VALLES CALDERA TRUST

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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VALLES CALDERA TRUST
MESSAGE FROM THE EXECUTIVE DIRECTOR
September 30, 2005 and 2004

MESSAGE FROM THE EXECUTIVE DIRECTOR

The Valles Caldera Trust (Trust) is authorized by Public law 106-248 to provide management and administrative services for the Valles Caldera National Preserve. The Trust does not regard the law merely as an authorization, but as a fiduciary duty and obligation to the owners of the Preserve.

In 2007, the Board of Trustees realized that annual financial audits required by law were not routinely performed during the 2003-2007 time period. The firm of Moss-Adams was engaged to conduct an audit for these years and the Board established the practice of requiring an audit to be performed for future years on an annual basis in compliance with the Valles Caldera Preservation Act.

After a year and a half of intensive review and investigation the audit is complete through 2007, with 2008 soon to be delivered. The findings of deficiencies and weaknesses in financial controls during the early years of the Trust are many.

Staff has been working closely with Moss-Adams to develop new policies and procedures to address these deficiencies and weaknesses. As a result, our financial systems and controls have improved to the point that we are confident in our ability to comply with policy and law for future audits. We will continue to strengthen our controls and procedures and assure the public that the audit requirement will be fully complied with in the future.

Gary Bratcher
Executive Director

OVERVIEW

The Valles Caldera Preservation Act of 2000 (Public Law 106-248) authorized the federal government's purchase of about 88,900 acres of privately owned land in north central New Mexico, known as the Baca Ranch, for approximately $97 million. The Act designated the acquired lands as the Valles Caldera National Preserve (VCNP) ("Preserve") as a unit of the National Forest System, and created the Valles Caldera Trust (VCT) ("Trust"), a wholly-owned government corporation, to manage the 88,900-acre tract.

The Preserve was established to protect and preserve the scientific, scenic, geologic, watershed, fish, wildlife, historic, heritage, and recreational values of the Preserve, and to provide for multiple use and sustained yield of renewable resources within the Preserve. In addition, the Act required the tract continue to be managed as a working ranch. The Trust is to seek to become financially self-sustaining and manage the Preserve for multiple purposes while sustaining the land's valuable natural and cultural resources.

The Trust is directed by the Valles Caldera Preservation Act of 2000 to operate in accordance with the Government Corporation Control Act. Under the Control Act, the Trust must obtain independent annual financial audits and report annually to Congress. The Trust is also subject to the Government Performance and Results Act. Under the Results Act, the Trust must prepare a strategic plan and an annual performance plan with measurable goals and objectives, and submit annual performance reports to Congress and the President.

Trust operations are currently financed through direct appropriations, fees from recreational and resource use, and private donations. The Trust was under interim management of the U.S. Forest Service from January 2001 through August 2, 2002, when management control was transferred to the Trust's Board of Trustees. The Forest Service administered the finances of the Trust through Fiscal Year 2003. The Trust assumed full financial control of their accounts and related accounting functions at the beginning of Fiscal Year 2004.

MISSION, ORGANIZATIONAL STRUCTURE AND GOALS

Mission

The mission of the Trust is to: provide management and administrative services for the Preserve; establish and implement management policies that will best achieve the purpose and requirements of the Act; receive and collect funds from private and public sources and make dispositions in support of the management and administration of the Preserve; and cooperate with federal, state and local governmental units, and with Indian tribes and Pueblos, to further the purposes for which the Preserve was established. In order to assure its continued status as a Preserve, Congress has mandated that the Trust shall prepare an

annual budget with the goal of achieving a financially self-sustaining operation within 15 full fiscal years after the date of acquisition of the Baca Ranch.

To achieve its mission, the Trust has established an annual plan that encompasses Preserve goals. These goals include: protect and preserve for future generations the scientific, scenic, historic, and natural values of the Baca ranch, including rivers and ecosystems as well as archaeological, geological, and cultural resources and recreational values of the Preserve; manage public use, access to and the occupancy of the Preserve; establish an experimental management regime adapted to this unique property that incorporates elements of public and private administration to promote long-term financial sustainability; provide multiple use and sustained yield of renewable resources within the Preserve; achieve a financially self-sustaining operation within 15 full fiscal years of the date of acquisition; and meet public safety standards applicable to units of the National Forest System and the State of New Mexico.

Organizational Structure

The Trust was established as a wholly-owned government corporation of the federal government. Authority is vested in a nine-member Board of Trustees. The President of the United States appoints seven members of the Board. Five of the seven must be residents of New Mexico. Members are selected for their expertise in defined areas and serve a four-year term. In addition, the Supervisor of the Santa Fe National Forest and the Superintendent of Bandelier National Monument serve as ex-officio voting members on the Board. Board members may serve up to eight consecutive years. The Trust employed 13 permanent staff members in FY2004 and hired three more permanent staff members in FY2005. The staff is directed by an Executive Director and is organized into three divisions: Preserve Management; Research, Inventory, and Monitoring; and Financial and Administrative Management. The Preserve Manager, Preserve Scientist and Administrative Officer report to the Executive Director.

In establishing the Trust as a wholly-owned government corporation, Congress created an organization that could operate in the marketplace, make real-time decisions, and reinvest revenues into the Trust to generate sufficient cash flow to eventually operate the Preserve without Federal Appropriations.

The Preservation Act (Public Law 106-248) that created the Trust provided significant operational latitude in staffing, contracting, leasing, and the retention of revenues. The Trust manages Preserve operations and leasing functions through a combination of direct staffing and contracting. From its inception through Fiscal Year 2003, the Trust maintained its financial accounts on the Forest Service's financial system. However, in 2003, the Board decided to obtain an independent financial system for the Trust. The Trust contracted for financial services on the Oracle Federal Financial System managed by the Department of the Interior's National Business Center – an option the Trust considered to

be more cost-effective than developing a system in-house. Beginning with Fiscal Year 2004, the Trust maintained its financial information on that system.

Goals

Protect and preserve for future generations the scientific, scenic, historic, and natural values of the Baca ranch, including rivers and ecosystems and archaeological, geological, and cultural resources; and recreational values of the Preserve.

The Trust was designed specifically to manage the Preserve, a unique landsite, in a manner that protects its scenic beauty, natural and historic resources, and recreational attributes for future generations. The Trust, a federal government corporation, eventually become financially self-sustaining 15 full fiscal years after the acquisition of the Baca Ranch. These goals reinforce each other. By creating a Preserve that is sustainable – environmentally, culturally, and financially – the Trust will be better able to ensure the Preserve's long-term viability and protection.

In Fiscal Years 2000 through 2004, the Trust took significant steps to enhance the natural environment of the Preserve and a large number of inventory projects were completed, such as Watershed Health, Fisheries Surveys, Initial Water Quality Survey and Vegetation Map.

Manage public use, access to and the occupancy of the Preserve

In Fiscal Year 2004, the Trust initiated a road inventory to determine the condition, location, and length of the roads. A total of 76 miles of Preserve roads were inventoried in 2004 and 175 miles in 2005.

The Trust continued to expand the number of recreation opportunities that are available to the public and total visitors increased from 8,178 in 2004 to 9,220 in 2005. Recreational opportunities included hiking, horse-drawn wagon rides, van tours, fishing, fishing clinics, night sky adventures, nature journaling, birding, elk hunting, winter cross country skiing/snowshoeing, elk shed youth program, mountain bike events, seminars, equestrian and group tours.

Establish a demonstration area for an experimental management regime adapted to this unique property which incorporates elements of public and private administration in order to promote long term financial sustainability.

During 2004, the Board of Trustees and staff finalized the Framework and Strategic Guidance for Comprehensive Management. This far-reaching document describes how the Preserve lands have been utilized historically by the various peoples and cultures of the region. More important is the guidance it provides on the values of the Trust, how decisions will be made as the Preserve develops, and how the Trust intends to integrate the public into the communications and decision-making process regarding the Preserve. The

Board's vision of the future of the Preserve is outlined and potential uses of the Preserve are explored.

Also in 2004, the Trust began drafting the Master Plan for Interpretation. This document, completed in 2005, identifies the major themes and messages associated with the physical, cultural and historical characteristics and uses of the Preserve. This master plan will guide other planning processes on the Preserve by establishing a "look and feel" for the overall development of the Preserve. It evaluates interpretive media and techniques and outlines potential facility development that can best be used to tell the story of the Preserve's past, present and future.

Multiple use and sustained yield of renewable resources within the Preserve.

In Fiscal Year 2004 and 2005, wildlife and fisheries monitoring were conducted on the Preserve. Data collected thus far has indicated that sustained yield is being accomplished.

The Trust continued to maintain the working ranch and expanded the domestic livestock grazing programs and forage assessment efforts.

Achieve a financially self-sustaining operation within 15 full fiscal years of the date of acquisition.

The Act requires the Trust to eliminate the need for federal appropriations and achieve financial self-sufficiency within 15 full fiscal years of the date of acquisition of the Baca Ranch.

Unlike most other federal agencies, the Trust is authorized to retain revenues that it receives and use them to defray costs associated with Preserve operations, to make capital improvements, and to establish reserves for future capital needs.

To develop a sustained stream of revenue to support the Preserve, the Trust is implementing financially sound business practices and developing and implementing a business plan that incorporates an annual budget (revenue and expenses).

In Fiscal Year 2005, the Trust generated $623,789 in non-appropriated revenues. This was a 23% increase over Fiscal Year 2004 non-appropriated revenues of $438,137.

Meet public safety standards applicable to units of the National Forest System and the State of New Mexico.

The Trust follows and enforces its Health and Safety Manual, which refers to the Occupational Safety and Health Act of 1970 and Federal Worker 2000 Presidential Safety Initiative. The Trust's manual addresses responsibility, reporting, inspecting, emergencies, health and wellness, job hazard analysis, contractors, researchers, volunteers, visitors, etc. The Trust is continuing efforts to conform to the Highway Safety Act on all of the roads

that are open for public use programs and also to upgrade interior roads to meet the safety standards applicable to the units of the National Forest System. The Trust developed and approved a Health and Safety Policy in December 2003.

PERFORMANCE MEASURES

As part of its update of the Trust's general management plan, the Trust is developing measures of program and financial performance that will assure that the Trust achieves its goals of managing the Preserve and its enhancement and financial sustainability.

FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

The accompanying financial statements summarize the Trust's financial position, show the net cost of operations and changes in net position, provide information on budgetary resources and financing, and present the sources of revenues and expenditures during Fiscal Years 2005 and 2004. Highlights of the financial information presented in the financial statements are shown below.

Net Cost of Operations

The net operating cost of $3,756,445 and $4,318,573, for Fiscal Years 2005 and 2004, respectively, is shown on the Statement of Net Cost. Total gross costs were reduced by $623,789 and $438,137 of earned revenues to arrive at net cost of operations for Fiscal Years 2005 and 2004, respectively.

Financial Position

The Trust's total assets were $2,492,793 and $2,364,741 in 2005 and 2004, respectively. Of this, $1,040,136 and $1,170,905 consisted of Fund Balance with Treasury and $416,968 and $103,046 consisted of Intra-governmental receivables at the end of fiscal year 2005 and 2004, respectively. There was also $243,193 and $553,867 in liabilities at the end of Fiscal Years 2005 and 2004, respectively. The Trust's net position was $2,249,598 and $1,810,874 at the end of Fiscal Years 2005 and 2004, respectively.

Budgetary Resources

The Trust's budgetary resources for the years ended September 30, 2005 and 2004, were $4,322,434 and $4,447,153, respectively, which consisted of $4,223,081 and $3,549,322 in appropriations, respectively. Unobligated balance at the end of Fiscal Years 2005 and 2004 were $517,763 and $(798,478), respectively. These unobligated balances were due primarily to Trust revenues from services provided. These revenues are earmarked funds which the Trust is retaining for future use. In FY2004, the Trust had unobligated balances of $577,050 in their special revenue fund (X5363) and over-obligated balances at year-end of $477,697 in their general operating fund (X1106). The over-obligation was primarily

due to the Trust's change in accounting systems. Prior to FY2004, the Trust's transactions were processed with the assistance of Forest Service through their accounting system. When transferring to the new accounting system, there was confusion regarding prior year unobligated balances and the current year appropriation amounts available to the Trust.

Financing Sources Other Than Earned Revenues

Financing sources, other than earned revenues, that funded the Trust's net cost of operations included appropriations used and transfers of assets from other Government entities. The Trust did not have financing imputed with respect to any cost subsidies. For FY2005 and FY2004, the Trust reported $4,029,878 and $4,195,603 of other financing sources on the Statement of Changes in Net Position, respectively.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The Trust has prepared its financial statements to report its financial position and results of operation. These financial statements have been prepared from the Trust's general ledger and subsidiary reports in accordance with the formats prescribed by the Office of Management and Budget. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that the Trust is a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be incurred without authorizing legislation.

The accuracy of the information contained in the principal financial statement and the quality of internal control rests with management.

ANNUAL PERFORMANCE REPORT (UNAUDITED)

Although the Trust has a mission statement and goals it has not yet adopted a formal performance plan, as required by the Government Performance and Results Act (GPRA) and has not developed performance goals and objectives that comply with the requirements of the act. The Trust has submitted annual reports to Congress reporting on basic operations and is in the process of drafting a Strategic Plan for accomplishing the goals set forth in the Valles Caldera Preservation Act.

A key component of the Strategic Plan is the completion and timely publication of the State of the Preserve Report, as required by the Trust's National Environmental Policy Act (NEPA) procedures. The procedures require a review of the Trust's activities every five years and reports on…"comprehensive management of the lands, resources and facilities of the Preserve including all stewardship registers, the State of the Preserve report and the strategic guidance adopted by the Board of Trustees."

The State of the Preserve Report is the basis for strategic and financial planning by the Trust. It is a concise account of monitored outcomes and interpretive information from multiple sources, including studies, public comment, research investigations, natural resource data, informational summaries and numerous other sources. The Report provides the technical and scientific basis for considering the cumulative effects of past, present and reasonably foreseeable future actions of the Trust. The identification of reasonably foreseeable actions is a planning tool for the Trust and the public to use in considering the effects of managing the Preserve.

