention that one accountant provided the former Financial Services Director her password to enter an "emergency" journal entry. She then circumvented controls by using that accountant's password to enter at least one journal entry into Banner in fiscal year 2017. This particular journal entry was used to record a withdrawal of $1,500 cash from one of the College's Bank accounts on September 7, 2016.

According to conversation with staff, it was mentioned that in certain cases the preparation of journal entries by the accountants were completed with the assistance of the former Financial Services Director. It is our observation that certain accounting staff may not have the full understanding of the purpose and impact of the journal entries that they were initiating and signing off on as preparer. It circumvents controls over journal entries to have a superior give a preparer information and then approve that same information.

During the audit in fiscal year 2017, the reported conditions from the prior fiscal year were not fully addressed. In addition, we noted a $10,000 transfer from the Indirect Cost Recovery account to the President's Discretionary account. We were unable to find the College's policy regarding such transfer. Further, there was no supporting documentation related to the journal entry other than the manual journal entry form.

Foundation:

- For 20 of 26 journal entries reviewed, the individual who prepared the manual entry was the same individual who subsequently posted the journal entry.
- For 10 of 26 journal entries reviewed, the entry was incorrectly coded to the "bank charges" account instead of "credit card charges" account.
- For 3 of 26 journal entries reviewed, the entry was made to a Foundation expense account; however, the cash account was that of the College's credit card. As such, the Foundation's cash was not actually deducted.

Criteria: Good accounting practices include a review and approval of journal entries posted to the general ledger.

Section II — Financial Statement Findings — continued

2016 – 010 Lack of Internal Controls over Journal Entries—Material Weakness (Repeated and Updated) — continued

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Criteria — continued:

Transfers such as these should be prepared and include all supporting documentation. The supporting documentation should also include the policy, which allows for this type of transaction.

Effect: The Board, Administration, staff, and the public may not be aware of transactions being posted to the general ledger.

The allowability of this transfer could not be justified based on the College's policy and the support provided.

Cause: The College does not have proper training or accountability for journal entries. There is a missing control in Banner and at least one staff member gave her password to the former Financial Services Director. The College did not locate the policy allowing for this transfer. The accounting staff did not include adequate support in the transfer packet.

Auditor's Recommendations: The College should develop a process for journal entries, including a standard form, preparation guidelines, posting, and approvals. Additionally, staff must be trained and understand what they are posting or not be put in positions above their level of training.

Unusual transactions should be adequately supported due to the high probability it will be reviewed either internally or externally.

Management's Response: The College agrees with this finding. Management has already begun remediation by establishing and implementing procedures whereby a journal entry cannot be posted without Vice President Finance and Administration approval. This is accomplished both systemically and manually. Management has mandated that employees cease sharing passwords or recording entries without full knowledge and understanding of the entries recorded. All journal entries now require review, analysis, and approval of the Vice President Finance and Administration. In addition, the recent forensic review cited a number of problems with the journal entry form itself because it is not in an acceptable accounting format but essentially 'single entry.' The College will initiate a new form no later than June 30, 2018.

Although the transaction was unusual in nature, it is none-the-less an allowable transfer into the President's Discretionary account. The College will develop procedures to ensure that adequate documentation is attached to all transfers. In addition, the College will ensure that either the supporting policy or Board of Regents resolution is attached.

Section II — Financial Statement Findings — continued

2016 – 010 Lack of Internal Controls over Journal Entries—Material Weakness (Repeated and Updated) — continued

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Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 012 Transfers, Disposals, and Tracking of Inventory Items Less Than $5,000—Material Weakness and Noncompliance (Repeated and Updated)

Condition: The College does not have written policies or procedures in place to track assets and inventory costing less than $5,000, including items designated as "sensitive" such as electronics and equipment. The College did perform a physical count of these items; however, they did not reconcile it to their capital assets listing to confirm the items less than $5,000 were not repeated in their capital assets module (WASP), which is for assets over $5,000. The College did not verify the past physical inventory count of these items as to where they are on-campus.

The College did not develop a written policy by June 30, 2017. They have revised their schedule for implementation in the current year corrective action plan.

Criteria: 2.2.2.10(U) NMAC indicates that sections 13-6-1 and 13-6-2 NMSA 1978 govern the disposition of tangible personal property owned by state agencies, local public bodies, school districts, and state educational institutions.

Section 13-6-1(B), NMSA 1978 indicates "[t]he governing authority shall, as a prerequisite to the disposition of any items of tangible personal property: (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the state auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of the authority approving the action."

Effect: Assets are at much higher risk for theft if the College is not adequately tracking these items. Assessment and monitoring of assets is required by both state law and federal grants.

Cause: The College has made progress with capital assets reconciliations and tracking through WASP over the past few years; however, not all items were found and not all items were properly tracked due to limited resources and lack of accountability for controls over safeguarding assets and inventory.

Auditor's Recommendations: We recommend that the College add resources to this area to ensure compliance and the proper stewardship of taxpayer dollars, assets, and inventory. The Board will need to address in the policy specifically which items with cost less than $5,000 are to be tracked and inventoried at least annually.

Management's Response: The College agrees with the finding. A policy will be drafted and presented to the Board of Regents for approval. The policy and appertaining procedures will establish a process for identifying, tracking, and disposal of these item types.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: December 31, 2018.

Section II — Financial Statement Findings — continued

2016 – 019 Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks—Material Weakness (Repeated and Updated)

Condition: As reported in the prior year's audit, the review of internal controls surrounding the College's risk assessment process has not changed in the current year. It was noted that adequate mechanisms are not in place to identify risks applicable to the College and financial reporting objectives, including fraud and litigation risk and then how to mitigate and monitor them. The College's legal fees and settlements have increased significantly, along with the related insurance premiums; insurance expenses paid to the NM General Services Department were $331,337 in FY15, $353,418 in FY16, and $533,216 in FY17.

Criteria: Good internal control practices require that the Board and Administration have a process in place to identify risks potentially impacting the achievement of financial reporting objectives.

Pursuant to the AICPA *Audit and Accounting Guide for State and Local Governments*, AAG-SLV 13.08, "[m]anagement is responsible for the design and implementation of programs and controls to prevent and detect fraud; management's knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements; and management's knowledge of any allegations of fraud or suspected fraud affecting the entity."

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

Cause: The College's approach to risk has historically been to focus on urgent matters due to limited resources.

Auditor's Recommendations: It is recommended that the Board of Regents establish a practice for the identification of risks affecting the College. Mechanisms that should be in place to identify risks applicable to the College and financial reporting objectives include changes in operating, economic, and regulatory environments, and participation in new programs and activities. The College should consider routine events or activities that may affect the College's ability to meet its objectives as well as non-routine events. We recommend developing forward looking mechanisms to provide early warning of potential risks relevant to all transaction cycles and preparation of financial statements. Any risks related to the ability to initiate and process unauthorized transactions, skim cash, submit late reports, not pay vendors timely, not submit grant reimbursements timely, maintain a second set of books, etc. should be appropriately identified.

Section II — Financial Statement Findings — continued

2016 – 019 Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks—Material Weakness (Repeated and Updated) — continued

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Auditor's Recommendations — continued:

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 and political region in which the College operates. Plans should be implemented to mitigate identified risks and then monitor them.

Management's Response: The College agrees with this finding and recognizes that it is imperative that the College establish a practice to identify and address risks that affect the College and financial reporting objectives such as changes in operating, economic and regulatory environments such as new programs and activities. The College will implement a practice that involves the President, Vice President Finance and Administration, Provost, HR Director and other key employees. The College will formally implement this practice by June 30, 2018.

Responsible Person: College President and Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 021 Review and Clean-Up of Clearing and Suspense Accounts and Accounts Payable—Material Weakness (Repeated and Updated)

Condition: We noted that there is not a clear assignment of accounting staff for the work to reconcile and clean-up suspense and clearing accounts. We reviewed several of these accounts and noted there is a substantial amount of transactional flow in most of these accounts. It is imperative these accounts be reviewed and adjusted on a timely basis. All of these suspense and clearing accounts, if reconciled timely (perhaps as often as daily) and adjusted accordingly, should have a zero or close to zero balance at June 30, 2017.

This issue is also present in the accounts payable accounts. We were given an accounts payable listing, which totaled $75,608; however, the trial balance for accounts payable was $1,032,875.

The College did not adhere to the corrective action plan described in prior year's audit report. The corrective action has changed as a result of updating the staff assignments.

Criteria: Unreconciled accounts including suspense accounts and accounts payable, even if immaterial, must be reconciled and monitored timely in order to ensure there are no errors or fraud and to close the books timely. This includes the reconciliation of sub ledgers to the trial balance.

Effect: The College is at a higher risk of errors or fraud. The balances may include old transactions that have cleared out or transactions that are not valid due to improper coding.

Cause: There are not specific assignments to staff for responsibility of these accounts.

Auditor's Recommendations: We recommend clear assignment of accounting staff to work the clearing and suspense accounts along with accounts payable. In some cases, these accounts may need to be reviewed, reconciled, and adjusted as often as daily. Some of these accounts may require close coordination between accounting staff and other departments.

Management's Response: The College agrees with this finding. By the end of the April 2018, the College plans to have hired a Controller and a higher-level accountant (preferably a CPA or CGFM). These positions will jointly be assigned to review and cleanup these types of transactions. In addition, the College will assign specific time frames for review and cleanup of accounts in subsequent periods.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 026 Assigned Permissions in Banner—Material Weakness (Repeated and Updated)

Condition: Certain College employee's profiles in Banner have or had too much access to various functions within their assigned functional areas. A review of those in the Finance Office shows that certain staff have functions assigned to them that they are unaware of, do not have the need for, or the experience to perform.

Additionally, we noted the audit tracking of the assigned date of permissions and date of change is not available as this audit tracking in Banner was never activated.

The College did not adhere to the corrective action plan described in prior year's audit report. As described in the management response, the College has elected to hire an outside contractor to perform the described tasks.

Criteria:

Segregation of Duties. A strong system of internal controls requires separation between custody of assets, recording of transactions and authorization of transactions. If a small number of employees does not allow for proper separation of duties, supervisory review should be used to compensate for the lack of separation of duties.

Access. A strong system of internal control requires adequate controls over access to only the information required to complete the employee's job function and preventing employee's access or rights to areas they do not use or should not use.

Effect: The College is at a higher risk of errors and misappropriation of assets without proper segregation of duties.

Cause: This particular risk area was not addressed. Although there were some compensating controls in prior years (mainly review at higher levels), the controls were circumvented and not implemented thoroughly as designed.

Auditor's Recommendations: We recommend this area be addressed as soon as possible. Each employee's permissions should be examined to ensure the employee has the need and the employee is adequately trained for the function being performed.

We also recommend the College turn on the audit tracking function that saves each change to every employee's permissions in the Banner System. It is our understanding the new version of Banner the College is upgrading to has better functionality and uses less memory to track changes in employee's permissions.

Section II — Financial Statement Findings — continued

2016 – 026 Assigned Permissions in Banner—Material Weakness (Repeated and Updated) — continued

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Management's Response: The College agrees with this finding which was also noted in a recent forensic review report. The College has signed a statement of work with a contractor to perform a full security review of Banner access. The security review will be completed by June 30, 2018.

Responsible Person: Vice President Finance and Administration and Director of Information Technology.

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 027 Information Technology—Material Weakness (Repeated and Updated)

Condition: Lack of a back-up generator. As reported in the prior year's audit, the power supply from Jemez Electric was interrupted several times at the beginning of the 2017 school year. According to discussion with the IT department, over the years there have been numerous power outages that have had a negative impact on the College's IT environment. As soon as there is a power outage, the IT department has a window of approximately 30 minutes to power down the servers through a controlled process. If a power outage occurs after hours, it can be difficult for a member of the IT staff to get to the campus quick enough and take the servers down before a hard crash occurs. A hard crash can damage sensitive IT equipment and can also result in a longer restart time after the power is restored.

- According to review of the IT issue log, the following outages were noted.
  - power out on 8.23.2016 (IT systems down from 4:45 pm to 12:16 am)
  - power out on 8.30.2016 (IT systems down from 3:00 pm to 10:30 pm)

Use of College desktop/laptop. There is currently no requirement to back up to the College's servers, USB ports are not disabled, and working from home/remotely is allowed.

During the fiscal year 2017 audit engagement, the Information Technology Director informed the auditor's the issues described above remain unaddressed.

