

Charles L. Henry

Certified Public Accountant

666 Cook Avenue

Raton, New Mexico 87740

(505) 681-9762

STATE OF NEW MEXICO

Vermejo Conservancy District

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Year Ended June 30, 2016

STATE OF NEW MEXICO
Vermejo Conservancy District
Table of Contents
June 30, 2016

	<u>Page</u>
INTRODUCTION SECTION	
Table of Contents	i
Official Roster	ii
FINANCIAL SECTION	
Independent Accountant's Report on Applying Agreed-Upon Procedures	iii - vii
BASIC FINANCIAL STATEMENTS	
Statement of Revenues, Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)	1
Copy of Year End Financial Report to DFA	2 - 3
Schedule of Findings and Responses	4 - 11
Exit Conference	12

STATE OF NEW MEXICO
Vermejo Conservancy District
Official Roster
June 30, 2016

Official Roster

Board Members

Karl Shubert

Position

President

Randy Casper

Vice President

Bill Goebel

Secretary/ Treasurer

Bob Hronich

Board Member

Roger Kuchan

Board Member

Administrative Staff

Joe Hronich

Position

General Manager

Tammy Brandfas

Office Manager

Charles L. Henry

Certified Public Accountant

666 Cook Avenue

Raton, New Mexico 87740

(505) 681-9762

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

**Karl Shubert, President
and Members of the Board
Vermejo Conservancy District
and
Honorable Timothy Keller
New Mexico State Auditor**

I have performed the procedures enumerated below for the Vermejo Conservancy District (District), for the year ended June 30, 2016. The District was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the District through the Office of the New Mexico State Auditor. The management of the Vermejo Conservancy District is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. My procedures and findings are as follows:

VERIFY THE LOCAL PUBLIC BODY'S REVENUE CALCULATION

PROCEDURES:

Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

OBSERVATIONS:

Based on the review of the District's General Ledger, total revenues for the fiscal year ended June 30, 2016 were \$182,238. Based on this information the District properly determined to be a Tier 4 for the fiscal year 2016 since their revenues were between \$50,000 and \$250,000 and there was no capital outlay appropriations during the year.

CASH

PROCEDURES:

- a) Determined whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.

CASH PROCEDURE - Continued

- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division (DFA-LGD).
- c) Determined whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

OBSERVATIONS:

- a) The District has one checking account, one money market account, two savings accounts and two Certificates of Deposit. The QuickBooks software package is used to record District transactions. All bank statements were complete and on-hand but of the twelve reconciliations reviewed only four were considered as timely reconciled. (Finding - 2015-001)
- b) All bank reconciliations were reviewed for accuracy and three instances were noted where errors were made but not detected by the reconciliation processes. (Finding - 2015-001)
- c) The District contacted the DFA-LGD and filed their budget as required. The final budget was reviewed and accepted by DFA-LGD September 22, 2015. A copy of the acceptance letter is included in this statement.
- d) Bank account balances were determined to exceed the insured limits at the end of the fiscal year and for eight separate months during the year. Though pledged collateral was required no such agreement was in place as required. (Finding - 2016-001)

CAPITAL ASSETS

PROCEDURES:

Verify that the local public body is performing a yearly inventory as required by 12-6-10 NMSA 1978

OBSERVATIONS:

The District was not able to provide a list of all of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. (Finding - 2014-002)

REVENUE

PROCEDURES:

Identify the nature and amount of revenue from sources by reviewing the budget agreements, rate schedules, and underlying documentation.

- a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year ended June 30, 2016 for each type of revenue source.