During FY2004 and FY2005, the Trust has been actively working on assembling and analyzing the information for the State of the Preserve.

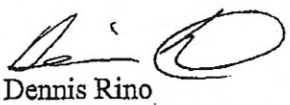
VALLES CALDERA TRUST
CHIEF FINANCIAL OFFICER LETTER
September 30, 2005 and 2004

Chief Financial Officer Letter

In August 2002 the Trust assumed management of the Valles Caldera National Preserve. At that time, the Trust maintained its financial accounts on the U.S. Forest Service financial system. Beginning in FY 2004 and continuing through FY 2007, the Trust transferred its financial accounts to the Oracle Federal Financial System maintained by the Department of the Interior, National Business Center. The audits of the aforementioned years were not completed until May of 2009.

Beginning in FY 2008 the Trust returned to the U.S. Forest Service financial system and now operates within a single integrated financial management system. This transition has provided the Trust timely, reliable and consistent information. During the financial review of 2005 specific audit weaknesses were uncovered and begun to be addressed and corrected. The findings in this report are procedural and do not represent erroneous transactions, malfeasance or ethical misconduct. The Trust continues to document and assess its internal controls and is working with the Forest Service in this task.

These financial statements do not constitute a complete Performance and Accountability Report in accordance with OMB Circular A-136. The Trust has expressed its strategic plans and performance measures in its "management discussion & analysis" and "annual performance report" section of this report.



Dennis Rino
Administrative Officer

Independent Auditors' Report

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To the Board of Directors of
The Valles Caldera Trust

We have audited the accompanying consolidated balance sheets of the Valles Caldera Trust (the "Trust") as of September 30, 2005 and 2004 and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the years then ended (hereinafter referred to as the "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the Trust's internal control over financial reporting, Required Supplementary Information, Required Stewardship Information and performance measures and tested the Trust's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

In our audit of the Trust for fiscal years 2005 and 2004, we found:

- Evidence about Accounts Receivable and Cost of Operations in the financial statements related to the Federal Highway Fund was not available because of limitations on the scope of our work. In addition, the Trust departed from generally accepted accounting principles by not properly matching expenses to revenue. Otherwise, we found the financial statements are presented fairly in conformity with generally accepted accounting principles,
- Material weaknesses in internal control that resulted in ineffective controls over operations, financial reporting and compliance with applicable laws and regulations,
- The Trust's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA),
- Reportable noncompliance with laws and regulations we tested.

Described below are significant matters considered in performing our audit and forming our conclusions. In addition, the following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other supplementary information and (2) the scope of our audit.

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Board of Directors of
The Valles Caldera Trust

Significant Matters

Financial Statements

The Trust could not locate supporting journal entries relating to transfers of expenses from the Trust's fund X1106 to X8083 for highway construction expenses. Funding for these expenses was provided from Federal Highway Administration monies. As a result, the Trust was unable to support which year these expenses and revenue should be recorded. During fiscal years 2004 and 2005 the Trust recognized $435,982 and $371,127, respectively, in highway construction expenses and offsetting recipient funding.

Internal Control

Our consideration of internal control over financial reporting, Required Supplementary Information (RSI), Required Supplementary Stewardship Information (RSSI) and performance measures resulted in the following conditions being identified as material weaknesses:

- When the Trust transferred financial accounting from NFC to NBC, it failed to correctly post prior period balances to the general ledger including assets, liabilities and beginning net position amounts (Finding 04-17).
- The Trust has not obtained an audit of its financial statements since its inception in 2000 (Finding 04-14).
- The Trust had no documented policies and procedures in place (Finding 04-08).
- The Trust does not have a single integrated financial management system which processes and records financial transactions effectively and efficiently. (Finding 04-05).
- The Trust was not performing necessary monitoring and reconciliation of transactions to ensure completeness and accuracy of the transactions (Finding 04-06) and did not have a process in place to ensure timely reconciliation of Fund Balance with Treasury (Finding 04-18).
- The Trust did not require competition for a large personal service contract and did not provide documentation justifying the action in the files (Finding 04-07).
- Supporting documentation for journal entries could not be provided by the Trust (Finding 04-22).

To the Board of Directors of
The Valles Caldera Trust

- Evidence of proper review and authorization of procurements was not available (Finding 04-10). In addition, Trust personnel in charge of processing and approving payments were not ensuring all were allowable, either due to lack of oversight or training (Finding 04-13).
- Adequate controls were not in place to ensure consistent recording of expenditures/disbursements to the correct budgetary and proprietary accounting periods by the applicable Budget Object Classification, Program/Project and Activity Codes. In addition, Trust personnel were not obligating funds in Oracle when the control/purchase order was awarded (Finding 04-11).
- The Trust directly expensed property, plant and equipment (PP&E) purchased during FY2004 and FY2005 and did not include PP&E resulting from the purchase of the Preserve in the general ledger as assets (Finding 04-16).
- When the Trust transferred financial accounting from NFC to NBC, it failed to correctly post prior period balances to the general ledger including assets, liabilities and beginning net position amounts (Finding 04-17).
- The Trust's technology systems were not substantially in compliance with Federal Information System Management Act (FISMA) (Finding 04-21).
- The Trust has not established procedures for tracking and reporting Federal Highway Fund expenditures according to the requirements of the Federal Highway Administration (Finding 04-25).

These deficiencies in internal control may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of the deficiencies. Unaudited financial information reported by the Trust, including budget information, also may contain misstatements resulting from these deficiencies.

In addition to the material weaknesses identified above, we identified the following reportable conditions considered to be significant matters that should be communicated to the entity head, OMB and Congress:

- Cash and check payments were not processed timely and according to the requirements of Title 31 § 3302 (Finding 04-01).
- Cash, checks or credit cards were accepted without obtaining legal evidence of receipts of products or services by the customer and without a mechanism to ensure all sales are recorded (Finding 04-02).

To the Board of Directors of
The Valles Caldera Trust

- The Trust did not have established procedures requiring timely collection of receipts from the Visitor's Center for deposit with Treasury (Finding 04-03).
- There is no established procedure for billing individuals for facility rentals, grazing or contracts. The Trust is not currently using an accounts receivable subsidiary ledger and is not using the Federal Bill for Collections documents to track customer receivables (Finding 04-04).
- The Trust requirement for bids on procurements over $10,000 was not followed consistently by employees (Finding 04-09).
- The Trust did not provide ethics training to Board members or request conflict of interest statements from Board members or executive management (Finding 04-19).
- Procedures and key controls were not put into place to provide proper monitoring and recordkeeping controls over the tracking and reporting of RSI and RSSI (Finding 04-23).
- The Trust has not developed a strategic plan and performance goals that comply with the Government Performance and Results Act (Finding 04-24).

Management did not issue a Federal Manager's Financial Integrity Act (FMFIA) report for FY2004 and FY2005. Therefore, the above significant deficiencies, including material weaknesses, were not reported by management in the summary of FMFIA reports.

Financial Management System's Substantial Compliance with FFMIA Requirements

Our tests of compliance with the Federal Financial Management Improvement Act resulted in the following instances of financial management system non-compliance with federal financial management systems requirements, federal accounting standards, or the Standard General Ledger (SGL) at the transaction level. (Note: Instances involving significant deficiencies were also included in the internal control section above.)

- The Trust is lacking a formal, written disaster recovery plan and it does not appear that regular restoration testing is performed or that backup tapes are rotated offsite (Finding 04-21).
- There are no policies and procedures for information technology systems and supporting processes (Finding 04-21).

To the Board of Directors of
The Valles Caldera Trust

- Technology administration duties are not segregated amongst the current IT staff (Finding 04-20).
- An independent information security consultant has not reviewed the Trust's external network connections in the past year (Finding 04-21).
- The screening process for prospective technology employees does not include credit and criminal background checks. (Finding 04-21)
- IT staff are not provided training to use, support and maintain the technology systems (Finding 04-21).
- The Trust does not have a single integrated financial management system which processes and records financial events effectively and efficiently (Finding 04-05).
- Items purchased for resale were expensed to the Operating Expenses/Program Costs account rather than being maintained as inventory and included as cost of goods sold upon sale or upon use in the provision of a service (Finding 04-15).
- The Trust directly expensed PP&E purchased during FY2004 and FY2005 and did not include PP&E resulting from the purchase of the Preserve in the general ledger as assets (Finding 04-16).
- When The Trust transferred financial accounting from NFC to NBC, if failed to correctly post prior period balances to the general ledger including assets, liabilities and beginning net position amounts (Finding 04-17).
- The Trust did not have procedures and key controls in place to provide proper monitoring and recordkeeping over the compilation and tracking of RSI and RSSI (Finding 04-23)
- Adequate controls were not in place to ensure consistent recording of expenditures/disbursements to the correct budgetary and proprietary accounting periods by the applicable Budget Object Classification, Program/Project and Activity Codes. In addition, Trust personnel were not obligating funds in Oracle when the control/purchase order was awarded (Finding 04-11).

Management did not issue a FMFIA report for FY2004 and FY2005. Therefore, the above instances of non-compliance were not reported by management in the summary of FMFIA reports.

To the Board of Directors of
The Valles Caldera Trust

Compliance with Laws and Regulations

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- Management did not test and certify compliance with Federal Manager's Financial Integrity Act of 1982 (FMFIA) (Finding 04-20).
- The Trust did not consistently obligate transactions as required by the Antideficiency Act (Finding 04-11).
- The Trust did not have controls in place to ensure transactions were recorded to the correct fund/appropriation as required by the Antideficiency Act which resulted in over-obligation in FY2004 (Finding 04-11).
- The Trust has not developed a strategic plan and performance goals that comply with the Government Performance and Results Act as required by the Valles Caldera Preservation Act of 2000 (Finding 04-24).
- The Trust personnel in charge of processing payments were not processing payments according to Prompt Payment Act requirements (Finding 04-12).

Opinion on Financial Statements

Because of the limitation on the scope of our work described in the Financial Statements section above, we cannot determine if the financial statements' presentation of Federal highway construction expenses and revenue is free of material misstatement. Otherwise, except for the departure from U.S. generally accepted accounting principles described above, the financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Trust's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and custodial activity as of September 20, 2005 and 2004 and for the years then ended.

Consideration on Internal Control

In planning and performing our audit, we considered the Trust's internal control over financial reporting and compliance. We do not express an opinion on internal control over financial reporting and compliance because the purpose of our work was to determine our

procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. However our work identified the need to improve certain internal controls as described above. These weaknesses in internal control represent reportable conditions in the design or operation of internal control, which could adversely affect the entity's ability to meet the internal control objectives listed in the objectives, scope, and methodology or meet OMB criteria for reporting matters under FMFIA. Of these weaknesses, we found fourteen that we considered material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses.

Systems' Compliance with FFMIA Requirements

Our work disclosed instances, as described above, in which the Trust's financial management systems did not substantially comply with federal financial management systems requirements, federal accounting standards and the U.S. Government Standard General Ledger at the transaction level.

Compliance with Laws and Regulations

Except as noted above, our tests for compliance with selected provisions of laws and regulations disclosed no other instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

Management's Discussion and Analysis, required supplementary information (including stewardship information), and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the Trust's officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

To the Board of Directors of
The Valles Caldera Trust

Objectives, Scope, and Methodology

Management is responsible for (1) preparing the financial statements in conformity with generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of Federal Manager's Financial Integrity Act are met, (3) ensuring the Trust's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether the Trust's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Accountability Report, (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act, (7) tested whether the Trust's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of the following laws and regulations:

- Valles Caldera Preservation Act of 2000
- Antideficiency Act – 31 U.S.C. 1341, 1342, 1514, 1517
- Prompt Payment Act, 31 U.S.C 3901 et seq.

To the Board of Directors of
The Valles Caldera Trust

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Trust. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2005 and 2004. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Our work on FFMIA would not necessarily disclose all instances of lack of substantial compliance with FFMIA requirements.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. We considered the limitation on the scope of our work in forming our conclusions.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Trust concurred with the facts and conclusions in our report.