Criteria: According to COBIT, Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintain IT security and roles and responsibilities, policies, standards, and procedures.

Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

Effect: The College's financial and other information may be at risk of theft, loss, or corruption.

Cause: This particular risk area had not yet been addressed by Administration due to limited resources.

Auditor's Recommendations: The College should assess risks in IT and data and take action to safeguard assets and information.

Section II — Financial Statement Findings — continued

2016 – 027 Information Technology—Material Weakness (Repeated and Updated) — continued

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Management's Response: The College agrees with this finding and a 60KVA Cummins Generator has been ordered. The Generator should arrive and be installed by March 31, 2018.

Responsible Person: Vice President Finance and Administration and Director of Information Technology.

Timeline and Estimated Completion Date: March 31, 2018.

Section II — Financial Statement Findings — continued

2017 – 001 Lack of Internal Control Over Payroll Reporting—Material Weakness

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Condition: The College's financial reporting system was treating part-time employees as if they were full-time. For example, if an employee's contract was for 32 hours and they indicated in their timesheet they worked 32 hours, the System automatically reported 40 hours, as it was the exception based reported and individuals were not properly setup.

Criteria: According to the Fair Labor Standards Act, a "workday" in general means the period between the time on any particular day when such employee commences their "principal activity" and the time on that day that which they cease such principal activity or activity or activities. Further, an employee should not be paid for time in which they aren't performing their principal activities.

Effect: Employees have received more money than what they worked according to their contracted hours.

Cause: The system was implemented in such a way that only exception hours are modified each pay period. Further, the College designed the payroll check stubs in such a way that the employee's hourly rate is not printed and the actual base hours paid are not printed but the hours submitted by the employee are printed; therefore, hourly employees do not have an accurate record.

Auditor's Recommendations: The College needs to take immediate action and work with their financial reporting system to remediate the loophole in payroll reporting and time-keeping.

Management's Response: The College agrees with this finding and, in fact, self-reported this systemic deficiency. The College is already working with its IT Department to ensure that the problem is resolved no later than March 31, 2018.

Responsible Person: Director of Information Technology, HR Director and Vice President Finance and Administration.

Timeline and Estimated Completion Date: March 31, 2018.

Section II — Financial Statement Findings — continued

2013 – 002 Foundation—Bank Reconciliation—Timeliness and Review Process—Material Weakness and Noncompliance (Repeated and Updated)

Condition: The Foundation's complete bank reconciliation process, including review, was not performed timely for the Foundation's last two fiscal year audits. The Foundation did not prepare the reconciliations for both the bank and investment accounts. In February 2018 the College hired an outside consultant to assist in preparing the reconciliations.

The Foundation's cash and cash equivalents is not collateralized.

Criteria: Appropriate internal controls over cash require timely reconciliation and review of all accounts to the general ledger in order to ensure adequate control over cash receipts and disbursements. Pursuant to 6-10-17 NMSA 1978, the pledged collateral for deposits in banks and savings and loan associations shall have an aggregate value equal to one-half of the amount of public money held by the depository.

Effect: Not reviewing cash accounts on a monthly basis creates the opportunity for errors or inappropriate transactions to occur undetected. Some banks will not correct any errors if they are not caught within ten days. The Foundation could lose their money.

Cause: During the year, the College had time constraints, turnover in Foundation staffing, and a lack of appropriate resources to timely review its bank reconciliations. The Foundation was not aware of the requirement.

Auditor's Recommendations: We recommend the College assist the Foundation with prioritizing the reconciliation process and implementing policies and procedures to ensure that all cash accounts are reconciled timely and reviewed monthly. We recommend the Foundation contact the bank and obtain collateral.

Management's Response: The College agrees with this finding and is responsible for performing the bank reconciliation process. The College realizes the importance of current bank reconciliations and has been working diligently to bring bank reconciliations up-to-date. As mentioned in the body of this finding, the College has contracted with a CPA firm to both complete the bank reconciliations and assist with providing the audit firm documentation and analysis required information to complete the audit.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: April 2018.

Section II — Financial Statement Findings — continued

2017 – 002 Foundation—Pledge Revenue, Pledge Receivables, and In-Kind Transactions—Material Weakness

Condition: The Foundation does not record their pledged revenues as receivables and revenues when a commitment is made or recognized, instead they track it on a subsidiary schedule until received and then record the revenue to the book of record. As such, the recognized pledged revenues are not recorded in the book of record.

Further, the Foundation does not record their in-kind transactions related to the Gala and similar fundraising events.

Criteria: Organizations may receive communications from donors that are *intentions* to give, rather than promises to give. Intentions to give do not represent promises at all, but merely plans or hopes on the part of the donor. Thus, they are not recognized as contributions until they become unconditional promises to give. It is often difficult to determine whether a donor communication is an intention or a promise. Consequently, even if the donor's communication does not clearly indicate that it is a promise, not for profit revenue recognition notes that an intention to give that is unconditional and legally enforceable should still be considered an unconditional promise to give. The Foundation should record the pledge in the College's book of record once the contribution/donation is recognized.

Effect: The Foundation's book of record is missing transactions that are recorded in the Foundation's sub-ledger.

Cause: The information is not being recorded properly into the book of record creating differences between the book of record and the sub-ledger.

Auditor's Recommendations: Management needs to create a process that records the information from the Foundation's ledger into the book of record. In addition, this process should include the reconciliation between the Foundation's sub-ledger and the Foundation's book of record.

Management's Response: The Foundation agrees with this finding and acknowledges these procedural gaps in accounting procedures. To that end, the Foundation has already met and discussed changes to this procedure in order to create a process that records the information from the Foundation's subsidiary schedule into the College's book of record. This process will include the reconciliation between the Foundation's sub-ledger and College's book of record in effect booking Pledges into Banner. The Foundation will implement this process by June 30, 2018.

Responsible Person: Foundation Executive Director and Vice President Finance and Administration.

Timeline and Estimated Completion Date: June 30, 2018.

FS - Significant Deficiencies and/or Noncompliance

Section II — Financial Statement Findings — continued

2013 – 007 Disaster Recovery Plan and Password Policies—Significant Deficiency (Repeated and Updated)

Condition: During our review of general Information Technology (IT) controls relevant to financial reporting, we have updated this finding with the current status and progress from the prior year:

Disaster Recovery Plan

FY 2014 – There is not a formal written Disaster Recovery Plan covering significant financial systems.

FY 2015 – The College has created and continues to enhance the Disaster Recovery Plan (Business Continuity Plan) developed over the last nine months and is close to final completion. The College's critical systems are now being backed up properly and being stored at an alternate location. There has not yet been a complete and comprehensive Disaster Recovery Test and the plan has not been formally reviewed by executive management or approved by the Board of Regents.

FY 2016 – The Plan is still in process and may be impacted by the Banner conversion in fiscal year 2017.

FY 2017 – The Plan is still in process and is expected to be tested after the Banner 9 implementation is completed.

Additionally, while onsite we noted College employees sharing their IT passwords with other employees over the phone.

Criteria: In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 4.1, framework (DS4, Ensure Continuous Service), a Disaster Recovery Plan should cover all critical applications and systems to reduce impact of a major disruption on key business functions and processes.

Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintain IT security and roles and responsibilities, policies, standards, and procedures. Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

Section II — Financial Statement Findings — continued

2013 – 007 Disaster Recovery Plan and Password Policies—Significant Deficiency (Repeated and Updated) — continued

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Effect: The absence of an approved and tested Disaster Recovery Plan for the accounting system may pose questions as to the College's ability to respond and recover its accounting data in the event of an unforeseen disaster.

Cause: The Plan has been worked on during fiscal year 2017, but due to the large scope of the project, has not yet been finalized by management and approved by the Board.

Auditor's Recommendations: We recommend the College perform the following:

Testing and finalizing the Plan, obtaining Board approval and testing the Disaster Recovery Plan to ensure the viability of the Plan and the timeliness of its execution.

Management's Response: The College agrees with this finding.

Responsible Person: Vice President Finance and Administration and Director of Information Technology

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2015 – 001 Travel and Per Diem—Significant Deficiency and Noncompliance (Repeated and Updated)

Condition: During our testing of travel and per diem the following exceptions were noted:

- For 1 of a sample of 25, the College was not in compliance with state statutes regarding actual reimbursement for the College's lodging. According to 2.42.2.9B(1) NMAC, actual expenses for lodging should not exceed the single occupancy room charge of $215 per night. According to review of the travel and per diem charges for the College, there were hotel charges for $289, without prior approval.
- For 1 of a sample of 25, the College overpaid a travel reimbursement by $1.
- Of the sample of 25, 12 included mileage reimbursement. Of those 12 items, 10 were found to have over paid mileage by an accumulated total of $64.73.
- For 1 of a sample of 25, the in-state travel reimbursement of $137 was not supported by sufficient documentation to substantiate the transaction.
- For 3 of a sample of 25 tested, the employee is being reimbursed for "miscellaneous" expenses and "transportation, taxi, shuttle, etc." Miscellaneous expenses appear to be reimbursed based on the rule of "employees may be reimbursed without receipts in the amount of $6.00 per day not to exceed $30.00 per trip," which is in accordance with 2.42.2.12A(1-3) NMAC. However, transportation, taxi, and shuttles are also being claimed for reimbursement in accordance with 2.42.12A(4) NMAC, which indicates "if more than $6.00 per day or $30.00 per trip is claimed, the entire amount of the reimbursement claim must be accompanied by receipts." Therefore, it appears that employees are doubling the expense.
- For 1 of a sample of 25 tested, the employee received reimbursement for partial day per diem although the individual had only worked a 6 hour day. As the 6 hour travel is within the "normal work day," partial day per diem cannot be given. The individual was reimbursed $10 a day for partial per diem, resulting in an overpayment of $110.

The College did not implement their prior corrective action plan. As a result, the current year corrective action plan has been given a revised schedule.

Criteria: Travel reimbursements from state funds shall be either per diem or actual expenses for lodging as provided in Section 10-8-4 of the New Mexico Per Diem and Mileage Act, NMSA 1978. Approving actuals in advance would have allowed the College to pay the full amount. Additionally, the College cannot reimburse employees partial day per diem, unless the travel is in excess of a 9 hour workday per 2.42.2.8B(1).

Section II — Financial Statement Findings — continued

2015 – 001 Travel and Per Diem—Significant Deficiency and Noncompliance (Repeated and Updated) — continued

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Criteria – continued:

Specifically, 2.42.2.11(G) NMAC indicates that mileage accrued while on official business shall be reimbursed for travel on official business. An agency head or designee may authorize by memorandum reimbursement for mileage from a point of origin farther from the destination than the designated post of duty in appropriate circumstances. The memorandum must accompany the payment voucher. If official business is transacted while commuting from home to post of duty or from post of duty to home, mileage shall not be paid for the number of miles between post of duty and home. Odometer readings showing additional miles accrued for official business must be provided to the agency for payment.

Further, 2.42.2.12A requires either $30.00 a day in miscellaneous expense or if in excess of $30.00 per trip is claimed, then the claim must be accompanied by receipts.

Effect: The College overpaid travel costs along with partial day per diem and miscellaneous expenses.

Cause: Staff is not familiar with the New Mexico Per Diem and Mileage Act.

Auditor's Recommendations: We recommend the College remind employees to review details carefully before submitting and approving travel reimbursements and to obtain advance approval for areas with higher costs. The New Mexico Per Diem and Mileage Act should be sent out annually to all employees so they are familiar with the travel guidelines. Additionally, the College should revise their policy to disallow partial day per diem, unless an employee has worked in excess of a 9 hour period.

Management's Response: The College agrees with the finding.

Responsible Person: Vice President Finance and Administration, Grants Manager, and Provost

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 013 Public Money Act Violation—Deposits Not Made Within 24 Hours—Significant Deficiency and Noncompliance (Repeat and Updated)

Condition: During our testwork over the cash receipts process the following was noted:

- For 5 of 25 cash receipts tested, the College did not have adequate documentation to support the amount tested.
- In addition, for 15 of 25 transactions tested, a bank deposit slip was not provided.
- Additionally, 19 of 25 cash receipts tested did not meet the 24-hour rule.

The College did not complete what was indicated in the prior year corrective action plan. As a result, the current year corrective action has been revised for implementation.

