

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

**Independent Accountant's Report on
Applying Agreed-Upon Procedures (TIER 4)**

**For the Fiscal Year Ended
June 30, 2017**

ASSURANCE TAX ACCOUNTING PC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

Office: (505) 620-8526 Fax: (866) 800-6970; PO Box 27213 Albuquerque, NM 87125; johnnymangu@msn.com

**STATE OF NEW MEXICO
LAVA SOIL AND CONSERVATION DISTRICT**

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Fiscal Year Ended June 30, 2017

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**STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT
OFFICIAL ROSTER
Fiscal Year Ending June 30, 2017**

Chairman
Vice-Chairman
Secretary-Treasurer
Supervisor
Supervisor
Supervisor
Accountant

Fred Padilla
Ernest Molina
Chase Elkins
Andy Martinez
Alfred Saavedra
Mike Stogner
Cynthia Spidle

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES (TIER 4)

Fred Padilla, Chairman
Lava Soil and Water Conservation District
and
Honorable Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below which were agreed to by Lava Soil and Water Conservation District and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the District's financial reporting relating to its compliance with Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC as of and for the year ended June 30, 2017. The District's management is responsible for its financial reporting as described above. This agreed-upon procedures engagement was conducted in accordance with AICPA Statements on Standards for Attestation Engagements (Clarified), AT-C Section 215 for agreed-upon procedures engagements. The sufficiency of these procedures is solely the responsibility of those parties specified in the 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 "Tier System Reporting Main Page."

We verified Lava Soil and Water Conservation District revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tier System Reporting Main Page" and it was determined that the District falls under the Tier 4 procedures. General revenues were \$84,213.41. No capital outlay funds were expended during the year ended June 30, 2017.

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 District did not provide the bank statements for the CD investment accounts. The bank reconciliations were not performed at all for FY 2017. See finding 2010-001.

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b) Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

We tested at least 30% of the bank reconciliations and we determined that all bank reconciliations were not performed. The bank reconciliations were not performed at all for FY 2017 and the district did not provide the CD bank statements. See finding 2010-001. The district did not submit the quarterly report to DFA. See Finding 2017-001.

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.

We determined that all the bank accounts at no time exceeded the insured limits provided by the FDIC of \$250,000, except for the operating account which had a balance of \$311,803 at 06/30/2017 and \$283,440 at 12/31/2016 respectively. The District produced pledged collateral documentation provided by the financial institution as required by Section 6-10-17 NMSA 1978, NM Public Money Act.

3. Capital Assets

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, no testing was performed in this area.

4. Revenue

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

a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

We performed an analytical review of the revenue. We noted no exceptions he

Select a sample of revenue equal to at least 30% of the total dollar amount and test the following attributes:

b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

We selected all receipts (100% of total receipts) and we traced the amounts recorded in the supporting documentation including deposit books and to the bank statements. The district did not record transactions in a general ledger format, therefore we could not determine if the amount recorded matched the supporting documentation. See finding 2010-002.

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- c) 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 basis, modified accrual basis, or accrual basis.

We selected all receipts (100% of total receipts). The district did not record transactions in a general ledger format, therefore we could not determine the classification, amount, and proper period per review of supporting documentation. See finding 2010-002.

5. Expenditures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date, and description agree to the vendor's invoice, purchase order, contract, and canceled check, as appropriate.

We randomly selected a sample of cash disbursements equal to 34% of the total dollar amount and determined that the District had inadequate documentation for disbursements. In the testwork we could not determine that the amount recorded as disbursed since the District did not record transactions in a software that tracks coding. See finding 2010-002. The district did not provide supporting documentation for 2 of the 32 disbursements selected to testing, amounting to \$293.89. See finding 2013-001.

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

We determined that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures. No exceptions were noted.

- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Note: The sample must be representative of the population.

No major projects requiring bidding were started or completed during this accounting period. Because the District was not using the appropriate mileage reimbursement rate, it resulted in eight overpayments, the total of the overpayments amounted to \$53.48 for the items tested. See finding 2015-001.

