

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER  
CONSERVATION DISTRICT**

**INDEPENDENT AUDITORS' REPORT  
AND AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**HINKLE & LANDERS, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

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FOR THE YEAR ENDED JUNE 30, 2006**

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**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**OFFICIAL ROSTER  
AS OF JUNE 30, 2006**

<u>Board of Supervisors</u>	<u>Position</u>	<u>Elected/Appointed</u>
David King	Chairperson	Appointed
Lewis Fisher	Vice-Chairperson	Elected
Bill King	Secretary/Treasurer	Elected
Mark Anaya	Supervisor	Elected
Jim Rea	Supervisor	Elected
Josephine Bassett	Supervisor	Elected
Patricia Ayre	Supervisor	Appointed

<u>District Personnel</u>	<u>Title</u>
Brenda Smythe	Office Manager
Kelly Archuleta	Technician

**INDEPENDENT AUDITORS' REPORT**

Mr. David King, Chair and Members of the Board of Supervisors  
Edgewood Soil and Water Conservation District  
Moriarty, New Mexico  
and  
Mr. Hector Balderas, State Auditor of New Mexico

We were engaged to audit the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Edgewood Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management.

We discovered a significant number of transactions for which sufficient audit evidence was unable to be located. Furthermore, the District has not maintained adequate accounting records for the year ended June 30, 2006 and we were unable to apply procedures to determine whether the opening balances in the financial statements as of July 1, 2005 were fairly presented in conformity with accounting principles generally accepted in the United States of America or whether the accounting principles have been consistently applied between 2005 and 2006.

Since the District did not maintain adequate records and we were unable to apply other auditing procedures to satisfy ourselves about the opening balances in the financial statements as of July 1, 2005 or about the consistent application of accounting principles between 2005 and 2006, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The District has not presented the Management's Discussion and Analysis required by GASB Statement No. 34 that the Governmental Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Governmental Auditing Standards*, we have issued a report dated May 31, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.



Hinkle and Landers, P.C.  
May 31, 2010

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2006**

	<u>Governmental Activities</u>
<b>Assets</b>	
<b>Current</b>	
Cash and investments	\$ 273,085
Taxes receivable	8,479
Interest receivable	-
Accounts receivable	-
<b>Total current assets</b>	<u>281,564</u>
<b>Non current</b>	
Capital assets, not being depreciated	606,716
Capital assets being depreciated, net	29,349
Capital assets, net of accumulated depreciation	<u>636,065</u>
<b>Total assets</b>	<u><u>\$ 917,629</u></u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 24,286
Accrued payroll	1,207
Compensated absences	-
<b>Total current liabilities</b>	<u>25,493</u>
<b>Long-term liabilities</b>	
Compensated absences - long term portion	-
<b>Total long-term liabilities</b>	-
<b>Total liabilities</b>	<u>25,493</u>
<b>Net Assets</b>	
Invested in capital assets	636,065
Unrestricted	256,071
<b>Total net assets</b>	<u>892,136</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 917,629</u></u>

The notes to the financial statements are an integral part of this statement

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Governmental Activities</b>
<b>Program Expenses</b>	
Conservation:	
Salaries	\$ 112,649
Per diem and travel	14,147
Office supplies	22,125
Telephone	6,996
Meetings and workshops	7,754
Legal notices/meetings	-
Dues	4,535
Insurance	3,533
Professional fees - clerical	-
Information and education	13,956
Projects	328,769
Rent	14,538
Miscellaneous	17,655
Depreciation	1,613
Total program expenses	548,268
<b>Program Revenues</b>	
Charges for services	21,271
Reimbursements	-
Miscellaneous	-
Total program revenues	21,271
Net program (expense) revenue	(526,997)
<b>General Revenues</b>	
Grant	97,720
NMDA allotment	9,944
Property taxes	287,068
Interest	3,985
Total general revenues	398,716
Change in net assets	(128,281)
Unidentified changes in net assets between 6/30/2005 and 6/30/2006	(39,419)
Net assets at beginning of year	1,059,836
<b>Net assets at end of year</b>	<b>\$ 892,136</b>

The notes to the financial statements are an integral part of this statement

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2006**

		<u>General Fund</u>
<b>Assets</b>		
Cash and investments	\$	273,085
Property taxes receivable		8,479
Total assets	\$	<u>281,564</u>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable	\$	24,286
Accrued payroll		1,207
Total liabilities		<u>25,493</u>
 Fund balance		<u>256,071</u>
 Total fund balance		<u>256,071</u>
 Total liabilities and fund balance	\$	<u>281,564</u>

**Reconciliation Of The Balance Sheet To The Statement Of Net Assets**

Total fund balance governmental funds	\$	256,071
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds		636,065
 Long-term debt reported as accrued compensated absences is not due and payable in the current period and, therefore, are not reported in the funds		<u>-</u>
 Net assets of governmental activities	\$	<u>892,136</u>

The notes to the financial statements are an integral part of this statement

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	General Fund
<b>Revenues</b>	
State allocation	\$ 9,944
Mill levy	278,589
Interest	3,985
Miscellaneous	21,271
Grant	97,720
Total revenues	411,509
<b>Expenditures</b>	
Conservation:	
Current:	
Salaries	112,649
Per diem and travel	14,147
Office supplies	22,125
Telephone	6,996
Meetings and workshops	7,754
Dues	4,535
Insurance	3,533
Information and education	13,956
Projects	355,845
Rent	14,538
Miscellaneous	17,655
Total expenditures	573,732
Net change in fund balance	(162,223)
Unidentified changes in net assets between June 30, 2005 and 2006	3,208
Fund balance beginning of year	415,086
Fund balance end of year	\$ 256,071

**Reconciliation Of Statement Of Activities To Statement Of Revenues, Expenditures And Changes In Fund Balances**

Net change in fund balance - Governmental Funds	(162,223)
Amounts reported in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of assets are allocated as their estimated useful life as depreciation expense	
In the current period, these amounts are:	
Depreciation expense	(1,613)
Capital outlay included as additions in capital assets	27,076
Property taxes arise from non-exchange transactions and are recognized in the Statement of Activities in the year levied. In governmental funds they are recognized as revenue when they are measurable and available.	
Change in net assets - Statement of Activities	8,479
	(128,281)