Criteria: Section 6-10-3 NMSA 1978 states, "[i]t is the duty of every official or person in charge of any state agency receiving any money in cash or by check, draft or otherwise for or on behalf of the state or any agency thereof from any source….before the close of the next succeeding business day after the receipt of the money to deliver or remit it to the state treasurer."

Effect: The College did not properly safeguard cash receipts by promptly depositing the public monies received.

Cause: The College does not have procedures in place to ensure the Public Money Act is adhered to. The supporting documentation must also be kept in a retrievable manner in case there is a discrepancy with the amount of the cash receipt (deposit slip) and the amount shown on the bank statement.

Auditor's Recommendations: We recommend the College implement controls over the receipts process so they may be in compliance with the 24 hour rule of the Public Monies Act. We also recommend a better method of organizing and filing the cash receipts supporting documentation.

Management's Response: The College agrees with this finding and acknowledges that strong internal controls must be implemented in order to cure this finding. The College will develop procedures for all areas throughout the College that handle cash receipts. Once the procedures have been established and implemented, training of employees that handle cash receipts throughout the College must be presented throughout the College.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 016 Inadequate Controls over Annual Leave—Significant Deficiency (Repeated and Updated)

Condition: During the fiscal year 2016 audit the following was documented:

The payroll process to track leave, including the year-end calculation, is cumbersome and is a manual process for each employee.

Several staff disclosed during interviews that the former Financial Services Director was not working on-site very often, worked nights and weekends, and was not there when they needed her.

During fiscal year 2017's audit, the above information was ongoing during the year.

Criteria: Good accounting practices require effectively designed processes and controls to ensure amounts are reported properly and accurately.

Effect: Errors could go unnoticed resulting in understatements or overstatements in year-end liabilities.

Cause: The College has not fully implemented Banner.

Auditor's Recommendations: The College should start tracking leave balances within the Banner system to ensure that reporting errors do not exist.

Management's Response: The College agrees with this finding. By no later than December 31, 2018, the College will ensure that leave is tracked within the Banner System which is the College's book of record. This may require assistance from the College's Banner contractor to ensure that the system is configured correctly to allow for the tracking within Banner. In addition, all Banner users must be adequately trained to ensure that tracking is within Banner.

Responsible Person: Director of Information Technology, HR Director, and Vice President Finance and Administration.

Timeline and Estimated Completion Date: December 31, 2018.

Section II — Financial Statement Findings — continued

2016 – 017 Outdated Policies and Procedures—Significant Deficiency (Repeated and Updated)

Condition: During the fiscal year 2016 audit the following was documented:

It was reported that the College had high turnover in administration and eliminated and cut several positions due to budget and operational changes. As verified by the previous Vice President of Finance, the College's Staff Handbook is outdated and is at times conflicting with policies such as those covering hiring (Policy 3.26), terminations (Policy 3.19), and other personnel actions. The College had decided to update the Faculty Handbook first and will work on the Staff Handbook and related Board Policies when that is completed. The College's website indicates that other Board Policies are also in the process of being updated.

During the fiscal year 2017 audit, the previous mentioned conditions were still present.

Criteria: Good accounting practices require updated and effectively designed and implemented policies and procedures to ensure internal controls are properly in place and monitored.

Effect: As new staff are hired, there is not a roadmap and proper training for them to understand the complexities of the College's financial activities and what they are responsible for. They may not understand what actions violate the internal controls that are in place.

Cause: There are limited resources and there was resistance by the former Financial Services Director to fully update and implement new policies and procedures. The College had determined that the Faculty Handbook must be updated first.

Auditor's Recommendations: We recommend the College obtain outside services to guide the current Administrative team and the Finance Department through the evaluations, risk assessments, changes to policies and procedures, etc. The College should also utilize a Policy Review Committee as a subsection of the Board with certain Board members and experts appointed to serve. It is common also to have a Policy Review as a standing item on the Board of Regent's meeting agenda.

Management's Response: The College agrees with this finding. The College has begun the process of review and revision of all policies throughout the College. Because of the large volume of outdated policies and procedures and the fact that some of the policies currently in place go back decades, the process for review, revision, reissue and Board of Regents approval will most likely take a year or longer. However, the College is committed to addressing this issue and completing this critical task.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: December 31, 2019.

Section II — Financial Statement Findings — continued

2016 – 023 Underreported Payroll Tax Liabilities and ERB/RHCA Reconciliations—Significant Deficiency and Other Noncompliance with NM State Audit Rule (Repeated and Updated)

Condition: According to review of payroll liabilities, it was noted that the Education Retirement Board (ERB) liability was understated by $38,151 and an additional understatement of fringe benefit liabilities in the amount of $14,616. The adjustments were made to the financial statements.

Additionally, during our review of payroll wages remitted to ERB and Retiree Health Care Authority (RHCA) the salaries, employee and employer contributions provided by the College did not agree to the confirmations. The total amount of wages reported to ERB was $86,900 higher than wages reported at the College, while the total amount of wages reported to RHCA was $104,185 lower than wages reported at the College.

The College hired an employee to fulfill the Director of Human Resources position and have modified the current year corrective action plan based on the new condition.

Criteria: Payroll liabilities include salaries and fringe benefits. A payroll reconciliation should be performed from the payroll module to the general ledger immediately after the payroll cycle has been processed. According to 2.2.2.10(J)(7) and (17) NMAC the College should ensure that 100% of payroll wages are reported.

Effect: Differences in the payroll module to the general ledger cause the financial reporting to be incorrect. Additionally, the College over reported salaries to ERB and underreported salaries to RHCA, which could potentially effect individual's retirement.

Cause: The College did not reconcile the payroll on a timely basis. Differences were not addressed and reviewed by the accounting staff and management.

Auditor's Recommendations: We recommend the College establish controls to eliminate incorrect payroll reporting. Given the complexities of payroll reporting, we recommend the College consider additional training for those that work in the human resources and payroll area. All payroll liability accounts must be reconciled and issues found must be addressed in a timely manner. Additionally we recommend the College implement procedures to ensure that ERB and RHCA wages are timely reconciled to ensure 100% of wages are reported.

Management's Response: The College agrees with this finding and will develop and implement controls to eliminate errors in payroll reporting. The College also will arrange training in payroll and required reporting to help to prevent errors in the future.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 024 Unused Credit Card Machines and Unrelated Monthly Fee—Significant Deficiency (Repeated and Updated)

Condition: As reported in the prior year's audit, the College rented credit card machines which were no longer in use. The College was billed for the rental of four credit card machines through June 2017. The remaining credit card machine was in use at the College Bookstore.

Criteria: The credit card machines were not being used and should have been returned eliminating the waste of resources and risk of loss of the credit card machine.

Effect: There may be overcharges to the College or money spent unnecessarily that could be used for services provided to the students.

Cause: The condition was reported in last year's audit but it took time to research the issue and eliminate the rental of unneeded credit card machines.

Auditor's Recommendations: We recommend the College closely scrutinize each bank statement for fees to ensure it is not be overcharged or charged for services no longer used. Lastly, we recommend that the appropriate custody of sensitive equipment such as credit card machines be observed.

Management's Response: As mentioned in the finding, it took the College longer than expected to address the issue; however, the unused machines were returned and the College is no longer charged for the unused machines. Moving forward, the College will ensure that bank statements are scrutinized for excess charges or for unused services. This will be analyzed during monthly bank reconciliations, which the College has brought current as of the date of audit exit conferences.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: This has been completed.

Section II — Financial Statement Findings — continued

2016 – 025 Reconciliation of Student Accounts Receivable—Significant Deficiency (Repeated and Updated)

Condition: The Student Accounts Receivable database feeds through an automated process to three general ledger accounts:

11000-0000-13121 Accts Receivable Students

11000-0000-13125 Accts Receivable Third Party

12005-0000-13140 Accts Receivable Bookstore

The above accounts receivable accounts will require a reconciliation and allowance consideration in order to adjust the account to their correct value.

The College did not modify their procedures by the end of fiscal year 2017, to include the monthly reconciliation of the accounts. They have revised their schedule for implementation in the current year corrective action plan.

Criteria: 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, including following properly recording and reconciling revenues and receivables.

Effect: There may be amounts not received or paid as should have been. The College is at higher risk for fraud and errors.

Cause: There were not staff assigned to this particular risk and reconciliation area.

Auditor's Recommendations: We recommend the College research and determine the cause of these differences. We also recommend timely reconciliations of the related clearing accounts to ensure differences do not arise.

Management's Response: The College agrees that the student accounts receivable (individual accounts) must be reconciled on a continuous basis. The College's student accounts receivable position was held vacant for a period of time, which contributed to this finding. The position has been filled and a reconciliation process will now be established and implemented.

Responsible Person: Student Accounts Receivable Supervisor, Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2016 – 028 Tracking of Banner Feeds to Ensure Feeds are Not Suspended/Deleted—Significant Deficiency (Repeated and Updated)

Condition: In the prior year's audit it was reported that nightly "feeds" of accounting data from the sub-ledgers to the general ledger can become suspended if a prior job does not complete successfully or a power outage occurs. If a Banner feed has errors, it goes to suspense for manual correction and completion. Manual corrections allows for change of fund, organization, account, program, activity, and location, deletion of transactions, and/or modify transaction amount.

The nightly Banner feeds from the cashier's office were suspended/deleted November 9, 2016 and was not restored until January 2017.

The November 9, 2016 feed was discovered by the Foundation as part of its process to reconcile its bank account to its books (cash received was recorded in the bank account but was not recorded in its books).

Review for and tracking of suspended feeds began in 2017. There is no systematic review for deleted/suspended feeds.

Criteria: 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, including properly recording and reconciling revenues and receivables.

Effect: The College is at risk for errors and misappropriation without strong controls over this process. It is unknown if additional feeds were deleted.

Cause: This issue was only recently discovered and has not been fully researched and addressed. The former Financial Services Director and the Banner System Administrator corrected these problems in the past.

Auditor's Recommendations: We recommend Banner training not only for the IT Department but also for the Finance Department staff to understand where problems may occur with the general ledger.

Management's Response: The College agrees with this finding. Training to address this finding will be provided as a part of the Banner upgrade. The training will be conducted by December 31, 2018 or sooner as the upgrade allows.

Responsible Person: Vice President Finance and Administration and Director of Information Technology.

Timeline and Estimated Completion Date: December 31, 2018.

Section II — Financial Statement Findings — continued

2017 – 003 Account Coding and Lack of Documentation—Significant Deficiency

Condition: During the College nonpayroll and payroll transaction testing and the Foundation transaction testing we noted the following:

- The College had 6 of a sample of 60 nonpayroll transactions coded to the wrong account.
- The College had 1 of a sample of 60 nonpayroll transactions that lacked supporting documentation.
- The College had 1 of a sample of 60 leave transactions with an account coding error.
- The Foundation had 2 transactions out of 5 reviewed that were improperly recorded as expenditures. The total amount of the error noted was $350.

Criteria: Prior to posting transactions in Banner, a batch review should be performed reducing account coding errors.

Effect: The lack of controls surrounding transaction input and posting creates incorrect account balances. The small coding errors may create a difference in the trial balances that lead to a difference in reports to management.

Cause: The College does not have an adequate system of reviewing general ledger postings.

Auditor's Recommendations: The College must develop and implement policies and procedures to ensure that the transaction is properly recorded and reviewed. Training on the chart of accounts and self-review procedures may also help eliminate this type of coding error.

Management's Response: The College agrees with this finding. By the end of April 2018, the College plans to have hired a Controller and a higher-level accountant (preferably a CPA or CGFM). General Ledger maintenance will be a major responsibility of these positions. Policies and procedures along with training will be developed and implemented.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 004 Athletics—Sporting Events Internal Controls—Significant Deficiency

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Condition: According to review of the athletic department's internal control process, during fiscal year 2017, the College was not tracking the number of tickets/season passes that were given out for promotional items (schools, sponsors, etc.). In addition, the College does not charge admission to all their home games and does not have a system to track which games did not have admissions. 1 of 5 transactions coded to game admissions revenue account was incorrectly coded. 4 of 4 transactions related to game admissions did not have a reconciliation performed between cash collected and ticket sales.

Criteria: Game receipts should be reconciled to tickets sales, an accurate count of the attendance whether paid or free must accounted for. This information can also be used to report individual game attendance.

Effect: The lack of controls surrounding game admissions and the cash collected may lead to loss of department revenue and cash.