Moss Adams LLP

Albuquerque, New Mexico
April 19, 2009

VALLES CALDERA TRUST
CONSOLIDATED BALANCE SHEETS
as of
September 30, 2005 and 2004
(in dollars)

	2005	2004
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 1,040,136	1,170,905
Accounts receivable (Note 3)	416,968	103,046
Total intragovernmental	1,457,104	1,273,951
General property, plant and equipment, net (Note 4)	1,035,689	1,090,790
Total assets	$ 2,492,793	2,364,741
Liabilities (Note 6):		
Intragovernmental:		
Accounts payable	$ -	-
Other (Note 6)	10,969	8,921
Total intragovernmental	10,969	8,921
Accounts payable	107,104	414,405
Other	125,122	130,541
Total liabilities	$ 243,195	553,867
Commitments and contingencies (Note 13)		
Net position:		
Unexpended appropriations – earmarked funds	$ -	-
Unexpended appropriations – other funds	70,432	(94,859)
Cumulative results of operations – earmarked funds	1,214,612	903,747
Cumulative results of operations – other funds	964,554	1,001,986
Total net position	2,249,598	1,810,874
Total liabilities and net position	$ 2,492,793	2,364,741

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2005 and 2004
(in dollars)

	2005	2004
Program costs:		
Total Gross costs (Note 11)	$ 4,380,234	4,756,710
Less: Earned revenues not attributed to programs	623,789	438,137
Net Cost of operations	$ 3,756,445	4,318,573

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended
September 30, 2005 and 2004
(In dollars)

	FY 2005	FY 2004
	Consolidated Total	Consolidated Total
Cumulative Results Of Operations:		
Beginning balances	$ 1,905,733	882,812
Adjustments:		
Corrections of errors	-	1,145,891
Beginning balance, as adjusted	1,905,733	2,028,703
Budgetary Financing Sources:		
Appropriations used	3,434,001	3,656,575
Transfers in/out without reimbursement	595,877	539,028
Total financing sources	4,029,878	4,195,603
Less: Net cost of operations	(3,756,445)	(4,318,573)
Net change	273,433	(122,970)
Cumulative Results of Operations	**2,179,166**	**1,905,733**
Unexpended Appropriations:		
Beginning balance	(94,859)	450,530
Adjustments:		
Corrections of errors	-	-
Beginning Balance, as adjusted	(94,859)	450,530
Budgetary Financing Sources:		
Appropriations received	3,599,292	3,111,186
Appropriations used	(3,434,001)	(3,656,575)
Total budgetary financing sources	165,291	(545,389)
Total unexpended (overexpended) appropriations	70,432	(94,859)
Net position	**$ 2,249,598**	**1,810,874**

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
COMBINED STATEMENTS OF BUDGETARY RESOURCES (page 1 of 2)
For the Years Ended
September 30, 2005 and 2004
(in dollars)

		2005	2004
Unobligated balance, brought forward, October 1:	$	99,353	897,831
Appropriation		4,223,081	3,549,322
Total budgetary resources	$	4,322,434	4,447,153
Obligations incurred:			
Direct	$	3,705,318	4,347,800
Reimbursable		-	-
Subtotal		3,705,318	4,347,800
Unobligated (overobligated) balance:			
Apportioned		517,763	(798,478)
Exempt from apportionment		-	-
Subtotal		517,763	(798,478)
Unobligated balance not available		99,353	897,831
Total status of budgetary resources	$	4,322,434	4,447,153

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
COMBINED STATEMENTS OF BUDGETARY RESOURCES (page 2 of 2)
For the Years Ended
September 30, 2005 and 2004
(in dollars)

	2005	2004
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 1,071,552	749,953
Uncollected customer payments from Federal sources, brought forward, October 1	-	-
Total unpaid obligated balance, net	1,071,552	749,953
Obligations incurred, net	3,705,318	4,347,800
Gross outlays	(4,353,851)	(4,026,201)
Obligated balance, net, end of period		
Unpaid obligations	423,019	1,071,552
Uncollected customer payments from Federal sources	-	-
Total, unpaid obligated balance, net, end of period	$ 423,019	1,071,552
Net Outlays:		
Gross outlays	$ 4,353,851	4,026,201
Offsetting collections	-	-
Distributed offsetting receipts	(623,789)	(438,136)
Net outlays	$ 3,730,062	3,588,065

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST

CONSOLIDATED STATEMENTS OF FINANCING

For the Years Ended September 30, 2005 and 2004

(in dollars)

	2005	2004
Resources used to finance activities:		
Budgetary resources obligated		
Obligations incurred	$ 3,705,318	$ 4,347,800
Less: Spending authority from offsetting collections and recoveries	-	-
Obligations net of offsetting collections and recoveries	3,705,318	4,347,800
Less: Offsetting receipts	623,789	438,137
Net obligations	3,081,529	3,909,663
Other Resources		
Transfers in/out without reimbursement (+/-)	595,877	539,028
Net other resources used to finance activities	595,877	539,028
Total resources used to finance activities	3,677,406	4,448,691
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	36,747	(274,024)
Resources that fund expenses recognized in prior periods	(12,809)	-
Total resources used to finance items not part of the net cost of operations	23,938	(274,023)
Total resources used to finance the net cost of operations	3,701,344	4,174,668
Components of the net cost of operations that will not require or generate resources in the current period:		
Components Requiring or generating resources in future periods:		
Increase in annual leave liability	-	88,804
Total components of net cost of operations that will require or generate resources in future periods	-	88,804
Components not Requiring or Generating Resources:		
Depreciation and amortization	55,101	55,101
Total components of Net Cost of Operations that will not require or generate resources	55,101	55,101
Total components of Net Cost of Operations that will not require or generate resources in the current period	55,101	143,905
Net Cost of Operations	$ 3,756,445	$ 4,318,573

See Notes to the Consolidated and Combined Financial Statements.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity. The Valles Caldera Trust (the Trust), an executive agency, is a wholly-owned government corporation established by Congress in 2000 through enactment of the Valles Caldera Preservation Act of 2000 (P.L. 106-248). The Trust's goals are to:

- Protect and preserve for future generations the scientific, scenic, historic, and natural values of the Baca ranch, including rivers and ecosystems and archaeological, geological, and cultural resources; and recreational values of the Valles Caldera National Preserve (Preserve).
- Manage public use, access to and the occupancy of the Preserve.
- Establish a demonstration area for an experimental management regime adapted to this unique property which incorporates elements of public and private administration in order to promote long term financial sustainability.
- Provide for multiple use and sustained yield of renewable resources within the Preserve.
- Strive to achieve a financially self-sustaining operation within 15 full fiscal years of the date of acquisition.
- Meet public safety standards applicable to units of the National Forest System and the State of New Mexico.

From 2000 to August 2002, the financial activity of the Trust and the Preserve's 88,900 acres of land and related buildings were managed by the U.S. Department of Agriculture's Forest Service until the Trust could be organized. The Valles Caldera Preservation Act of 2000 (Public Law 106-248) which created the Trust provided significant operational latitude in staffing, contracting, leasing and the retention of revenues. The Trust manages Preserve operations and leasing functions through a combination of direct staffing and contracting. From its inception through fiscal year 2003, the Trust maintained its financial accounts on the Forest Service's financial system. However, in 2003, the Board decided to obtain an independent financial system for the Trust. The Trust contracted for financial services on the Oracle Federal Financial System managed by the Interior's national Business Center – an option the Trust considered to be more cost-effective than developing a system in-house. Beginning with fiscal year 2004, the Trust maintains its financial information on that system.

The Trust was established as a wholly-owned government corporation of the federal government. Authority is vested in a nine-member Board of Directors. The President of the United States appoints seven members of the Board. Five of the seven must be residents of New Mexico. Members are selected for their expertise in defined areas and serve a four-year term. In addition, the Supervisor of the Santa Fe National Forest and

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the Superintendent of Bandelier National Monument serve as voting members on the board. Board members may serve up to eight consecutive years.

The Trust shall become a financially self-sustaining operation within 15 full fiscal years of the date of the Baca ranch acquisition and shall terminate after 20 full fiscal years after the acquisition, if an extension is not approved and granted.

B. Basis of Presentation. The financial statements have been prepared to report the financial position, net cost of operations, changes in net position and status and availability of budgetary resources of the Trust. The statements were prepared from, and are fully supported by, the books and records of the Trust in accordance with the hierarchy of accounting principles generally accepted in the United States of America (GAAP), and the form and content specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01 and OMB Circular A-136 *Financial Reporting Requirements.* GAAP for federal entities is the standard proscribed by the Federal Accounting Standards Advisory Board (FASAB), designated by the American Institute of Certified Public Accountants (AICPA) as the official accounting standards setting body of the Federal government. Fiscal Year 2005 was the second year of operations for the Trust where the Trust assumed full accounting control, and accordingly, these financial statements are two year comparatives for fiscal years 2005 and 2004.

The financial statements include the Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and the Consolidated Statements of Financing and were prepared to report the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity of the trust. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise dollar amounts are presented in dollars.

C. Basis of Accounting. The Trust accounts for its assets, liabilities, net position, revenues, expenses, and other financing sources in accordance with the requirements of the U.S. Government Standard General Ledger (SGL). Use of sub-accounts allows transactions to be recorded at a more detailed level and provides relevant management information.

While the statements are on an accrual basis, transactions are recorded using both the accrual and a budgetary basis of accounting. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to the payment of cash. Under the budgetary method, expenses are recognized when cash is outlayed. Budgetary accounting measures the appropriations and

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over the use of federal funds.

Balance Sheet. The consolidated balance sheets present amounts of future economic benefits owned or managed by the Trust (assets), amounts owed (liabilities), and amounts which comprise the difference (net position). The major components are described below.

Assets include assets that the Trust manages and has the authority to use in its operations.

Liabilities represent amounts owed by the Trust as the result of transactions that have occurred. Liabilities funded by available budgetary resources include: (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections (credited to an appropriation or fund account), (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the balance sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first. Liabilities are considered not covered by budgetary resources when funding has not been made available through Congressional appropriations or current earning, as described above. The Trust recognizes such liabilities for employee annual leave earned but not yet taken.

Net Position is composed of unexpended appropriations and cumulative results of operations and contains the following components:

Unexpended Appropriations are funds appropriated by Congress to the Trust that are still available for expenditure at the end of the fiscal year and include the portion of the Trust's appropriations for undelivered orders and unobligated balances.

Cumulative Results of Operations represent the net results of operations of financing sources and expenses since the inception of the program.

Statement of Net Cost. The Consolidated Statements of Net Cost show the components of the net cost of the Trust's operations for the periods.

Program/Activity Costs represent the gross costs or expenses incurred by the Trust for all activities.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earned Revenues or exchange revenues arise when a Government entity provides goods and services to the public or to another Government entity for a fee.

Net Cost of Operations is the difference between the program's gross costs and its related exchange revenues.

Statement of Changes in Net Position. The Consolidated Statements of Changes in Net Position show the net cost of operations less financing sources other than exchange revenues, and the net position at the end of each period. Major components are described below.

Financing Sources (Other than Exchange Revenues) arise primarily from exercise of the Government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties). These include appropriations used, transfers of assets from other Government entities, donations, and imputed financing.

Appropriations used for financial statement purposes are recognized as a financing source as expenses are incurred.

Statement of Budgetary Resources. The Combined Statements of Budgetary Resources provide information about the availability of budgetary resources as well as their status at the end of the year. Major components are described below.

Budget Authority represents the funds available through appropriations, direct spending authority, obligation limitations, unobligated balances at the beginning of the period or transferred in during the period, spending authority from offsetting collections, and any adjustments to budgetary authority.

Obligations Incurred consists of expended authority, recoveries of prior year obligations and the change in undelivered orders.

Statement of Financing. The Consolidated Statements of Financing are a reconciliation of the preceding statements. Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statements of Budgetary Resources, especially in the treatment of liabilities. A liability not covered by budgetary resources may not be recorded as a funded liability in the budgetary accounts of the Trust's general ledger, which supports the Report on Budget Execution (SF-133) and the Statement of Budgetary Resources. Based on appropriation language, they are considered "funded" liabilities for purposes of the Balance Sheets, Statement of Net Cost and Statement of Changes in Net Position.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Use of Estimates in Preparing Financial Statements. Preparation of financial statements in accordance with federal accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, financing sources and expenses during the reporting period. Actual results may differ from such estimates.

E. Accounts Receivable. Intragovernmental accounts receivable represent amounts due under agreements with Federal entities for services provided by the Trust. An allowance for receivables deemed uncollectible is not established for these amounts because monies due from other Federal entities are considered fully collectable.

Non-intragovernmental accounts receivable owed to the Trust include rental or unpaid fees due the Trust that were not collected as of the end of the fiscal year. An allowance for uncollectible accounts receivable from the public is established when management determines that collection is unlikely to occur considering the debtor's ability to pay and failure of collection efforts, or an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

F. Property and Equipment, Net. The Trust, as part of the National Forest System, follows the United States Department of Agriculture accounting policies for property and equipment. These policies require that all land and interest in that land acquired for or in connection with other general PP&E be capitalized, regardless of the value, cost or purchase price and that internal use software costing $100,000 or more be capitalized. In addition, all other real or personal property and equipment with original cost of $25,000 or more and an estimated useful life of two or more years should be capitalized.

G. Advances and Prepaid Charges. Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expense when the related goods and services are received.

H. Accounts Payable and Other Liabilities. The Trust records as liabilities all amounts to others as a direct result of transactions or events that have occurred. Accounts payable and other liabilities represent amounts due to both Federal and non-federal entities for goods and services received by the Trust, but not paid at the end of the fiscal year.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Accrued Annual Leave. Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current year pay rates and leave balances. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Sick leave and other types of non-vested leave are expensed when used and, in accordance with Federal requirements, no accruals are recorded for unused sick leave.

J. Retirement Benefits. The Trust's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, most employees hired after December 31, 1983 are covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS.

For employees covered by CSRS, the Trust contributes seven percent of their gross pay towards their retirement benefits. For those employees covered by FERS the Trust contributes 10.7 percent of their gross pay towards retirement. Employees are also allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Trust contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum Trust contribution amounting to five percent of pay. Employees under CSRS may participate in the TSP, but will not receive automatic or matching contributions.

During fiscal year 2005 and 2004, the Trust made retirement contributions of $18,788 and $10,521 to CSRS; $97,238 and $78,076 to FERS; and $28,269 and $33,955 to TSP, respectively.

The Trust recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the Trust for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The Trust recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

The Trust does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Revenues and Other Financing Sources. Congress enacts annual, multi-year and no-year appropriations to be used, within statutory limits, for operating and capital expenditures. Appropriations are recognized as a financing source when expended. Appropriations expensed for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

Non-appropriated revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

L. Actuarial FECA Liability. The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease.

Claims incurred for benefits for Trust employees under FECA are administered by the Department of Labor (DOL) and later billed to the Trust. The Trust's actuarial liability for workers' compensation includes any incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

The Trust incurred no FECA liabilities during fiscal years 2005 and 2004.

M. Imputed Costs/Financing Sources. Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The Trust did not recognize imputed costs and financing sources in fiscal years 2005 and 2004 as they were not formally assessed to them and were not anticipated to be significant if assessed in the future.

N. Contingencies. The Trust can be party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Trust. In the opinion of the Trust's management and legal counsel, there are no proceedings, actions or claims outstanding or threatened, which would materially impact the Trust's financial statements.

O. Intra-governmental Relationships and Transactions. In the course of its operations, the Trust has relationships and financial transactions with numerous federal agencies.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Department of the Interior (DOI) – National Business Center. An interagency agreement exists between the Trust and the DOI where the Trust contracted for financial services on the Oracle Federal Financial System managed by the Department of the Interior's National Business Center – an option the Trust considered to be more cost-effective than developing a system in-house. Beginning with fiscal year 2004, the Trust maintains its financial information on that system. The Trust disbursed $43,869 and $191,914 to the DOI for fiscal years 2005 and 2004, respectively.

