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Rio San Jose Flood Control District

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending June 30, 2010

**Rio San Jose Flood Control District
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Fiscal Year Ending June 30, 2010**

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**Rio San Jose Flood Control District
Official Roster
Fiscal Year Ending June 30, 2010**

Board of Directors

Alex Gonzales, Chairman

Larry Carver, Vice-Chairman

Dan Cunningham, Secretary/Treasurer

Mark Hiles, Director

Milton Head, Director

District Personnel

Cynthia Spidle, Administrator

J. R. Murrietta, Professional Services Consultant

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Larry Carver, Chairman
Rio San Jose Flood Control District
and
Timothy Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Rio San Jose Flood Control District (District) for the year ending June 30, 2010, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the District through the New Mexico Office of the State Auditor. The District's management is responsible for its accounting records and the subject matter. 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 the parties specified in this report. Consequently, we 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. Our procedures and findings are as follows

1. 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."

Based on a review of the District's general ledger, total revenues for the fiscal year ending June 30, 2010 were \$93,042 and the District did not receive a capital outlay appropriation from the State of New Mexico. Based on this information, the District was properly determined to be a Tier 4 entity for FY10 since their total revenues were between \$50,000 and \$250,000 and they did not receive a capital outlay appropriation.

2. Cash
 - a. Determine 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.

The bank reconciliations were performed on a monthly basis in a timely manner. All bank and investment account statements for the fiscal year were complete and on hand. As of June 30, 2010, the District had one checking account and three certificates of deposit (CD) at the Grants State Bank, one CD at the 1st Community Bank and two accounts in the State Treasurer's Local Government Investment Pool (LGIP).

- 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.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the District's general ledger and supporting documentation. The ending cash balances could not be traced to the financial reports submitted to DFA-LGD since the District Administrator could not locate the final 4th quarter report that was submitted to DFA-LGD. See Finding No. 2010-002 on p. 7.

- c. Determine 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.

The checking account balance at the Grants State Bank was fully insured by FDIC. At June 30, 2010, the First Community Bank pledged collateral with a market value of \$396,456 for the uninsured CD balance of \$352,860. The investment accounts in the LGIP did not require pledged collateral. However, the District was unable to provide the pledged collateral statements from the Grants State Bank for the uninsured CD balance of \$100,000. See Finding No. 2010-004 on p. 10.

3. Capital Assets

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

The District did not have any capital assets (movable chattels or equipment) that cost \$5,000 or more.

4. Revenue

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The revenue sources of the District consist of property tax distributions from Cibola County and McKinley County, and interest earnings. The variances between the actual FY10 revenue and the FY09 revenue were adequately explained by the District Administrator; no unusual or unexplained variances were noted.

The actual revenue compared to budgeted revenue for each type of revenue was reviewed. According to the District's general ledger, actual revenues were \$14,042 more than budgeted revenues for FY10. No significant or unusual variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
 - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts and deposits was judgmentally selected and tested which amounted to approximately 96% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash, modified accrual or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger on the cash basis of accounting.

5. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:
 - i. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of cash disbursements were tested which amounted to approximately 96% of total expenses. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The District does not use purchase order forms.

- ii. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established procedures. However, the District does not have written procurement policies and procedures. See Finding 2010-003 on p. 8.

- iii. 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 13-1-199 NMSA 1978), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code and the Per Diem and Mileage Act.

6. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:
 - i. Journal entries appear reasonable and have supporting documentation.

According to the District Administrator, no non-routine journal entries were posted to the general ledger during the fiscal year and none were noted during the agreed-upon procedures.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The District has procedures in place to ensure that non-routine journal entries posted to the general ledger by the District Administrator are reviewed and approved by the governing body during the monthly board meetings.

7. Budget

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:
 - i. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.

The District's Board of Supervisors adopted its FY10 budget on May 23, 2009 (Resolution #2009-002). The District did not have any budget adjustments in FY10. However, the District was unable to provide documentation showing that the budget was approved by DFA-LGD. See Finding 2010-002 on p. 7. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

Total expenditures for FY10 did not exceed the final approved budget. According to the District's general ledger, actual expenditures for FY10 were \$134,260 less than budgeted expenditures.

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

Based on the District's general ledger, the Schedule of Revenues and Expenditures was prepared on the cash basis of accounting. See Exhibit 1 on p. 12.

8. Other

- a. If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 (1)(3)(C) NMAC.