Cause: The College does not have policies and procedures that the Athletic Department must follow associated with the reconciliation of tickets sold to cash collected and the depositing of gate receipts.

Auditor's Recommendations: The College must develop and implement policies and procedures to ensure gate receipts are being deposited, the deposit is properly recorded, and a reconciliation of the tickets sold to cash is prepared on a timely basis.

Management's Response: The College agrees with this finding and will develop and implement policies and procedures to ensure that gate receipts are properly accounted for and properly recorded. A reconciliation of ticket sales to cash also will be developed and implemented.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 005 Controls Over Credit Cards—Significant Deficiency and Noncompliance

Condition: During the testing of credit cards, we noted 2 of a sample of 10 transactions did not include itemized receipts. As adequate supporting documentation was not provided, we were unable to determine the allowability of the purchases and their cost.

Criteria: All purchases should have supporting documentation. This is important in case the transaction needs to be verified or reviewed by management or an outside party.

Effect: The lack of controls requiring a complete support packet will prevent management from understanding the specifics of certain purchases. All documents related to the purchase should be available and organized.

Cause: The College did not have follow up on the missing documentation at the time of the purchase. As time passes that documentation is more difficult to obtain.

Auditor's Recommendations: The College should implement a system of review where purchase documents are attained at the time of the purchase. This supporting information should include all detailed receipts, purchase orders and invoices.

Management's Response: The College agrees with this finding and will develop and implement a system of review for purchases to ensure that all purchases have supporting documentation as required.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 006 Controls Over Inventory—Significant Deficiency

Condition: During the testing of inventory, we noted the College did not schedule an inventory observation.

Criteria: An inventory observation allows an outside third party to be present at the time of the count; by suitable tests and inquiries, the third party can determine if they are satisfied about the effectiveness of the method of inventory taken. This provides audit evidence on the inventory. It addresses the existence and condition of the inventory as well as quantities and effectiveness of the College's counts as described in *AU-C Section 501, Audit Evidence.*

Effect: The bookstore inventory has a substantial balance, $263,478. The lack of the inventory observation and the time that passed before the start of the audit was long enough to prevent the auditor from applying alternative procedures to be able to satisfy the effectiveness of the inventory count and the resulting College prepared inventory cost schedules.

Cause: The College was not in contract with an auditor at year-end; for this reason, no inventory observation was scheduled.

Auditor's Recommendations: The College must be aware of the requirements associated with the inventory and if needed schedule an outside third party to observe the inventory counts.

Management's Response: The College agrees with this finding and will ensure that there is third-party observation of inventory for the year ending this June 30, 2018.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 007 Foundation—Travel and Per Diem—Significant Deficiency and Noncompliance

Condition: During our testing of travel and per diem, the following exceptions were noted.

- For 7 of 8 travel reimbursements tested where mileage was reimbursed, the Executive Director was over-reimbursed $14.05 related to mileage as the travel occurred from his residence to certain locations, resulting in over-reimbursement as his residence is further than Espanola. There were several instances where the mileage reported on the request was higher than the actual distance between locations. There were also instances when the departure location was not specified on the travel reimbursement request.
- In addition, the College was not in compliance with state statutes regarding actual reimbursement for the Foundation's lodging. According to 2.42.2.9(B)(1) NMAC, actual expenses for lodging should not exceed the single occupancy room charge of $215 per night. According to review of the travel and per diem charges for the Foundation, there were hotel charges for $289 a night that exceeded the $215.
- Further, the Executive Director received the reimbursement for miscellaneous expenses in the amount of $25 and also requested reimbursement for $25 of tipping, which was not supported by receipts.
- It was also noted that the employee received $30 related to meals for a marketing expenses; however, the actual reimbursement requested was $66.57. Therefore, the employee was shorted $36.57 related to the meal.

Criteria: Travel reimbursements from state funds shall be either per diem or actual expenses for lodging as provided in Section 10-8-4 of the New Mexico Per Diem and Mileage Act, NMSA 1978. Approving actuals in advance would have allowed the College to pay the full amount. According to 2.42.2.9 B(1) NMAC, actual expenses for lodging should not exceed the single occupancy room charge of $215 per night, unless approved by appropriate officials.

Specifically, 2.42.2.11(G) NMAC indicates that mileage accrued while on official business shall be reimbursed for travel on official business. An agency head or designee may authorize by memorandum reimbursement for mileage from a point of origin farther from the destination than the designated post of duty in appropriate circumstances. The memorandum must accompany the payment voucher. If official business is transacted while commuting from home to post of duty or from post of duty to home, mileage shall not be paid for the number of miles between post of duty and home. Odometer readings showing additional miles accrued for official business must be provided to the agency for payment.

Further, 2.42.2.12A requires either $30 a day in miscellaneous expense or if in excess of $30.00 per trip is claimed, than the claim must be accompanied by receipts.

Section II — Financial Statement Findings — continued

2017 – 007 Foundation—Travel and Per Diem—Significant Deficiency and Noncompliance — continued

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Effect: The College has overpaid the mileage reimbursement requests and lodging expenses and underpaid an employee for meals.

Cause: The College's Foundation did not follow the mileage and per diem statute. The College reimbursed the mileage, meals and lodging without properly reviewing the reimbursement request.

Auditor's Recommendations: Management should review the College's mileage and per diem policy and the travel policy, and update it to include the College's Foundation.

Management's Response: The Foundation agrees with this finding. By June 30, 2018, the Foundation Director and the Vice President of Finance and Administration will together review the Mileage and Per Diem Act as well as the College policies and procedures to ensure 100% compliance. Necessary changes to policies, especially as they relate to the Foundation will be instituted to ensure compliance.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 008 Foundation—Untimely Deposit—Significant Deficiency and Noncompliance

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Condition: For the 21 of 21 cash receipts reviewed, the bank deposit slip was not provided. In addition, the deposits were not deposited within 24 hours of receipt. Currently there is no process in place for the Foundation to receive a copy of the bank deposit slip.

Criteria: In accordance with Chapter 22 Article 8 NMSA 1978, states that all funds are to be deposited into the Foundation bank accounts within 24 hours of receipt by the College, this includes the Foundation.

Effect: The College violated the deposit requirements under the statute; therefore, assets of the Foundation were not secured properly. The College and the Foundation did not request or follow up on the lack of bank deposit slips.

Cause: The Foundation did not follow the public money statute and review the deposit information for missing bank deposit slips.

Auditor's Recommendations: Management and the Board should review the Foundation's bank deposit policies and procedures, specifically those for how the Foundation deposits donations.

Management's Response: The Foundation agrees with this finding. The Foundation will work with the College to review the College's bank deposit policies and procedures, specifically those for how the College's Foundation deposits donations, and the Foundation will work with the College to assure proper policies and procedures are established and implemented.

Responsible Person: Foundation Executive Director and Vice President Finance and Administration.

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 009 Foundation—Lack of Reliable Supporting Documentation—Significant Deficiency

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Condition: For one of three Boundless Opportunities (Daniels Fund) Scholarship awards tested, the amount received by the student ($2,383) did not agree to the documentation provided by the Foundation ($2,308).

Numerous emails had to be retrieved to support student's scholarship award amounts. Currently, the Foundation is relying on its email to produce supporting documentation.

Criteria: Documentation to support scholarship awards should be organized in a Foundation or College owned secured sever location, if paper files are used, they should be secured in a fireproof locked cabinet. In addition, retrieval of information on a per student basis should be easily accessible when files are organized and consolidated into one central location.

Effect: The Foundation's award amounts do not agree to the College's book of record.

Cause: There is currently no system of internal control in place at the Foundation, whether electronic or paper, related to student scholarship awards.

Auditor's Recommendations: We recommend that the College and Foundation's Board work together in order to establish an electronic and paper filing system to enable the Foundation to retrieve information associated with student records, student financial need, and scholarship award amounts with ease and minimal effort.

Management's Response: The Foundation will develop procedures to ensure that sufficient documentation is maintained that will enable the Foundation to retrieve information pertaining to student records, student financial need, and scholarship award amounts with ease of minimal effort. This will occur by no later than June 30, 2018.

Responsible Person: Foundation Executive Director

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 010 Foundation—Administrative Fee Reduction—Significant Deficiency

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Condition: For 1 of 4 annual scholarship awards tested, the recipient received $4,750 instead of $4,800 as requested by the donor in their annual scholarship fund agreement. In this case, the Foundation reduced the scholarship by $25 in the first semester to cover the student's cost of the meal when they attended the annual Gala; however, there was no cost to the Foundation for the Gala meals as they were donated by the sponsor. Further, the student's scholarship was reduced by another $25 in the second semester due to an error.

Criteria: Good fundraising practices would require policies and procedures that would inform the donor of any reduction in their donation due to administrative fees, Gala tickets, etc. The scholarship reduction should not occur if the cost is being sponsored.

Effect: Scholarship donors may not be aware of administrative fees to cover administrative expenses, Gala tickets for students, etc. The Foundation reduced scholarship amounts that never were used to offset meal costs.

Cause: The Foundation has a practice where it charges an administrative fee from the donations received, which may not be clear to the donors. In addition, the Foundation reduces the scholarship awards for students by $25 to attend the Gala; however, the Gala catering costs are not always charged to the Foundation.

Auditor's Recommendations: The Foundation should write a policy and procedure approved by the Board regarding the administrative fees it charges for donations. One issue to consider from the College's point of view is that the College is funding the administrative operations of the Foundation. When budgeting in the future, the College should consider funding these types of expenses in order to keep the Foundation from reducing scholarship awards.

Management's Response: The Foundation will develop procedures to ensure that the administrative fee is clear and applied accurately and consistently. This will be developed and implemented by September 30, 2018.

Responsible Person: Foundation Executive Director

Timeline and Estimated Completion Date: June 30, 2018.

Section II — Financial Statement Findings — continued

2017 – 011 Foundation—Board Minutes—Significant Deficiency

Condition: The Foundation's Board meeting minutes from October 2016 to December 2017 were lacking detail and difficult to understand. Actions agreed to by the Board were unclear.

Criteria: Board minutes record meeting decisions, which makes them a useful review document when it comes time to measure progress. They also act as an accountability tool because they make it clear whose duty it was to perform which action.

Effect: The Foundation's Board actions are not clear. If a situation arises where a Board decision needs to be researched the Foundation's Board minutes may not be a valid option.

Cause: The College's Foundation did not follow the basic board minutes recording procedures.

Auditor's Recommendations: The Foundation's Board may need to assign the minute recording process to an individual, usually the Board Secretary. The format for meeting minutes should at minimum follow the following:

- Attendance, and this can be as easy as just writing down who is there and who is not and having a sign in sheet for any visitors.
- Approval of prior meeting minutes and financial statements for the previous month.
- Review "old business" which is anything that was discussed in a previous meeting that has not been resolved.
- Discussion of "new business" which are new items that need the attention of the Board since the last meeting.
- Any decisions that are made should be documented in the minutes with who made the motion, who seconded, all in favor and those opposed to the motion.
- If the Board needs to have an executive session they motion to go into executive session.

Management's Response: The Foundation agrees with this finding and will work with the Foundation board to begin utilizing a standard template for its Board Minutes beginning with the next meeting. The meeting agendas will include Old Business and New Business Sections.

Responsible Person: Foundation Executive Director and Foundation Board.

Timeline and Estimated Completion Date: June 30, 2018.

SA – Material Weaknesses and/or Noncompliance

Northern New Mexico College
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2017

Section III — Federal Award Findings and Questioned Costs

Financial Statement Findings Affecting Federal Awards

Federal program information:

Funding agency:	U.S. Department of Education and National Science Foundation
Title:	All major federal programs
CFDA number:	All major federal programs
Questioned costs:	N/A
Award year and number:	All

The following findings relate to the activities allowed or unallowed and allowable costs/cost principles compliance requirements.

Finding Number	Finding Title	Report Page Number	Status of Finding
2013-001	Bank Reconciliations – Timeliness and Review Process	57 to 59	Repeated and Updated.
2016-002	Potential Fraud, Forgery, Embezzlement, Larceny and Noncompliance	63 to 67	Repeated and Updated.
2016-006	College and Foundation – Segregation of Duties	75 to 77	Repeated and Updated.
2016-026	Assigned Permissions in Banner	92 to 93	Repeated and Updated.
2017-001	Lack of Internal Control over Payroll Reporting	96	New.

