

State of New Mexico
OFFICE OF THE STATE AUDITOR

STATE OF NEW MEXICO

MCKINLEY

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2005

(With Independent Auditor's Report Thereon)



Domingo P. Martinez, CGFM
State Auditor

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STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2005

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STATE AUDITOR

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Larry Winn	Chairperson
Lance Allgood	Vice-Chairperson
John Engels	Secretary/Treasurer
Kathy Landers	Member
Ed Oliver	Member
Vacant	Member
Vacant	Member

<u>District Personnel</u>	<u>Title</u>
Betsy Irving	District Clerk



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Mr. Larry Winn, Chair
and Members of the Board of Supervisors
McKinley Soil and Water Conservation District
1658 South Second
Gallup, NM 87301

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the McKinley Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 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. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

2113 Warner Circle, Santa Fe, New Mexico 87505-5499
(505) 476-3800 (800) 432-5517 Fax (505) 827-3512
<http://www.saoonm.org>

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2006 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

March 28, 2006

STATE OF NEW MEXICO
 MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

Exhibit 1

	Governmental Activities
Assets	
Cash	\$ 39,571
Capital assets, net	<u>9,677</u>
Total assets	<u>49,248</u>
Liabilities	
Accounts payable	<u>1,887</u>
Total liabilities	<u>1,887</u>
Net Assets	
Invested in capital assets	9,677
Unrestricted	<u>37,684</u>
Total net assets	<u><u>\$ 47,361</u></u>

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

STATE OF NEW MEXICO
 MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	
Riparian program expenses	\$ 95,226
Contract Services	2,872
Office Supplies	1,123
Equipment/Supplies	2,181
Advertising	101
Per Diem & Travel	2,037
Dues & Registration Fees	395
Insurance	692
Meeting Expenses	903
Postage	161
Information & Education	962
Bank Service Charges	28
Depreciation	2,121
Total program expenses	108,802
Program Revenues:	
Operating grants	130,515
Donated equipment	1,200
Total program revenues	131,715
Net program (expense) revenue	22,913
General Revenues:	
NMDA allotment	9,775
Interest	196
Miscellaneous	30
Total general revenues	10,001
Change in net assets	32,914
Net assets at beginning of year	14,447
Net assets at end of year	\$ 47,361

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

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

Exhibit 3

	General Fund
Assets	
Cash	\$ 39,571
Total assets	<u>\$ 39,571</u>
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 1,887
Total liabilities	<u>1,887</u>
Fund balance:	
Unreserved, undesignated	<u>37,684</u>
Total fund balance	<u>37,684</u>
Total liabilities and fund balance	<u>\$ 39,571</u>

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

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
FINANCIAL STATEMENT RECONCILIATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS:

Amounts reported for governmental activities in the Statement of Net Assets are different are different from the way they are reported in the Balance Sheet - Governmental Funds as follows:

Fund Balance - Balance Sheet (Exhibit 3)	\$ 37,684
Capital assets, net of accumulated depreciation	9,677

Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Net Assets - Statement of Net Assets (Exhibit 1)	<u>\$ 47,361</u>
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The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>
Revenues	
State allocation	\$ 9,775
County grant	8,000
NFWF grant	55,000
NMSU grant	66,515
BLM grant	1,000
Donated equipment	1,200
Interest	196
Miscellaneous	30
Total revenues	141,716
Expenditures	
Conservation:	
Current:	
Riparian program expenses	\$ 95,226
Contract Services	2,873
Office Supplies	1,123
Equipment/Supplies	2,181
Advertising	101
Per Diem & Travel	2,037
Dues & Registration Fees	396
Insurance	692
Meeting Expenses	903
Postage	161
Information & Education	962
Bank Service Charges	28
Capital Outlay	1,200
Total expenditures	107,883
Net change in fund balance	33,833
Fund balance beginning of year	3,851
Fund balance end of year	\$ 37,684

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

STATE OF NEW MEXICO
 MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
 FINANCIAL STATEMENT RECONCILIATIONS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RECONCILIATION OF THE STATEMENT OF ACTIVITIES TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES:

Net change in fund balance - Governmental Funds (Exhibit 4) \$ 33,833

Amounts reported in the Statement of Activities are different because:

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. However, in the governmental funds, expenditures for these items are measured by the amount of financial resources used (actually paid). The increase for the liability not recorded in the balance sheet is: -

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful life of the asset and reported as depreciation expense as follows:

Capital outlay	1,202
Depreciation expense	(2,121)

Repayment of principal on long-term debt (note payable) is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount repaid in the current year:

Change in net assets - Statement of Activities (Exhibit 2)	\$ 32,914
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The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
State allocation	\$ 10,000	\$ 10,000	\$ 9,774	\$ (226)
County grant	8,000	8,000	8,000	-
NFWF grant	-	-	55,000	55,000
NMSU grant	-	-	66,515	66,515
BLM grant	-	-	1,000	1,000
Interest	50	50	196	146
Miscellaneous	-	-	30	30
Total revenues	<u>\$ 18,050</u>	<u>\$ 18,050</u>	<u>\$ 140,515</u>	<u>\$ 122,465</u>

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Expenditures				
Conservation:				
Current:				
Riparian program expenses	\$ -	\$ -	\$ 93,339	\$ (93,339)
Contract Services	4,000	4,000	2,992	1,008
Office Supplies	300	300	1,123	(823)
Copying & Printing	150	150	-	150
Equipment/Supplies	3,000	3,000	2,181	819
Advertising	200	200	101	99
Per Diem & Travel	5,000	5,000	2,097	2,903
Dues & Registration Fees	1,500	1,500	395	1,105
Insurance	300	300	692	(392)
Meeting Expenses	750	750	903	(153)
Consulting Services	-	-	-	-
Postage	100	100	161	(61)
Information & Education	2,720	2,720	1,715	1,005
Bank Service Charges	30	30	27	3
Total expenditures	<u>\$ 18,050</u>	<u>\$ 18,050</u>	<u>\$ 105,726</u>	<u>\$ (87,676)</u>

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

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

I. Summary of Significant Accounting Policies

A. Reporting Entity

The McKinley 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, four of whom must be landowners in the District. Two additional supervisors may be appointed to the District board. Supervisors serve a term of four 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

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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. 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. 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.

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.

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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.

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.

C. Assets, Liabilities, and Net Assets or Fund Balance

1. Cash

The District's cash is considered to be demand deposits.

2. Capital Assets

Capital assets, which include property, equipment (including software), and (list other items as applicable) 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 \$1,000 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:

Computer equipment	4 years
Field Equipment	5 years

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Portable Building 10 years

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. (Describe any significant budget adjustments made during the fiscal year.) Encumbrance accounting is not utilized by the District.

B. Excess of Actual Expenditures Over Budgeted Expenditures

Actual expenditures exceeded the approved budget by \$87,676. The District received and expended grant funds for the Riparian grant program of \$93,339 during the fiscal year, but failed to budget the related revenues and expenditures associated with the grant.

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

C. Reconciliation of Non-GAAP Budget to GAAP

	General Fund
Non-GAAP revenues (Exhibit 5)	\$ 140,515
Prior year receivables	-
Current year receivables	-
Donation of property	1,201
GAAP revenues (Exhibit 4)	<u>\$ 141,716</u>
Non-GAAP expenditures (Exhibit 5)	\$ 105,726
Prior year payable	(931)
Current year payable	1,887
Capital outlay-donated property	1,201
GAAP expenditures (Exhibit 4)	<u>\$ 107,883</u>

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2005, the District had a carrying amount of deposits of \$39,571. The bank balances for deposits were \$39,621. The \$50 difference is an outstanding check. Bank balances consisted of the following:

<u>Gallup Federal Savings Bank</u>	
Demand deposits	\$ 39,621
Less: FDIC coverage	<u>(39,621)</u>
Amount uninsured	<u>\$ 0</u>

Custodial credit risk is the risk that in the event of bank failure certain cash balances which are uninsured could be lost in the event of a bank failure. None of the District's bank balance was subject to custodial credit risk at year-end.

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

B. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Description	Balance	Additions	Deletions	Balance
	6/30/2004			6/30/2005
Office Equipment	\$ 1,837	\$ -	\$ -	\$ 1,837
Field Equipment	8,858	1,202	-	10,060
Building	2,085	-	-	2,085
Totals	\$ 12,780	\$ 1,202	\$ -	\$ 13,982

Less accumulated depreciation for:

Office Equipment	\$ 1,837	\$ -	\$ -	\$ 1,837
Field Equipment	295	1,912	-	2,207
Building	52	209	-	261
Total accumulated depreciation	<u>\$ 2,184</u>	<u>\$ 2,121</u>	<u>\$ -</u>	<u>\$ 4,305</u>
Governmental activities capital assets, net	<u>\$ 10,596</u>	<u>\$ (919)</u>	<u>\$ -</u>	<u>\$ 9,677</u>

IV. Other Information

A. Post-Employment Benefits

The District had no employees during the fiscal year ended June 30, 2005 and did not offer a pension plan, deferred compensation plan or post-retirement benefits plan for the year then ended.