See the Schedule of Findings on p. 6-11.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and others with the District, the New Mexico State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Auditing Services, LLC
Accounting & Auditing Services, LLC
Santa Fe, New Mexico
December 10, 2016

**Rio San Jose Flood Control District
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2010**

Status of Prior Year Findings

Not applicable.

Current Year Findings

Finding 2010-001. Late Submission of Firm Recommendation Form and Contract

Condition

For the fiscal year ending June 30, 2010, the District did not submit the Firm Recommendation Form for Tiered System Local Public Bodies and the signed agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until September 22, 2010.

Criteria

According to the State Audit Rule (2.2.2 NMAC), the District should have submitted the completed Firm Recommendation Form for Tiered System Local Public Bodies and the completed and signed agreed-upon procedures contract to the OSA by June 1, 2010.

Effect

The District did not comply with the provisions of the State Audit Act and the State Audit Rule in a timely manner. Future non-compliance with the State Audit Rule could jeopardize grants or capital award funding to the District. Also, errors, irregularities, internal control weaknesses and/or non-compliance with various laws and regulations could go undetected and unreported if the District does not hire a CPA firm to perform agreed-upon procedures required by the State Audit Rule.

Cause

Management of the District stated that they were unable to find a CPA firm to perform the agreed-upon procedures for a reasonable price.

Recommendation

The District's Board of Directors should thoroughly read Section 2.2.2.16 NMAC of Audit Rule 2016 to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, the District shall determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B

Rio San Jose Flood Control District Schedule of Findings and Responses Fiscal Year Ending June 30, 2010

NMAC (Determination of Revenues and Services) to determine what agreed-upon procedures or audits are required for the fiscal year.

When required, the District should take the necessary steps to ensure that future contracts for agreed-upon procedures are submitted to the Office of the State Auditor as follows:

- According to State Audit Rule 2016, Section 2.2.2.8.J (9) NMAC (effective March 15, 2016), "After completing the evaluations for each IPA and making the IPA selection, each agency must enter the appropriate requested information online on the OSA-Connect website (www.osa-app.org)." According to State Audit Rule, Section 2.2.2.8.J (11) NMAC, the District shall deliver the unsigned contract generated by OSA-Connect to the office 30 days before the end of the fiscal year (June 1).
- According to State Audit Rule, Section 2.2.2.16.G (1) NMAC (effective March 15, 2016), "For local public bodies with a June 30 fiscal year-end, the report or certification due date is December 15."

Management's Response

The RSJFCD was unable to find an audit firm willing to do audits at a reasonable price. We inquired with several firms, most were auditing the Village of Milan at the time, and were not interested in submitting proposals. The firm of Accounting & Auditing Services, LLC, submitted the only proposal. **CORRECTIVE ACTION:** The RSJFCD Administrator will begin contacting audit firms on the OSA list three months before the end of the fiscal year in order to submit the agreed-upon procedures contract and report to the OSA by their due dates.

Finding 2010-002 – Missing Budget Approval Letter and Report to DFA-LGD

Condition

For the fiscal year ending June 30, 2010, the District was unable to locate documentation showing that their FY10 budget was approved by the New Mexico Department of Finance and Administration, Local Government Division (DFA-LGD).

Also, the District was unable to locate its final 4th quarter financial report to DFA-LGD.

Criteria

Pursuant to Section 6-6-2.A NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year. Also, each local public body is required to submit quarterly financial reports and

**Rio San Jose Flood Control District
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2010**

budget adjustments to DFA-LGD per Section 6-6-2.F and 6.6.2.G NMSA 1978, respectively. Furthermore, per Section 6-6-5 NMSA 1978, upon receipt of any budget approved by DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body.

Effect

The District was unable to demonstrate compliance with the State's budget laws and reporting requirements.

Cause

The District Administrator stated that the records were misplaced when she moved her office at Milan City Hall to another building in July 2016.

Recommendation

The District's Board of Directors should direct the District Administrator to establish and maintain annual files for all of its budget resolutions, budget approval letters from DFA-LGD, and quarterly financial reports to DFA-LGD. The financial records should be properly maintained and safeguarded by District personnel for a minimum of 5 years after the end of each fiscal year.

Management's Response

Some of the FCD's records were misplaced when the office in Milan City Hall was re-located to another building. The Administrator apologizes for the errors. The Administrator contacted the DFA for a record search. Their records are also archived and are not readily accessible. CORRECTIVE MEASURE – RSJFCD files are now in one place and probably won't be moved again. Effective immediately, any information regarding the budget and financial reports will be filed separately by the District Administrator and maintained accordingly.