The following finding relates to the equipment and real property management compliance requirement.

Finding Number	Finding Title	Report Page Number	Status of Finding
2013-003	Capital Assets – Physical Inventory Certification and Safeguarding	60 to 61	Repeated and Updated.

The following finding relates to the other compliance requirement.

Finding Number	Finding Title	Report Page Number	Status of Finding
2016-004	Insufficient Security of Accounting Records/Backup of Electronic Documents	70 to 71	Repeated and Updated.
2016-007	Financial Close and Reporting	78 to 80	Repeated and Updated.
2016-009	Lack of Internal Controls over Cash Disbursement and Transfers Process	84	Repeated and Updated.
2016-010	College and Foundation – Lack of Internal Controls over Journal Entries	85 to 87	Repeated and Updated.
2016-017	Outdated Policies and Procedures	105	Repeated and Updated.
2016-019	Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks	89 to 90	Repeated and Updated.
2016-025	Reconciliation of Student Accounts Receivable	108	Repeated and Updated.
2016-027	Information Technology	94 to 95	Repeated and Updated.

Section III — Federal Award Findings and Questioned Costs — continued

2016 – 030 Special Tests and Provisions—Material Weakness and Noncompliance (Repeated and Updated)

Federal program information:

Funding agency:	U.S. Department of Education
Title:	Student Financial Assistance Cluster
CFDA number:	84.007, 84.033, 84.063, and 84.268
Questioned costs:	N/A
Award year and number:	All

Condition:

- ***Controls over Disbursement to or on Behalf of Students:*** The College's Student Financial Aid Office maintains the detail of students that receive financial aid and scholarships. Each semester, financial aid awards and scholarships are credited to the respective student's accounts. The student's tuition, fees and books are charged to each student's account. Those students that do not receive enough financial aid and/or scholarships are added to the student accounts receivable list until the student pays of their balance. The excess of student financial aid and / or scholarships is "refunded" to the student through an ACH with their respective bank account. The process to "refund" students is a detailed and complicated process (manual and automated) that involve both the Student Financial Aid Office and the Finance Office. Some of the processes the Finance Office performs in this transaction cycle include coordinating the draw-downs of financial aid (with the Student Financial Aid Office), accounting for financial aid and scholarships received, updating the ACH file for those students to be "refunded," and uploading the ACH file of refunds to students, and reconciling all grant money received, transfers of grant money between bank accounts and a reconciliation of the ACH activity in the bank account. There is no reconciliation of the ACH file sent to the bank by the Finance Office (by student) back to the file of students receiving student financial aid and scholarships. The amount of the difference, if any, is unknown but may be related to the financial aid clearing account which has a debit balance for almost $20,000, similar to the prior year balance.
- ***Controls over Enrollment Reporting**:* The College Registrar's Office maintains all official academic records of enrollment at the College. The College reports student enrollment history to the National Student Clearinghouse multiple times during a period of enrollment. The Registrar's Office is responsible for ensuring bulk reporting is done in a timely manner. The first enrollment reporting file is sent on the Monday after the end of the add/drop period for the semester. Thereafter, reporting is completed by the Registrar's Office on a monthly basis.

Section III — Federal Award Findings and Questioned Costs — continued

2016 – 030 Special Tests and Provisions—Material Weakness and Noncompliance (Repeated and Updated) — continued

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The Student Financial Aid office maintains a schedule of all official and unofficial withdraws during the year to track their enrollment; at the end of the semester, the schedules are used to perform Return of Title IV calculations and for Enrollment Reporting. For 5 out of the 25 items reviewed, the change in academic status was not reported within the 30 day requirement according to the policy. In addition, 1 out of the 25 items review included a student that was listed as an unofficial withdraw in the College system, but was not considered an unofficial withdraw due to a grade change. The College is in compliance with the Enrollment Reporting requirements of the Department of Education, but the College is not in compliance with their policy.

- ***Controls over Return of Title IV Funds****:* According to review of the seven samples selected, return of Title IV funds were required for four individuals. According to review of the supporting documentation, the SFA office does not provide adequate detail regarding the amount of aid to be returned and the student's name. If there was a drawdown request and a return of Title IV in the same period, the Grant Accountant would net the two amounts and drawdown or return the difference. Therefore, it is difficult to trace the amount required to be paid back by student account, to the amount drawn down or returned. We are unable to determine if the student's amount was paid back timely for 4 of the 7 individuals selected or testwork.

As stated in the prior years corrective action plan for this specific finding the anticipated completion date was December 31, 2017.

Criteria:

- ***Controls over Disbursement to or on Behalf of Students:*** 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, including following properly recording and reconciling revenues and receivables.
- ***Controls over Enrollment Reporting:*** Based on the College's Student Financial Aid Policy and Procedure, the College reports enrollment updates on the Monday after the end of the add/drop period for the term and thereafter, reporting is sent on a monthly basis.

Section III — Federal Award Findings and Questioned Costs—continued

2016 – 030 Special Tests and Provisions—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Criteria:

- ***Controls over Return of Title IV Funds:*** The Student Financial Aid Office maintains the detail of students that receive financial aid. The process for returning Title IV funds involves both the Student Financial Aid Office and the Finance Office.

  The Student Financial Aid Office processes the Official and Unofficial withdraws, performs the Return of Title IV Funds (R2T4) calculation, and informs the Finance Office of the amount of unearned aid to be returned to the Department of Education. The Finance Office does not obtain a detailed listing of the students and amounts that make up the total amount of unearned Title IV funds to be returned to the Department of Education.

Effect:

- ***Controls over Disbursement to or on Behalf of Students:*** Refunds may not be issued properly and there is higher risk of error or misappropriation of assets.
- ***Controls over Enrollment Reporting:*** Untimely reporting can potentially affect the College's awards under this program.
- ***Controls over Return of Title IV Funds:*** Return of Title IV funds may not be made in the proper amount and in a timely manner to the federal programs as required.

Cause:

- ***Controls over Disbursement to or on Behalf of Students*:** This process was performed in the past until there was employee turnover.
- ***Controls over Enrollment Reporting:*** The College is not following their internal control procedures which ensure the timely filing of status change reports.
- ***Controls over Return of Title IV Funds***: The Student Financial Aid Office did not have a process in place to inform the Grant Accountant of which students were included in the drawdown or return of Title IV Funds.

Auditor's Recommendations:

- ***Controls over Disbursement to or on Behalf of Students:*** We recommend the Business Office reconcile the ACH file of student "refunds" (by student) back to the detail of students receiving student financial aid and scholarships to ensure all processes ran as designed. As the former Financial Services Director (also see Finding 2016-002) oversaw both the upload of the ACH file containing the student "refunds" and the bank reconciliation process, we consider the former Financial Service Director's previous involvement to be an area of heightened risk and recommend the Business Office perform reconciliations of this process for each student receiving aid back to the point in time the former Financial Services Director was hired.

Section III — Federal Award Findings and Questioned Costs—continued

2016 – 030 Special Tests and Provisions—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Auditor's Recommendations — continued:

- ***Controls over Enrollment Reporting:*** We recommend the College develop a monitoring systems to ensure reports are generated every 30 days, based on the current Student Financial Aid Policy.

  In addition, the Student Financial Aid Office should be monitoring and updating their listing of Unofficial withdraws during the year to ensure changes in student academic status is properly captured.

- ***Controls over Return of Title IV Funds:*** We recommend providing the Grant Accountant with a listing of students that are included in the Return of Title IV funds or access to be able to view the students within Banner and attaching the detail to the drawdown or return of Title IV fund request.

Management's Response:

- ***Controls over Disbursement to or on Behalf of Students:*** The College agrees with this portion of the finding and the Business Office will establish a process to reconcile the ACH file of student "refunds" (by student) back to the detail of students receiving student financial aid and scholarships.

- ***Controls over Enrollment Reporting:*** The College agrees with this finding and will work to insure that our policies align directly with the Department of Education's timely enrollment reporting requirements. The College understands that while we may be in compliance with the Department of Education's enrollment reporting requirements, the College had previously established a policy that allows for a shorter period which, as long as it is in effect, must be complied with.

  In regards to the monitoring of changes for Unofficial withdraws, we have instituted a process by which the Financial Aid Office will comment in the Banner student comment form (SPACMNT) that an R2T4 calculation has been processed for the student. In the event that a change to enrollment status occurs subsequent to the Unofficial withdraw, as is the case when a grade changes, the Registrar will comment in SPACMNT the enrollment status change and then notify the Financial Aid Office to ensure changes in student academic status is properly captured.

- ***Controls over Return of Title IV Funds:*** The College agrees with this finding. In February of 2018 a new procedure was implemented specifically to increase the level of detail provided to the Grant Accountant for all G5 drawdowns for Title IV funds. The Financial Aid Office now provides a Banner screenshot (TGACREV) that details the student name, student identifier, transaction amount and date.

Section III — Federal Award Findings and Questioned Costs—continued

2016 – 030 Special Tests and Provisions—Material Weakness and Noncompliance (Repeated and Updated) — continued

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Responsible Person: Title IV Director and Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section III — Federal Award Findings Questioned Costs—continued

2016 – 032 Lack of Complete Policies and Procedures—Material Weakness and Noncompliance (Repeated and Updated)—Other

Federal program information:

Funding agency:	U.S. Department of Education
Title:	Higher Education Institutional Aid
CFDA number:	84.031
Questioned Costs:	N/A
Award year and number:	All
Funding agency:	National Science Foundation
Title:	Research and Development Cluster
CFDA number:	47.050, 47.070, 47.076 and 47.080
Questioned Costs:	N/A
Award year and number:	All
Funding agency:	U.S. Department of Education
Title:	Student Financial Assistance Cluster
CFDA number:	84.007, 84.033, 84.063, and 84.268
Questioned Costs:	N/A
Award year and number:	All

Condition: The College has not assessed and revised their current policies to ensure the five areas of internal control are covered as required under §200.303 of the Uniform Guidance. The Uniform Guidance requires effective controls to manage federal awards, show compliance with federal statutes, regulations and terms and conditions of the award, and identify how the organization evaluates and monitors compliance.

- Control environment (approval processes)
- Risk assessment (processes to assess risk)
- Control activities (processes to check accuracy)
- Information and communication (training)
- Monitoring (review processes)

Direct and material areas to be assessed for the five control components noted above and included in the grant policies for the Higher Education Institutional Aid grant include cash management, allowable operating and payroll costs and activities and reporting.

In addition, the College has not revised their current policies to ensure procurement is covered as required by §200.318 through §200.326 of the Uniform Guidance. Additionally, the policies were not updated related to conflict of interest until August 2017.

As stated in the prior years corrective action plan for this specific finding the anticipated completion date was December 31, 2017.

Section III — Federal Award Findings and Questioned Costs—continued

2016 – 032 Lack of Complete Policies and Procedures—Material Weakness and Noncompliance (Repeated and Updated)—Other — continued

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Criteria: The Uniform Guidance requires effective controls to manage federal awards, show compliance with federal statutes, regulations and terms and conditions of the award, and identify how the organization evaluates and monitors compliance. In addition, it requires the policies to be updated related to procurement and conflict of interest.

Effect: The College does not have strong controls to ensure compliance with federal grants and the Uniform Guidance.

Cause: The College has limited resources and the former Financial Services Director was filling in as the Grants Manager.

Auditor's Recommendations: We recommend the grants management team network with other colleges and universities in the State to obtain guidance over best practices used in the creation of policies and procedures for the types of grants received by the College.

Management's Response: The College agrees with this finding and will network with other colleges and universities in the State of New Mexico to obtain guidance in regard to best practices used to create policies and procedures to ensure grant compliance.

Responsible Person: Grants Manager and Vice President Finance and Administration

Timeline and Estimated Completion Date: December 31, 2018.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 012 Cash Management—Material Weakness

Federal program information:

Funding agency:	U.S. Department of Education
Title:	Student Financial Assistance Cluster
CFDA number:	84.007, 84.033, 84.063, and 84.268
Questioned costs:	N/A
Award year and number:	All

Condition: The Finance Office is responsible for performing the cash drawdowns from the G5 System. During our testwork we noted the control system by which the journal entries were booked to record the draw was inconsistently applied throughout the fiscal year. During our cash management testwork we determined the Finance Office did not have a consistent method of recording drawdowns from the G5 System. Based on our testwork, the Grant Accountant would occasionally record accounts receivable when the drawdown was made and then reverse the accounts receivable when the College received the funding; other times the Grant Accountant would just record the cash when it was received. During our testwork performed over cash management, we noted that one out of eight of the drawdowns selected was originally recorded to accounts receivable and was incorrectly reversed when the cash was received.