The notes to the financial statements are an integral part of this statement



**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Revenues</b>				
State allocation	\$ 10,000	10,000	9,944	(56)
Mill levy	260,000	260,000	287,068	27,068
Grants	87,176	87,176	97,720	10,544
Interest	3,100	3,100	3,985	885
Other	3,000	3,000	21,271	18,271
Total revenues	<u>363,276</u>	<u>363,276</u>	<u>419,988</u>	<u>56,712</u>
Cash balance budgeted	<u>399,858</u>	<u>399,858</u>	-	-
Total revenues	<u>\$ 763,134</u>	<u>763,134</u>	<u>419,988</u>	<u>56,712</u>
<b>Expenditures</b>				
Current:				
Bonding	\$ 1,500	1,500	3,533	(2,033)
Dues	2,800	2,800	4,535	(1,735)
Education	10,000	10,000	13,956	(3,956)
Equipment/Project Materials	-	-	109,833	(109,833)
Meetings	3,000	3,000	7,754	(4,754)
Office	8,000	8,000	22,125	(14,125)
Payroll	80,000	80,000	94,407	(14,407)
Payroll expenses	40,000	40,000	18,242	21,758
Project/conservation	120,000	120,000	208,459	(88,459)
Project/part-time help	28,600	28,600	37,553	(8,953)
Rent & utilities	16,000	16,000	14,538	1,462
Telephone	-	-	6,996	(6,996)
Travel	10,000	10,000	14,147	(4,147)
Miscellaneous	2,000	2,000	17,655	(15,655)
Capital outlay	<u>350,000</u>	<u>350,000</u>	<u>27,076</u>	<u>322,924</u>
Total expenditures	<u>\$ 671,900</u>	<u>671,900</u>	<u>600,808</u>	<u>71,092</u>

The notes to the financial statements are an integral part of this statement

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Edgewood Soil and Water Conservation District (District) is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-49 NMSA 1978). The District is a governmental subdivision of the state, a public body corporate and politic, organized for control and prevention of flood, sediment, and soil erosion damage, and to further the conservation, development and beneficial use of water and soil resources. The governing body of the District consists of five elected supervisors, two of whom must be landowners in the District. Two additional supervisors may be appointed to the District board. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

A primary government is any state government or general-purpose local government and the organizations comprising its legal entity. Although the District is organized as a subdivision of the State and administratively attached to the New Mexico State University, Department of Agriculture, the statutory powers of the District establish it as a primary government with a separate corporate and legal identity. The District has no component units, financially dependent affiliates, nor is it legally liable for actions of other agencies.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District, a phase three government, was required to implement GASB Statement 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* in fiscal year 2004. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity, if applicable, has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally designated resources are reported as general revenues

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

rather than program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities, and Net Assets or Fund Balance**

**1. Cash and investments**

The District's cash and cash equivalents are considered to be demand deposits and short term investments (certificates of deposit) with original maturities of 3 months or less are presented as investments in the financial statements.

State statutes authorize the District to invest in obligations of the U.S. Treasury, repurchase agreements, and certificates of deposit. Investments for the government, if applicable, are reported at fair value.

**2. Taxes Receivable**

The District receives mill-levy property tax revenue from the counties of Bernalillo, Santa Fe, and Torrance. The taxes are collected by the respective county treasurer and are paid to the District monthly; therefore, no allowance for doubtful accounts is recorded.

**3. Accounts Payable**

The District's accounts payable represent routine monthly bills for services rendered and products purchased which are paid in the following month.

**4. Capital Assets**

Capital assets, which include property, equipment and software, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by state law as assets with an initial cost of \$5,000 and an estimated useful life of more than one year. The total amounts spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized.

Property and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Building	39 years
Equipment	5-14 years

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**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**5. Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. Vacation pay has not been accrued as of June 30, 2006.

According to District policy, employees accrue leave at 3.08 hours per pay period if employed less than three years, increasing to 4 hours for less than seven years, 5 hours for less than eleven years, 6 hours for less than fifteen years, and 6.30 hours for 15 or more years. Employees may not carry more than 240 hours forward from one calendar year to the next.

**6. Net Assets and Fund Balance**

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of two components – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation and unrestricted net assets.

In fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation and/or are legally restricted by outside parties for use for a specific purpose.

**II. Stewardship, Compliance and Accountability**

**A. Budgetary Information**

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the approved budget.

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. Encumbrance accounting is not utilized by the District.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**B. Reconciliation of Non-GAAP Budget to GAAP**

	<b><u>General Fund</u></b>
Non-GAAP revenues	\$ 419,988
Prior year receivables	-
Current year receivables	<u>(8,478)</u>
GAAP revenues	<u>\$ 411,509</u>
Non-GAAP expenditures	\$ 600,808
Prior year payable	-
Prior year payroll accrual	-
Capital Outlay	(27,076)
Current year payable	-
Current year payroll accrual	<u>-</u>
GAAP expenditures	<u>\$ 573,732</u>

Note: The availability of the cash basis budget amounts were not available during our audit. Therefore, there are no reconciliations for many accruals that would normally be expected.

**III. Detailed Notes on all Funds**

**A. Cash and Cash Equivalents**

As of June 30, 2006, the District's total carrying amount of deposits of \$289,077 at Wells Fargo. There were outstanding reconciling items totaling a net \$15,992. The bank balances were not fully covered by federal depository insurance. It is unknown if the uninsured bank balances at Wells Fargo Bank were fully collateralized with securities held by their trust department in accordance with New Mexico statutes. See as follows:

	<b><u>Wells Fargo Bank</u></b>
Demand deposits per bank	\$ 24,516
Less: FDIC insurance	<u>(24,516)</u>
Uninsured balance	<u>\$ -</u>
NOW Account	\$ 81,759
Certificates of deposit	<u>166,810</u>
Total time deposits	248,569
Less: FDIC insurance	<u>(100,000)</u>
Uninsured balance	<u>\$ 148,569</u>
Total uninsured balance	\$ 148,569
Security requirement (6-10-17 NMSA)	<u>50%</u>
Total security required	\$ 74,285

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

Total security pledged at market value	<u>unknown</u>
Collateral security excess (deficiency)	<u>unknown</u>

For Wells Fargo Bank, the collateral is held in Minneapolis, Minnesota by the bank's trust department as follows:

<u>Security</u>	<u>Security No.</u>	<u>CUSIP</u>	<u>Maturity Date</u>	<u>Market Value</u>
unknown	unknown	unknown	unknown	unknown

**Custodial Credit Risk – Deposits**

Custodial Credit Risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. Deposits at the Wells Fargo Bank were exposed to custodial credit risk is unknown due to the unavailability of collateral information.

**B. Capital Assets**

Capital asset activity for the year ended June 30, was as follows:

Description	Balance			Balance
	2005	Additions	Deletions	2006
<b>Capital assets not being depreciated</b>				
Land	\$ 606,716	-	-	606,716
Total capital assets not being depreciated	\$ 606,716	-	-	606,716
<b>Capital assets being depreciated</b>				
Building	\$ -	11,139	-	11,139
Equipment	15,077	15,937	-	31,014
Total capital assets being depreciated	15,077	27,076	-	42,153
Total capital assets	\$ 621,793	27,076	-	648,869
<b>Less: accumulated depreciation for:</b>				
Building	\$ -	-	-	-
Equipment	(11,191)	(1,613)	-	(12,804)
Total accumulated depreciation	(11,191)	(1,613)	-	(12,804)
Capital assets, net	\$ 610,602	25,463	-	636,065

Depreciation of \$1,613 was charged to the conservation function.

**Note:** Per the June 30, 2005 audit report, which was released subsequent to our fieldwork (February 2010), but before the release of this audit, the ending balance for net capital assets was \$610,762, a difference of \$160 from the amount shown above. The audited capital assets related to the audited 2005 audit were not available during our audit and is a contributing factor to our disclaiming an opinion on the 2006 financial statements.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**C. Long-Term Debt**

Long-term debt activity for the year ended June 30, 2006 was as follows:

<b>Description</b>	<b>Balance</b>			<b>Balance</b>
	<b>2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>2006</b>
Compensated absences \$	<u>872</u>	<u>unknown</u>	<u>unknown</u>	<u>unknown</u>

Compensated absences, when they are paid, will be liquidated by the general fund. The balance expected to be used in the current period is unknown.

**D. Operating Lease Commitments**

The District entered into a lease agreement with Edgewood Center Partnership for the lease of office space at the Edgewood Center. The lease term is from February 12, 2002 to the extended termination date of April 30, 2007. The District expended \$14,538 during the year for the lease.

In May 2005, the District entered into a thirty-six month lease on a Ford pickup truck. The current monthly rental is \$627. Approximately \$627 was expended in the current fiscal year.

In February 2006, the District entered into a 36 month lease on a Toshiba copier. The current monthly rental is \$241. Approximately \$1,468 was expended in the current fiscal year.

As of June 30, 2006 future minimum lease payments for the truck and copier for the following fiscal years is as follows:

	<u>Truck</u>	<u>Copier</u>
2007 \$	7,527	2,887
2008	6,273	2,887
2009	-	1,444
\$	<u>13,800</u>	<u>7,218</u>

**E. Net Assets/Fund Balance Reservations and Designations**

The District's net assets as of June 30, 2006 consisted of \$636,065 invested in capital assets. It is unknown if the remaining net assets of \$256,071 were restricted or unrestricted.

It is unknown if the fund balance in the balance sheet is reserved or unreserved.

**F. Cost - Share Program**

In June 2001 the District implemented a cost-share program that the District will fund on its own. The purpose of the program is to share the cost of conservation projects with farms, ranches and urban stewardship projects on small acreages and will also provide cost share for other projects within the District and with neighboring soil and water conservation districts. The District will share up to 50% of the cost of a conservation project depending on the type of project and criteria established for farms, ranches and urban stewardship projects. The District



**STATE OF NEW MEXICO**  
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**FOR THE YEAR ENDED JUNE 30, 2006**

will share up to 75% of the cost for brush removal.

**IV. Other Information**

**A. Employee Retirement Benefits**

*Plan Description.* Substantially all of the District's full time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides retirement, disability and survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

*Funding Policy.* Plan members are required to contribute 13.15% of their gross salary. The District is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the District are established in Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the year ended June 30, 2006, 2005, and 2004 are \$9,651, 9,357 and \$11,121 respectively, equal to the amount of required contributions each year.

**B. Other Employee Benefits**

As of June 30, 2006, the District's employees are not offered a deferred compensation plan or any post employment benefits.

**C. Risk Management**

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,000,000 for each wrongful act and \$1,000,000 for the policy aggregated. The District is required to obtain a corporate surety bond on behalf of persons responsible for District assets. The District currently maintains a \$5,000 surety bond as well as commercial property coverage. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

**D. Related Party Transactions**

The District Clerk was contracted by the Board for her services provided through her bookkeeping business. On August 7, 2003 the District Clerk was appointed to the Board of Supervisors for the District. Since her appointment to the Board the former District Clerk's daughter has taken the responsibility of the bookkeeping service for the District. During the fiscal year the District paid \$16,454 to the former District Clerk for her services as an accountant.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

The District has entered into a cost share agreements with two District Supervisors in which they were reimbursed \$5,785 during the current fiscal year.

A family member of the Office Manager was paid \$2,093 for contract services during the current fiscal year.

**Report on Internal Control Over Financial Reporting And On Compliance And Other  
Matters Based On An Audit Of Financial Statements Performed  
In Accordance With *Government Auditing Standards***

Mr. David King, Chair and Members of the Board of Supervisors  
Edgewood Soil and Water Conservation District  
Moriarty, New Mexico  
and Mr. Hector Balderas, State Auditor of New Mexico

We were engaged to audit the accompanying financial statements of the governmental activities, the general fund, the aggregate remaining fund information, and the respective budgetary comparison for the general fund of the Edgewood Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated May 31, 2010. We did not express an opinion on the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the

deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 05-01, 06-01 through 06-08, 06-10 through 06-18 and 06-20 through 06-24. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-01 through 06-05, 06-07, 06-08, 06-10 through 06-17, and 06-20 through 06-24 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 05-01, 06-01, 06-09, 06-19, 06-20, 06-23 and 06-24.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico State University – Department of Agriculture, the New Mexico State Legislature, the New Mexico Department of Finance and Administration and applicable grantors and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, professional style.

Hinkle and Landers, P.C.  
May 31, 2010

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Reference FY-Finding #</b>	<b>Findings</b>	<b>Status of Current and Prior Year Findings</b>	<b>Financial Statement Finding</b>	<b>State Auditor Finding</b>
04-03 -	Seed Sales - Modified	Resolved	Yes	Yes
05-01 -	No Support For Travel Expense Reimbursement - Modified	Repeated	Yes	Yes
05-02 -	Supporting Documentation For Cost Share Expenditures	Resolved	Yes	No
05-03 -	Cash Deficit In Subsequent Year's Budget	Resolved	Yes	No
06-01 -	Audit Report Of Prior Fiscal Year Not Completed	New	Yes	Yes
06/02 -	Board Of Supervisors Not Receiving Financial Information Timely	New	Yes	No
06-03 -	Invoice Not Approved Prior To Payments	New	Yes	No
06-04 -	Cash Disbursements Missing Supporting Documentation	New	Yes	No
06-05 -	Use Of ATM Debit Card	New	Yes	No
06-06 -	Disbursements Not Coded To Proper Accounts	New	Yes	No
06-07 -	Invoices Posted In Wrong Accounting Period	New	Yes	No
06-08 -	Missing Cancelled Checks	New	Yes	No
06-09 -	Purchase of Alcohol	New	No	Yes
06-10 -	Land Owners Do Not Sign-Off On Final Pay Request In Cost Share Program	New	Yes	No
06-11 -	Insurance And PERA Payments Not Made Timely Or In Consistent Amounts	New	Yes	No
06-12 -	Checks Written To Pay Invoices For Vendors And Suppliers Are Mailed By Person Who Prepares The Check	New	Yes	No
06-13 -	QuickBooks Set Up For Wrong Fiscal Period	New	Yes	No
06-14 -	Payroll Controls	New	Yes	No

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Reference FY-Finding #</b>	<b>Findings</b>	<b>Status of Current and Prior Year Findings</b>	<b>Financial Statement Finding</b>	<b>State Auditor Finding</b>
06-15	- Independent Contractor Procurement Weaknesses	New	Yes	No
06-16	- Changing Prior Year Transactions	New	Yes	No
06-17	- Cash Disbursements - Lack Of Segregation of Duties/Internal Control Weaknesses	New	Yes	No
06-18	- New Mexico Gross Receipts Tax Paid On Exempt Purchases	New	Yes	No
06-19	- Payment For Personal Expenses Of Board Member/Management	New	No	Yes
06-20	- Certification Of Capital Asses Annual Inventory	New	Yes	Yes
06-21	- Actual Expenditures Exceed Budget Expenditures	New	Yes	No
06-22	- Property Tax Revenue Deposits	New	Yes	No
06-23	- Under Collateralized Bank Accounts	New	Yes	Yes
06-24	- Audit Report Not Submitted Timely	New	Yes	Yes

**05-01—NO SUPPORT FOR TRAVEL EXPENSE REIMBURSEMENT VOUCHER—MODIFIED**

**Statement of Condition**

Out of 112 items tested, 3 of 3 travel expense reimbursement vouchers lacked supporting documentary evidence.

**Criteria**

Pursuant to the Per Diem and Mileage Act 10-8-5 NMSA 1978, the Department of Finance and Administration has issued “Regulations Governing the Per Diem and Mileage Act,” which are part of the New Mexico Administrative Code, at 2.42.2 NMAC. These regulations establish the permissible reimbursement rates. These regulations also require travel vouchers and supporting schedules and documents to conform to the policies and procedures manuals issued by the Financial Control Division of the Department of Finance and Administration. Travel should be properly approved and authorized, supporting receipts submitted and proper rates paid in accordance with approved guidelines.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Cause**

The District is not following the guidelines for the Per Diem and Mileage Act.

**Effect**

The District is not in compliance with Per Diem and Mileage Act. The District may be paying unallowable costs.

**Recommendation**

The District should make sure they are in compliance with the Per Diem and Mileage Act.

**Management Response**

Travel expenses are no longer being reimbursed for employees. A travel account has been opened, and all travel will be documented through this account.

**06-01—AUDIT REPORT OF PRIOR FISCAL YEAR NOT COMPLETED**

**Statement of Condition**

The annual financial and compliance audit report for Edgewood Soil and Water Conservation District for the fiscal year 2005 was not completed and issued until after the fieldwork for the 2006 audit was completed. Therefore, the audit report issued in 2006 could not rely on the ending balances from 2005 to be rolled over as the beginning balances for the 2006 audit.

Subsequent to the fieldwork being completed for the 2006 audit but before the audit report was issued, the 2005 audit report was issued by the prior auditors (after January 21, 2010) and the current auditors reviewed the report.

**Criteria**

SAS 84 requires that the current auditors review the prior auditors' workpapers to determine the work completed and the timing of the work completed. These steps, among others, are required in order for the current auditors to make a proper assessment of whether beginning balances can be relied upon and if the current auditor has to modified their planning and audit approach. Without a review of prior year workpapers and audit report, the current auditors cannot rely on beginning balances without additional testing of those beginning balances.

**Effect**

The 2006 beginning balances could not be relied on and as a result an opinion of the presentation of revenues and expenses shown in the 2006 audit report could not be given. Also, the current auditors could not review any findings that occurred during the 2005 audit as they did not have access to them.

**Cause**

The prior auditor did not release the 2005 audit report until after the completion of the 2006 fieldwork.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Recommendation**

We understand the District tried to obtain the 2005 audit report, but was not successful in receiving it. We understand that the audit was released after the conclusion of our fieldwork. We recommend the District take measures to not have this type of situation be repeated.

**Management Response**

The 2005 Audit Report was received by the Edgewood Soil and Water Conservation District on February 17, 2010.

**06-02—BOARD OF SUPERVISORS NOT RECEIVING FINANCIAL INFORMATION TIMELY**

**Statement of Condition**

The District's Board of Supervisors has not been provided balance sheets and statement of activities and other financial information on a timely basis.

**Criteria**

In order for the governing board to fulfill their fiduciary duty of properly monitor the financial activities of the organization; they need timely, accurate financial information.

**Effect**

The governing board does not have the ability to fulfill their fiduciary responsibility duties to the organization.

**Cause**

The financial information is not being completed in a timely manner.

**Recommendation**

Financial information such as monthly balance sheets, statements of activities as well as aging schedules of payables and receivables should be reviewed by the governing board or some subset of the board in a timely manner.

**Management Response**

The current fiscal year budget and all transactions will be entered into QuickBooks Accounting, and all reporting will be by QuickBooks reports only. These reports will be distributed to the Board of Supervisors at least 1 week prior to every board meeting. These will consist of: Statement of Net Assets, Statement of Activities, Statement of Revenues & Expenditures Budget & Actual along with a bank reconciliation.

**06-03—INVOICE NOT APPROVED PRIOR TO PAYMENTS**

**Statement of Condition**

Out of 112 items tested, 58 invoices were not approved prior to payment of the invoice.



**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Criteria**

U.S. generally accepted accounting principles dictate sound controls for significant activities such as procurement. In addition, in most instances state procurement policies require proper authorization by District personnel prior to the commitment of District funds.

**Cause**

For some purchases reviewed, the District did not have documentation to establish proper approval prior to the commitment and/or disbursement of funds.

**Effect**

The District is not complying with state procurement rules.

**Recommendation**

The District should make improvements to the process by which District funds are committed and expended to ensure that required approvals are documented prior to the commitment or expenditure of funds.

**Management Response**

The Edgewood SWCD Board of Supervisors has addressed this issue, and will ensure that every invoice is signed by two board supervisors prior to payment. We are addressing this issue with our vendors and banks to reflect the District Address as PO Box 1050, Moriarty, NM 87035.

**06-04—CASH DISBURSEMENTS MISSING SUPPORTING DOCUMENTATION**

**Statement of Condition**

Out of 112 items tested, 11 did not have any documents to support the purchase.

**Criteria**

Proper accounting policies and internal control procedures require that supporting information be provided to verify that a purchase is consistent with the policies of the District in accordance with 6-6-3 NMSA 1978.

**Cause**

The District is not monitoring its purchases to be consistent proper accounting and internal control procedures.

**Effect**

Unauthorized purchases could be made.

**Recommendation**

We recommend that all cash disbursements are not made until the proper supporting documentation is provided for that purchase.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Management Response**

All invoices will be sent to the District Office, located at 2506 Route 66, Box 1050, Moriarty, NM 87035 to the District Manager's attention. Once received, the District Manager will review and verify purchase and sign for payment, and then submit to bookkeeper for payment. Bookkeeper will then attach to invoice for signature, then payment. No payment will be made without supporting documentation. (No handwritten notes – no quotes - must be detailed invoice)

**06-05—USE OF ATM DEBIT CARD**

**Statement of Condition**

The District's debit cards provide District personnel with access to the District's bank account funds at a certain limit per day which may be set by the authorized signors of the accounts. The review of the debit cards is performed by a person who has access to a debit card.

**Criteria**

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 112 and its appendix require strong internal controls. SAS 112 requires the auditor to disclose weaknesses to management and the governing board.

An essential element of a preventative control system is segregation of functions in such a manner that no single individual can perpetrate an error, misappropriation or illegal act without being discovered in a timely manner. Ideally, three general categories of functions should be separated:

- Functions involving custody of assets (e.g. physical control of asset, handling cash, custody of check stock),
- Functions involving recording transactions (e.g. bookkeeping, preparation of bank reconciliations), and
- Functions involving authorization (e.g. sign checks, approve purchases)

Improving internal controls reduces the opportunity for fraud or errors to take place, or to be identified and corrected in a timely manner.

**Cause**

The segregation of duties and internal controls may not have been reviewed from the perspective outlined under "Criteria" noted above.

**Effect**

Because one person has control or the ability to control the areas outlined in the "Statement of Condition" above, a significant opportunity exists for misappropriation of funds and/or for errors to go undetected because of weak control activities associated with safeguarding cash and monitoring of bank accounts.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Recommendation**

We recommend the discontinuance of the debit card or if the District wants to maintain the debit card we recommend the following:

For debit card transactions, we recommend the debit card be linked to a separate bank account with limited amount of funds such as \$5,000 or some other amount that is reasonable. This bank account should be separated from the organization's main bank account so electronic transfers or other access would not be permissible except by dual authorization. This bank account should be reconciled to the general ledger monthly

**Management Response**

The ATM Card has not been used since the 2006-2007 fiscal year.

**06-06—DISBURSEMENTS NOT CODED TO PROPER ACCOUNTS**

**Statement of Condition**

Out of 112 items tested, 11 disbursements were not coded to the proper account.

**Criteria**

In order to provide accurate financial information to track the District's performance during the fiscal year transactions are required to be posted to the proper accounts in accordance with 6-6-3 NMSA 1978. This is also required so that the District can monitor its transactions needed for budgetary purposes.

**Cause**

Errors are being made in postings to the general ledger.

**Effect**

The general ledger does not correctly present the District's financial information.

**Recommendation**

We recommend that the District takes measures to insure that the District's transactions are posted to the proper accounts. District personnel should review general ledger postings on a regular basis to ascertain that the transaction has been posted properly.

**Management Response**

The current fiscal year budget and all transactions will be entered into QuickBooks Accounting, and all reporting will be by QuickBooks reports only.

**06-07—INVOICES POSTED IN WRONG ACCOUNTING PERIOD**

**Statement of Condition**

The results of our tests showed that 4 of 112 invoices were posted to the wrong accounting period.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Criteria**

Statement of Auditing Standards (SAS) 112 was implemented as of December 15, 2006. Some of the key underlying concepts of this standard follow. Also since significant adjustments to the financials were made it calls into question whether the City staff has the qualifications and training to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.

Recording these adjustments is considered a significant process that the client needs to maintain.

In order to provide accurate financial information to track the District's performance during the fiscal year transactions, proper cutoff of transactions is required so that they are recorded in the correct fiscal period. Also, the budget and state codes could be violated by recording transactions in the wrong accounting period. The posting of transactions to the proper accounting period is also required so that the District can monitor its transactions needed for budgetary purposes.

**Cause**

The District is not maintaining proper cutoff of transactions and making errors in posting to the correct period.

**Effect**

The District is providing incorrect financial information and may be violating the budget and state code.

**Recommendation**

We recommend that the District takes measures to insure that the District's transactions are posted to the proper accounts. District personnel should review general ledger postings on a regular basis to ascertain that the transaction has been posted properly.

**Management Response**

The current fiscal year budget and all transactions will be entered into QuickBooks Accounting, and all reporting will be by QuickBooks reports only. This will ensure that all items will be posted into the correct fiscal year.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**06-08—MISSING CANCELLED CHECKS.**

**Statement of Condition**

During of testing of disbursement we were unable to fine 11 out of 112 cancelled checks from the District's records.

**Criteria**

Good accounting and internal control policies procedures require that all canceled checks should be accounted for in order that they may be inspected by District personnel to ensure checks have properly issued and cashed.

**Cause**

The District is not safeguarding its financial records.

**Effect**

The District is at risk of detecting improper transactions because of the missing checks that cannot be reviewed.

**Recommendation**

We recommend that the District take steps to ensure that they have a record of all cancelled checks. Procedures should be put in place to safeguard District financial records.

**Management Response**

All cancelled checks were located.

**06-09—PURCHASE OF ALCOHOL**

**Statement of Condition**

During our testing of disbursements, we noted a purchase for alcohol for approximately \$25.

**Criteria**

Although the amount is immaterial, State Statues do not allow for the purchase of alcohol with public money.

**Effect**

The District may need to have un-allowed expenditures reimbursed.

**Cause**

Unknown

**Recommendation**

We recommend that the District be aware of types of expenses that are not allowed per state statute and monitor that these expenses are not allowed.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Management Response**

The District staff purchased 2 bottles of wine for the NM Conservation District Employees silent auction during the NM Association of Conservation District annual meeting, with seed/tree sales revenue. However, it has been brought to Management's attention that this is still an un-allowed purchase. Alcohol will no longer be purchased by District funds. District staff has reimbursed the \$25 to the District.

**06-10—LAND OWNERS DO NOT SIGN-OFF ON FINAL PAY REQUEST IN COST SHARE PROGRAM**

**Statement of Condition**

The District has a Cost Share Program that partners the organization with a private landowner on a land improvement project. Per our review of these Cost Share agreements, we have noted there is no sign off by the participating land owners to certify that he or she agrees that the documentation of costs involved in the project are accurate and are properly associated with the project.

**Criteria**

Good business procedures dictate that the parties involved in an agreement the responsibility each party has for the project and to certify the accuracy of the costs involved.

**Effect**

The District may run the risk that the reimbursement of costs associated with a Cost-Share project may not be accurate.

**Cause**

The District may not have considered including these type of certifying signatures.

**Recommendation**

We recommend that the Cost Share agreements be reviewed to improve the accountability and responsibility aspects of the agreement.

**Management Response**

Management and Technical staff have constructed a final payment signature page for use on every cost-share payment.

**06-11—INSURANCE AND PERA PAYMENTS NOT MADE TIMELY OR IN CONSISTENT AMOUNTS**

**Statement of Condition**

Our review of payments for insurance and PERA throughout the year disclosed inconsistent payments in amounts and timing. The payments could not be tied to invoices or statements we reviewed.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Criteria**

Routine expenses such as insurance and PERA payments should be paid on a routine basis and the disbursements should contain supporting documentation that can easy to follow to ensure proper amounts were paid.

**Effect**

The difficulty of following the supporting documentation for these payments calls into question the internal controls for proper review and authorization of disbursements. This issue indicates high risk that the controls over disbursements are not working adequately.

**Cause**

It appears the controls over disbursements need to be improved.

**Recommendation**

We recommend the controls over disbursements be improved.

**Management Response**

Bookkeeper was in the hospital. Although payroll was done the insurance and PERA payments were not paid until later. The inconsistency was caused by trying to catch up. Both are now up to date.

**06-12—CHECKS WRITTEN TO PAY INVOICES FOR VENDORS AND SUPPLIERS ARE MAILED BY PERSON WHO PREPARES THE CHECK**

**Statement of Condition**

The individual who prepares the checks to pay invoices for vendors and suppliers are mailed by the person who prepares the check.

**Criteria**

There is opportunity for the person who prepares the checks to have the checks signed by an authorized signer to redirect the checks to a different vendor or different account at the same vendor, thereby embezzling funds.

**Effect**

The risk for abuse of disbursements is high because of the weakness in controls.

**Cause**

This issue may not have been previously reviewed.

**Recommendation**

We recommend the segregation of duties and checks and balances associated with disbursements be reviewed and improved to reduce the risk of malfeasance.

**Management Response**

This is being addressed and will be changed.

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**06-13—QUICKBOOKS SET UP FOR WRONG FISCAL PERIOD**

**Statement of Condition**

The District fiscal year is from July 1<sup>st</sup> through June 30. The District's QuickBooks was set up for January 1 through December 31.

**Criteria**

Setting up the accounting software's fiscal year correctly is very important since revenue and expense accounts will close out at the end of the year. Setting the fiscal year up incorrectly will cause the revenue and expenditures to close out at the wrong time and therefore distort the accuracy of the accounting.

**Effect**

QuickBooks presented the financial information incorrectly because the fiscal year was set up incorrectly.

**Cause**

The fiscal year was set up incorrectly.

**Recommendation**

We recommend the fiscal year be set up correctly.

**Management Response**

Payroll was set up first and must be on a calendar year.

**06-14—PAYROLL CONTROLS**

**Statement of Condition**

During our testing of controls of the payroll function, we determined there is no independent review of payroll to monitor the accuracy of pay rates, proper deductions, timely payroll tax deposits and payroll reporting to the state and federal tax authorities.

**Criteria**

Payroll is one of the most significant areas of cash disbursements and strong segregating duties or compensating controls to monitor the accuracy of this function is highly important.

**Effect**

Errors or opportunity for fraud is at high risk in this area because of the weakness in internal controls and segregation of duties.

**Cause**

Internal controls in this area may not have been considered.



**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**Recommendation**

We recommend the internal controls or compensating controls be improved in the payroll function.

**Management Response**

This has been changed, controls will be improved.

**06-15—INDEPENDENT CONTRACTOR PROCUREMENT WEAKNESSES**

**Statement of Condition**

We noted that a board member provided accounting services to the District as an independent contractor but the annual increases paid to her were not authorized.

**Criteria**

Controls over procurement and authorization of professional services should be documented and implemented. The documentation and implementation of professional services from related parties takes on additional importance to avoid the appearance of a conflict of interest in providing services.

**Effect**

Abuse in the area of procurement and payment to independent contractors is at a higher risk without proper procurement controls and proper authorization.

**Cause**

Unknown.

**Recommendation**

We recommend that the District's procurement policies and procedures be reviewed and updated and implemented.

**Management Response**

Board of Supervisors– 2006 – Increase for salaried staff and contract labor including bookkeeper authorized on July 6, 2006 is documented in minutes.

2007 - Increase for salaried staff and contract labor including bookkeeper authorized on May 3, 2007 is documented in minutes.

2008 - No rate increase for contract labor authorized. See minutes of the March 2, 2008 and June 5, 2008 board meeting minutes.

No rate increase for administration contractor; Erica Smythe or maintenance contractor; Aaron Smythe; both remained at \$7.83 per hour.

A pay increase for bookkeeper Patricia Ayre from \$1,486.80 (June 2008) to \$1,561.14 (July 2008) and an increase for Consultant, Gene Kamerzell from the approved \$600 flat

**STATE OF NEW MEXICO  
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**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

rate voted on in March to \$1,000 as of July 30, 2008 was ratified in a budget committee meeting. However, no notes were taken. The board will insure that all meetings have approved minutes in the future.

**06-16—CHANGING PRIOR YEAR TRANSACTIONS**

**Statement of Condition**

During our review of the audit trail report in the District's QuickBooks, we noted that there were significant prior period adjustments to cash and retained earnings for up to three years in the past.

**Criteria**

When changes to an entry are made, the original entry should not be altered without an adequate audit trail. It is strongly recommended that a subsequent correcting entry be made rather than changing the original entry.

**Effect**

Altering transactions in the general ledger indicates a lack of internal controls and will affect the subsequent year's reconciliation of net assets as balance sheet amounts have been altered any oversight and activity and net assets/fund balance amounts cannot be relied on.

**Cause**

It appears to be a lack of training and monitoring of recording transactions properly in the general ledger or possibly malfeasance.

**Recommendation**

Altering original entries in the general ledger should be prohibited. If changes need to be made to original entries, an audit trail should be created with memos that explain why the changes were made. If these changes affect prior years, the adjustment should include changes to the equity account so the reconciliation of net assets can be transparent rather than covered up.

**Management's Response**

This process will be changed.

**06-17—CASH DISBURSEMENTS—LACK OF SEGREGATION OF DUTIES  
/INTERNAL CONTROL WEAKNESSES**

**Statement of Condition**

During our interviews about the organization's internal controls and subsequent testing of internal controls of cash disbursements, we determined the following weaknesses:

The Accountant does the following or has the opportunity to:

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1. Prepare checks in the accounting software
2. Access to the check stock
3. Print out the checks or manually write
4. Does not prepare a proper reconciliation of the bank accounts
5. No one reviews the monthly bank reconciliations

**Criteria**

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 112 and its appendix require strong internal controls and these deficiencies and weaknesses are required to be disclosed to management and the governing board.

The combination of control deficiencies and lack of segregation of duties increases the opportunity for material misstatements in the financial statements and/or fraud has collectively resulted in a material weakness for the District and has contributed to the auditor's disclaimer of an opinion.

Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner and for reducing the opportunity for fraud to take place.

**Effect**

Because one person has control over all of the areas cited in the "Statement of Condition" above, and the lack of monitoring, the opportunity is significantly high to misappropriate funds and/or make errors through cash disbursements that may go undetected because of the weak control activities associated with lack of safeguarding of cash and the lack of monitoring of the bank account.

**Cause**

Controls have not been put in place.

**Recommendation**

The District must implement segregation of duties and other controls to reduce the risk of fraud and material error in the financial statements.

**Exhibit 1**

**Bank Statement And Reconciliation Review Checklist**

To be completed by A Responsible Official Who Does Not Handle Cash

ACCOUNT:

- Bank Account 1  
 Bank Account 2  
 Other

1. *Compare the bank balance shown on the reconciliation report and make sure it matches the amount on the bank statement.*

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Bank balance on reconciliation report \_\_\_\_\_

Ending balance on bank statement \_\_\_\_\_

Do they match?  yes  no

2. *Review the deposit transactions that passed through the bank shown on the bank reconciliation report. Look at the frequency of deposits. There should be a consistency of the frequency of deposits and the gap between deposit dates should not be more than 5 business days, maximum.*

Is there more than 5 days between deposits?  yes  no

If so, what is the reason?

- 
3. *Review the disbursement transactions shown on the bank reconciliation report. Look at the check number sequence. The check numbers should be in sequence on the whole. Review the images of the cancelled checks from the bank statement. Determine if the vendors and amounts appear reasonable. Look at signatures to see if they look authentic.*

Are the check numbers mostly in sequence?  yes  no

Are all the check images included?  yes  no

Are there any new vendors?  yes  no

Are the amounts paid to the vendors reasonable?  yes  no

Do the signatures seem authentic?  yes  no

4. *Review any deposits that have been recorded in QuickBooks but have not passed through the bank. Deposits outstanding should not be outstanding more than 5 business days, maximum. Any deposits that appear older than 5 days should be investigated.*

Are there any deposits in transit older than 5 days?  yes  no

If so, what is the reason?

- 
5. *Review disbursements that have been recorded in QuickBooks but have not passed through the bank. Determine if the vendors and amounts appear reasonable. If disbursements are older than 3 months they should be investigated. Once disbursements are older than 6 months, they should be researched by the accountant/bookkeeper to determine why they are still outstanding. If there are outstanding disbursements to certain vendors such as tax authorities or other organizations that need timely payment, these should not be outstanding more than 30 days.*

Review checks that have not cleared the bank.

Are any more than 30 days old?  yes  no

If yes, are the vendors and amounts reasonable?  yes  no

6. *The balance per the register on the reconciliation report should match the balance on the Balance Sheet for the cash account. If it does not that indicates that changes have been made to the cash account after the bank reconciliation was made. If they do not match, the difference should be investigated.*

Ending Balance on reconciliation report \_\_\_\_\_

Operating account balance on Balance Sheet \_\_\_\_\_

Do they match?  yes  no

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If not, why not

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7. *Once the report is printed out, it should be signed and dated by the reconciler and then it should be signed and dated by the reviewer as well. This signing and dating indicate that responsibility has been taken for the monitoring and safeguarding cash*

Title and Signature of Reviewer \_\_\_\_\_

Date \_\_\_\_\_

Issues to be aware of:

Is it possible that a disbursement is not for organizational related purposes?

Is the Vendor approved by the organization?

If there are question about items that do not make sense consider contacting your Independent Auditor or the Office of the State Auditor

**Management Response**

The official mailing address for the Edgewood SWCD is PO Box 1050. Box 1049 will no longer be listed to receive mail for the District. All bills will go directly to the District Manager for verification of purchase and signature. An invoice will then be attached to the approved bills and given to bookkeeper. Bookkeeper will write checks, and have 2 board members sign voucher and checks. Copies of checks and bills will be made and placed with original voucher, and bills mailed. Original vouchers with attached documentation will be given back to District Manager for filing at District Office.

**06-18—NEW MEXICO GROSS RECEIPTS TAX PAID ON EXEMPT PURCHASES**

**Statement of Condition**

The District paid New Mexico gross receipts taxes on transactions that are exempt from gross receipts tax.

**Criteria**

Governmental agencies are exempt from NMGRT on the purchase of tangible personal property in accordance with 7-9-54 NMSA 1978.

**Cause**

Personnel who made the purchases were not aware of the exemption or did not review the purchase documentation to ascertain that NMGRT was not applied to the transaction.

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**Effect**

The District overpaid for certain purchases.

**Recommendation**

We recommend that the District inform all employees of the policy regarding the exemption from NMGRT and also review all purchases to ensure that NMGRT is not included in the purchase.

**Management Response**

District Manager will submit required forms to all vendors to establish tax exempt status.

**06-19—PURCHASING PROTOCOL NOT FOLLOWED**

**Statement of Condition**

The District paid a board member/contractor for automobile tires. Purchasing protocol was not properly followed requiring payment vouchers and checks to be signed by two board members. Supporting invoices and cancelled checks did not exist to reveal the tires were used for a District vehicle and the payment was a reimbursement to the board member/contractor in question who used personal funds to pay the vendor.

