

Charles L. Henry

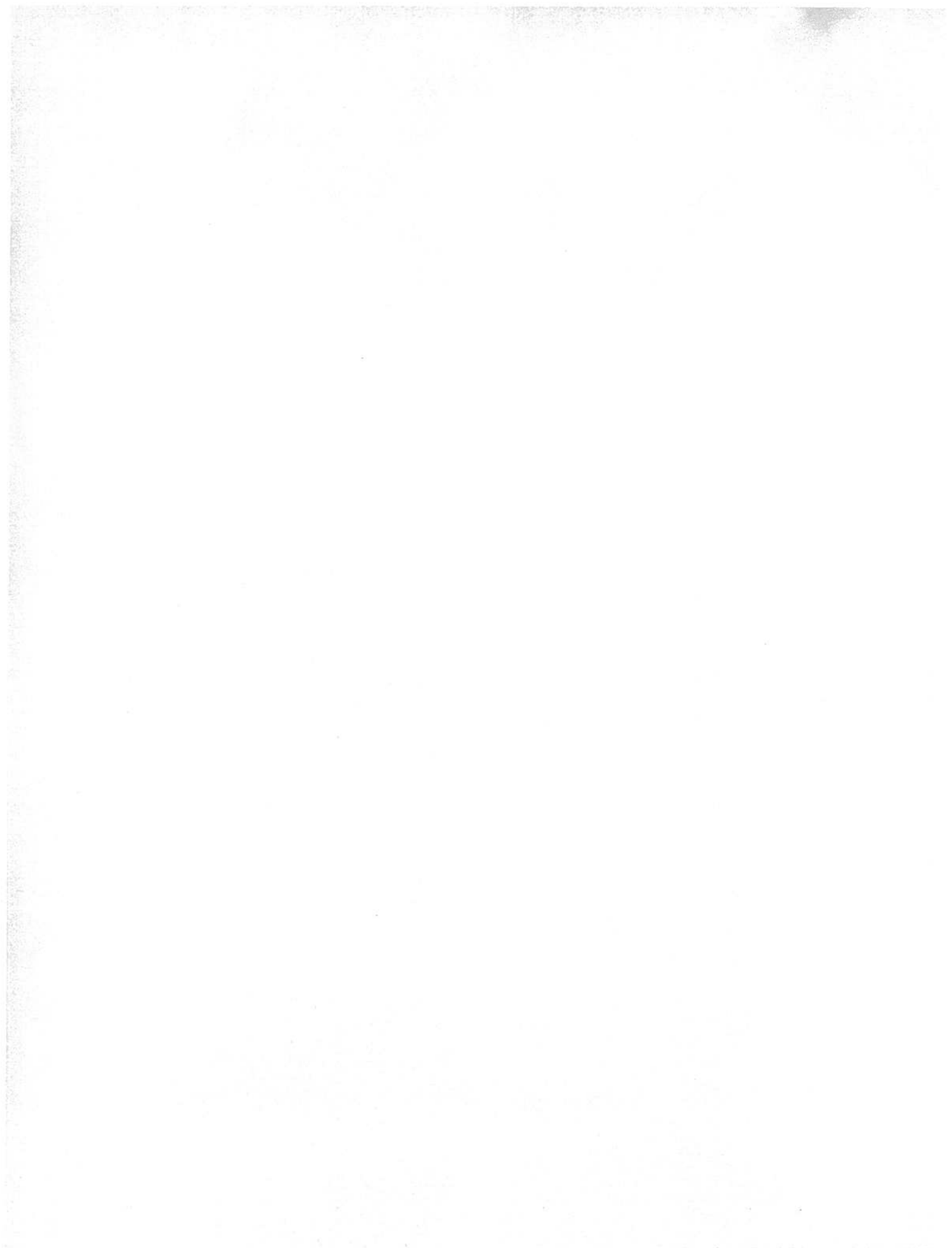
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STATE OF NEW MEXICO

Northeastern Soil and Water Conservation District

**Independent Accountant's Report
on Applying Agreed-Upon Procedures**

For the Fiscal Year Ended June 30, 2010



State of New Mexico
Northeastern Soil and Water Conservation District
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June 30, 2010

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State of New Mexico
Northeastern Soil and Water Conservation District
Official Roster
June 30, 2010

Board of Supervisors

Position

Justin Bennett

Chairperson

Brett Bannon

Vice - Chairperson

Randy Podzemny

Secretary / Treasurer

Gayle Rivale

Member

Larry Mason

Member

District Personnel

Title

Barbara G. Podzemny

Administrative Assistant

Charles L. Henry

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Justin Bennett, Chairperson
and Members of the Board of Supervisors
Northeastern Soil and Water Conservation District
and
Honorable Hector H. Balderas
New Mexico State Auditor

I have performed the procedures enumerated below for the Northeastern Soil and Water Conservation District (District), for the year ended June 30, 2010. The district was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the District through the Office of the New Mexico State Auditor. The management of the Northeastern Soil and Water Conservation District is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. My procedures and findings are as follows:

CASH

Procedures

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

FINDINGS

- a) The District has a checking account, three certificates of deposit and utilizes a QuickBooks software package to record cash receipts and disbursements. All bank reconciliations are performed on a timely basis utilizing the software reconciliation program and were complete and on-hand.
- b) Random testing of bank reconciliations revealed that the reconciliations are performed timely and are on file. However, they do not meet the need of a bank reconciliation because they do not provide a reconciliation of the balance found on the bank statement to the book balance as found in the general ledger.
- c) Bank account balances never exceeded uninsured limits and therefore, pledged collateral was not required on any bank balance.