Criteria: The College should have procedures that address how to record a federal grant draw. The procedures should be consistently applied and the process must be reviewed.

Effect: Drawdowns may not be recorded correctly and there is higher risk of error or misappropriation of assets.

Cause: The College has not implemented policy or procedure for consistently recording cash drawdowns.

Auditor's Recommendations: We recommend developing a policy and procedure for cash drawdowns from the G5 system to ensure consistent reporting.

Management's Response: The College agrees with this finding and acknowledges that internal policies and procedures governing the recording of drawdowns from the Department of Education's G5 System must be developed and consistently applied in order to ensure accurate recording of applicable accounts receivable entries. The College will develop policies and procedures to this end and follow the institution's internal processes for approval of the process by June 30, 2018. Training will be developed and implemented during this time frame.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 013 Controls Over Equipment and Real Property Management—Material Weakness and Noncompliance

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Federal program information:

Funding agency:	U.S. Department of Education
Title:	Higher Education Institutional Aid
CFDA number:	84.031
Questioned costs:	N/A
Award year and number:	2013, P031C110094
Funding agency:	National Science Foundation
Title:	Research and Development Cluster
CFDA number:	47.050, 47.070, 47.076 and 47.080
Questioned costs:	$110,849
Award year and number:	2016, 1612373 2015, 1541352

Condition: The College has not taken a complete physical inventory of IT equipment in the past two years. In addition, we noted the following deficiencies:

Higher Education Institutional Aid: For 1 of 2 equipment purchases tested, an asset costing $37,304 was not included on the fixed asset listing of the College.

Research and Development Cluster: For 2 of 3 equipment purchases tested for the R&D program, documentation was not provided to support the amount on the general ledger or the capital asset listing.

Additionally, the College does not have an adequate control system in place to consistently capitalize assets, as some assets are capitalized based on purchase order and others on invoice cost.

Criteria: In compliance with 2CFR200.313, a physical inventory of equipment must be taken at least once every two years and reconciled to equipment records.

Effect: The College does not have strong controls over capital asset reporting; therefore, there is a higher risk of misappropriation of assets.

Cause: The process in place over the physical control over capital assets was not functioning properly. The process to reconcile the general ledger to the physical inventory was a significant process and the College was unable to complete the process until after year-end; and therefore, was unable to certify its capital assets on a timely basis.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 013 Controls over Equipment and Real Property Management—Material Weakness and Noncompliance — continued

Auditor's Recommendations: We recommend the College implement controls over capital assets inventory and ensure that capital assets are recorded at the proper value including supporting documentation.

Management's Response: The College agrees with this finding and will develop and implement policies and procedures to ensure accountability for all equipment and real property.

Responsible Person: Grants Manager and Vice President Finance and Administration.

Timeline and Estimated Completion Date: December 31, 2018.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 014 Controls Over Payroll Reporting—Material Weakness and Noncompliance—Activities Allowed or Unallowed and Allowable Costs/Cost Principles

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Federal program information:

Funding agency:	U.S. Department of Education
Title:	Higher Education Institutional Aid
CFDA number:	84.031
Questioned costs:	$197,270
Award year and number:	2012, P031S100091
	2013, P031C110094
	2015, P031M105030
Funding agency:	National Science Foundation
Title:	Research and Development Cluster
CFDA number:	47.050, 47.070, 47.076 and 47.080
Questioned costs:	$132,186
Award year and number:	2010, DUE-1035465
	2014, DUE-1259993
	2015, 1541352
	2016, 1612373
	2017, 1562008
	2017, 1649296

Condition: For employees who charge time to multiple funds, there is no tracking methodology in determining the proper allocation to each project/fund. The College utilizes predetermined rates and a reconciliation is not performed to reconcile to actual time worked.

Criteria:

- For grants awarded prior to December 26, 2014, OMB Circular A-21(J)(10) indicates compensation for personal services covers all amounts paid currently or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements. Such amounts include salaries, wages, and fringe benefits (see subsection f). These costs are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements and for other work allocable as F&A costs.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 014 Controls Over Payroll Reporting—Material Weakness and Noncompliance—Activities Allowed or Unallowed and Allowable Costs/Cost Principles— continued

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Criteria: — continued

- For grants awarded after December 26, 2014, 2 CFR 200.430(i) (viii) indicates budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes. Further, 2CFR 200.430(i) (viii) (C) indicates the nonfederal entity's system of internal controls includes processes to review after-the-fact charges made to a federal awards based on budget estimates. All necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable and properly allocated.

Cause: The College does not have a tracking methodology to ensure proper allocation to each project/fund.

Auditor's Recommendations: We recommend the College review Uniform Guidance requirements for grants under their operation to ensure applicable compliance requirements are being followed specific to time distribution requirements.

Management's Response: The College has begun to address this issue and implemented procedures for recording and reporting time charged to multiple programs, projects and/or funds. The procedures were implemented the latter part of calendar year ended December 31, 2018 and to date, all indications are that for the current year, time allocated has been correct.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: No later than March 31, 2018.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 015 Controls over Procurement, Suspension and Debarment—Material Weakness and Noncompliance

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Federal program information:

Funding agency:	U.S. Department of Education
Title:	Higher Education Institutional Aid
CFDA number:	84.031
Questioned costs:	N/A
Award year and number:	2013, P031C110094

Funding agency:	National Science Foundation
Title:	Research and Development Cluster
CFDA number:	47.050, 47.070, 47.076 and 47.080
Questioned costs:	N/A
Award year and number:	2015, 1541352

Condition: The following deficiencies were noted:

Higher Education Institutional Aid:

- For 2 of 2 purchases reviewed for vendors in excess of $25,000, suspension and debarment was not checked for the vendors.
- For 1 of 2 purchases reviewed for the program, the College did not follow their procurement policy of obtaining three written quotes as only one quote was received.

Research Development Cluster:

- For 1 of 1 purchases reviewed for vendors in excess of $25,000, suspension and debarment was not checked for the vendors.

Criteria: 2 CFR Part 180 and 2CFR Part 200.318 requires the College to verify that contractors in covered transaction or any of its principals were not federally debarred, suspended or excluded. Additionally, the College's policy requires them to follow 13-1-1 to 13-1-199 NMSA 1978.

Effect: The federal oversight could withhold funding related to the program.

Cause: The College's controls over suspension and debarment were not effectively functioning as vendors were not verified and supporting documentation was not included in the procurement packet.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 015 Controls over Procurement, Suspension and Debarment—Material Weakness and Noncompliance — continued

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Auditor's Recommendations: We recommend that the College put in place a system of internal control to ensure that both federal and state procurement rules and regulations are followed.

Management's Response: The College agrees with this finding and will develop procedures to ensure that federal and state procurement statutes and regulations are followed. This includes evaluating vendors to ensure that debarment and suspension has not occurred. Training will also be conducted for staff involved in the procurement and accounts receivable process.

Responsible Person: Grants Manager and Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section III — Federal Award Findings and Questioned Costs—continued

2017 – 016 Controls Over Subrecipient Monitoring—Material Weakness and Noncompliance

Federal program information:

Funding agency:	U.S. Department of Education
Title:	Higher Education Institutional Aid
CFDA number:	84.031
Questioned costs:	N/A
Award year and number:	2013, P031C110094

Condition: The College did not provide documentation to support that subaward information was given to various colleges and universities whom received funding from the College. In addition, the College did not perform pass-through entity monitoring for any college or university whom received passed-through funds.

Criteria: 2 CFR Part 200.331 lists the requirements for a pass-through entity, which includes, but is not limited to, ensuring that every subaward is clearly identified to the subrecipient as a subaward and includes the necessary information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modifications.

Effect: The College is not in compliance with the requirements for subawards.

Cause: The College did not understand the requirements necessary to monitor monies passed-through to other colleges and universities who receive funding from the U.S. Department of Education. Furthermore, the College does not have procedures in place to comply by this requirement.

Auditor's Recommendation: We recommend that the College review 2 CFR Part 200.331 to ensure that they are following the appropriate requirements for pass-through entities and implement a control structure to satisfy the requirements.

Management's Response: The College will ensure that employees understand the College's responsibilities and obligations with regard to subrecipient monitoring to ensure compliance.

Responsible Person: Grants Manager and Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Section 12-6-5 NMSA 1978 Findings

2016 – 011 New Mexico State Constitution Violation—Board Member Vacancy—Other Noncompliance (Updated and Repeated)

Condition: The College is required to have a five member Board of Regents. The College only had four members from fiscal year 2015 through November 3, 2017.

The College has filled the unoccupied Board of Regents position.

Criteria: Article 12, Section 13 of the New Mexico State Constitution requires that the College shall be governed by a Board of Regents consisting of five members.

Effect: The College needs a five Board of Regents in order to operate effectively and as designed by the Constitution. The College has been addressing substantial changes in operations along with turnover and whistleblower litigation, all of which have caused a material increase in legal fees, settlements, and insurance premiums. The Board must have all positions filled in order to govern effectively.

Cause: The Governor of the State of New Mexico has not nominated and appointed, with Senate consent, a fifth Regent until November 3, 2017.

Auditor's Recommendations: The position has been filled; however, any vacancy must be immediately addressed in order to avoid not having a complete Board of Regents.

Management's Response: As mentioned in the Auditor's recommendation, all positions have been filled and are currently occupied. It is critical to note that while the appointment of Regents for the College can be requested by the Board of Regents, ultimately, the Regents cannot control the timing of the Executive and subsequent confirmation of those appointments by the Senate Rules Committee. We believe the Board of Regents has done all it can in the past to encourage the filling of Regent vacancies; however, to reiterate, appointments are ultimately the purview of the Executive subject to the confirmation of appointments by the Senate Rules Committee.

Responsible Person: Board of Regents.

Timeline and Estimated Completion Date: November 2017.

2016 – 014 Noncompliance With and Inadequate Controls over the Governmental Conduct Act—Other Noncompliance (Repeated and Updated)

Condition: We noted the College does not have strong risk assessments, internal controls, training, and monitoring for maintaining compliance with the Governmental Conduct Act (GCA). Additionally, the College does not have a Code of Ethics or Code of Conduct that is signed by employees.

During our testing we noted employees with outside employment/ownership of businesses which have not been disclosed in writing to the College's administration and Board of Regents. The total number of employees is unknown due to lack of documentation.

The College has provided training in order to work towards the completion of this project as described in the corrective action plan for this specific finding.

Criteria: Outside Employment, Section 10-16-4.2 NMSA 1978 states: "All public officers or employees must disclose in writing to the employer all employment engaged in by the officer or employee, other than the employment with or service to the Public Employer."

According to Section 13-1-57 NMSA 1978 indicates "Financial interest" means officer, director, trustee, partner, or management position or more than 5% or more ownership interest.

2.2.2.10(K) NMAC indicates GAGAS 2011 Revision, paragraphs 4.06 to 4.08 – audits extend procedures to abuse – behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable/necessary business practice. Abuse can also be the misuse of authority or position for personal financial interests or those of a close family member or business associate.

Effect: Possible Governmental Conduct Violations include consequences such as:

1) Other than those prohibitions which carry felony sanctions, violation of the Act constitutes a Criminal misdemeanor (max $1,000 or Imprisonment of up to 1 year or Both)
2) Discipline, Dismissal, Demotion, or Suspension
3) Attorney General may enforce Civil penalties ($250 per violation up to $5,000)
4) Basis for Recall efforts of board members from alleged violations
5) Section 10-16-3.1 Official Acts for personal financial interest – Knowing and willful violation is a 4th degree felony

Cause: The College has not implemented complete training and monitoring for compliance with the Governmental Conduct Act.

2016 – 014 Noncompliance With and Inadequate Controls Over the Governmental Conduct Act—Other Noncompliance (Repeated and Updated) — continued

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Auditor's Recommendations: We recommend the College's Board of Regents and the Administration become familiar with the requirements and add steps to ensure compliance and accountability. We also recommend that the College ensure the Financial Disclosures Act forms are completed timely not only by board members but also by any employees to which it would apply.

