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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, 2012

State of New Mexico
Northeastern Soil and Water Conservation District
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June 30, 2012

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State of New Mexico
Northeastern Soil and Water Conservation District
Official Roster
June 30, 2012

Board of Supervisors

Position

Justin Bennett

Chairperson

Brett Bannon

Vice - Chairperson

Randy Podzemny

Secretary / Treasurer

Gayle Rivale

Member

Larry Mason

Member

District Personnel

Title

Jennifer Lutes

District Clerk

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, 2012. 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 as well as generating a reconciliation on the back of the bank statement.
- b) Testing of bank reconciliations revealed that the reconciliations were accurately reflected and did tie to the general ledger as well as reports submitted to DFA-LGD.
- 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 of Capital Assets 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.

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, 2012 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, classification and period as determined by the 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, but it was found that some elements of internal control were not sufficient. [See Finding 10-02]

- c) The bid process (or request for proposal process, if applicable), purchase orders, contracts and agreements were not 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). [See Finding 12-02]
- d) The recording and payment of payroll tax liabilities was found to be incorrect. [See Finding 05-01]

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

All journal entries were provided and reviewed. IT was found that the amounts of these entries was immaterial in amount and totaled \$ 40.44 for the entire year.

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 exceed the final budget at the total fund level, the legal level of budgetary control. [See Finding 12-01]

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(I)(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
October 24, 2012

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, 2012

Exhibit - A

	General Fund			
	Original DFA Budget	Final DFA Budget	Actual Budgetary Expenditures	Variance Favorable (Unfavorable)
Revenues				
Grass Seed and Tree Sales	\$ 85,000	\$ 85,000	\$ 88,562	\$ 3,602
Legislative Funding	10,000	10,000	23,567	13,609
Grant Income	-	-	-	41
Interest	2,000	2,000	(1,008)	(2,970)
Rent	2,000	2,000	-	(1,961)
Miscellaneous Income	15,000	15,000	15,533	576
	<u>114,000</u>	<u>114,000</u>	<u>126,653</u>	<u>12,896</u>
Expenditures				
Advertising & Public Relations	700	700	632	68
Taxes	7,500	7,500	1,761	5,739
Mileage & Per Diem	7,000	7,000	2,266	4,734
Office Supplies & Other	300	300	3,116	(2,816)
Material & Chipper	73,200	73,200	72,771	429
Vehicle Expense	-	-	-	-
Office Furniture & Equipment	-	-	-	-
Annual Audit	5,600	5,600	5,532	68
Dues & Board Fees	1,750	1,750	-	1,750
Training & Education	200	200	10	190
Insurance / Bonds	1,250	1,250	-	1,250
Personnel Services	16,500	16,500	21,865	(5,365)
NRCS	-	-	-	-
State & University Grants	-	-	31,815	(31,815)
NMDA Expenses	-	-	-	-
Repairs	-	-	597	(597)
	<u>114,000</u>	<u>114,000</u>	<u>140,365</u>	<u>(26,365)</u>
Excess (Deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(13,712)</u>	<u>\$ 39,261</u>
Cash balance beginning of Year			<u>116,042</u>	
Cash balance End of Year			<u>\$ 102,330</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, 2012

STATUS OF PRIOR YEAR FINDINGS

- 05-01. Withheld tax payments processed incorrectly - Significant Deficiency - Repeated
- 10-01. Bank reconciliations are not prepared accurately - Corrected
- 10-02. Internal Control issues generated by previously signed checks - Significant Deficiency - Repeated/Improved

CURRENT STATUS OF PRIOR YEAR FINDINGS:

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

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 and has resulted in an overpayment to the Internal Revenue Service of \$ 1,644.70.

Criteria:

The internal Revenue Service requires that Employer's Quarterly Federal Tax Return (Form 941) be prepared and filed to report wages that have been paid, Federal income taxes withheld,

Effect:

The district has overpaid the tax liability and will need to file the proper reports with the IRS to receive the refund due.

Cause:

The District clerk was not properly trained in generation of the quarterly payroll reports and did not compute the taxes withheld properly.