Select a sample of revenue - Based on Auditor Judgment - and test using the following attributes;

REVENUE PROCEDURE - Continued

- b) Amount recorded in the general ledger agrees to supporting documentation and the bank statement.
- c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this review work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accru

OBSERVATIONS:

- a) The District provided revenue and expenditures for the year ended June 30, 2016 that were compared to the budget as provided to DFA-LGD. The minutes of the District reflect the approval of the budget by the board and quarterly information as provided to DFA-LGD was reviewed. The District provided a approval letter from DFA-LGD for the final budget but the budget approval by DFA-LGD was not made part of the minutes as required by Section 6-6-5 NMSA 1978. (Finding - 2014-002)
- b) Cash balances recorded in the general ledger agreed with the bank reconciliations with two exceptions but the majority of District bank reconciliations were not performed timely. (Finding - 2015-001)
- c) Cash receipts as recorded in the general ledger agreed with the bank reconciliations. The District was unable to provide any supporting documentation for all water delivery charges for the first six months of the fiscal year. (Finding - 2015-003)

EXPENDITURES

PROCEDURES

Select a sample of cash disbursements - Based on Auditor Judgment - and test using the following attributes:

- a) Determine that amounts recorded as disbursed agree to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

OBSERVATIONS:

- a) As part of the test of transactions Federal Payroll Tax Reports (941) were reviewed for all quarters of the fiscal year. The 3rd and 4th quarter reports for 2015 could not be tied to disbursements as reflected in the general ledger. The 1st and 2nd quarter 2016 reports appear to reflect corrective action by the District. (Finding - 2014-004)
- b) A sample of 36 expenditure transactions was selected to test for proper authorization, compliance with the budget and supporting documents. This sample represented 59% of all district expenditures excluding payroll. All transactions tested were found to be compliant with the test objectives with one exception.(Finding - 2015-002)
- c) The bid process (or request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC). Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC) were found to be compliant.

JOURNAL ENTRIES**PROCEDURES**

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

OBSERVATIONS:

- a) The District made no journal entries for the period and it is noted that journal entries are not normally prepared by the District.

BUDGET**PROCEDURES**

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a) Verify, through a review of the minutes and correspondence, that the budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceed the final budget at the legal level of budgetary control; if so, report a compliance finding.

BUDGET PROCEDURE - Continued

- c) From the original and final approved budgets an general ledger, prepare a schedule of revenue and expenditures - budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

OBSERVATIONS:

- a) The District provided quarterly information provided to DFA-LGD for the fiscal year and the minutes reflected approval of the final budget to be provided to DFA-LGD but there was no entry in the minutes that DFA-LGD approved the budget as required. (Finding - 2014-003)
- b) A review of the budget as well as the expenditures found that the actual expenditures did not exceed budgeted expenditures.

OTHER

PROCEDURES

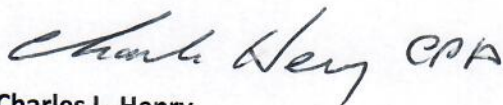
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section 2.2.2 10(I)(3) NMAC.

OBSERVATIONS:

No exceptions were found as a result of applying the procedures above indicating any fraud or illegal acts by the District. (Finding - 2014-001)

I was not engaged to, and did not conduct an audit, the objectives of which would be the expression of an opinion on the accounting records. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have to be reported to you.

This report is intended solely for the for the information and use of the Vermejo Conservancy District , the New Mexico Office of the State Auditor, New Mexico State Legislature and the DFA-LGD and is not intended to be, and should not be used by anyone other than those specified parties.



Charles L. Henry
Certified Public Accountant
June 14, 2017

BUDGET PROCEDURE - Continued

- c) From the original and final approved budgets an general ledger, prepare a schedule of revenue and expenditures - budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

OBSERVATIONS:

- a) The District provided quarterly information provided to DFA-LGD for the fiscal year and the minutes reflected approval of the final budget to be provided to DFA-LGD but there was no entry in the minutes that DFA-LGD approved the budget as required. (Finding - 2014-003)
- b) A review of the budget as well as the expenditures found that the actual expenditures did not exceed budgeted expenditures.

OTHER

PROCEDURES

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section 2.2.2 10(l)(3) NMAC.