Management's Response: The College agrees with the importance of compliance with the Governmental Conduct Act. In the Fall of 2017, the College conducted Governmental Conduct Act training sessions at its convocation and made the training mandatory for all faculty and staff. The College will continue to present this training in future convocations and College gatherings. Deans, Directors, Program Heads, Supervisors and Managers were advised of their obligations as they pertain to the Act. The College is in the process of implementing the required reporting to comply with the Financial Disclosures Act.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: July 1, 2018.

2016 – 029 Compliance Violation—Anti-Donation Clause of the New Mexico Constitution—Noncompliance (Repeated and Updated)

Condition: We noted violations of the Anti-Donation Clause in the following areas:

- Embezzlement. As noted in our testing, there are certain uncashed checks written to the College and currently in possession of the law enforcement. Once the College receives the uncashed checks back, the College will need to research what checks relate to goods or services provided by the College to students and other third parties and determine if the students or other third parties have provided replacement checks subsequently cashed by the College. If no replacement check is found, the College will need to record an accounts receivable and put forth efforts to collect the related amounts.
- Disbursement. During our testing of disbursements, we discovered the College paid for a Nambe platter that was engraved, totaling approximately $176, for a Regent of the College. This type of purchase is usually through staff collections.
- Student Receivables. We were informed that student accounts receivables outstanding at the time of the conversion to Banner (approximately 2006) were not transferred over with the necessary account detail into the Student Accounts Receivable database. As a result, efforts to collect these old receivables are not currently in process.

The College is currently working towards meeting the timeline described in the corrective action plan.

Criteria: New Mexico Constitution Article IX, Section 14 states, "neither the state, nor any county, school district, or municipality, except as otherwise provided in this constitution, shall directly or indirectly lend or pledge its credit, or make any donation to or in aid of any person, association or public or private corporation. A donation within the meaning of this provision is a "gift," an allocation or appropriation of something of value, without consideration." This section is commonly referred to as the Anti-Donation Clause.

Effect: Noncompliance with the State Constitution subjects the College officials to penalties as required by state statutes.

Cause: The College staff may be unaware of how specific circumstances violate the State Constitution's Anti-Donation Clause.

Auditor's Recommendations: We recommend College staff, including all department heads, review its policies and procedures concerning cash disbursements, receivables, and the Anti-Donation Clause to ensure the College is not benefiting a particular individual or organization without an exchange transaction (i.e. receiving something in return). After such review, all necessary changes or adjustments should be approved, instituted, and included in the College's accounting policies.

2016 – 029 Compliance Violation—Anti-Donation Clause of the New Mexico Constitution—Noncompliance (Repeated and Updated) — continued

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Management's Response: The College agrees with this finding and by no later than June 30, 2018, management will promulgate existing policies and procedures pertaining to cash disbursements, receivables, the Anti-Donation Clause of the New Mexico Constitution, and any other relevant materials to ensure that employees are aware of potential situations and actions that could cause violation.

Responsible Person: Vice President Finance and Administration

Timeline and Estimated Completion Date: June 30, 2018.

Northern New Mexico College
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2017

Prior Audit Findings	Current Status
2013 – 001 Bank Reconciliations – Timeliness and Review Process	Repeated and Updated.
2013 – 002 Bank Reconciliations – Timeliness and Review Process	Repeated and Updated.
2013 – 003 Capital Assets—Physical Inventory Certification and Safeguarding	Repeated and Updated.
2013 – 007 Disaster Recover Plan and Password Policies	Repeated and Updated.
2015 – 001 Travel and Per Diem	Repeated and Updated.
2016 – 001 Late Audit Report	Repeated and Updated.
2016 – 002 Potential Fraud, Forgery, Embezzlement, Larcey and Noncompliance	Repeated and Updated.
2016 – 003 Insufficient Attention and Accountability over Accounting and Internal Controls	Repeated and Updated.
2016 – 004 Insufficient Security of Accounting Records/Backup of Electronic Documents	Repeated and Updated.
2016 – 005 Procurement Code Violations	Repeated and Updated.
2016 – 006 Segregation of Duties	Repeated and Updated.
2016 – 007 Financial Close and Reporting	Repeated and Updated.
2016 – 008 Lack of Internal Controls over Cash Receipts Process	Repeated and Updated.
2016 – 009 Lack of Internal Controls over Cash Disbursements and Transfers Process	Repeated and Updated.
2016 – 010 Lack of Internal Controls over Journal Entries	Repeated and Updated.
2016 – 011 New Mexico State Constitution Violation—Board Member Vacancy	Repeated and Updated.
2016 – 012 Transfers, Disposals, and Tracking of Inventory Items less than $5,000	Repeated and Updated.

Northern New Mexico College

Schedule of Prior Year Audit Findings — continued

For the Year Ended June 30, 2017

Prior Audit Findings	Current Status
2016 – 013 Public Money Act Violation—Deposits Not Made Within 24 Hours	Repeated and Updated.
2016 – 014 Noncompliance with and Inadequate Controls over the Governmental Conduct Act	Repeated and Updated.
2016 – 015 New Mexico Prehistoric and Historic Sites Preservations Act Violations	Resolved.
2016 – 016 Inadequate Controls over Sabbatical and Annual Leave	Repeated and Updated.
2016 – 017 Outdated Policies and Procedures	Repeated and Updated.
2016 – 018 Lack of Monitoring and Corrective Actions	Resolved.
2016 – 019 Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks	Repeated and Updated.
2016 – 020 Bank Reconciliations—Stale Dated Checks	Repeated and updated at finding 2013 – 001.
2016 – 021 Review and Clean—up of Clearing and Suspense Accounts	Repeated and Updated.
2016 – 022 Petty Cash—Security and Tracking	Repeated and updated at finding 2013 – 001.
2016 – 023 Underreported Payroll Tax Liabilities	Repeated and Updated.
2016 – 024 Unused Credit Card Machines and Related Monthly Fee	Repeated and Updated.
2016 – 025 Reconciliation of Student Accounts Receivable	Repeated and Updated.
2016 – 026 Assigned Permissions in Banner	Repeated and Updated.
2016 – 027 Information Technology	Repeated and Updated.
2016 – 028 Tracking of Banner Feeds to Ensure Feeds are Not Suspended/Deleted	Repeated and Updated.
2016 – 029 Compliance Violation—Anti-Donation Clause of the New Mexico Constitution	Repeated and Updated.

Northern New Mexico College
Schedule of Prior Year Audit Findings — continued
For the Year Ended June 30, 2017

Prior Audit Findings	Current Status
2016 – 030 Reconciliation of Student Financial Aid Disbursements	Repeated and Updated.
2016 – 031 Controls over Recording Paid Time—Off to Federal Grants	Resolved.
2016 – 032 Lack of Complete Policies and Procedures	Repeated and Updated.

Corrective Action Plan
June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2013 – 001 Bank Reconciliations – Timeliness and Review Process	The bank reconciliation module has been fully implemented and is currently fully utilized by the College. By no later than March 31, 2018, the College will be current in all bank account reconciliations.	Ricky Bejarano, Vice President Finance and Administration	No later than March 31, 2018
2013 – 002 Foundation - Bank Reconciliations – Timeliness and Review Process	The College will continue to contract as necessary to ensure that bank reconciliations are kept up to date. By the end of the April 2018, the College plans to have hired a Controller and an additional accountant (preferably a CPA or CGFM). Following a brief transitional period, the College will resume all Foundation accounting duties (including bank reconciliations) utilizing both the Controller and the new Accountant.	Ricky Bejarano, Vice President Finance and Administration	April 2018
2013 – 003 Capital Assets – Physical Inventory Certification and Safeguarding	The College will begin a physical inventory and verification of capital assets in April 2018 in order to present the certified inventory to the auditors when the FYE 2018 financial audit begins.	Ricky Bejarano, Vice President Finance and Administration	April 2018
2013 – 007 Disaster Recover Plan and Password Policies	The College will create a cloud-based infrastructure for disaster recovery. Because the College is in the process of implementing Banner 9, the College has decided to test only parts of the Business Continuity Plan and, once Banner 9 is fully implemented, to conduct full testing. The College's goal is to complete full testing by fiscal year-end or June 30, 2018.	Ricky Bejarano, Vice President Finance and Administration and Jimi Montoya, Director of Information Technology	June 30, 2018
2015 – 001 Travel and Per Diem	By no later than fiscal year-end (June 30, 2018), the College will conduct training in the New Mexico Per Diem and Mileage Act along with any appertaining regulations and the College policies and procedures. The training will be conducted for all College employees.	Ricky Bejarano, Vice President Finance and Administration, Cheryl James, Grants Manager, and Ivan Lopez Hurtado Provost	June 30, 2018

Northern New Mexico College
Corrective Action Plan — continued
June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016 – 001 College and Foundation—Late Audit Report	The College is diligently preparing for fiscal year ended 2018 audit and plans a timely submission.	Ricky Bejarano, Vice President Finance and Administration	November 1, 2018
2016 – 002 Potential Fraud, Forgery, Embezzlement, Larcey and Noncompliance	By March 31, 2018, the College will post and advertise two positions – (1) Controller; and, (2) Accountant (this accountant must be a CPA or, at a minimum a CGFM (regardless, the position will require governmental accounting experience, preferably in the higher education field). By June 30, 2019, the College will implement the recommendations cited in the second forensic audit report.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2019
2016 – 003 Insufficient Attention and Accountability over Accounting and Internal Controls	The College will advertise for a Controller and Accountant (CPA or CGFM with extensive government accounting experience and, preferably, experience with colleges and universities. We plan to fill the position no later than May 30, 2018 so that both are in place prior to year-end.	Ricky Bejarano, Vice President Finance and Administration	May 30, 2018
2016 – 004 Insufficient Security of Accounting Records/Backup of Electronic Documents	By December 31, 2018, the College will develop and implement policies and procedures for accounting document security and retention. Also by December 31, 2018, the College will determine how to maximize the Banner System to facilitate security and retention of accounting documentation. Finally, by June 30, 2019, the College will determine how to convert utilization of hard copy documentation to electronic means which will require that various processes and procedures be reengineered from paper to electronic media.	Ricky Bejarano, Vice President Finance and Administration and Jimi Montoya, Director of Information Technology	June 30, 2019

Northern New Mexico College

Corrective Action Plan — continued

June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016 – 005 Procurement Code Violations	Procurement Code training will be held for all faculty and staff by no later than December 31, 2018. Policies and Procedures related to activities that are covered under the Procurement Code and any other activities related to purchases will be reviewed, analyzed, and rewritten as appropriate by no later than June 30, 2018. This will be accomplished through a workgroup that will be convened no later than March 31, 2018.	Ricky Bejarano, Vice President Finance and Administration	December 31, 2018
2016 – 006 College and Foundation—Segregation of Duties	The College will continue to segregate duties as appropriate and as it is able with current staffing levels. This is ongoing and began prior to audit fieldwork. By the end of the April 2018, the College plans to have hired a Controller and a higher-level accountant (preferably a CPA or CGFM). By no later than June 30, 2018, Management, including the newly hired Controller and Accountant, will establish and implement a written remediation plan to implement all Auditor recommendations in order to achieve appropriate segregation of duties. The plan will be implemented as immediately as appropriate.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 007 Financial Close and Reporting	Training – by December 31, 2018, training will be provided to all Banner users. Accounting staff will receive more extensive training. Effective immediately, Management will ensure the cessation of the practice of delaying fiscal period close. Fiscal period close will be effected within 45 days from the end of the period.	Ricky Bejarano, Vice President Finance and Administration	December 31, 2018
2016 – 008 Lack of Internal Controls over Cash Receipts Process	A formal policy and procedures will be established and implemented for cash receipts no later than June 30, 2018.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018

Northern New Mexico College
Corrective Action Plan — continued
June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016 – 009 Lack of Internal Controls over Cash Disbursements and Transfers Process	By the time of fieldwork, the College had already implemented appropriated procedures to address this material weakness. The next step is that the College will formalize the current process through policy and procedures no later June 30, 2018.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 010 College and Foundation Lack of Internal Controls over Journal Entries	By no later than June 30, 2018, the College will reformat and implement the new journal entry form in an acceptable double-entry accounting format. Also by no later than June 30, 2018, the College will issue updated policies and procedures for journal entries that clearly delineate the process for journal entries from creation, to review, approval and final posting.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 011 New Mexico State Constitution Violation—Board Member Vacancy	The College will continue to encourage the appointment and confirmation of Regents when vacancies arise.	Board of Regents	November 2017
2016 – 012 Transfers, Disposals, and Tracking of Inventory Items less than $5,000	The College will establish and implement a policy and procedures for tracking certain items with values less than $5,000. The target date for this implementation is December 31, 2018.	Ricky Bejarano, Vice President Finance and Administration	December 31, 2018
2016 – 013 Public Money Act Violation—Deposits Not Made Within 24 Hours	The College will develop and implement a policy and procedures that clearly delineate cash receipts handling from the time of receipt by the College employee through the time of deposit and, ultimately, posting of the deposit in Banner. The policy and procedures must be in place no later than June 30, 2018.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018