Recommendation:

The District Clerk obtain training to properly compute the amounts to be reflected in the quarterly 941 report.

Management Response:

The Clerk is now aware of the problem and it has already been corrected.

State of New Mexico
Northeastern Soil and Water Conservation District
Schedule of Findings and Responses
June 30, 2012

CURRENT STATUS OF PRIOR YEAR FINDINGS:

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

Condition:

The District maintains a small number of pre-signed checks that are used to make small disbursements and meet the needs of day-to-day operations. The use of these checks is not monitored and the internal control policy of requiring dual signatures is negated by such action.

Criteria:

Section 6-6-3 NMSA 1978 requires that every local public body shall keep all the books, accounts, and records of their respective offices in the form prescribed by the Local Government Division. Section 6-6-2 NMSA 1978 requires that agencies implement internal accounting controls to prevent violations of state and federal laws and rules related to financial matters. Section 6-5-2 NMSA 1978 states agencies shall implement internal control designed to prevent accounting errors.

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.

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:

The board put the recommended procedure in place in June of 2012 as reflected in the District minutes.

State of New Mexico
Northeastern Soil and Water Conservation District
Schedule of Findings and Responses
June 30, 2012

CURRENT YEAR FINDINGS

12-01 - Actual Expenditures Exceeded Amount Budgeted: -- Significant Deficiency and Compliance

Condition:

The District actual expenditures exceeded its budgeted expenditures by \$ 26,365.

Criteria:

Section 6-6-6, NMSA states the following:

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:

State Statute regarding compliance with the budget has not been followed. This action could subject the board of the District to the penalty provisions of the statute as described above.

Cause:

The District was aware that an expenditures payable to the department of the Interior had not been budgeted but believed that payment was required to be paid.

Recommendation:

The District board of supervisors become more familiar with the budgetary requirements and be able to amend the budgets as appropriate when conditions come up requiring unbudgeted expenditures.

Management Response:

Management was aware of an unbudgeted expenditure was made, but believed there was no alternative. Future expenditures will be made from budgeted funds.

State of New Mexico
Northeastern Soil and Water Conservation District
Schedule of Findings and Responses
June 30, 2012

CURRENT YEAR FINDINGS

12-02. Not following New Mexico Procurement Code as required - Compliance

Condition:

The District makes various purchases that come under the New Mexico Procurement Code requirements for small purchases. It was found the written quotes from no fewer than three businesses were available in the procurement file.

Criteria:

State Purchasing Regulations (1.4.1.51 NMAC) - Small purchases of items of tangible personal property. Quotations are to be obtained. Insofar as it is practical for small purchases of nonprofessional services, construction or items of tangible personal property having a value exceeding five thousand dollars (\$5,000) but not exceeding twenty thousand dollars (\$20,000), no fewer than three businesses shall be solicited to submit written quotations that are recorded and placed in the procurement file. If three written quotes cannot be obtained, the agency shall document the reasons and include the document in the procurement file. Such notations as "does not carry" or did not return my phone call" do not qualify as a valid quotation.

Effect:

The District may not have maximized the purchasing value of public funds or provided fair and equal treatment of all persons involved in public procurement.

Cause:

The District does attempt to generate the best price for the purchases made by researching the internet as well as available price lists. The relationship with some suppliers are long-standing and trusted. The District is in a rural area and relationships are important and felt that the spirit of the procurement requirements were met.

Recommendation:

Where practical the District obtain the required three or more quotes, or document the reason they cannot be obtained, for all purchases of more than \$ 5,000 and less than \$ 20,000 and maintain these quotes in a procurement file.

Management Response:

The District will maintain a procurement file as well as obtain the required quotes for future purchases.

State of New Mexico
Northeastern Soil and Water Conservation District
Exit Conference
June 30, 2012

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 October 24, 2012 an exit conference was held in the District offices of Northeastern Soil and Water Conservation District. The conference was attended by Mr. Justin Bennett, District Chairperson and , Jennifer Lutes, District Clerk as well as Charles Henry CPA.