Finding 2010-003. No Written Procurement Policies and Procedures

Condition

The District does not have any written procurement policies and procedures to control the purchase of goods and services and ensure compliance with the State Procurement Code.

**Rio San Jose Flood Control District
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2010**

Criteria

Adequate procurement policies and procedures provide for the fair and equal treatment of all persons involved in public procurement, maximize the purchasing value of public funds and provide safeguards for maintaining a procurement system of quality and integrity.

Effect

Without adequate procurement policies and procedures, there is a lack of internal control over cash disbursements and the District is at risk of noncompliance with the State Procurement Code.

Cause

The District's Board of Directors has neglected to establish written procurement policies and procedures.

Recommendation

The District's Board of Directors should establish and implement written procurement policies and procedures to ensure compliance with the State Procurement Code (Sections 13-1-28 through 13-1-199 NMSA 1978). For the purchase of all goods and services, the District should consider adopting the State Procurement Code Regulations (1.4.1 NMAC). The procurement policy should include a record retention policy whereas all procurement documentation shall be filed, retained and safeguarded for at least five years after the end of the fiscal year in which the procurement occurred.

Management's Response

The RSJFCD does not currently have any plans for any large purchases. CORRECTIVE ACTION - RSJFCD Board of Directors will research the NM State Procurement Code and Regulations and use the information to adopt a policy. It will be noted as an agenda item for the January 26, 2017 Board of Directors Meeting. A draft of a new Procurement Policy will be sent to the Directors for review at the February 2017 Board of Directors Meeting. An approved procurement policy will in place by the end of the third quarter of Fiscal Year 2016-2017.

**Rio San Jose Flood Control District
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2010**

Finding 2010-004 – Missing Pledged Collateral Statements

Condition

During the fiscal year ending June 30, 2010, the District had three Certificates of Deposit totaling \$350,000 at the Grants State Bank. However, the District was unable to provide the pledged collateral statements from the bank for the uninsured deposits of \$100,000.

Criteria

Section 6-10-17 NMSA 1978 states:

“Amount of security to be deposited: 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 the 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 have its District Administrator set-up and maintain a separate file for its pledged collateral statements from each financial institution. On a monthly basis, the District Administrator should ensure that the District receives the required pledged collateral statements from each financial institution for all of its uninsured bank deposits.

**Rio San Jose Flood Control District
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2010**

Management's Response

RSJFCD banks at New Mexico State Bank (formerly the Grants State Bank) and the bank does collateralize all public funds over the \$250,000.00 FDIC Insurance at 100%. The bank, however, does not usually furnish the information to the customer. CORRECTIVE MEASURE - The RSJFCD Board Chairman will request and obtain such information from the bank on a monthly basis and the District Administrator will set-up and maintain the files accordingly.

**Rio San Jose Flood Control District
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending June 30, 2010**

Exhibit 1

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Cibola County Mill Levy	\$ 50,000	\$ 50,000	\$ 60,959	\$ 10,959
McKinley County Mill Levy	25,000	25,000	25,090	90
Interest, Other and Loan Repayment	4,000	4,000	6,993	2,993
Total Revenues	<u>\$ 79,000</u>	<u>\$ 79,000</u>	<u>\$ 93,042</u>	<u>\$ 14,042</u>
Expenditures:				
Office Supplies, Clerical and Rent	\$ 20,000	\$ 20,000	\$ 14,591	\$ 5,409
Fees, Dues and Memberships	2,000	2,000	1,160	840
Professional Services	30,000	30,000	8,439	21,561
Insurance and Bonds	2,000	2,000	988	1,012
Elections	-	-	-	-
Miscellaneous, Publications, and Travel	4,000	4,000	-	4,000
Capital Outlay - Projects	170,000	170,000	98,563	71,437
Capital Outlay - Emergency Reserves	30,000	30,000	-	30,000
Total Expenditures	<u>\$ 258,000</u>	<u>\$ 258,000</u>	<u>\$ 123,740</u>	<u>\$ 134,260</u>

**Rio San Jose Flood Control District
Exit Conference
Fiscal Year Ending June 30, 2010**

On December 19, 2016, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Rio San Jose Flood Control District

Larry Carver, Chairman
Cynthia Spidle, Administrator

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager