



## **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

May 29, 2008

The Honorable Patrick H. Lyons  
Commissioner of Public Lands  
New Mexico State Land Office  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87501

Re: Special Audit of State Land Trust Sales, Exchanges and Leases

Dear Commissioner Lyons:

As you know, in a letter to the Office of the State Auditor (OSA) dated April 22, 2008, several New Mexico State Representatives requested that the OSA perform certain audit work related to the State Land Office (SLO). I appreciate the courtesy you and your staff recently extended to my staff in assisting the OSA with our initial inquiries regarding the general operations of the SLO. This letter is to inform you of the general scope of the special audit the OSA will conduct in accordance with the State Auditor's jurisdiction pursuant to the Audit Act, Sections 12-6-1 through 12-6-14 NMSA 1978.

The general scope of our special audit work will be to test and evaluate the policies and procedures of the SLO regarding sales, exchanges and leases of state trust lands. Thank you for having Mr. Stephen Hughes provide OSA staff with a summary of SLO land sales, land exchanges, closed and ongoing land lease transactions, and SLO administrative rules. However, in order to meet the objectives of the special audit, the OSA will need access to additional SLO documents and data.

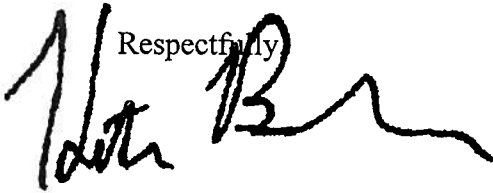
In an initial meeting with my staff at the SLO on May 20, 2008, your staff discussed the various market factors that influence sales, exchanges and leases of state trust lands. The first phase of our special audit will be to document any written SLO policies and procedures that support the SLO decision-making process underlying state trust land transactions. The OSA also will attempt to independently verify the completeness of summaries provided by the SLO to ensure that your office can account for all state trust land transactions.

With regard to state trust land sales, exchanges and leases that are identified as "closed" on the SLO summary, OSA auditors will examine the supporting documentation that defines the monetary terms (i.e., contracts) of the land transactions. The OSA will also substantiate all financial activity reported, including appraisals and improvement value credits. With regard to ongoing state trust land transactions (i.e., future lot sales revenue, planning and development leases), the OSA will review and test SLO's policies, procedures and internal controls to ensure that the SLO has systems in place that track and account for the land transactions.

The OSA's audit manager who is responsible for the supervision of work and completion of the special audit is Dennis DeVary. I have directed Mr. DeVary to contact Mr. Hughes to schedule an appropriate time during which the OSA may begin to proceed with the special audit procedures outlined in this letter. Please note that my office may amend requests for additional information as we proceed with our special audit.

Thank you for your attention to this matter. Please do not hesitate to contact my office should you have any questions.

Respectfully

A handwritten signature in black ink, appearing to read "Hector H. Balderas". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Hector H. Balderas  
State Auditor

Cc: Robert Stranahan, General Counsel, SLO  
Stephen Hughes, Associate Counsel, SLO