Department of the Treasury – Fund Balance with Treasury. The Trust does not maintain cash in commercial bank accounts. Rather, the Trust's funds are maintained in Treasury accounts. The Department of the Treasury processes all cash receipts and disbursements for the Trust. The Fund Balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

Federal Highway Administration. The Federal Highway Administration provides appropriations to the Trust to assist in the up keep and maintenance of unrestricted public access roads within the Trust boundaries.

USDA Forest Service. The USDA Forest Service provides appropriations to assist the Trust in maintaining general Trust operations and provides personnel as needed through interagency agreements to assist in the management of trust lands. The Trust disbursed $249,098 and $389,311 to the USDA Forest Service in 2005 and 2004, respectively.

GSA Fleet. The Trust also disbursed $148,213 and $108,214 to GSA Fleet in 2005 and 2004, respectively, for vehicle leases.

P. Parent-Child Relationships. The Trust receives one transfer allocation, as the child in a parent-child relationship, from the appropriation of another agency. The parent is the agency to which the funds were appropriated; the child is the agency receiving the funds from the parent to carry out some or all of the work. The parent agency has the budgetary reporting responsibility. The Trust is the child for the following account:

Parent Agency	Treasury Symbol Name
FHA	Federal-Aid Highways (Liquidation of Contract Authorization), Federal Highway Administration

In accordance with OMB Circular A-136, the Trust does not include these allocation transfers in its Statements of Budgetary Resources. However, as the transfer allocations are considered material, the proprietary financial activity is reported in the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and as a reconciling item in the Statements of Financing.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. *Corrections of errors.* As part of the purchase of the Baca Ranch in 2000 the Trust received general property plant and equipment which totaled $1.2 million dollars. Prior to 2004 these assets were not recorded on the Trust books. In 2004, the Trust recorded these assets and related accumulated depreciation for a net cumulative adjustment of $1.1 million.

NOTE 2. FUND BALANCE WITH TREASURY

The U.S. Treasury accounts for all U.S. Government funds on an overall consolidated basis. The Fund Balance with Treasury line items on the Balance Sheet for fiscal years 2005 and 2004 consisted of amounts presented in the following table:

	FY2005	FY2004
Fund Balances		
Appropriated Funds	$ 93,080	$ 296,874
Special Funds	947,056	874,031
Total:	$ 1,040,136	$ 1,170,905
Status of Fund Balance with Treasury		
Un-obligated balance		
Available	$ 617,117	$ 99,353
Unavailable	-	-
Obligated balances not yet disbursed	423,019	1,071,552
Total:	$ 1,040,136	$ 1,170,905

NOTE 3. ACCOUNTS RECEIVABLE, NET

As of September 30, 2005 and 2004 the trust had $416,968 and $103,046 in intragovernmental accounts receivable, respectively. This receivable resulted from transfer of Highway Fund authority from the Federal Highway Administration (FWHA) of the U.S. Department of Transportation. While the authority to spend these funds was granted via appropriation act, the funds are not actually transferred to the Trust until they are needed for disbursement. Obligated amounts which have not been disbursed at year-end remain as an intergovernmental accounts receivable.

The Trust had no non-intergovernmental advances or accounts receivables as of September 30, 2005 and 2004, respectively.

NOTE 4. GENERAL PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment (PPE) includes fixed assets owned by the Trust as the result of purchases by the Trust and/or transfers from other governmental entities, primarily USDA. In general, the Trust capitalizes fixed assets valued in excess of $25,000 and with a useful life of 2 or more years. These assets are depreciated over their useful lives in accordance with Trust guidelines.

As of September 30, 2005

	Estimated Useful Life in Years	Cost	Accumulated Depreciation	Book Value
PPE being depreciated				
Buildings and improvements	5 to 40	$ 1,092,871	(206,553)	886,318
Water system	10 to 15	186,715	(37,344)	149,371
Total		1,279,586	(243,897)	1,035,689
Total PPE		$ 1,279,586	(243,897)	1,035,689

As of September 30, 2004

	Estimated Useful Life in Years	Cost	Accumulated Depreciation	Book Value
PPE being depreciated				
Buildings and improvements	5 to 40	$ 1,092,871	(170,124)	922,747
Road and Infrastructure	10 to 15	186,715	(18,672)	168,043
Total		1,279,586	(188,796)	1,090,790
Total PPE		$ $1,279,586	(188,796)	1,090,790

NOTE 4. GENERAL PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Specific Trust capitalization and depreciation guidelines are as follows:

1. Buildings, Improvements and Related Renovations and Rehabilitations useful life of 40 years or less for improvements and renovations depending on remaining building life.

2. Assets Under Capital Lease are amortized based on the Trust's depreciation policy. Other Property, Plant and Equipment's estimated useful life is also based on the Trust's capitalization and depreciation policy.

Additionally, the Trust capitalizes expenditures for improvements to infrastructure and buildings based upon the following criteria:

- costs exceed $25,000 at inception;
- are not considered to be repairs and maintenance;
- extend the useful life of the building for at least 2 years.

Furnishings and equipment purchased for a unit cost in excess of $25,000 after October 1, 2002 and $5,000 prior to that date are also capitalized. Construction-in-Progress may include not only direct costs, but also an assigned indirect cost component, including architectural fees and legal expenses.

Land is considered to be general PPE and, in accordance with SFFAS number 6, is to be recorded at cost. The land comprising the Trust was acquired under the Valles Caldera Preservation Act of 2000 and stewardship management responsibility was transferred to the Trust in 2002. As such, no cost can be affixed to the land and land rights.

The Trust determines depreciation and amortization using straight-line methodology. For financial statement purposes, a pro-rated share of depreciation expense for the asset is recorded in the year of acquisition or project completion depending on the month of acquisition.

NOTE 5. STEWARDSHIP LANDS

The Trust was entrusted with certain resources and certain stewardship responsibilities. These resources and responsibilities are required to be referenced in the Trust Balance Sheets and are described below in accordance with SFFAS Number 29, Heritage Assets and Stewardship Land, which was effective in fiscal year 2006 and was early implemented by the Trust for fiscal years 2005 and 2004.

NOTE 5. STEWARDSHIP LANDS (CONTINUED)

Stewardship Property, Plant and Equipment (SPPE) - SPPE are assets, the physical properties of which resemble those of the general PPE that is traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. SPPE includes heritage assets and stewardship land.

The mission of the Trust is to: provide management and administrative services for the Preserve; establish and implement management policies which will best achieve the purpose and requirements of the Act; to receive and collect funds from private and public sources and to make dispositions in support of the management and administration of the Preserve; and cooperate with Federal, State and local governmental units, and with Indian tribes and Pueblos, to further the purposes for which the Preserve was established.

To achieve its mission, the Trust has established an annual plan that encompasses Preserve goals. These goals include: protect and preserve for future generations the scientific, scenic, historic, and natural values of the Baca ranch, including rivers and ecosystems and archaeological, geological and cultural resources and recreational values of the Preserve; manage public use, access to and the occupancy of the Preserve; establish a demonstration area for an experimental management regime adapted to this unique property which incorporates elements of public and private administration in order to promote long term financial sustainability; multiple use and sustained yield of renewable resources within the Preserve; achieve a financially self-sustaining operation within 15 full fiscal years of the date of acquisition; and meet public safety standards applicable to units of the National Forest System and the State of New Mexico.

The Trust has assets consisting of the Baca Ranch which is required to be maintained as a working ranch under the Valles Caldera Preservation Act of 2000.

NOTE 6. LIABILITIES

The accrued liabilities of the Trust are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to quarter-end but were not paid as of year-end. Similarly, payroll accruals represent payroll expenses that were incurred prior to quarter-end but were not paid as of year-end.

NOTE 6. LIABILITIES (CONTINUED)

Schedule of liabilities as of September 30:

	2005	2004
Intra-governmental		
Payroll Taxes Payable	$ 10,969	8,921
Total Intra-governmental	10,969	8,921
Accounts Payable	107,104	414,405
Payroll Accrual	49,125	41,737
Unfunded Leave	75,997	88,804
Total Liabilities	$ 243,195	553,867

NOTE 7. FEDERAL EMPLOYEE BENEFITS

Federal Employees' Compensation Act Liabilities: Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of workers' compensation benefits that have accrued to employees but have not yet been paid by the Valles Caldera Trust.

Workers' compensation benefits include the current and expected future liability for death, disability, medical and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the U.S. Department of Agriculture as a whole, including the Valles Caldera Trust. The Trust is billed annually as its claims are paid to the DOL. Payments to the DOL are deferred for two years so that the bills may be funded though the budget. Payments to the DOL are also recognized as an expense when billed and recorded in the Statements of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable for intra-governmental Federal employee benefits and Federal employee benefits as of September 30, 2005 and 2004 was less than $1,000 and deemed not significant enough for accrual.

NOTE 8. RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES ON THE BALANCE SHEET AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS.

The change in liabilities not covered by budgetary resources should be the same as the change in components requiring or generating resources in future periods, except for other components requiring or generating resources in future periods that are reported separately. The components requiring or generating resources in future periods as reported on the Statement of Financing differ from the components requiring or generating resources in future periods reflected below for the portion of liabilities not covered by budgetary resources.

	2005	2004
Current year liabilities not covered by budgetary resources	$ 75,997	88,804
Less: Prior year liabilities	88,804	-
Net increase in liabilities not covered by budgetary resources	(12,807)	88,804
Add back FY 2005 net decreases in Annual Leave Liability	12,807	-
Gross increase in liabilities not covered by budgetary resources	-	88,804
Less: increase in exchange revenue receivable from the public	-	-
Components requiring or generating resources in future Periods, as reported on the Statement of Financing	$ -	88,804

NOTE 9. OBLIGATION UNDER OPERATING LEASE

The Trust occupies office space under a lease agreement that is accounted for as an operating lease. The lease term began on January 15, 2004 and expired on December 31, 2005, with the renewal rights for month to month. The guaranteed future minimum lease payments as of September 30, 2005 amounted to $18,000 for the period through December 31, 2005 consisting of monthly rent of $4,000 and monthly utilities of $2,000.

NOTE 10. SECURITY DEPOSITS

The Trust collects security deposits from the residential tenants and also collects security deposits from certain non-residential leases managed by the Trust.

NOTE 11. PROGRAM COSTS BY OBJECT CLASS

The following illustrates program costs by responsibility segment for the years ended September 30, 2005 and 2004:

	September 30,	
	2005	2004
Personnel compensation	$ 1,539,832	$1,493,409
Personnel benefits	343,612	308,180
Travel and transportation of persons	29,911	158,223
Transportation of things	372	40,587
Rental, communication, and utilities	197,664	163,978
Printing and reproduction	41,295	12,101
Other services	1,619,284	1,991,428
Supplies and materials	150,534	226,794
Equipment	162,565	362,010
Land and structures	290,602	-
Other	4,563	-
Total Program Costs	$ 4,380,234	$ 4,756,710

NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The Office of Management and Budget usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories by a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as Category B. The funds on quarterly apportionment are National Forest System (12X1106), Valles Caldera Fund (12X5363) is available when received and is considered Category B. Presented below is the amount of direct and reimbursable obligations incurred by apportionment category for fiscal years 2005 and 2004.

For the year ended September 30, 2005

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred – Direct	$ 3,336,154	369,164	3,705,318
Obligations Incurred – Reimbursable	-	-	
Total Obligations Incurred	$ 3,336,154	369,164	3,705,318

NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED (CONTINUED)

For the year ended September 30, 2004

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred – Direct	$ 3,603,902	743,898	4,347,800
Obligations Incurred – Reimbursable	-	-	-
Total Obligations Incurred	$ 3,603,902	743,898	4,347,800

NOTE 13. COMMITMENTS AND CONTINGENCIES

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Trust recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. The Trust discloses contingent liabilities in the note to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made for the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the Trust for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

VALLES CALDERA TRUST
SCHEDULE OF FINDINGS
Year Ended September 30, 2005 and 2004

Finding: 04-01 Timing of Receipts and Deposits, and Classification

CONDITION

Cash and check payments are not provided timely to Trust for deposit into Treasury. Instead, the cash and check payments are deposited into the Public Lands Interpretive Association's (PLIA) account and PLIA periodically issues a check to VCT for funds received on their behalf. The PLIA check is deposited by VCT staff and, normally applied to hunting program Budget Object Classification (BOC), program and activity codes since a detailed breakdown is not available from PLIA.

CAUSE

The VCT contract with PLIA allows PLIA to collect funds for the Trust. However, it does not provide a specific time period or means of forwarding the funds to VCT or Treasury. It also does not provide proper supporting documentation to the receipts. In addition, PLIA enters the receipt information directly into the VCT Website, without review by VCT staff.

CRITERIA

According to Section 106(h) (1) of the Valles Caldera Preservation Act of 2000, Section 3302 of Title 31 is applicable to the Trust. Section 3302(a) requires an official or agent having custody or possession of public money to keep the money safe without lending the money, using the money, depositing the money in a bank; and exchanging the money for other amounts. Section 3302(b) requires an official or agent receiving money for the Government to deposit the money in the Treasury as soon as practicable without deduction for any charge or claim. In addition, money deposited pursuant to this subsection shall be deposited not later than the third day after the custodian receives the money.

EFFECT

Funds are not deposited into Treasury in a timely manner and receipts are not properly posted at the BOC, program, project and activity levels as required by the Office of Management and Budget (OMB).

Finding: 04-01 Timing of Receipts and Deposits, and Classification (Continued)

RECOMMENDATION

We recommend that the PLIA contract be modified to allow for timely deposit of funds into Treasury and that necessary documentation be provided when funds are forwarded from PLIA to VCT to allow for proper posting into the general ledger by VCT staff. In addition, we recommend that VCT reconcile receipts entered into the VCT website to the Pay.gov and Treasury systems to ensure all receipts are accounted for. Discrepancies should be promptly researched and corrected.

MANAGEMENT'S RESPONSE

In September 2008, a modification to the participating agreement with PLIA was executed. This modification states that PLIA will only accept credit card payments on behalf of VCT. Those credit card payments are entered into the VCT website and collected through Pay.gov.

Beginning October 1, 2007, VCT transitioned to a new accounting system through the Forest Service. Since that time, VCT has been reconciling VCT website receipts to Pay.gov and Treasury systems. Funds are being deposited into Treasury in a timely manner and receipts are properly posted at the BOC, program, project and activity levels as required by the Office of Management and Budget (OMB).

Finding: 04-02 Cash Receipts Supporting Documentation

CONDITION

The recreation assistant at the Preserve accepts cash, checks or credit cards for purchases at the Visitor's Center without issuing a receipt of products or services to the customer and without a mechanism to ensure all sales are recorded. Cash, check and credit card receipts are hand-written on an Inventory and Activity Sales sheet with the date, recreation assistant name or initials, the activity or inventory item sold, number of items sold or number of participants, whether the participant is an adult, senior or child. The Inventory and Activity Sales sheet is not numbered and does not provide enough information to identify individual items sold (e.g., inventory numbers, item description, etc.) In addition, at the end of each day, the recreation assistant retains $60 starting cash in the cash box for the next day, attaches the remaining cash, checks and credit card slips to the sales sheet and puts them in the safe. There is no supervisory review or reconciliation between the items sold and the amount received to ensure all sales have been accounted for.

CAUSE

Procedures and key controls have not been put into place to provide proper segregation of duties, monitoring, and safeguarding of assets at the Visitor's Center.

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 requires internal accounting and administrative controls of each executive agency be established to provide reasonable assurances that funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.

EFFECT

If not addressed, the control deficiencies could potentially lead to loss and irregularities that may not be detected.

RECOMMENDATION

We recommend that VCT begin issuing numbered receipts for each sale which include information specific to the sale including for merchandise, the item description and number (if available) and for services, the date the service is provided (i.e., the date access will be provided to the Preserve). These receipts should be reviewed by the recreation supervisor on a daily basis and compared to the cash, checks and credit cards received. Discrepancies should be researched and reconciled in a timely manner.

Finding: 04-02 Cash Receipts Supporting Documentation (Continued)

MANAGEMENT'S RESPONSE

In August of 2008, VCT began issuing numbered receipts for each sale which include specific information to the sale. Collections are being reviewed on a weekly basis and discrepancies have been researched and reconciled in a timely manner.

VCT purchased a cash register for the Jemez Springs Visitor Center in 2008. In FY09, VCT is purchasing cash registers for the Valle Grande Visitor Center and inventory software to streamline the process.

Finding: 04-03 Cash Receipts Deposit Procedures

CONDITION

The recreation supervisor does not remove the sales sheets and payments from the safe on a daily basis and deliver them to the Administration Building for processing.

CAUSE

VCT does not have established procedures requiring timely collection of receipts from the Visitor's Center by the Recreation Supervisor.

CRITERIA

Per Treasury requirements, deposits over $5,000 must be made daily. If receipts are less than $5,000, deposits can be held until they reach $5,000. However, regardless of deposit size, deposits must be made by Thursday of each week.

EFFECT

VCT is not in compliance with Treasury requirements for deposits. In addition, the payments made at the Visitor's Center consist of cash, checks and credit cards. If checks and credit cards are not processed in a timely manner, there is an increased risk that collection of funds will not be possible.

RECOMMENDATION

We recommend receipts collected at the Visitor's Center be counted by the recreation supervisor each day the Visitor's Center is open and delivered to the Administrative Office in time to meet Treasury requirements for deposit.

MANAGEMENT'S RESPONSE

Valles Caldera Board of Trustees approved a Collection Officer Policy on June 13, 2008. The policy was implemented in August 2008. Procedures have been established and training conducted for Collection Officers and supervisors. VCT is now in compliance with Treasury requirements for deposits.

Finding: 04-04 Invoices Being Prepared

CONDITION

There is no established procedure for billing individuals for facility rentals, grazing or contracts. In the past, there have been instances where manual invoices were generated and mailed to the customer after the allotted time period per the Treasury Financial Manual. These invoices were in the form of a letter and were not numbered, making tracking difficult.

CAUSE

VCT is not currently using an accounts receivable subsidiary ledger and is not using the Federal Bill for Collections documents to track customer receivables.

CRITERIA

Per the Treasury Financial Manual, agencies responsible for the preparation of invoices to individuals and organizations outside the U.S. Government will ensure that an invoice, for either an actual or estimated amount, is prepared and mailed within 5 business days after the day goods have been shipped or released, services have been rendered, or payment is otherwise due. Invoices should include a payment due date no more than 30 days from the date of the invoice, unless otherwise provided by law.

EFFECT

In addition to non-compliance with the Treasury Financial Manual requirements, collections on goods or services delivered to VCT customers may not occur in a timely manner, if they occur at all. Also, VCT accounts receivable account may not be correctly stated in the general ledger or on the trial balance.

RECOMMENDATION

VCT establish and document procedures for accounts receivable functions including billing customers, collections and valuation.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established procedures for billings and collections.

Finding: 04-05 Financial Management System and Reporting Process (Material Weakness)

CONDITION

The Valles Caldera Trust does not have a single integrated financial management system which processes and records financial events effectively and efficiently to provide complete, timely, reliable and consistent information for decision makers and the public. Significant adjustments and reconciliation efforts were required during the audits to comply with internal and external reporting requirements.

CAUSE

The Trust has not reviewed its financial management systems for compliance. In addition, policies and procedures have not been established and implemented to ensure that financial management systems meet OMB Circular A-127 requirements for integration.

CRITERIA

Per the requirements of OMB Circular A-127, "financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public". "Systems shall provide complete, reliable, consistent, timely and useful financial management information on Federal government operations to enable...agencies...to carry out their fiduciary responsibilities; deter fraud, waste, and abuse of Federal government resources, and facilitate efficient and effective delivery of programs through relating financial consequences to program performance."

As defined by the circular, "financial systems support the financial functions required to track financial events, provide financial information significant to the financial management of the agency, and/or required for the preparation of financial statements. A financial system encompasses automated and manual processes, procedures, controls, data, hardware, software and support personnel dedicated to the operation and maintenance of system functions."

EFFECT

The Valles Caldera Trust is not in compliance with the requirements of OMB Circular A-127 to have a single, integrated financial management system. This deficiency, if not addressed, could result in an increased risk that information reported by the Trust in their financial statements and other reports will not be complete, reliable, consistent and useful.

Finding: 04-05 Financial Management System and Reporting Process (Material Weakness) (Continued)

RECOMMENDATION

We recommend that the Trust review financial management systems and implement all requirements of OMB Circular A-127.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures. These procedures meet all requirements of OMB Circular A-127.

Finding: 04-06 Reconciliations (Material Weakness)

CONDITION

The Trust was not performing necessary monitoring and reconciliation of transactions wholly or partially processed by third parties to ensure completeness and accuracy of the transactions including:

- Reconciliation of website credit card purchases posted from the website to Pay.gov and then from Pay.gov to Treasury CA$HLINK reports. National Business Center (NBC) used the CA$HLINK reports from Treasury to post receipts to the Oracle system. Reconciliations of CA$HLINK reports to Oracle were also not performed.
- Reconciliation of receipts posted to Oracle by VCT staff to Treasury CA$HLINK reports.
- Reconciliation of FPPS payroll requests to Oracle disbursements or reconciliation of Oracle disbursements to Treasury CA$HLINK reports.
- Reconciliation of Oracle procurement disbursements to the applicable Treasury reports.
- Review of payroll accruals performed by NBC for the Trust for accuracy.
- Reconciliation of W-2 amounts to supporting records.

In addition, VCT was not properly monitoring the Oracle clearing accounts to ensure timely posting of transactions. The FY2004 Trial Balance provided by NBC has a balance remaining in these accounts which should have been researched and posted to the correct United States Standard General Ledger (USSGL) accounts.

CAUSE

VCT has had a high turnover of accounting staff. In addition, some accounting staff members have not been adequately trained in general accounting principles or federal accounting requirements. Since policy and procedure manuals have not been written or approved, accounting staff did not realize monitoring and reconciliation were necessary.

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 (FMFIA), requires internal controls be established to provide reasonable assurances that revenues and expenditures applicable to the agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Finding: 04-06 Reconciliations (Material Weakness) (Continued)

EFFECT

If not addressed, the control deficiencies could result in inaccurate and incomplete accounting data not being detected by VCT, as we noted there were no payroll registers or other reports that were able to be located. Further, it was noted individuals did not have the amount of vehicle usage for personal rather than Trust use included on their W-2's as income.

RECOMMENDATION

We recommend VCT design and implement procedures for adequate monitoring and timely reconciliation of accounts by VCT accounting staff.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures. ASC is preparing and submitting VCT 224 reports.

Finding: 04-07 Sole Source Contracts (Material Weakness)

CONDITION

The Valles Caldera Trust entered into a sole source personal service contract cattle grazing, fence and preserve maintenance and assistance with hunting operations and security. All vehicles, housing and other supplies were provided by the Trust. Total payments to the contractor under the contract were $338,514 during FY2004 and FY2005. Prior to issuing the contract, contractor was employed by the Trust.

CAUSE

The Valles Caldera Trust did not require competition for sole source contracts issued for personal services and did not provide documentation justifying the action in the files.

CRITERIA

The Valles Caldera Trust Procurement Policy states "officials of the Trust must establish, before making awards, that the proposed price is fair and reasonable. Comparison of offered prices received through competition may normally serve as the basis for establishing price reasonableness." The policy requires that single source procurements over $10,000 be justified in a memorandum.

EFFECT

By not requiring competition for this contract, the Trust is not reaching its' goal for maximum system efficiency requiring all products and services provided be the best value to the Trust.

RECOMMENDATION

Moss Adams recommends that VCT develop and approve a procurement procedures manual based on the VCT Procurement policy and provide training to all individuals with procurement authority.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

Finding: 04-08 Lack of Documented Policies (Material Weakness)

CONDITION

The Valles Caldera Trust currently has no documented policies in place including, but not limited to:

- Conducting revenue functions including processing cash receipts and accounts receivable;
- Procuring goods and services including payroll functions;
- Conducting regular inventory or for monitoring cost of goods sold;
- Identifying and properly recording property, plant and equipment;
- Conducting financial close and reporting functions such as account reconciliation, posting accruals, etc.

CAUSE

Development of strong policies requires time and knowledge of an organization. The Trust has had a high turnover of staff and board members since management was turned over to the Board of Trustees in 2002. There have been many documented attempts to develop the necessary policies. However, they were never completed and approved.

CRITERIA

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government issued in 1999 states that, in implementing the standards for internal control "Management is responsible for developing the detailed policies and procedures and practices to fit their agency's operations and to ensure that they are built into and an integral part of the operations."

EFFECT

Lack of established policies may result in inadequate controls over the Trust's programs. These control deficiencies, if not addressed, could lead to potential loss, fraud and irregularities that may not be promptly detected.

RECOMMENDATION

We recommend that management of the Trust make it a top priority to develop and finalize a set of accounting policies. Formal executed policies supports the activities of Trust personnel by ensuring consistent treatment of transactions and a smooth transition of special activities and responsibilities in the event of employee turnover or job changes.

Finding: 04-08 Lack of Documented Policies (Material Weakness) (Continued)

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting policies and procedures.

The VCT has an approved procurement policy dated August 16, 2001, an approved personnel policy dated September 11, 2008, and an approved collection officer policy dated June 13, 2008.

Finding: 04-09 Bids on Procurements

CONDITION

During our control test work, we noted there were partial billings for work completed on a purchase order, contract or agreement over $10,000 and there was no evidence of a bid process being followed in the files.

CAUSE

Trust employees failed to understand and follow the Procurement policy established by the VCT Board of Trustees. This may be due to lack of established procedures and inadequate training of employees. Also, quality reviews, as required by the policy, were not conducted by the Executive Director.

CRITERIA

The Valles Caldera Preservation Act of 2000 made it the responsibility of the Board of Trustees to establish and adopt procedures applicable to the Trust's procurement of goods and services, including the award of contracts on the basis of contractor qualifications, price, commercially reasonable buying practices, and reasonable competition.

Per the VCT Procurement Policy, "officials of the Trust who have been delegated contracting authority must establish, before making awards, that the proposed price is fair and reasonable. Comparison of offered prices received through competition may normally serve as the basis for establishing price reasonableness. Other price or cost analysis techniques may need to be used to demonstrate if the proposed cost estimate or proposed price is reasonable, especially if competition is lacking. The Trust's policy is to seek reasonable competition for its procurements.... Competition reduces the risk of having to rely on only one source for critical goods or services. The degree of competition sought will be influenced by knowledge of the marketplace and successful past performance records, with competition in most cases limited to a reasonable number of capable sources. Single source procurements over $10,000 shall be justified in a memorandum."

"The Executive Director shall conduct internal procurement quality reviews. Actions subject to review, prior to execution, include solicitations, contracts, modifications, decisions on claims, and proposed terminations."

EFFECT

The Trust was not in full compliance with Federal appropriation law and its' responsibilities for optimizing the generation of income, as defined in the Valles Caldera Preservation Act.

Finding: 04-09 Bids on Procurements (Continued)

RECOMMENDATION

We recommend the Trust design and approve procedures for their procurement processes and ensure that Trust employees with purchasing authority are fully trained in the procedures and Federal appropriation law.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

In addition, VCT has entered into an agreement with USDA, FS, Southwestern Region Acquisition Management to provide procurement counsel when requested. They have qualified experienced staff to assist us.

VCT has established procurement processes and procedures. Training on the processes was provided to employees in February 2008. In FY09, VCT will document the procurement procedures.