Northern New Mexico College
Corrective Action Plan — continued
June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016 – 014 Noncompliance with and Inadequate Controls over the Governmental Conduct Act	The College will continue to conduct trainings of the Governmental Conduct Act during convocation and other college-wide trainings or conferences. By no later than July 1, 2018, the College will implement required forms to facilitate compliance with the Financial Disclosures Act.	Ricky Bejarano, Vice President Finance and Administration	July 1, 2018
2016 – 016 Inadequate Controls over Annual Leave	By no later than December 31, 2018, the College will ensure that leave is tracked within the Banner System, which is the College's book of record. This may require assistance from the College's Banner contractor, Ellucian, to ensure that the system is configured correctly to allow for the tracking within Banner. In addition, all Banner users must be adequately trained to ensure that tracking is within Banner.	Jimi Montoya, IT Director, Donna Castro, HR Director and Ricky Bejarano, Vice President Finance and Administration	December 31, 2018
2016 – 017 Outdated Policies and Procedures	The College will continue the process of review, revision and reissue of all policies and procedures as currently promulgated. Completion of the projected is targeted for December 31, 2019.	Ricky Bejarano, Vice President Finance and Administration	December 31, 2019
2016 – 019 Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks	By no later than June 30, 2018, the College will implement the practice of risk identification as it pertains to the College as a whole and financial reporting.	Dr. Rick J. Bailey Jr., President and Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 021 Review and Clean-up of Clearing and Suspense Accounts and Accounts Payable	The College will hire a Controller and higher-level accountant by April 30, 2018. By June 30, 2018, the College will establish and implement procedures for the analysis and required correction of account balances and the clearing of suspense accounts.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018

Northern New Mexico College
Corrective Action Plan — continued
June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016 – 023 Underreported Payroll Tax Liabilities and ERB/RHCA Reconciliations	The College will develop and implement written internal controls to eliminate errors in payroll reporting. The College also will arrange training in payroll and required reporting to help to prevent errors in the future.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 024 Unused Credit Card Machines and Unrelated Monthly Fee	The College will establish a written procedure that ensures the review and analysis of all bank charges during the bank reconciliation process. The procedures will be established immediately.	Ricky Bejarano, Vice President Finance and Administration	This has been completed.
2016 – 025 Reconciliation of Student Accounts Receivable	By June 30, 2018, the College will establish written procedures for reconciliation of student accounts receivable. The procedures will be implemented immediately.	Jessica Holguin, Student Accounts Receivable Supervisor and Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 026 Assigned Permissions in Banner	The College will contract for a security review of the Banner system that specifically focusses on system access. The contractor will also be required to provide written policies and procedures that will be implemented by the College. The review and implementation of policies and procedures are targeted to be completed by June 30, 2018.	Ricky Bejarano, Vice President Finance and Administration and Jimi Montoya, Director of Information Technology	June 30, 2018
2016 – 027 Information Technology	A 60KVA Cummins Generator have been ordered. The Generator should arrive and be installed by March 31, 2018.	Ricky Bejarano, Vice President Finance and Administration and Jimi Montoya, Director of Information Technology	March 31, 2018

Northern New Mexico College

Corrective Action Plan — continued

June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016 – 028 Tracking of Banner Feeds to Ensure Feeds are Not Suspended/Deleted	Training with regard to tracking of feeds in the Banner system will be provided to employees by December 31, 2018.	Ricky Bejarano, Vice President Finance and Administration and Jimi Montoya, Director of Information Technology	December 31, 2018
2016 – 029 Compliance Violation—Anti-Donation Clause of the New Mexico Constitution	By no later than June 30, 2018, management will promulgate existing policies and procedures pertaining to cash disbursements, receivables, the Anti-Donation Clause of the New Mexico Constitution, and any other relevant materials to ensure that employees are aware of potential situations and actions that could cause violations.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 030 Special Tests and Provisions	A reconciliation plan will be established and implemented by June 30, 2018. The College will change and implement the policy to align with the USDE's timely enrollment reporting requirements by no later than June 30, 2018. The monitoring of changes for unofficial withdraws process has been implemented. The process was implemented in February of 2018.	Jacob Pacheco, Title IV Director and Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2016 – 032 Lack of Complete Policies and Procedures	By December 31, 2018, the College will network with other colleges and universities in the State of New Mexico to obtain guidance in regard to best practices used to create policies and procedures to ensure grant compliance.	Cheryl James, Grants Manager and Ricky Bejarano, Vice President Finance and Administration	December 31, 2018
2017 – 001 Lack of Internal Control over Payroll Reporting	The College's IT Department will work with its Banner contractor to ensure that time is recorded accurately and that inappropriate defaults are removed from the system. This will be remedied by March 31, 2018.	Jimi Montoya, Director of IT, Donna Castro, HR Director and Ricky Bejarano, Vice President Finance and Administration	March 31, 2018

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2017 – 002 Foundation—Pledge Revenues, Pledge Receivables, and In-Kind Transactions	By June 30, 2018, the Foundation will implement procedures in order to create a process that records the information from the Foundation's subsidiary schedule into the College's book of record. This process will include the reconciliation between the Foundation's sub-ledger and College's book of record in effect booking Pledges into Banner. Future Procedures considered include the following steps: 1. Pledge is made by donor 2. To the extent possible, a formal pledge instrument will always be used and signed by donor and Foundation 3. In absence of signed Pledge Forms, emails will be used as supporting documents 4. Foundation will treat these pledges as receivables 5. Foundation will continue with procedure of subsidiary tracking but will add the following: 6. Journal Entry will be requested of the Business office OR a Direct Entry will be made, pending future trainings and authorizations 7. College will set up a Pledge Receivables account in Banner 8. Foundation Net Position will in the future include Pledge Receivables 9. Training on Direct Entries is pending the implementation of Banner v9.	Terry Mulert, Foundation Executive Director, Ricky Bejarano, Vice President Finance and Administration	June 30, 2018

Northern New Mexico College

Corrective Action Plan — continued

June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2017 – 003 Account Coding and Lack of Documentation	By the end of the April 2018, the College will hire a Controller and a higher-level accountant (preferably a CPA or CGFM). General Ledger maintenance will be a major responsibility of these positions. Policies and procedures, along with training, will be developed and implemented by June 30, 2018.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2017 – 004 Athletics—Sporting Events Internal Control	By June 30, 2018, the College will develop and implement policies and procedures to ensure that gate receipts are properly accounted for and properly recorded. Also by June 30, 2018, a process to reconcile ticket sales to cash also will be developed and implemented.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2017 – 005 Controls over Credit Cards	By June 30, 2018, the College will develop and implement procedures to ensure that all purchases are supported by adequate documentation.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2017 – 006 Controls over Inventory	The College will schedule a third party to observe inventory for the fiscal year ending June 30, 2018.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2017 – 007 Foundation—Travel and Per Diem	By June 30, 2018, the Foundation Director and the Vice President of Finance and Administration will together review the Mileage and Per Diem Act as well as the College policies and procedures to ensure 100% compliance.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2017 – 008 Foundation—Untimely Deposits	By June 30, 2018, the Foundation and the College will develop and implement policies and procedures specific to Foundation receipts.	Terry Mulert, Foundation Executive Director, Ricky Bejarano, Vice President Finance and Administration	June 30, 2018

Northern New Mexico College
Corrective Action Plan — continued
June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2017 – 009 Foundation—Lack of Reliable Supporting Documentation	By no later than June 30, 2018, the Foundation will develop procedures to ensure that sufficient documentation is maintained that will enable the Foundation to retrieve information pertaining to student records, student financial need, and scholarship award amounts with ease of minimal effort.	Terry Mulert, Foundation Executive Director	June 30, 2018
2017 – 010 Foundation—Administrative Fee Reduction	By June 30, 2018, the Foundation will develop procedures to ensure that the administrative fee is clear and applied accurately and consistently.	Terry Mulert, Foundation Executive Director	June 30, 2018
2017 – 011 Foundation—Board Minutes	By June 30, 2018, the Foundation Director will work with the Foundation board to begin utilizing a standard template for its Board Minutes beginning with the next meeting. The meeting agendas will include Old Business and New Business Sections. The following standardized "action" format will implemented: Motion, Second, Pass <<Board Member 1>>/<<Board Member 2>>: <<Description of Action>> … and will include the following actions: Call to Order Roll Call Approval of Agenda Approval of Minutes Approval of Financial Report All other Action Items Motion to Adjourn	Terry Mulert, Foundation Executive Director, and Foundation Board	June 30, 2018

Northern New Mexico College

Corrective Action Plan — continued

June 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2017 – 012 Cash Management	By June 30, 2018, the College will develop and implement policies and procedures for the recording of drawdowns and train relevant staff in the new policies and procedures.	Ricky Bejarano, Vice President Finance and Administration	June 30, 2018
2017 – 013 Controls over Equipment and Real Property Management	By June 30, 2018, the College will develop and implement policies and procedures to ensure accountability for all equipment and real property.	Cheryl James, Grants Manager and Ricky Bejarajo, Vice President Finance and Administration	June 30, 2018
2017 – 014 Controls over Payroll Reporting	The College has begun to address this issue and implemented procedures for recording and reporting time charged to multiple programs, projects and/or funds. The procedures were implemented the latter part of calendar year ended December 31, 2018 and to date, all indications are that for the current year, time allocated has been correct. At fiscal year-end June 30, 2018, the College will reconcile time allocated to multiple programs, projects, and/or funds to ensure that the procedures implemented are effective.	Cheryl James, Grants Manager and Ricky Bejarajo, Vice President Finance and Administration	December 31, 2018
2017 – 015 Controls over Procurement, Suspension and Debarment	By June 30, 2018, the College will develop procedures to ensure that federal and state procurement statutes and regulations are followed. This includes evaluating vendors to ensure that debarment and suspension has not occurred. Training will also be conducted for staff involved in the procurement and accounts receivable process.	Cheryl James, Grants Manager and Ricky Bejarajo, Vice President Finance and Administration	June 30, 2018
2017 – 016 Controls over Subrecipient Monitoring	By June 30, 2018, the College will promulgate information with regard to subrecipient monitoring and the College's responsibilities and obligations.	Cheryl James, Grants Manager and Ricky Bejarajo, Vice President Finance and Administration	June 30, 2018

Northern New Mexico College
Exit Conference
June 30, 2017

An exit conference was held on March 16, 2018, with the College and a separate exit conference was held subsequent with the Foundation. The conference was held at the College's offices in Espanola, NM. In attendance were (*attended telephonically):

Northern New Mexico College

Kevin Powers	President, Board of Regents
Dr. Rick J. Bailey, Jr.	President
Ricky A. Bejarano, CPA, CGMA	Vice President for Finance and Administration
Dr. Ivan Lopez Hurtado	Provost
Ryan Cordova	Athletic Director/Men's Head Basketball Coach

US Department of Education

Max Rudmann*	Post Audit Group, Office of the Chief Financial Officer
Kissy Chapman-Thaw*	Education Program Specialist, Institutional Services – Hispanic Serving Institutions

Northern New Mexico College Foundation

Ryan Cordova	Foundation Board Vice President
Dr. Rick J. Bailey Jr.	Foundation Board Member
Terry Mulert	Foundation Executive Director
Kevin Powers	President, Board of Regents
Ricky A. Bejarano, CPA, CGMA	Vice President for Finance and Administration
Dr. Ivan Lopez Hurtado	Provost

REDW LLC

Javier Machuca, CPA, CGMA, CGFM	Senior Manager
Sara Specht, CFE	Senior Audit Associate II
Emily Elliott	Audit Associate I

Preparation of Financial Statements

The financial statements presented in this report have been prepared by the independent auditor; however, they are the responsibility of management, as addressed in the Independent Auditor's Report.