CAPITAL ASSETS

Procedures

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

Findings

The Northeastern Soil and Water Conservation District performed a yearly inventory as required by Section 12-6-10 NMSA 1978 that requires agencies to capitalize only chattels and equipment that cost over \$ 5,000. Although an inventory of equipment costing \$ 5,000 or less is not required the State Auditor encourages agencies to maintain a separate accountability of those items. I will make this recommendation to the District.

REVENUE

Procedures

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

- a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year ended June 30, 2010 for each type of revenue source.

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

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

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

Findings

- a) Analytical review and test of actual revenue compared to budgeted revenue for the year for each type of revenue revealed no exceptions.
- b) Amounts recorded in the general ledger agreed with supporting documentation and the bank statements with no exceptions.
- c) Transactions were properly recorded on a cash basis as to amount and classification and period per review of supporting documentation.

EXPENDITURES

Procedures

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

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

Findings

- a) Amounts recorded as disbursed agreed to supporting documentation. Amount paid, payee, date and description, agree with the vendor's invoice. Purchase order, contract and cancelled check, as appropriate.

- b) Disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) The bid process (or request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).
- d) The recording and payment of payroll tax liabilities was found to be incorrect.

JOURNAL ENTRIES

Procedures

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

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

Findings

The District uses QuickBooks software, but does not generate journal entries or make adjustments to amounts recorded.

BUDGET

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

- a) Verify, through a review of the minutes and correspondence, that the budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD
- b) Determine if the total actual expenditures exceed the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and final approved budgets an general ledger, prepare a schedule of revenue and expenditures - budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Findings

- a) A review of the minutes and correspondence provided information that the budget and subsequent budget information was approved by the local governing body and DFA-LGD.

- c) The actual expenditures did not exceed the final budget at the total fund level, the legal level of budgetary control.

OTHER

Procedures

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

Findings

No exceptions were found as a result of applying the procedures above indicating any fraud or illegal acts. However, an issue of a weakness in internal control was noted. The District has on hand small number of checks that are signed by one of the board members for use in situations where a check needs to be issued in the normal course of business.

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

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



Charles L. Henry
Certified Public Accountant
September 20, 2011

State of New Mexico
 Northeastern Soil and Water Conservation District
**Statement of Revenues, Expenditures - Budget and
 Actual (Non-GAAP Budgetary Basis) - General Fund**
 For the Fiscal Year Ended June 30, 2010

Exhibit - A

	General Fund			
	Original DFA Budget	Final DFA Budget	Actual Budgetary Expenditures	Variance Favorable (Unfavorable)
Revenues				
State Allotment	\$ 10,500	\$ 10,500	\$ 9,057	\$ (1,443)
Water Quality Grant	11,900	11,900	12,476	576
Material & Supply Sales	93,000	93,000	76,326	(16,674)
Equipment Rentals	1,000	1,000	595	(405)
Grass Seed Sales	15,000	15,000	5,920	(9,080)
Interest	3,000	3,000	2,283	(717)
Miscellaneous Income	-	-	17	17
Total Revenues	<u>134,400</u>	<u>134,400</u>	<u>106,673</u>	<u>(27,727)</u>
Expenditures				
Advertising	355	355	639	(284)
Repairs	500	500	-	500
Taxes	7,500	7,500	6,004	1,496
Mileage / Per Diem	3,000	3,000	3,036	(36)
Rent / Office Expense	200	200	468	(268)
Material / Supplies	63,000	63,000	57,158	5,842
Contract Labor	1,000	1,000	420	580
Equipment Purchases	1,000	1,000	-	1,000
Awards	750	750	48	702
Grass Seed	6,500	6,500	11,293	(4,793)
Dues	2,000	2,000	1,535	465
Educational Aids	750	750	-	750
Bond Insurance	250	250	1,000	(750)
Payroll	16,000	16,000	15,998	3
Meetings	6,500	6,500	6,478	22
Office Expense	750	750	-	750
Audit	2,000	2,000	-	2,000
Water Quality Grant	17,000	17,000	17,961	(961)
Total Expenditures	<u>\$ 129,055</u>	<u>129,055</u>	<u>122,038</u>	<u>7,017</u>
Excess (Deficiency) of revenues over expenditures	<u>\$ 5,345</u>	<u>\$ 5,345</u>	<u>\$ (15,365)</u>	<u>\$ (34,744)</u>

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

State of New Mexico
Northeastern Soil and Water Conservation District
Schedule of Findings and Responses
June 30, 2010

STATUS OF PRIOR YEAR FINDINGS

- 05-01. Withheld tax payments processed incorrectly - Significant Deficiency - Repeated
- 05-02. Revenues were not properly classified - Corrected
- 07-02. The New Mexico Taxation and Revenue form CRS 1 was not prepared properly. - Corrected
- 07-03. Revenue recorded at one date were recognized by the bank in a different date. - Corrected
- 07-04. Accounts Receivable are not readily available - Corrected
- 07-05. Late Agreed Upon Procedures Report - Significant Deficiency - Repeated

CURRENT YEAR FINDINGS

05-01. Withheld tax payments processed incorrectly - Significant Deficiency

Condition

Condition

The District withholds taxes from its employee checks as required by law. The amounts withheld as well as a required "match" for Social Security and Medicare create a liability to the Internal Revenue Service that is paid with reports filed quarterly by the District. The computation and payment of this liability is not being recorded properly in the Quickbooks

Criteria

Proper computation and payment of this liability is required by the Internal Revenue Service.

Effect

Computational errors places the District at risk of over or under paying its payroll tax liability and perhaps penalties from the Internal Revenue Service.

Cause

The District personnel have not been properly trained in generation of the quarterly payroll reports or the proper recording of the liability associated with this report.

Recommendation

The District should obtain training for its personnel to correctly withhold taxes from its employee checks and preparation of the quarterly reporting form.

Management Response

The District has hired a new administrative assistant and agrees to obtain training to address the problem.

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June 30, 2010

07-05. Late Agreed Upon Procedures Report - Significant Deficiency

Condition

The audit report was filed after the due date.

Criteria

According to State Auditor Rule the audit report due date for the District is December 1, 2010.

Effect

The users of the financial statements do not have timely audit reports and financial statements for their review. A late audit report can have an effect on various funding opportunities.

Cause

The District was unable to contract with an auditor.

Recommendation

The District should make every effort to hire an auditor and complete their audit timely.

Management Response

The District was aware of the problem and believes it is addressing the problem as well as possible.

10-01. Bank reconciliations are not prepared accurately - Significant Deficiency

Condition

Bank reconciliations regularly prepared by the District do not generate the reconciliation of the balance as found on the bank statement to the cash balance as found in the general ledger of the District.

Criteria

Preparation of an accurate bank reconciliation is required by the procedures established for the agreed upon procedures engagement.

Effect

Without an accurate bank reconciliation the potential exists for misstatement of the cash balance in the general ledger as well as generating inaccurate information used in the decision making process and the bad business decisions that could result.

State of New Mexico
Northeastern Soil and Water Conservation District
Schedule of Findings and Responses
June 30, 2010

Cause

The personnel of the District do not have proper training or understanding for the preparation of an accurate bank reconciliation.

Recommendation

The District provide some training on the proper preparation of a bank reconciliation.

Management Response

The District was not aware of the problem because it was using the Quickbooks reconciliation program. The District will obtain training to solve the problem.

10-02. Internal Control issues generated by previously signed checks - Significant Deficiency

Condition

The District has available some checks that have been pre-signed by a board member. These checks are intended to provide the ability to disburse funds if necessary to meet the needs of meeting obligations and conduct business in a day-to-day need though not presented to a quorum of the board for approval.

Criteria

The District requires dual signatures on all checks issued to vendors and suppliers of goods and services. The reason for the requirement of having dual signed checks is to provide a measure of internal control. The practice of pre-signing a check violates this procedure as well as overrides the internal control desired by establishment of such a procedure.

Effect

By having a pre-signed checks on hand it is possible to make a disbursement without prior board approval and circumvent the internal control intended by requiring two signatures.

Cause

The members of the board are not always available to provide a signature for disbursements that are considered as required in the normal day-to-day operations of the District. Delaying payment of such payments until a meeting, or for the needed signature is not always practicable.

State of New Mexico
Northeastern Soil and Water Conservation District
Schedule of Findings and Responses
June 30, 2010

Recommendation

The board approve a specific number of checks to be pre-signed and maintained for the purposes intended by having such checks. That each check be inventoried, accounted for and approved by the board each meeting along with the financial report. Such approval should be signed off by at least three board members reflecting that board approval was in fact received for the disbursements made by pre-signed checks.

Management Response

There are very few times that this situation arises and the District agrees to maintain more board control over those checks needed for emergency situations.

Northeastern Soil and Water Conservation District
Schedule of Findings and Responses
Exit Conference
June 30, 2010

FINANCIAL STATEMENT PREPARATION

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

EXIT CONFERENCE

On September 20, 2011 an exit conference was held in the District offices of Northeastern Soil and Water Conservation District. The conference was attended by Mr. Randy Podzemny, Board Member and Secretary/Treasurer, Barbara Podzemny, Administrative Assistant and Jennifer Lutes who will replace Ms. Podzemny as well as Charles Henry CPA.