Finding: 04-10 Proper Authorization of Procurements (Material Weakness)

CONDITION

During our control testing we noted the following:

- documentation provided did not include a purchase order, contract or vendor file and we were unable to identify evidence of reconciliation;
- did not have an authorizing signature on the invoice;
- invoice included tax, which was not deducted and paid by the Trust ;
- The total amount on the invoice did not agree to the amount paid (difference under $1.00);
- The total amount paid was entered from a Statement of Differences without support documentation and the total amount paid exceeded the contract amount.

CAUSE

VCT personnel did not follow the requirements of the VCT Procurement Policy and/or the guidelines for voucher review provided by the United States Treasury.

CRITERIA

Per the VCT Procurement Policy, officials of the Trust who have been delegated contracting authority are responsible for entering into, administering, and terminating contracts, and for making related determinations and decisions with respect to procurement matters. Only procurement officials acting within the limits of their authority may make contractual commitments and changes to contracts. The only exceptions are: 1) small dollar purchases that fall within the monetary limitations established for purchase cards and blanket purchase agreements; and 2) other delegations as determined by the Executive Director.

The Treasury Financial Manual further states that effective control over disbursements requires the pre-audit and approval of vouchers before they are certified for payment. Pre-audit of vouchers should ensure:

- The required administrative authorizations for the procurement and approvals for the payment were obtained.
- The payment is permitted by law and is in accordance with the terms of the applicable agreement.
- The amount of the payment and the name of the payee are correct.

Finding: 04-10 Proper Authorization of Procurements (Continued)

- A proper Tax payer Identification Number (TIN), or Payee ID Number, is provided for each payee.
- The payment will not be a duplication.
- The goods received or the services performed were in accordance with the agreement.
- The quantities, prices, and amounts are accurate.
- Only cost effective discounts have been taken.
- All applicable deductions were made and credited to the proper account in the correct amount.
- The appropriation or fund from which the payment will be made is available for that purpose.
- Proper forms of documentation were used.
- Special certificates, if required, were furnished.

EFFECT

These control deficiencies, if not addressed, could result in a failure by the Trust to meet control objectives which ensure that disbursements are legal, proper, and correct and that disbursements are accurately recorded, reported, and reconciled in a timely and efficient manner.

RECOMMENDATION

We recommend VCT train all personnel with delegated purchasing authority in the requirements of the VCT Procurement Policy and the importance of the review and approval process for vouchers.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting policies and procedures. Payments are pre-audited by VCT procurement staff and then audited and approved by ASC accounting staff.

Finding: 04-11 Budget Reporting Requirements (Material Weakness)

CONDITION

During our control testing we noted the following:

- The funds were obligated in the wrong budget fiscal year per the invoice or other contract documents;
- All or parts of the services on the invoice were performed in a different year from the posting in the general ledger.
- The invoice was for employee vision and dental benefits purchased by the Trust which were charged to GL 6100 Expenses rather than GL 6400 Employee Benefits. (**Note:** Per Title V, only the Office of Personnel Management has been given contract authority to purchase benefits for Federal employees).
- Budget Object Class did not appear reasonable considering the items or services purchased.
- The Program description did not appear reasonable considering the items or services purchased.
- The Activity description did not appear reasonable considering the items or services purchased.
- Fund X1106 appeared to be over-obligated at the end of FY2004.

CAUSE

Adequate controls were not in place to ensure consistent recording of expenditures/disbursements to the correct budgetary and proprietary accounting periods by the applicable Budget Object Classification, Program/Project and Activity codes. In addition, Trust personnel were not obligating funds in Oracle when the contract/purchase order was awarded. This may be partly due to the high turnover of key employees at the Trust and lack of Federal accounting knowledge by staff.

Finding: 04-11 Budget Reporting Requirements (Continued)

CRITERIA

Section 1301 of Title 31 requires appropriations to be applied only to the objects for which the appropriations were made. OMB Circular A-11 Part 2, Section III defines Budget Object Classes used to track spending by object and provides guidance for establishing program and activity codes to further ensure funds are spent in accordance with the purpose of the appropriation.

In addition, the Anti-deficiency Act requires the head of each agency to establish, by regulation, a system of administrative control of funds that:

- Restricts *both* obligation and expenditure (outlays or disbursements) from each account to the *lower of* the amount apportioned by OMB or the amount available for obligation and/or expenditure.
- Enables the head of the agency to identify the person(s) responsible for violating the Act.

EFFECT

VCT is not in full compliance with Federal laws governing the tracking of appropriations. There is also an increased risk that appropriations will be overspent, resulting in violation of the Anti-deficiency Act, which is subject to both administrative and penal actions.

RECOMMENDATION

We recommend VCT provide training for personnel having purchasing authority in the Federal reporting requirements for expenditures from appropriated funds and establish procedures for processing of payments including proper review by knowledgeable staff.
In addition, we recommend that VCT implement appropriate document retention policies.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

Finding: 04-11 Budget Reporting Requirements (Continued)

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting policies and procedures. Obligations and payments are being processed timely. Payments are pre-audited by VCT procurement staff and then audited and approved by ASC accounting staff. VCT is following the Forest Service retention policies of financial records.

Finding: 04-12 Prompt Payment Act

CONDITION

During our internal control testing we noted the following:

- The invoice was paid more than seven days prior to the due date on the invoice and/or 30 days from the invoice receipt date (if no due date was given on the invoice);
- The invoice was paid after the due date and there was no record of interest being paid to the supplier.

CAUSE

VCT personnel in charge of processing payments were not processing invoices in a timely manner.

CRITERIA

The Prompt Payment Act requires invoices to be paid on the date the payment is due under the contract for an item or service or 30 days after a proper invoice for the amount is received, if a specific payment date is not established in the contract. If an invoice is not paid by the required payment date, the agency must pay an interest penalty to the supplier on the amount of payment due at the rate of interest established by the Secretary of the Treasury and published in the Federal Register (41 USC 611).

EFFECT

VCT is not in compliance with the requirements of the Prompt Payment Act for issuing payments in a timely manner.

RECOMMENDATION

VCT implement policies and procedures over the payment process which emphasizes the importance of making payments in a timely manner.

MANAGEMENT'S RESPONSE

Since November 2006, VCT has been processing payments in accordance with the requirements of the Prompt Payment Act.

Finding: 04-13 Use of Appropriations (Material Weakness)

CONDITION

VCT personnel in charge of processing and approving payments were not properly ensuring all were allowable, either due to oversight, or lack of training.

CAUSE

During our procurement sample review and subsequent cutoff test work, there were several instances where possible misuse of appropriated funds were identified including purchase of clothing, food and entertainment, dental and vision insurance for employees and personal use of government vehicles. In addition, there were several instances where sales tax was paid by the Trust even though the Trust is tax-exempt.

CRITERIA

Per Section 9 of the U.S. Constitution "No money shall be drawn from the Treasury, but in consequence of Appropriations made by Law". 31 USC Section 1301(a) further states that "Appropriations shall be applied only to the object for which the appropriations were made except as otherwise provided by law". The Supreme Court, as cited in the January 2004 GAO "Principles of Federal Appropriations Law" (commonly called the Redbook), has expressed it's interpretation as follows: "The established rule is that the expenditure of public funds is proper only when authorized by Congress, not that public funds may be expended unless prohibited by Congress."

Purchase of clothing: The principle is that "every employee of the Government is required to present himself for duty properly attired according to the requirements of his position...most items of wearing apparel are considered to be the employee's personal responsibility, and not the governments (63 Comp. Gen 245, 246 (1984))".

Purchase of food/entertainment: Per the January 2004 GAO Redbook, "entertainment is essentially a personal expense even where it occurs in some business-related context. Except where specifically appropriated for, entertainment cannot normally be said to be necessary to carry out the purposes of an appropriation" (p. 4-100). In addition, "It may be stated as a general rule that appropriated funds are not available to pay subsistence or to provide free food to government employees at their official duty stations...unless specifically authorized by statute (p. 4-103)".

Dental and vision insurance: Per Title V, only the Office of Personnel Management has been given contract authority to purchase benefits for Federal employees.

Finding: 04-13 Use of Appropriations (Material Weakness) (Continued)

Use of government vehicles: CFR 41, Section 102-34.225 states that you may not use a Government motor vehicle for transportation between your residence and place of employment unless your agency authorized such use after making the necessary determination.

EFFECT

These control deficiencies, if not addressed, could result in a failure by the Trust to meet control objectives which ensure that disbursements are legal, proper, and correct and that disbursements are accurately recorded, reported, and reconciled in a timely and efficient manner.

RECOMMENDATION

We recommend VCT train all personnel with delegated micro-purchasing authority in appropriation law and the requirements of the VCT Procurement Policy and the importance of retaining proper documentation for purchases.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

VCT has established procurement processes and procedures. Training on the processes was provided to employees in February 2008. In FY09, VCT will document the procurement procedures.

Finding: 04-14 Annual Audit and Performance Reporting (Material Weakness)

CONDITION

VCT has not had an audit performed of their financial statements since its inception in 2000 and has not included, in their annual report to Congress, the audited statements and a statement on internal account and administrative control systems to ensure compliance with *Government Management Reform Act of 1994*.

CAUSE

Due to high turnover in key management positions during FY2004, the Trust was unable to generate reliable information for audit. In addition, the key controls had not been put into place and documented as necessary for review and reporting on internal controls.

CRITERIA

Section 9105 of Title 31 requires the financial statements of Government corporations to be "audited by the Inspector General of the corporation appointed under the Inspector General Act of 1978 or under other Federal law, or by an independent external auditor, as determined by the Inspector General, or, if there is no Inspector General, by the head of the corporation". In addition, Section 9106 requires a government corporation to "submit an annual management report to the Congress not later than 180 days after the end of the Government Corporation's fiscal year". A management report under this subsection shall include a statement of financial position; a statement of operations; a statement of cash flows; a reconciliation to the budget report of the Government corporation, if applicable, and a statement on internal accounting and administrative control systems.

The *Government Management Reform Act of 1994* also requires agencies to report annually and identifies management's responsibilities, including: preparing the financial statements in conformity with accounting principles generally accepted in the United States of America; preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; establishing and maintaining internal controls over financial reporting; and complying with laws, regulations, contracts, and grant agreements, including FFMIA.

EFFECT

The Trust is not in compliance with Title 31, Section 91 as required by the Valles Caldera Preservation Act of 2000. In addition, the risk that significant misstatements will occur is increased by management's failure to develop a strong internal control system and to provide audited statements.

Finding: 04-14 Annual Audit and Performance Reporting (Continued)

RECOMMENDATION

We recommend that VCT develop and document a strong system of internal controls and provide for an annual review of this system to be reported to Congress, according to the requirements of OMB Circular A-123. In addition, we recommend that VCT obtain an annual audit of their financial statements and submit the audited financial statements according to the requirements of OMB Circular A-136.

MANAGEMENT'S RESPONSE

VCT has contracted for financial audits of fiscal years ending September 30, 2004, 2005, 2006, 2007 and 2008.

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is adhering to the internal controls documented by ASC. The agreement requires VCT to have an audit conducted by an external, independent auditing firm for each fiscal year. VCT also agreed to be subject to periodic reviews by the ASC, B&F Internal Quality Assurance staff.

Finding: 04-15 Inventory/Cost of Goods Sold

CONDITION

Items purchased for resale were expensed to the Operating Expenses/Program Costs account rather than being maintained as inventory and included as a cost of goods sold upon sale or upon use in the provision of a service.

CAUSE

VCT does not have documented procedures for maintaining inventory for resale.

CRITERIA

Per SFFAS 3, inventory should be recognized when title passes to the purchasing entity or when the goods are delivered to the purchasing entity. Upon sale (when the title passes or the goods are delivered) or upon use in the provision of a service, the related expense shall be recognized and the cost of those goods shall be removed from inventory. In addition, inventory should be valued at either historical cost or latest acquisition cost. The inventory should be revalued periodically but at least at the end of each fiscal year.

EFFECT

Expenses are not properly matched to revenue.

RECOMMENDATION

We recommend that VCT develop and implement procedures for inventory management including monitoring.

MANAGEMENT'S RESPONSE

VCT is currently developing and implementing procedures for inventory management including monitoring. Those procedures will be documented in FY09.

Finding: 04-16 Non-Recording of Fixed Assets Acquisitions (Material Weakness)

CONDITION

VCT did not post PP&E resulting from purchases made during FY2004 and FY2005 or from purchase of the Preserve to the general ledger as assets. Instead, all purchases made during FY2004 and FY2005 were directly expensed and property obtained during the purchase was never booked by VCT or Forest Service.

CAUSE

For FY2004 and FY2005, VCT did not review purchases to determine if they met the USDA capitalization threshold. In addition, the Trust did not perform an inventory.

CRITERIA

SFFAS 6 Accounting for Property Plant and Equipment defines general property plant and equipment as "any property, plant, and equipment used in providing goods or services". The standard states that "all general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use." In addition, "depreciation expense shall be recognized on all general PP&E, except land and land rights of unlimited duration."

Further, Code of Federal Regulations § 102-84 defines requirements for an annual real property inventory. Per this sections, "agencies must report…all land, buildings, and other structures and facilities owned by the United States (including wholly-owned Federal Government corporations) throughout the world and all real property leased by the United States from private individuals, organizations, and municipal, county, State, and foreign government."

EFFECT

If asset purchases are not posted to the general ledger as required, VCT's assets for FY2004 and FY2005 could be understated. When asset purchases are instead, directly expensed, the years expenses could be overstated.

Finding: 04-16 Non-Recording of Fixed Assets Acquisitions (Continued)

RECOMMENDATION

We recommend capitalization thresholds be developed and approved by the Trust or, at a minimum, the Trust formally adopt the capitalization thresholds set forth by the United States Department of Agriculture for its agencies. We also recommend the Trust develop and document procedures for reviewing purchases to determine if they meet capitalization thresholds, posting those assets to the general ledger and depreciating/amortizing as required. In addition, inventories of property should be conducted at least once a year.