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6. Journal Entries

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

- a) Journal entries appear reasonable and have supporting documentation.

Because there were no manual journal entries created during FY 2017, no testing was performed in this area.

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

Because there were no manual journal entries created during FY 2017, no testing was performed in this area.

7. Budget

Obtain the original fiscal year budget and all budget adjustments made throughout the fiscal year and perform the following test work:

- a) 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.

We verified through review of minutes the original budget approved by the District governing body and DFA-LGD. No exceptions were noted.

- b) Determine whether the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.

We determined through comparing the Original/Final Budget to the Actual Expenditures that the District is in compliance with statutes by not over-expending at the fund level, which is the legal level of budgetary control.

- c) 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, accrual, or modified accrual basis) for each individual fund.

See Attached Statement of Revenues and Expenses – Actual (Cash Basis).

8. Other

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances

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must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include all required content detailed in Section 2.2.2.10(L)(3) NMAC.

The District did not submit their FY 2017 agreed-upon procedures report to the Office of the State Auditor by December 15, 2017, the due date of the report. In addition, the IPA recommendation for FY 2017, which was due on July 1, 2017, was not submitted to the State Auditor until November 28, 2017. Finding 2010-005

No information came to our attention indicating any fraud or illegal acts. Instances of noncompliance and internal control deficiencies are disclosed in the findings of this report.

We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on the Lava Soil and Water Conservation District's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion or conclusion. 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 the Lava Soil and Water Conservation District, the New Mexico Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C.
Albuquerque, New Mexico
September 26, 2018

STATE OF NEW MEXICO
Lava Soil & Water Conservation District
GENERAL FUNDS
STATEMENT OF REVENUES AND EXPENSES
ACTUAL (Cash Basis)
For the year ended June 30, 2017

	Original Budget	Final Budget	Actual Cash Basis	Variance Favorable (Unfavorable)
Revenue				
Cibola County Levy	\$ 65,000	60,000	68,524	8,524
NMDA AG Day Grant	-	-	1,990	1,990
NMDA Operating Funds	15,000	15,000	13,699	(1,301)
Total revenues	80,000	75,000	84,213	9,213
Expenditures Current:				
Administration:				
Mill Levy Fee	\$ 650	650	679	(29)
Bond-Insurance	2,500	2,500	189	2,311
Advertising Expenses	-	-	194	(194)
Gross Salary	20,000	20,000	21,112	(1,112)
Office Supplies	500	500	384	116
Loan Repayment	1,000	1,000	1,000	-
Special Events:				
Annual Meeting and Travel	11,000	11,000	10,795	205
AG Day	4,000	4,000	1,808	2,193
Information & Education	2,000	2,000	781	1,219
Dues:				
NACD	1,000	1,000	775	225
NMACD	1,000	1,000	1,000	-
Conservation Projects:				
Noxious Weeds	4,000	4,000	3,614	386
Cost Share Program	32,350	32,350	-	32,350
Others:				
Payroll Taxes	-	-	1,685	(1,685)
Tax Interest	-	-	22	(22)
Penalties	-	-	200	(200)
Repairs	-	-	32	(32)
Donation	-	-	200	(200)
Other expenses	-	-	249	(249)
Total expenses	80,000	80,000	44,720	35,280

LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017

Prior Year Findings:

Finding 2010-001 – Bank Reconciliations

Finding 2010-002 – Lack of Recording of Cash Receipts and Disbursements.

Finding 2015-001 – Per Diem and Mileage Act.

Finding 2013-001 – Lack of Documentation for Disbursements.

Finding 2010-005 – Late Agreed-Upon Procedures Report and IPA Recommendation

Current Year Findings

Finding 2010-001 – Bank Reconciliations

Finding 2010-002 - Lack of Recording of Cash Receipts and Disbursements

Finding 2015-001 – Per Diem and Mileage Act.