OBSERVATIONS:

No exceptions were found as a result of applying the procedures above indicating any fraud or illegal acts by the District. (Finding - 2014-001)

I was not engaged to, and did not conduct an audit, the objectives of which would be the expression of an opinion on the accounting records. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have to be reported to you.

This report is intended solely for the for the information and use of the Vermejo Conservancy District , the New Mexico Office of the State Auditor, New Mexico State Legislature and the DFA-LGD and is not intended to be, and should not be used by anyone other than those specified parties.

Charles L. Henry
Certified Public Accountant
June 14, 2017

STATE OF NEW MEXICO
Vermejo Conservancy District
Statement of Revenues, Expenditures - Budget and
Actual (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual Cash Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Class A	\$ 89,259	\$ 82,199	\$ (7,060)
Class B	22,315	16,142	(6,173)
Contracted Services	-	7,649	7,649
Water Charge	37,241	51,156	13,915
Pasture / Lake Lease	13,250	18,300	5,050
Interest	1,400	2,929	1,529
Rent	3,000	2,930	(70)
Misc. Income	3,000	690	(2,310)
Canal Assessment	127	242	115
	<u>169,591</u>	<u>182,238</u>	<u>12,647</u>
Expenditures			
Equip. Purchase / Lease	2,500	2,264	236
Equip. Repair / Supply	15,000	15,852	(852)
Loan Payment	-	-	-
Gas & Oil	25,000	8,499	16,501
Office Supply	2,500	3,124	(624)
Insurance	17,000	13,352	3,648
Misc Expense	5,500	772	4,728
Salaries / Payroll Tax	88,000	87,903	97
Accounting	4,641	-	4,641
Legal	2,750	206	2,544
Telephone	1,100	1,069	31
Travel Expense	1,200	699	502
Utilities	4,400	3,048	1,352
	<u>169,591</u>	<u>136,788</u>	<u>32,803</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>45,450</u>	<u>(20,156)</u>
Principal Payment on Association Loans	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Receipts over Disbursements	<u>-</u>	<u>45,450</u>	<u>(20,156)</u>
Cash balance beginning of Year		<u>288,802</u>	
Cash balance End of Year		<u>\$ 334,252</u>	

Unaudited - see Independent Accountant's Report on Applying Agreed-Upon Procedures

SUSANA MARTINEZ
GOVERNOR



THOMAS E. CLIFFORD, PH.D.
CABINET SECRETARY

RICK LOPEZ
DIRECTOR

BILL R. GARCIA
Deputy Director

STATE OF NEW MEXICO
DEPARTMENT OF FINANCE AND ADMINISTRATION
LOCAL GOVERNMENT DIVISION
Bataan Memorial Building ♦ 407 Galisteo St. ♦ Suite 202 ♦ Santa Fe, NM 87501
PHONE (505) 827-4950 ♦ FAX (505) 827-4948

September 4, 2015

Mary Lou Kern
President
Vermejo Conservancy District
P.O. Box 292
Maxwell, NM 87728-0292

Dear Ms. Kern:

The final budget for your local government entity ("entity") for Fiscal Year 2016, as approved by your governing body, has been examined and reviewed. The Department of Finance and Administration, Local Government Division (LGD) finds it has been developed in accordance with applicable statutes and budgeting guidelines, and sufficient resources appear to be available to cover budgeted expenditures. The *Budget Certification of Local Public Bodies* rule, 2.2.3 NMAC, requires that your entity's audit for Fiscal Year 2014 should have been submitted to the Office of the State Auditor ('Auditor') as of this time. The LGD's information indicates that the last audit your entity submitted to the Auditor was for Fiscal Year 2013. Therefore, in accordance with NMSA 1978, Section 6-6-2 (L) (2011) and 2.2.3.7 (B) NMAC, the LGD grants "conditional" certification of your entity's final Fiscal Year 2016 budget.