We recommend that an individual be appointed who will be responsible for tracking fixed assets and serve as a point of contact for real property inventories.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT has adopted the capitalization thresholds of USDA. VCT is working with ASC to get our fixed assets into FFIS. VCT will follow the ASC established processes and procedures for properly recording assets in FFIS. VCT Administrative Officer will be appointed as the employee responsible for tracking fixed assets and will serve as the point of contact for real property inventories.

Finding: 04-17 Roll-Forward of Beginning Net Position Balances (Material Weakness)

CONDITION

When VCT transferred financial accounting from the National Finance Center to the National Business Center, it failed to correctly post prior period balances to the general ledger including assets, liabilities and beginning net position amounts.

CAUSE

Prior to FY2004, Forest Service was processing transactions for the Trust through the National Finance Center. When the Trust began processing their own transactions through the National Business Center at the beginning of FY2004, the only amounts transferred to the new system were FY2003 ending cash balances, which NBC posted as current year transactions.

CRITERIA

According to the Federal Accounting Standards Advisory Board Concept 1, the four objectives of Federal Financial Reporting are Budgetary Integrity, Operating Performance, Stewardship and Systems and Control.

The stewardship objective states that Federal financial reporting should provide "information that helps the reader to determine whether the government's financial position improved or deteriorated over the period. Examples of information relevant to this objective include:

- The amount of assets, liabilities, and net assets (or net position);
- An analysis of government debt, its growth, and debt service requirements;
- Changes in the amount and service potential of capital assets; and
- The amount of contingent liabilities and unrecognized obligations (such as the probable cost of deposit insurance)."

FASAB Concept 1 further states that "financial reporting is the means of communicating with those who use financial information. For this communication to be effective, information in financial reports must have the basic characteristics of understandability, reliability, relevance, timeliness consistency and comparability." "To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions, or should anything be included that would likely cause the information to be misleading to the intended report user."

Finding: 04-17 Roll-Forward of Beginning Net Position Balances (Continued)

EFFECT

Beginning asset, liability and net position amounts necessary in determining the Trust's financial position at the end of FY2004 and FY2005 are missing from the Trust's current financial records. The absence of this information creates a risk that the Trust's financial statements will not correctly state the Trust's financial position and that the statements will not be reliable.

RECOMMENDATION

We recommend the Valles Caldera Trust obtain FY2003 prior period balances from Forest Service and, after validating the amounts, include them as beginning balances in the FY2004 trial balance.

MANAGEMENT'S RESPONSE

VCT has obtained the FY2003 prior period balances from Forest Service and validated the amounts. These amounts will be included as beginning balances on the FY2004 trial balance.

Finding: 04-18 Reconciliation of Fund Balance with Treasury and Cash Transaction Differences (Material Weakness)

CONDITION

VCT did not have a process in place to ensure timely reconciliation of Fund Balance with Treasury. In our cash test work, we identified the following differences between Treasury and Oracle transaction totals:

FY2004:

	Total per Treasury	Total Per Oracle	Difference
Collections	$ 536,599.33	500,082.51	36,516.82
Disbursements	2,673,548.52	2,645,165.74	28,382.78
FY2004 Totals:	$ (2,136,949.19)	(2,145,083.23)	8,134.04

FY2005:

	Total per Treasury	Total Per Oracle	Difference
Collections	$ 686,515.87	617,339.16	69,176.71
Disbursements	2,469,619.81	2,467,840.66	1,779.15
FY2005 Totals:	$ (1,783,103.94)	(1,850,501.50)	67,397.56

CAUSE

The Valles Caldera Trust did not reconcile fund balance with Treasury or prepare the SF224 Statement of Transactions for the first nine months of FY2004 and did not perform reconciliation of differences identified in the FMS 6652 Statement of Differences in FY2004 and FY2005.

CRITERIA

Per Chapter 3300 of the Treasury Financial Manual, "the validity of the classified receipt and disbursements data reported in the central accounts and published in the financial reports of the U.S. Government depends on the accuracy of the monthly statements of transactions submitted by all departments and agencies. The timeliness of the U.S. Government's financial reports depends on strict compliance by agencies with the FMS assigned reporting deadlines. All departments and agencies must prepare their monthly FMS 224 submissions on a priority basis to meet the reporting deadlines".

"Section II of the FMS 224 is used to distinguish disbursement transactions from collections. FMS compares the data reported by each agency's ALC with the control totals reported by the RFC's and IPAC for each ALC level and displays the results in the FMS 6652 Statement of Differences. In the month following the reporting month, agencies should correct any disclosed differences."

Finding: 04-18 Reconciliation of Fund Balance with Treasury and Cash Transaction Differences (Material Weakness) (Continued)

EFFECT

Cash and fund balances reported to Treasury and those listed in the Trust's financial statements could be misstated.

RECOMMENDATION

We recommend the Valles Caldera Trust reconcile and correct all differences identified by Treasury on a priority basis and perform timely reconciliation of fund balances held at Treasury.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. ASC is preparing and submitting VCT 224 reports. They are also reconciling and correcting all differences timely.

Finding: 04-19 Lack of Conflict of Interest Statements

CONDITION

Management, including members of the Board of Trustees, was not required to sign a conflict of interest statement. In addition, members of the Board of Trustees did not attend Federal ethics training.

CAUSE

The Valles Caldera Trust did not provide ethics training to Board members or request conflict of interest statements from Board members or executive management.

CRITERIA

Per the Valles Caldera Preservation Act, appointed trustees shall not be considered Federal employees by virtue of their membership on the Board, expect for purposes of the Federal Tort Claims Act, the Ethics in Government Act, and the provisions of chapter 11 of the title 18, United States Code.

These laws make acts such as bribery, graft and conflicts of interest illegal and require designated individuals, including those in executive level positions and those appointed to positions by the President, to file public financial disclosure reports on an annual basis.

EFFECT

Management of the Trust did not have an understanding of the Federal laws regarding ethics and conflicts of interest. This resulted in an increased risk that Federal laws would not be followed in Trust operations.

RECOMMENDATION

We recommend all management, including members of the Board of Trustees, be required to attend annual ethics training and that public financial disclosure reports are filed on an annual basis according to Office of Government Ethics (OGE) requirements.

MANAGEMENT'S RESPONSE

VCT will implement the auditor's recommendation in FY2009.

Finding: 04-20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA)

CONDITION

Based on a review of the Internal Control Components over the Trust's information technology, the following items that may impact the financial statement audit were noted:

1. Valles Caldera Trust is currently outsourcing financial processing and payroll to the National Business Center (NBC.gov) and Pay.gov, respectively. Both of these organizations are federal organizations. NBC is operated under the Dept. of Interior. NBC provides financial and business management services to agencies within the federal government. Pay.gov is a similar federal service provided by the Dept. of the Treasury. While the use of outsourced providers may be cost effective for functions outside the focus of Valles Caldera Trust, it is important that management provide oversight to the services being performed to ensure their quality, protection of proprietary information, and compliance with budget and schedule. Management did not test and certify compliance with Federal Managers' Financial Integrity Act of 1982 (FMFIA).

2. Sales orders are made using the Internet. While this can simplify the transaction process, it can also expose the organization to potential abuse and fraud, both internal and from external culprits.

3. It was noted that Technology administration duties are not segregated among the current IT staff. Currently the Chief Administrative Officer has approval and review authority of both IT and Finance. The concept of segregation of duties lies in the fact that no one person has full administrative access to a particular system. In the case of the financial system, segregation of duties suggests that no single technology staff should have exclusive administrative authority to assign access to the system. The theory is that no single person can completely compromise the system. Valles Caldera Trust should look for areas where two person controls can be implemented so that each employee can audit the work of the other.

CAUSE

The Trust's IT department is small consisting of an IT Manager and one technician. In addition, the high turnover of staff in both IT and accounting has made it difficult to establish procedures over the processing of financial information, including proper segregation of duties.

Finding: 04-20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA) (Continued)

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 (FMFIA), requires internal controls be established to provide reasonable assurances that revenues and expenditures applicable to the agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

OMB Circular A-123 Management Accountability and Control (revised 1995), further states that "management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation" and that "key duties and responsibilities in authorizing, processing, recording and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.'

EFFECT

VCT is unable to provide reliable, consistent documentation of transactions processed by third parties. In addition, the Trust is exposing themselves to greater risk of loss due to error or fraud.

RECOMMENDATION

1. For outsourced financial processing and payroll, we recommend that NBC and Pay.gov provide Valles Caldera Trust with documentation relevant to the information systems that they support including but not limited to reports of transferred data, system security and monitoring, as well as programming and maintenance related documentation such as backup and recovery of data. Management should periodically review and test system controls and annually certify compliance with Federal Managers' Financial Integrity Act of 1982 (FMFIA).

   If not already in place, written service agreements should be utilized to govern the work conducted by outside agencies. The agreements should clearly define the scope of work to be completed, the anticipated schedule, estimated budget, and any provisions for non performance. Additionally, to ensure that the work is completed as intended, the organization should conduct an annual performance review to assess that work is done within scope, on budget and schedule, conforms to the service agreement, and that the agency remains a viable business partner.

Finding: 04-20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA)

2. To minimize any exposure from sales orders using the internet, the organization should ensure that the web sites are secured using SSL (secured socket layer) technology, tightly control who has access, and monitor transactions to identify any irregularities.

3. To provide proper segregation of duties, Valles Caldera Trust should look for areas where two person controls can be implemented so that each employee can audit the work of the other.

MANAGEMENT'S RESPONSE

1. Both the NBC and Pay.gov provide the required information. The Federal Personnel/Payroll System (FPPS) is hosted on the NBC's mainframe computer in its Data Center. The FPPS meets or exceeds all mandatory and regulatory requirements established by the President's Council on Management Improvement for Federal Automated Systems, the Paperwork Reduction Act, and the Joint Financial Management Improvement Program. Pay.gov resides within the Treasury Web Applications Infrastructure (TWAI) - a highly secure environment provided by the Federal Reserve Information Technology (FRIT) to support several enterprise-wide Treasury applications. During our FISMA audit the Trust will compile and maintain any mandated information regarding contracted systems.

2. SSL is used for our online transactions as well as those using FPPS and pay.gov.

3. The Valles Caldera Trust has provided segregation of responsibilities in financial management since October of 2007.

Finding: 04-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness)

CONDITION

Since inception, management has relied on the system controls of its service providers and has not substantially complied with FISMA. Based on a review of the Internal Control Components over the Trust's information technology and compliance with FISMA, the following differences were identified:

1. There are no policies and procedures for information technology systems and supporting processes. Policies and procedures such as user account maintenance, change management, network monitoring, and backup and data recovery provide consistent management, clear direction, protection from turnover, and standard, agreed-upon methods to address the operating platform, workstations, cabling, hardware, software, security, purchasing, data management, vendor management, and other related areas.

2. An independent information security consultant has not reviewed the Valles Caldera Trust's external network connections in the past year. Additionally, it does not appear that the firewall has undergone formal penetration and vulnerability testing in the past year. The Trust does not have a process for reviewing SAS70 reports of their service provider.

3. Valles Caldera Trust is lacking a formal, written disaster recovery plan.

4. The organization appears to take adequate steps to backup data, and store archive tapes offsite and in secure facilities. But it does not appear that regular restoration testing is performed or that backup tapes are rotated offsite. It was noted that data recovery is performed on an ad hoc basis on request.

5. It was stated that the screening process for prospective technology employees does not include credit and criminal background checks.

6. Security logs are not presently being maintained and reviewed. This practice can allow security breaches and data corruption to go undetected.

7. It was noted that IT staff are not provided training to use, support and maintain the technology systems.

Finding: 04-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

CAUSE

The Trust has not provided time or funding in its budget or made it a top priority to implement strong controls over the information technology functions. The IT staff is small, consisting of two or three individuals and they are currently responsible for all computers and the website.

CRITERIA

Section 3544 of the Federal Information Security Management Act (FISMA 44 USC) requires each agency to "develop, document and implement an agency wide information security program…to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source". Specifically, the program should include:

- Periodic assessments of the risk and magnitude of the harm;
- Policies and procedures that are based on the risk assessment;
- Subordinate plans for providing adequate information security for networks, facilities, and systems or groups of information systems, as appropriate;
- Security awareness training;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, and practices to be performed no less than annually;
- A process for planning, implementing, evaluating and documenting remedial action to address and deficiencies in the information security policies, procedures, and practices of the agency;
- Procedures for detecting, reporting and responding to security incidents;
- Plans and procedures to ensure continuity of operations for information systems that support the operations and assets of the agency.

Finding: 04-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

EFFECT

The Trust is being exposed to increased risk, specifically:

- Network access points present vulnerabilities and associated risks that could compromise critical systems on the network.
- Without a written disaster recovery plan to provide guidance, the organization may be unable to effectively manage the recovery effort.
- Valles Caldera Trust may be held liable for negligent hiring should there be business losses due to employee theft and fraud. Background screening may uncover notices of bankruptcy, liens, and judgments as well as any felony or misdemeanor filings.

RECOMMENDATION

We recommend the following:

1. Procedures such as a change management should provide for consistent documentation of the approval, development, testing, and deployment process and help ensure the expected performance of the system. Written policies and procedures for information technology systems and supporting processes should be developed and kept current to help ensure consistency and accuracy, and to protect against the unavailability of knowledgeable staff.

2. While the organization may have security expertise in-house, an independent information security consultant would provide an objective and unbiased security assessment that gives an accurate picture of Valles Caldera Trust's overall security posture. In addition to the external connections to the network, the information security consultant can test access controls, conduct penetration tests, perform vulnerability scanning, and evaluate physical security. It is recommended that a security assessment be conducted annually, and penetration testing be added to quarterly maintenance routines and that the Trust obtain and review their service providers SAS70 report.

Finding: 04-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

3. A written disaster recovery plan should be developed and be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations. It would be prudent for the organization to test the disaster recovery plan on an annual basis to ensure the viability of the plan and the timeliness of its execution. Valles Caldera Trust has an obligation to its stakeholders and the people it serves to ensure that it has a plan for continued business operations. Additionally, the disaster recovery plan should be reviewed and approved by appropriate non-technology managers. This will help ensure that the disaster recovery plan is in line with business continuity requirements. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with the organization's overall business continuity planning. Doing so will prepare Valles Caldera Trust for continuing operations in the event of an unforeseen disaster.

4. Regular restoration tests should be performed to confirm that data can be retrieved when needed. Such tests are simple to complete and can be used to identify when backup hardware and tapes have failed, if software is not configured properly, and when employees are struggling to perform appropriate backup procedures. Complete regular restoration tests, preferably at least once a month is recommended.

In addition to secure onsite storage, backups should be rotated off-site to a heat, fire and theft resistant facility so that information is available for use in disaster recovery. Backup tapes stored onsite might melt during a fire, rendering them unusable. Backup tapes should also be replaced periodically.

5. Including credit and criminal background checks in the screening process for prospective technology employees may prevent problems that can result from prospective employees misrepresenting their backgrounds and credentials.

6. Valles Caldera Trust and its technology service providers should be reviewing security logs on a regular basis to identify potential data corruption or fraudulent activities.
7. To ensure that technology operations are aligned with the strategic business goals of the organization and that technology investments are being maximized, it is critical that users and IT staff be given appropriate training. Staff productivity, data integrity, system performance and overall business operations are dependent on staff being able to maximize use of the systems that have been put in place by the organization. If not already being done, Valles Caldera Trust should address the training needs of the organization.

Finding: 04-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

MANAGEMENT'S RESPONSE

1. The Trust is investing in Compliance Management software which will provide templates for various regulations and policies in the area of compliance, including FISMA and PCI DSS. The reporting tool accompanying the software provides NIST Security Content Automation Protocol (SCAP) validation in accordance with the OMB Federal Desktop Core Configuration (FDCC) security mandate for all Federal agencies. There are also some existing procedures for client setup and user maintenance that will be expanded upon in order to meet FISMA criteria.

2. The trust will look into having external audits, where required.

3. There is an informal contingency plan in place for the Valles Caldera Trust's main site. In order to meet FISMA requirements we will need to integrate this plan, along with a plan for the offsite server, into a formal disaster recovery plan. It will be hard to fully implement a system recovery test procedure because the Trust only maintains one main server. If the test procedure fails at that point you would have introduced the disaster you were trying to prevent. The Trust can however maintain the condition of its backup disks and whether they are functional as well as do a formal documented restore test weekly.

4. Regular restoration tests are currently performed by the IT staff. The IT Department of the Trust will begin to provide a log showing when and for what the restoration test was performed. The tape backups are stored within a transferable fireproof safe within a fireproof safe. The trust will look into appropriate measures to transport and store data offsite.

5. When appropriate background information is not available from the previous employer the Valles Caldera Trust will perform a MBI for the employee.

6. All logs are frequently reviewed on the main server and on the off-site server as well. The trust is considering purchasing a log auditing tool in addition to the compliance management software if the log analysis is not found to be sufficient for FISMA.

7. The Valles Caldera Trust does address the training needs of the organization in many areas. One area the Trust is aware that it needs to address training for individuals in the area of communications, disaster planning, and general information officer regulations and procedures.

Finding: 04-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

The Valles Caldera Trust is working with the Office of the Chief Information Officer, U.S. Forest Service to ensure that IT Staff has the appropriate training and knowledge to comply with FISMA.

Finding: 04-22 Lack of Supporting Documentation for Journal Adjustments and Disbursements (Material Weakness)

CONDITION

The trust could not locate supporting documentation for adjusting and accrual journal entries that were recorded to the financial system. Additionally, several disbursements from fiscal year 2001 to 2005 requested for testing cut-off and proper recording of assets and expenses could not be located.

CAUSE

Procedures and key controls have not been put into place to provide proper segregation of duties, monitoring, and record keeping controls over the journal and disbursement processes.

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 requires internal accounting and administrative controls of each executive agency be established to provide reasonable assurances that funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.

EFFECT

If not addressed, the control deficiencies could potentially lead to loss and irregularities that may not be detected.

RECOMMENDATION

We recommend that VCT begin establishing record keeping procedures to ensure proper documentation is maintained to support each journal entry and disbursement. The journal entries should also be reviewed by a supervisor other than the preparer on a daily basis and compared to the supporting documentation to the adjustment or accrual. Discrepancies should be researched and reconciled in a timely manner.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures. VCT employees have "read only" access to FFIS. All transactions entered in FFIS are entered and approved by ASC who is retaining the documentation to support such entries. FFIS does not allow for the same individual to input and approve entries in FFIS.

Finding: 04-23 Compilation of Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI)

CONDITION

The Trust does not have adequately designed controls to ensure the consistency of information compiled and reported in its RSI and RSSI sections of the financial statements.

CAUSE

Procedures and key controls have not been put into place to provide proper monitoring, and record keeping controls over the tracking and reporting of RSI and RSSI.

CRITERIA

OMB Circular No. A-123, Management Accountability and Control, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

EFFECT

If not addressed, the control deficiencies could potentially lead to incomplete or misleading information reporting in the RSI and RSSI.

RECOMMENDATION

We recommend that the Trust incorporate controls sufficient to maintain and process appropriate data required to properly complete RSI and RSSI reporting.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures.

Finding: 04-24 Develop Performance Goals that Comply with the Government Performance and Results Act (GPRA)

CONDITION

VCT has not developed performance goals and objectives that comply with the requirements of GPRA. The information in Management's Discussion and Analysis are not sufficient to meet GPRA requirements and the data used was not always reconciled to supporting systems or original source data.

CAUSE

Due to high turnover in key management positions during FY2004, the Trust was unable to generate reliable information for audit and for performance goal monitoring and reporting. In addition, the key controls had not been put into place and documented as necessary for review and reporting on internal controls.

CRITERIA

The *Government Performance and Results Act* requires the Trust to prepare an annual performance plan covering each program activity set forth in the budget which shall include:

- Establish performance goals to define the level of performance to be achieved by a program activity;
- Express such goals in an objective, quantifiable and measurable form unless authorized to be in an alternative form;
- Briefly describe the operational processes, skills and technology and human capital information or other resources required to meet the performance goals;
- Provide a basis for comparing actual program results with the established performance goals; and
- Describe the means to be used to verify and validate measured values.

EFFECT

The Trust is not in compliance with GPRA. In addition, there is the risk that Management's Discussion and Analysis may be incomplete or misleading.

RECOMMENDATION

We recommend that VCT develop and document a strong system of internal controls over the process of capturing, monitoring and reporting of information under the requirements of GPRA.

Finding: 04-24 Develop Performance Goals that Comply with the Government Performance and Results Act (GPRA) (Continued)

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures.

Finding: 04-25 Highway Fund Reporting Requirements (Material Weakness)

CONDITION

VCT has not established procedures for tracking and reporting Highway Fund expenditures according to the requirements of the Highway Administration. Specifically, we noted the following:

- The established posting logic provided by the Highway Administration was not followed;
- The Trust's highway fund spending was not reported by the Trust according to Highway Administration requirements;
- End of year closing entries were not performed by the Trust to return unspent/unobligated amounts to the Highway Fund Administration.

CAUSE

VCT personnel responsible for processing transactions were not properly trained regarding the requirements for Federal Highway funds.

CRITERIA

Per the Federal Highway Administration *Accounting Handbook for Recipient (Child) Accounts*,

- "The recipient is responsible to track the commitments and obligations of this authority in accordance with US Government Standard General Ledger (SGL) guidelines using both budgetary and proprietary accounts as appropriate".
- "At the end of each processing month…the recipient will submit a separate cumulative from the beginning of the fiscal year trial for each specific program.
- "The recipient is responsible to verify that the trial balance is in balance, displays the appropriate accounts and reflects the activity of the annual period to date."
- "The recipient is responsible to validate the authority provided is used but not exceeded."
- "The recipient will submit a properly prepared SF133 (Report on Budget Execution and Budgetary Resources).
- "Recipients are also responsible to estimate, request, control, and reconcile fund authority to cover disbursements."
- No later than the 5th workday of each month…the recipient will project the cash disbursement needs of the subsequent quarter."
- "At the end of each fiscal year, FHWA in coordination with the recipient will withdraw all unobligated authority and undisbursed cash."

Finding: 04-25 Highway Fund Reporting Requirements (Material Weakness) (Continued)

EFFECT

If controls are not in place to capture, monitor and report Highway Fund spending, the risk of material misstatements to the financial statements is increased.

RECOMMENDATION

We recommend that VCT develop and document a strong system of internal controls over the process of capturing, monitoring and reporting of spending under the requirements of the Highway Fund Administration.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures.

VALLES CALDERA TRUST
STATUS OF PRIOR YEAR FINDINGS
Year Ended September 30, 2005 and 2004

The Trust was established in 2000 through the enactment of the Valles Cladera Preservation Act of 2000 and did not obtain audits for fiscal years 2000 through 2003. The Trust first audit of fiscal years 2004 and 2005 were performed simultaneously and as such all findings identified in the 2004 audit are repeated in the 2005 audit. The following findings remain open in both fiscal year 2004 and 2005:

01 Timing of Receipts and Deposits, and Classification
02 Cash Receipts Supporting Documentation
03 Cash Receipts Deposit Procedures
04 Invoices Being Prepared
05 Financial Management System and Reporting Process (Material Weakness)
06 Reconciliations (Material Weakness)
07 Sole Source Contracts (Material Weakness)
08 Lack of Documented Policies (Material Weakness)
09 Bids on Procurements
10 Proper Authorization of Procurements (Material Weakness)
11 Budget Reporting Requirements (Material Weakness)
12 Prompt Payment Act
13 Use of Appropriations
14 Annual Audit and Performance Reporting (Material Weakness)
15 Inventory/Cost of Goods Sold
16 Non-Recording of Fixed Assets Acquisitions (Material Weakness)
17 Roll-Forward of Beginning Net Position Balances (Material Weakness)
18 Reconciliation of Fund Balance with Treasury and Cash Transaction Differences (Material Weakness)
19 Lack of Conflict of Interest Statements
20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA)
21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness)
22 Lack of Supporting Documentation for Journal Adjustments and Disbursements (Material Weakness)
23 Compilation of Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI)
24 Develop Performance Goals that Comply with the Government Performance and Results Act (GPRA)
25 Highway Fund Reporting Requirements (Material Weakness)

REQUIRED SUPPLEMENTAL INFORMATION

VALLES CALDERA NATIONAL TRUST
SUPPLEMENTARY INFORMATION (UNAUDITED)
Year Ended September 31, 2005 and 2004

Scheduled Intra-Governmental Assets and Liabilities as of September 30, 2005

Assets

Agency	*Investments*	*Accounts Receivable*	*Fund Balance with Treasury*
Department of the Treasury	$ -	-	$ 3,205,402
Forest Service	-	-	-
Other federal agencies	-	-	-
Total	$ -	-	$ 3,205,402

Liabilities

Agency	*Accounts Payable*	*Advance for Capital Improvements*	*Advances for Environmental Cleanup*	*Debt*
Department of the Treasury	$ -	-	-	-
Forest Service	-	-	-	-
Other	106,039	-	-	-
Total	$ 106,039	-	-	-

Scheduled Intra-Governmental Assets and Liabilities as of September 30, 2004

Assets

Agency	*Investments*	*Accounts Receivable*	*Fund Balance with Treasury*
Department of the Treasury	$ -	-	2,135,653
Forest Service	-	-	-
Other federal agencies	-	-	-
Total	$ -	-	2,135,653

Liabilities

Agency	*Accounts Payable*	*Advance for Capital Improvements*	*Advances for Environmental Cleanup*	*Debt*
Department of the Treasury	$ -	-	-	-
Forest Service	-	-	-	-
Other	$ 106,039	-	-	-
Total	$ 106,039	-	-	-

DEFERRED MAINTENANCE

The Trust determined that the USDAFS had deferred maintenance to many of the buildings that were transferred to the Trust. Using an Inventory Condition Assessment Program document from the USDAFS upon receipt of the property and an assessment survey by Trust personnel, the Trust determined that there is $1.2 million of deferred maintenance to buildings at the Preserve. There is no deferred maintenance for any other major class of asset.

STEWARDSHIP LAND

The Trust has stewardship responsibility to manage the approximately 95,000 acres of land purchase under the Valles Caldera Preservation Act of 2000. The Trust did not acquire any additional stewardship land in fiscal years 2004 or 2005.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

STEWARDSHIP INVESTMENTS

Research and Development

The Trust has made considerable progress in developing the preserve science program, which is organized into three broad categories: inventory, monitoring and research. In general, inventory is the assessment of the natural resources in terms of species presence and distributions, vegetation, soils, and geologic formations. Monitoring addresses temporal changes in these resources, as a result of trust operations (e.g., recreation, hunting, fishing, fire management, forest thinning, livestock grazing). Monitoring includes experimental and applied research projects undertaken by scientists associated with or permitted by the trust using outside funding sources for supporting the research work. This categorical distinction attempts to separate those research projects funded internally for specific management goals from those research projects funded externally for other purposes. The trust recognizes, however, that many of theses externally-funded projects will provide important and useful information for understanding and managing the preserve's resources.

The Trust's investment in research and development for fiscal years 2004 and 2005 was not quantifiable due to the Trust's lack of an established integrated financial management and performance system. However, the Trust's accomplishments using external funding and appropriations included the following:

- Continued efforts for developing inventory maps for geology, soils, vegetation and fauna and flora.
- Continued monitoring of livestock and wildlife (elk) grazing activities, fishing program, forest thinning program, prescribed fire program, climate and species populations.
- Continued scientific research in anthropology, archaeology, biology, ecology, wildlife science, fisheries science, range science, soil science, hydrology, climatology and geology.