**Criteria**

The State's anti-donation clause prohibits the District from making a donation to aid any person, association or private corporation.

**Cause**

The District may have been unaware of the State's anti-donation clause.

**Effect**

The District paid for expenses in violation of the State's anti-donation clause.

**Recommendation**

We recommend the District review transactions to ensure that they do not violate the State's anti-donation clause and that appropriate documentation is retained that accurately documents the actual nature of the transaction.

**Management Response**

This purchase was for tires from JRs Tire Shop in Moriarty. The tire shop would not take the business check, therefore she wrote a personal check and was reimbursed for this purchase.

**06-20—CERTIFICATION OF CAPITAL ASSETS ANNUAL INVENTORY**

**Statement of Condition**

The District has not conducted an annual physical inventory of its capital assets of \$5,000 or more as of June 30, 2006.

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**Criteria**

NMAC 2.20.1.16 Annual Inventory requires that all state agencies, municipalities, counties and every political subdivision of the state must conduct an annual physical audit of its capital assets with a historical cost of \$5,000 or more. Also, the results of the physical inventory shall be recorded in a written inventory report, certified as to the correctness and signed by the governing authority of the agency.

**Effect**

The inventory of the capital assets may not be correct, and monitoring of capital assets is not being kept up and therefore, capital assets may go missing by theft or misplacement.

**Cause**

The District did not complete the inventory for the fiscal year ended June 30, 2006.

**Recommendation**

We recommend that the District’s physical inventory of capital assets contain a certification that the inventory is correct and that it be signed by a governing authority of the District. Also, the District should compare the certified list with the list maintained in the accounting department and differences should be researched and resolved.

**Management Response**

Staff is constructing a list of assets which will be kept in a locked fire box at the District Office, located at 2506 Route 66. Bookkeeper will report the assets within QuickBooks monthly as required by GASB.

**06-21—POOR BUDGET CONTROLS**

**Statement of Condition**

Actual expenditures exceeded budgeted expenditures within a category in the General Fund for the following amounts:

Bonding		\$	2,033			
Dues			1,735			
Education			3,956			
Equipment/Project Materials			109,833			
Meetings			4,754			
Office			14,125			
Payroll			14,407			
Project/Conservation			88,459			
Project/Part-time help			8,953			
Telephone			6,996			
Travel			4,147			
Miscellaneous			15,655			

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Although the legal level of the budgetary control is at the total fund level, the negative balances by accounts indicates that budgets are not being properly monitored and adjusted throughout the year.

**Criteria**

The monitoring and adjusting the budget throughout the year is one of the most important controls over expenditures that an organization has.

**Effect**

Expenditures of the organization can be improperly posted or budget overruns can occur.

**Cause**

It appears to be lack of monitoring of the District for possible budget overruns.

**Recommendation**

Management should review the financial statements on a timely basis, ask questions about variances that are out of line of expectations, and make adjustments to budget line items when appropriate.

**Management Response**

Bookkeeper will submit full financial reports to the Board of Supervisors monthly prior to board meeting with a budget report showing year to date expenditures to ensure that expenditures do not exceed budget.

**06-22—PROPERTY TAX REVENUE DEPOSITS**

**Statement of Condition**

In the months of January and February, there were no deposits made for collection of property tax from Bernalillo County.

**Criteria**

Property tax revenue from the counties are expected to be received monthly and should be received monthly.

**Effect**

The District, is not depositing its property tax revenue on a timely basis.

**Cause**

Unknown

**Recommendation**

We recommend the District receive and deposit its property tax revenue on a timely basis.

**Management Response**

Mill Levy Tax Deposits are made when received by the District.



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**06-23 – UNDER COLLATERALIZED BANK ACCOUNTS**

**Statement of Condition**

The auditors were unable to obtain the collateral statements from the District and the amount of coverage is unknown.

**Criteria**

Section 6-10-17 NMSA requires 50% collateral requirement for the District's monies deposited in each financial institution.

**Effect**

The District is not following State Statutes concerning safekeeping of public monies.

**Cause**

Unknown.

**Recommendation**

The District should maintain and monitor its collateral statements. These statements should be available for the auditors to review.

**Management Response**

Bank Accounts are collateralized.

**06-24—AUDIT REPORT NOT SUBMITTED TIMELY**

**Statement of Condition**

The District audit report for the year ended June 30, 2006 was not completed by the required due date of December 1, 2006 per the state auditor rule nor by December 30, 2008 per our signed contract. The audit report was mailed and postmarked with the date June 06, 2010 to the Office of the State Auditor.

**Criteria**

Audit reports rejected and not resubmitted before the due date are considered to be late submissions under 2.2.2.9.E of the State Audit Rule.

**Effect**

Information was not timely audited and reviewed by management and the board and has caused problems with the District's ongoing need for audited financials to make informed management decisions and to submit audited financials for the purpose of pursuing grants.

**Cause**

The District was unable to obtain its prior audit timely and did not have its books and records ready for their audit.

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**Recommendation**

The District should ensure its books and records are ready to be audited.

**Management Response**

Unable to provide report due to lack of timely report provided to ESWCD by 2005 by the State Auditor.

**State Auditor Response**

The District promised to provide to the Office of the State Auditor (OSA) the responses to the audit findings and the signed management representation letter for the fiscal year 2005 audit within two weeks after the exit conference. Had the aforementioned items been received by OSA at the promised time, the audit report would have been delivered in May 2009, thus allowing the successor auditors the opportunity to evaluate the July 1, 2005 opening balances and apply the procedures required by generally accepted auditing standards.

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**SCHEDULE OF FINDINGS AND RESPONSES  
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An exit conference was held in a closed session on February 18, 2010, at the District's offices in Edgewood, New Mexico. In attendance were the following:

Representing Edgewood

Mr. David King	Chairperson
Ms. Patricia Ayre	Supervisor
Ms. Jo Basset	Supervisor
Mr. Leo Smith	Supervisor
Mr. Lewis Fisher	Supervisor
Roy Todd	NMDA Representative
Brad Podoll NRCS	District Conservationist
Ms. Brenda Smythe	Office Manager
Ms. Kelly Smith	District Technician

Representing Hinkle & Landers, PC

Mr. Farley Vener, CPA, CFE	Independent Auditor
Mr. Roger Nagel, CPA	Independent Auditor

**FINANCIAL STATEMENTS**

The financial statements of the District as of June 30, 2006, were substantially prepared by Hinkle & Landers, PC, however, the financial statements are the responsibility of management.