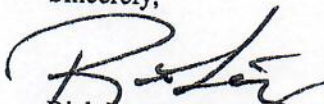
Please submit a letter to the LGD and the Auditor by September 21, 2015 stating when your entity will be in compliance with the audit requirement so that the LGD may provide final approval of your Fiscal Year 2016 budget upon receiving documentation that the audit requirement is met. Also note that state statute requires all revenue sources be expended only for public purposes, and if applicable, in accordance with the Procurement Code, Chapter 13, Article 1, NMSA 1978. Use of public revenue is governed by Article 9, Section 14 of the Constitution of the State of New Mexico, commonly referred to as the anti-donation clause.

Budgets approved by the LGD are required to be made a part of the minutes of your governing body according to NMSA 1978, Section 6-6-5 (1957). In addition, NMSA 1978, Section 6-6-6 (2001) provides that the approved budget is binding on local officials and governing authorities; and any official or governing authority approving claims or paying warrants in excess of the approved budget or available funds will be liable for the excess amounts.

Finally, as required by NMSA 1978, Section 6-6-2 (H) (2011), LGD is required to approve all transfers between line items and revised budgets for expenditures not included in the final approved budget.

If you have questions regarding this matter, please call Anita Medina of my staff at 505-827-8062.

Sincerely,


Rick Lopez, Director
Local Government

xc: file

Vermejo Conservancy District Budget Worksheet 2015-2016

	14-15 Final Budget	as of 6/30/15 Actual Spent/Received	Suggested	2015-2016 Preliminary
Revenues:				
Class A	\$ 101,042.59	\$ 89,870.14	\$ 89,258.58	
Class B	\$ 25,260.65	\$ 21,682.40	\$ 22,314.65	
Water Charge	\$ 42,101.07	\$ 20,747.98	\$ 37,241.08	
Other Income:				
Capital Improvement	\$ 25,000.00			
Pasture/Lake Lease	\$ 12,630.00	\$ 17,100.00	\$ 13,250.00	
Interest	\$ 1,400.00	\$ 1,358.01	\$ 1,400.00	
Rent	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00
Misc. Income	\$ 1,000.00	\$ 651.17	\$ 3,000.00	
Canal Assessment	\$ 127.00	\$ 120.84	\$ 127.00	\$ 127.00
Carry Over from Previous Year			\$ -	\$ -
Total Income	\$ 211,561.31	\$ 154,530.54	\$ 169,591.31	\$ 3,127.00
Expenditures:				
Equip. Purchase/Lease	\$ 2,750.00	\$ -	\$ 2,500.00	
Equip. Repair/Supply	\$ 15,500.00	\$ 17,881.30	\$ 15,000.00	
Gas & Oil	\$ 33,000.00	\$ 15,176.35	\$ 25,000.00	
Office Supply	\$ 2,200.00	\$ 1,378.65	\$ 2,500.00	
Insurance	\$ 17,050.00	\$ 15,060.00	\$ 17,000.00	
Misc. Expense	\$ 5,500.00	\$ 2,441.19	\$ 5,500.00	
Salaries/Payroll Tax	\$ 88,000.00	\$ 80,107.09	\$ 88,000.00	
Accounting	\$ 4,641.31	\$ 4,641.31	\$ 4,641.31	
Legal	\$ 2,750.00	\$ -	\$ 2,750.00	
Telephone	\$ 1,100.00	\$ 1,040.92	\$ 1,100.00	
Travel Expense	\$ 1,100.00	\$ 1,145.95	\$ 1,200.00	
Utilities	\$ 4,400.00	\$ 3,145.15	\$ 4,400.00	
Total Expenditures	\$ 211,561.31	\$ 142,017.91	\$ 169,591.31	\$ -