B. Risk Management

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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 \$1,050,000 for each wrongful act and \$1,050,000 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 \$20,000 surety bond with Western Surety Company 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.



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

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. Larry Winn, Chair
and Members of the Board of Supervisors
McKinley Soil and Water Conservation District
1658 South Second Street
Gallup, NM 87301

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the McKinley Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated March 28, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations as items 05-1 and 05-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely

period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions in the internal control over financial reporting that might be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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 recommendations as items 05-01 and 05-02.

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 state legislature and grantors and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

March 28, 2006

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

STATUS OF PRIOR YEAR AUDIT FINDINGS

04-01 Lack of Contract for Independent Contractor-Resolved.

04-02 Actual Expenditures Exceeded the Approved Budget-Modified & Repeated as 05-01.

CURRENT YEAR AUDIT FINDINGS

05-01 Actual Expenditures Exceeded the Approved Budget

05-02 Errors and Non Compliance Related to Disbursements

05-01 Actual Expenditures Exceeded the Approved Budget

Condition

As noted in Exhibit 5, actual expenditures exceeded the approved budget by \$87,676 in total. The line item for grant expenses was not budgeted.

Criteria

Budgets for soil and water conservation districts are approved by DFA in accordance with Section 6-6-2 NMSA 1978. District's expenditures cannot exceed the approved budget according to Section 6-6-6 NMSA 1978 which states: "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."

Effect

District is not in compliance with state law.

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

Cause

The District did not budget for the receipt of grant revenues of \$122,515 and related grant expenditures. However, Board minutes indicate approval of expenditures.

Recommendation

Adopt budget adjustments in accordance with District plan and operations. Obtain approval from DFA before any expenditures are incurred. Monitor accounts to ensure that actual expenditures do not exceed the approved budget or available fund balance at any time during the fiscal year.

District's Response

This matter will be discussed at the next monthly board meeting to be held April 20, 2006. The Board will be reminded of the need to submit budget adjustment requests to DFA.

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

05-02 Errors and Non Compliance Related to Disbursements

Condition

Minor errors and instances of noncompliance were noted in our test of expenditures as follows:

- Three different rates (31, 32 and 34 cents) were used to reimburse employees for business related mileage.
- A \$60 contribution was made to a nonprofit foundation in memory of the mother of a board member.
- Affidavit for Lost Receipts was used on three occasions to claim reimbursement for lost receipts related to program purchases.
- Although a second Board member signed to authorize per diem and mileage reimbursements to another Board member, the Board member who was also the payee actually signed the reimbursement check on four occasions.
- A \$30 error in revenues was found on the general ledger spreadsheet.
- A check was listed on the general ledger spread sheet for one cent less than the actual payment.

Criteria

Article XIX of the State Constitution known as the "anti-donation" clause prohibits expenditures which are unrelated to the activities of the governmental agency.

State law and DFA Travel and Per Diem regulation 2.42.2 limit the reimbursement rate to 32 cents.

DFA established the "Affidavit for Lost Receipts" primarily to provide a mechanism to pay staff for actual amounts spent on lodging and meals. It was not intended to replace other types of receipts for purchases.

Good accounting practice requires separation of duties. Persons authorized to sign on the District's bank account should not sign checks payable to them.

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

Good accounting practice requires accuracy in the recording of financial transactions.

Effect

The District is not in compliance with state law and DFA regulations for travel and per diem.

As the District grows in activity, bookkeeping errors could go undetected.

Cause

A volunteer used the incorrect 34 cent rate which was undetected by the District. General ledger errors resulted from human error in the preparation of manually maintained accounting records. District was not aware of other requirements.

Recommendation

Establish a mileage reimbursement which does not exceed 32 cents per mile and use it consistently.

Do not make expenditures which do not relate to fulfillment of the statutorily defined purposes of the District.

Avoid having a Board member sign checks where s/he is the payee.

Consider purchasing an accounting software package for bookkeeping purposes such as those used by other conservation districts. Alternatively, an electronic spreadsheet program could be used to prepare the general ledger.

District's Response

The District agrees with the recommendations and will also consider purchasing accounting software.

STATE OF NEW MEXICO
MCKINLEY SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
JUNE 30, 2005

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor. However, the contents remain the responsibility of the District.

Exit Conference

On March 28, 2006, an exit conference was held at the District Office with Chairman Larry Winn and District Clerk Betsy Irving of the McKinley Soil and Water Conservation District. Audit Manager La Vonne Cornett represented the Office of the State Auditor.