Finding 2013-001 – Lack of Documentation for Disbursements.

Finding 2010-005 – Late Agreed-Upon Procedures Report and IPA Recommendation

Finding 2017-001 – Budget Approval and Quarterly Reporting

LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2017

Finding 2010-001 - Bank Reconciliations

Condition:

While applying the agreed upon procedures over bank reconciliations, it was noted that none of the bank reconciliations for FY 2017 were performed. The District did not provide the bank statements for the CD investment accounts. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

In accordance with Subsection H of 2.2.2.16 NMAC, all agreed upon procedures engagements should report as findings and fraud, illegal acts, noncompliance, or internal control deficiencies, consistent with Section 12-6-5 NMSA 1978 which states any violation of good accounting practices shall be set out in detail in a written report. Good accounting practices dictate that reconciliation of bank balances should be completed on a timely basis, to provide assurance that all transactions have been entered by the bank and recorded in the financial statements properly. If bank reconciliations are to serve as an effective control over the cash accounts, they must be prepared on a timely basis and all reconciling items should be investigated and resolved properly.

Cause:

The District was not aware that bank reconciliations must be performed monthly.

Effect:

Bank reconciliations that are not reconciled properly could lead to inaccurate interim financial reporting. In addition, errors and misappropriation of assets could be more difficult to detect if not identified in a timely manner.

Recommendation:

The District should establish a policy by which bank reconciliations are required to be performed and reviewed within 30 days of the statement end date.

Management's Response:

The District will begin performing the reconciliations on a timely basis effective immediately. The District Chairman will ensure that the reconciliations are accurate and performed within 30 days of statement end date.

LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2017

Finding 2010-002 - Lack of Recording of Cash Receipts and Disbursements

Condition:

The District had inadequate recording for revenue and disbursements. The District was not using a software and did not track receipts and disbursements with coding and ability to determine if transactions were coded properly. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Proper internal controls require supporting documentation for all transactions that occur and coding those transactions in the financial statements appropriately.

Cause:

The District does not have a process for recording of receipts and disbursements for accurate financial statements preparation.

Effect:

Lack of coding for financial transactions can cause misstatements that may go undetected.

Recommendation:

The District should adopt a policy of recording for every deposit and disbursement, to help determine that deposits and disbursements recorded are complete, accurate and timely.

Management's Response:

The District Chairman will ensure effective immediately that every Board member receive a copy of the financial statements showing all transactions including all deposits and disbursements. Along with every deposit and disbursement going forward the District Chairman will ensure that there will be appropriate coding for the transactions.

LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2017

Finding 2015-001 – Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Condition:

The District used the incorrect mileage reimbursement rate to reimburse employee use of personal vehicles for the benefit of the District. Because the District was not using the appropriate mileage reimbursement rate, it resulted in eight overpayments, the total of the overpayments amounted to \$53.48 for the items tested. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Per the Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC) the District should be using the rates provided by DFA. “Unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA 1978, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately-owned vehicle.”

Cause:

The District was not aware of the appropriate mileage reimbursement rate to be used.

Effect:

Because the District is not compliant with the Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC), fraud waste and abuse could take place without being detected, affecting the entity adversely in the eye of the stakeholders.

Recommendation:

The District should begin using the DFA published mileage rates along with strengthening the review and approval process.

Management’s Response:

The District will begin using the DFA published mileage reimbursement rates effective immediately, and the District Chairman will provide the supporting documentation of mileage reimbursements to the board for a quality review and approval before the payments are made. The District Chairman is responsible for meeting the deadline as required.

LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2017

Finding 2013-001 Lack of Documentation for Disbursements (Significant Deficiency)

Condition:

We randomly selected a sample of cash disbursements equal to 34% of the total dollar amount and determined that the District had inadequate documentation for disbursements. The district did not provide supporting documentation for 2 of the 32 disbursements selected to testing, amounting to \$293.89. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Proper internal controls require supporting documentation for all transactions that occur. The supporting documentation should be retained along with the copy of the check disbursement.

Cause:

The District does not have a process for retaining the proper documentation for disbursements.

Effect:

Lack of supporting documentation for financial transactions can cause misstatements that may go undetected.

Recommendation:

The District should adopt a policy of retaining supporting documentation for every disbursement, to help determine that disbursements recorded are complete, accurate and timely.

Management's Response:

The District Chairman will ensure effective immediately that every Board member receive a copy of the financial statements showing all transactions including all disbursements. Along with every disbursement going forward the District Chairman will ensure that there will be supporting documentation for the transactions.

LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2017

Finding 2010-005 - Late Agreed-Upon Procedures Report and IPA Recommendation

Condition:

The District did not submit their FY 2017 agreed-upon procedures report to the Office of the State Auditor by December 15, 2017, the due date of the report. In addition, the IPA recommendation for FY 2017, which was due on July 1, 2017, was not submitted to the State Auditor until November 28, 2017.

Criteria:

2.2.2 NMAC (State Audit Rule) requires submission of the IPA recommendation by July 1, 2017. 2.2.2 NMAC also requires submission of audit reports within five and a half months after year-end, or December 15, 2017.

Cause:

The District was not aware of the State Audit Rule requirements to contract with an audit firm.

Effect:

The District was not in compliance with the State Audit Rule, which could impact their ability to receive grants from federal and state sources.

Recommendation:

The District should prepare the annual auditor recommendation by July 1, of each year and submit it to the Office of the State Auditor. The District should also institute policies and procedures that will enable it to complete their annual audit five and a half months after year-end.

Management's Response:

The District Chairman and Board will create a policy and procedure to submit the IPA recommendation to the State Auditor Office before July 1 and complete the audit requirements within the five and a half months after year-end. The District Chairman is responsible for meeting the deadline as required.

LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2017

Finding 2017-001 - Budget Approval

Condition:

The District did not prepare or submit their operating results quarterly to DFA.

Criteria:

Section 6-6-2 NMSA 1978 requires all local public bodies to submit their original operating budget annually to DFA Local Government Division for certification, and any budget amendments to maintain budget authority.

Cause:

The District was not aware of the reporting requirement imposed by statute and DFA.

Effect:

DFA – Local Government Division lacked the necessary information to perform their oversight duties required by state statute.

Recommendation:

We recommend the District establish contact with their DFA budget analyst to determine what reports are required and whether retroactive reporting will be required. The District should also institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

Management's Response:

Effective immediately, the District Chairman will contact a DFA budget analyst to determine which reports need to be reported and by what deadline these reports need to be reported. The District Board will then determine a policy to ensure compliance with reporting to DFA. Once contact with a DFA analyst has been established, the District Chairman will also ensure that the reporting is conducted in a timely manner.

LAVA SOIL AND WATER CONSERVATION DISTRICT
STATUS OF PRIOR YEAR FINDINGS
Fiscal Year Ended June 30, 2017

<u>Prior Year Number</u>	<u>Prior Year Finding</u>	<u>Current Status</u>
2010-001	Bank Reconciliations	Repeated
2010-002	Lack of Recording of Cash Receipts and Disbursements	Repeated
2015-001	Per Diem and Mileage Act	Repeated
2013-001	Lack of Documentation for Disbursements	Repeated
2010-005	Late Agreed-Upon Procedures Report and IPA Recommendation	Repeated

LAVA SOIL AND WATER CONSERVATION DISTRICT
EXIT CONFERENCE
Fiscal Year Ended June 30, 2017

The report contents were discussed at an exit conference held on September 26, 2018 with the following in attendance:

LAVA SOIL AND WATER CONSERVATION DISTRICT

Fred Padilla	Chairman
Ernest Molina	Vice-Chairman
Chase Elkins	Secretary-Treasurer
Cynthia Spidle	Accountant

Assurance Tax Accounting PC

Johnny Mangu, MBA, CPA, CGFM, CGMA	Principal
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