169591.31 Total Expenditures
 -20777 Minus Other Income

 148814.31 Adjusted Expenditures
 x 75%

 111610.7325 Class A & B Revenue
 x 80%

 89288.586 Total Class A Revenue
 7389 Class A Shares

 \$ 12.08 Class A Assessment/ Share

111610.73 Class A & B Revenue
 x 20%

 22322.15 Class B Total Revenue
 - 6092269 Current Year Total From PTD-13

\$ 148,814.31 Total Adjusted Expenditures
 X 25%

 \$ 37,203.58 Total Water Charge
 1850 Est AF to be Delivered

 \$ 20.11 Water delivery Charge / AF

\$ 0.003664012
 X 1000

 \$ 3.66 Mill Levy

APPROVED PURSUANT TO
 SECTION 6-6-2 NMSA 1978
 LOCAL GOVERNMENT DIVISION

DATE 9/3/15

BY Suzanne M. Rodney
 DEPARTMENT OF FINANCE AND ADMINISTRATION

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses

June 30, 2016

STATUS OF PRIOR YEAR FINDINGS

- 2014-001 - Failure to file and provide Tier 4 Engagement Report by the Required Due Dates -- Unresolved & Repeated
- 2014-002 - No Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End -- Unresolved & Repeated
- 2014-003 - Approved Budget by DFA-LGD was Not Made Part of the Minutes -- Modified & Repeated
- 2014-004 - Required Payroll Tax Deposit Was Not Made -- Modified & Repeated
- 2015-001 - Bank Reconciliations Not Performed Timely or Correctly -- Modified & Repeated
- 2015-002 - Lack of Supporting Documentation and Related Party Transaction -- Unresolved & Repeated
- 2015-003 - Revenue transaction not supported by proper documentation -- Unresolved & Repeated

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2014-001 - Failure to file and provide Tier 4 Engagement Report by the Required Due Dates - Compliance

Condition:

The District did not submit the completed Recommendation Form for Tiered System Local Public Bodies to the Office of the State Auditor by the required date. In addition the audit report was not delivered to the state auditor by the required due date. As reports for fiscal years 2014 through 2016 were all prepared at the same time no progress is reflected towards implementing the prior year corrective action plan.

Criteria:

2.2.2.16 (D) (6) NMAC required that the District submit the completed Recommendation Form for Tiered System Local Public Bodies by July 1 and the due date for filing this required report was December 1, 2015. Audit Rule 2.2.2 16 (H) NMAC.

Effect:

Since the recommendation form and contract were submitted late, the agreed-upon procedures report was not submitted to the State Auditor by the required due date. By being late the users of the report were not receiving timely information about the results of the agreed-upon procedures and the District was not in compliance with the State Audit Rule.

Cause:

The District became late in acquiring the required Audit/Agreed Upon Procedures services when the IPA selected was unable to perform the services in the previous year. The Board believed they should stay with the individual chosen as the most expedient way to comply with the required reporting.

Recommendation:

The District should be proactive in the selection of their IPA by starting the process of selection earlier in the fiscal year as well as verifying the quality of and ability to perform the needed services are addressed as much as possible.

Management Response:

The District was aware of the Audit Rule requirements and had a long relationship with the IPA. The lack of performance was not anticipated and the District was not prepared to deal with the contracted IPA's inability to perform. the District concurs with the above recommendation.

Corrective Action Plan: The Board will file the required IPA recommendation form timely for FY 2018. The board will also contract with a approved IPA for the 2017 Tier Engagement in sufficient time to allow for its completion prior to the 2017 required submittal date.

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses
June 30, 2016

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2014-002 - No Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End

- Material Weakness & Compliance

Condition:

The District did not perform and document a physical inventory of its capital assets for the physical year ended June 30, 2016. For all movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority the description of the asset, date acquired, cost, location, useful life, and ending balance should be recorded on the District's capital asset inventory. Also the governing body of the District did not certify the correctness of the capital asset inventory after the physical inventory was performed. As reports for fiscal years 2014 through 2016 were all prepared at the same time no progress is reflected towards implementing the prior year corrective action plan.

Criteria:

Section 12-6-10 (A) NMSA 1978 STATES: The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files.

Effect:

By not having or maintaining a verifiable capital asset inventory the controls over the maintenance and existence of fixed assets have been compromised and District assets are at risk of misuse or fraud.

Cause:

The District was not aware of the requirement to certify a physical inventory or the requirement to maintain the detailed records as required by statute.

Recommendation:

At the end of each fiscal year, the District should perform and document a complete physical inventory of its capital assets. For each capital asset, the description of the asset, date acquired, cost, location, useful life, and ending balance of its capital assets should be recorded on the District's capital asset listing. The District should develop and implement written policies and procedures to perform the capital asset inventory on an annual basis, and record and account for its capital assets in accordance with state laws and regulations.

Management Response:

The District now understands the requirement for a complete physical inventory.

Corrective Action Plan: The District manager will perform and document a complete physical inventory of capital assets for the June 30, 2017 fiscal year which will include the required data. After the inventory is performed, the inventory listing will be certified as to correctness and signed by the Board.

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses

June 30, 2016

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2014-003 - Approved Budget by DFA-LGD was Not Made Part of the Minutes - Compliance

Condition:

The district minutes do not provide the required approval of the final budget by DFA-LGD. As reports for fiscal years 2014 through 2016 were all prepared at the same time no progress is reflected towards implementing the prior year corrective action plan.

Criteria:

Section 6-6-5 NMSA 1978 requires that budgets approved by DFA-LGD be made part of the minutes of the governing body.

Effect:

The District has not complied with state statute and it is not clear if the final budget was approved from the information required to be provided to all interested individuals.

Cause:

The District was not aware that the final budget approval was required to be part of the minutes.

Recommendation:

The District should record all approval letters from DFA in the minutes as received.

Management Response:

The District understands and agrees with the above recommendation.

Corrective Action Plan: The Board will insure that the final budget for the fiscal year ended June 30, 2018 will be approved by DFA-LGD and will be will be made part of the minutes as required.

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses
June 30, 2016

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2014-004 - Required Payroll Tax Deposit Was Not Made - Material Weakness

Condition:

Various errors and omissions were noted in the preparation of required payroll tax reports. The required payroll tax deposit for December 2014 was not made and the January 2015 deposit recorded as being made "on line" never cleared the bank. The March 2015 deposit was made December 30, 2015 and the entire second quarter 2015 payroll tax deposits were not made during the fiscal year. As reports for fiscal years 2014 through 2016 were all prepared at the same time no progress is reflected towards implementing the prior year corrective action plan.

Criteria:

The Internal Revenue Service and Federal Tax law requires that all deductions from gross payroll associated with Federal Withholding, Social Security and Medicare taxes and any required employer matching funds be timely remitted to the Internal revenue service.

Generally accepted accounting principles require internal control procedures to provide that errors or omissions will have a high probability of being detected.

Effect:

The required deposit of amounts withheld are a fiduciary responsibility and requirement of the District. The Internal Revenue Service will impose penalties and related interest to all unpaid amounts as well as a potential civil penalty if payment is not made that can become a personal liability of those charged with governance.

Cause:

The District office manager did not perform and/or understand the payroll tax reporting, related deposit requirements and associated penalty and interest assessments imposed by law. These omissions were not noticed by the board due to deficiencies in internal control and the normal time delay from the Internal Revenue Service in sending deficiency response letters.

Recommendation:

It is important for anyone who is in the Office Manager position be aware or the related recording and reporting requirements. Adequate training should be provided and when required reports are prepared their preparation or resulting obligations should be documented and evidenced in the minutes of the board to the point that expended funds be included in the approval of payables.

Management Response:

The board agrees with the above recommendation.
Corrective Action Plan: The District Board will provide a review policy to be drafted during FYE 2018 to insure that required payroll tax reports are filed, all payments verified by the office manager and be reflected in the minutes each quarter.

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses
June 30, 2016

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2015-001 - Bank Reconciliations Not Performed Timely or Correctly - Material Weakness

Condition:

The District bank reconciliations for July, August, September, October and November 2014 were all prepared in early December. The December 2015, January, February, March and April 2016 reconciliations were performed in early May. The May and June 2016 bank reconciliations were performed timely. Two reconciliations were prepared in error due to recorded deposits not reflected in the bank statements for the month of entry and not shown as being in transit. As reports for fiscal years 2014 through 2016 were all prepared at the same time no progress is reflected towards implementing the prior year corrective action plan.

Criteria:

Section 6-10-2 NMSA 1978 states every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance on hand at the close of each day's business and Generally Accepted Accounting Principles and good internal control over financial assets require that bank accounts to be reconciled each month in a timely manner.

Effect:

A key element of internal control over cash is proper and current bank reconciliations. Bank accounts that are unreconciled or improperly reconciled are subject to undetected error, misuse of agency funds as well as possible fraud.

Cause:

The District office manager was not performing the duties of the position and no internal control policies in place to detect the errors or omissions.

Recommendation:

The board should be made aware of the importance of bank reconciliations and explore a way to have the reconciliations be generated by someone other than the Office Manager who records and prepares all bank transactions.

All bank statements should be reconciled within 5 days of receipt of the bank statements and their completion be made part of the financial report.

Management Response:

The District became aware of the lack of reconciliations and other filing requirements during the fiscal 2016 when the District office manager resigned. It is the belief of the board that this issue has been addressed with the new office manager.

Corrective Action Plan: The board will assign a person to participate in the reconciliation of bank statements. This corrective plan will be put into place by September 1, 2018.

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses
June 30, 2016

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2015-002 - Lack of Supporting Documentation and Related Party Transaction - Significant Deficiency

Condition:

A sample of 80 transactions were selected to test for proper classification, amount, as well as having adequate supporting documentation and agreement with posting to the general ledger. This sample tested 59% of all district expenses excluding payroll and one transaction of \$203 was a purchase from a business owned by a director of the District and did not have supporting documentation. As reports for fiscal years 2014 through 2016 were all prepared at the same time no progress is reflected towards implementing the prior year corrective action plan.

Criteria:

Generally Accepted Accounting Principles require that transactions be recorded properly, adequately supported and the resulting financial information be accurate and meaningful to the statement reader. Section 6-6-3 NMSA 1978 states every local public body shall keep all the books, records and accounts in their respective offices in the form prescribed by DFA-LGD. Section 10-16-7 NMSA 1978 discusses contracts and purchases involving public officers or employees but does allow exceptions for sole source or small purchases.

Effect:

This recorded expense cannot be supported by source documentation. There is a indication of a lack of internal control over cash disbursements that can result in misuse of funds. The fact that this expenditure is to a business that is owned by a Director of the District causes other considerations of related party transactions. A related party can exert undue influence over the District or its management without compensating controls and there is often no independent review or approval of transactions involving a related party.

Cause:

The Office Manager believes this invoice is simply misplaced or perhaps never provided. All other invoices were located and with the changes in the Office Manager position being misfiled is a possibility as well as never receiving the invoice from the Director Vendor.

Recommendation:

The District support the current office manager in obtaining adequate training in office filing and management systems and controls that might include outside assistance and adequate documentation. That any dealings with this Director owned business be approved by the board to insure a arms length transaction.

Management Response:

The Board also understands that appearance is important and note that there were only two transactions all year with the Director owned business.

Corrective Action Plan: The Board will specifically discuss and approve in the minutes all expenditures beginning in the fiscal year ending June 30, 2018. The District will work with the Office Manager to develop and maintain a adequate filing system during the year ending June 30, 2018.

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses
June 30, 2016

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2015-003 - Revenue transaction not supported by proper documentation - Significant Deficiency

Condition:

A sample of 80 transactions were selected to test for proper classification, amount, timely entered, supporting documentation and traced to the general ledger. This sample represented 56% of total sales as recorded. All the water delivery charges supporting documentation for the first six months of the fiscal year could not be located. There was no other exceptions noted in the transactions selected for testing. As reports for fiscal years 2014 through 2016 were all prepared at the same time no progress is reflected towards implementing the prior year corrective action plan.

Criteria:

Generally Accepted Accounting Principles require that transactions be recorded properly, adequately supported and the resulting financial information be accurate and meaningful to the statement user.

Effect:

The lack of supporting documentations indicates a internal control issue in which a misstatement of financial information may not or will not be detected. This condition can contribute to misleading financial information, misuse of funds and potential fraud.

Cause:

The District office manager at this time was not performing the job requirements properly. The filing of office records was not adequate and these documents have not been found to date.

Recommendation:

The District board should develop a job description for the office manager, require the general manager to report to the board about the quality and job performance of all employees of the District. The filing system should be reviewed and if necessary have outside assistance to insure that all records are maintained and available as required by good record keeping policies.

Management Response:

The District office manager resigned in fiscal year 2016. The directors become aware of the shortcomings of the office filing system and reporting requirements after she left and are currently working with the current office manager to correct the problem.

Corrective Action Plan: The Directors and field manager will work with the new office manager to develop a strong filing system and improve internal control. This corrective action plan will be put in place by the board in the fiscal year ending June 30, 2018.

STATE OF NEW MEXICO
Vermejo Conservancy District
Schedule of Findings and Responses

June 30, 2016

CURRENT YEAR FINDINGS:

2016-001 - No Collateral Agreement in Place for Funds on Deposit - Significant Deficiency & Compliance

Condition:

During the year the District had one checking account, one savings account and a money market account with International Bank. At June 30, 2016 the total funds held in this institution was \$ 265,845. A review of funds on deposit with International Bank revealed that eight of twelve months exceeded the FDIC insured limit of \$250,000. The District was not able to provide the pledged collateral statements from International Bank for the uninsured deposits.

Criteria:

Section 6-10-17 NMSA 1978 states that any bank or savings and loan association designated as a depository of public money shall deliver securities of the kind specified in Section 6-10-16 NMSA 1978 to a custodial bank described in Section 6-10-21 NMSA 1978 and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or to public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received in accordance with Subsection B of Section 6-10-16 NMSA 1978. However, any such bank or savings and loan association may deliver a depository bond executed by a surety company as provided in Section 6-10-15 NMSA 1978 as security for any portion of a deposit of public money.

Effect:

The District does not have bank records showing that its uninsured bank deposits are adequately collateralized. The District's uninsured bank deposits are at risk of loss if the uninsured deposits are not collateralized and a bank becomes financially distressed.

Cause:

The District has not set-up and maintained adequate files for its pledged collateral records.

Recommendation:

The District's Board of Directors should set-up and maintain a separate file or its pledged collateral statements from International Bank on a monthly basis.

Management Response:

The District will set up and maintain the files required.

Corrective Action Plan: The General Manager will contact the bank at once and make all arrangements to bring the District into compliance.

STATE OF NEW MEXICO
Vermejo Conservancy District
Exit Conference
June 30, 2016

FINANCIAL STATEMENT PREPARATION

The accompanying financial information was prepared by Charles L. Henry CPA. However, the contents remain the responsibility of the District.

EXIT CONFERENCE

On June 14, 2017 an exit conference was held in the offices of Vermejo Conservancy District . In attendance was Karl Shubert- current District President, Roger Kuchan - current Board Member, Joe Hronich the current District General Manager as well as Tammy Brandfas current Office Manager and Charles Henry CPA