

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

STATE OF NEW MEXICO

SIERRA

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2005

(With Independent Auditor's Report Thereon)



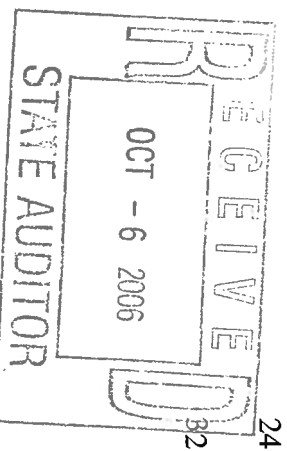
**Domingo P. Martinez, CGFM**  
**State Auditor**

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STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2005

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STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER  
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Willard Hall	Chairperson
John Able	Vice-Chairperson
Randy Coil	Secretary/Treasurer
April Romero	Member
Ken James	Member
Richard Ramsey	Member
DeAnne Wayne	Member
<u>District Personnel</u>	<u>Title</u>
Merry Jo Fahl	District Coordinator
Bonnie Freeman	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. Willard Hall, Chair  
and Members of the Board of Supervisors  
Sierra Soil and Water Conservation District  
2101 South Broadway  
Truth or Consequences, NM 87901

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Sierra 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.

Except as discussed in the following paragraph, 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.

As discussed in Note III.B. to the financial statements, management has not followed its adopted policy for accounting and recording capital assets and also has not recorded accumulated depreciation or depreciation expense as required by Governmental Accounting Standards Board Statement Number 34. Accounting principles generally accepted in the United States of America require that general assets be capitalized and depreciated which would increase or decrease the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America the respective financial position of the governmental activities of the District as of June 30, 2005, or the respective changes in financial position thereof for the year then ended.

In addition, in our opinion, the fund financial statements and the respective budgetary comparisons present fairly, in all material respects, the respective financial position of each major fund of the District as of June 30, 2005, and the respective changes in financial position thereof 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 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 16, 2006

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

Exhibit 1

		Governmental Activities
<b>Assets</b>		
Cash	\$	164,419
Accounts receivable - employee, net		-
Loans receivable		30,398
Due from grantors - state sources		17,701
Chemical inventory		28,712
Capital assets (undepreciated)		406,552
Total assets		647,782
<b>Liabilities</b>		
Accounts payable		7,779
Compensated absences		8,743
Due to Caballo SWCD		2,566
Noncurrent liabilities		
Due within one year		3,427
Due in more than one year		40,760
Total liabilities		63,275
<b>Net Assets</b>		
Invested in capital assets, net of related debt		406,552
Unrestricted		177,955
Total net assets	\$	584,507

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

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

Exhibit 2

	Governmental Activities
<b>Program Expenses:</b>	
Conservation:	\$
Personnel expenses	63,368
Contractual services	4,000
Travel & per diem	6,998
Telephone	2,212
Office expenses	15,496
Workshops and meetings	1,820
Dues and Subscriptions	1,795
Insurance and bonding	5,021
Equipment maintenance	10,228
District awards	2,085
Project costs - rolling rivers	204
Project costs - tree seedlings	2,835
Project costs - community projects	931
Project costs - community awareness	3,905
Project costs - school activities	2,340
Project costs - IIRGSC	195,779
Project costs - USFS	107,707
Project costs - Wildland Urban Interface	14,603
Project costs - Taylor Creek	27,610
Project costs - WWY	70,633
Cost - Share Program	32,126
Noxious weed administration	1,226
CWPP administration	150
Building operations	29,374
Miscellaneous expense	575
Loan administration	1,170
Bad debt-employee	154
Depreciation	-
Interest on debt	2,686
<b>Total program expenses</b>	<b>607,031</b>
<b>Program Revenues:</b>	
Federal operating grants and contracts	276,969
State operating grants and contracts	271,422
Charges for services	1,890
Donated property	6,500
Insurance proceeds	7,990
Tree sales	2,351
Equipment rental	24,517
Miscellaneous	2,389
<b>Total program revenues</b>	<b>594,028</b>
<b>Net program (expense) revenue</b>	<b>(13,003)</b>
<b>General Revenues:</b>	
NMMA allotment	9,775
Property taxes	149,702
Interest	1,981
<b>Total general revenues</b>	<b>161,458</b>
<b>Change in net assets</b>	<b>148,455</b>
<b>Net assets at beginning of year</b>	<b>436,052</b>
<b>Net assets at end of year</b>	<b>\$ 584,507</b>

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

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

Exhibit 3

	General Fund	Special Revenue Fund	Total
<b>Assets</b>			
Cash	\$ 146,552	\$ 17,867	\$ 164,419
Due from grantors - state sources	17,701	-	17,701
Loans receivable	-	30,398	30,398
Accounts receivable - employees	154	-	154
Allowance for doubtful accounts	(154)	-	(154)
Inventory	28,712	-	28,712
Total assets and other debts	<u>\$ 192,965</u>	<u>\$ 48,265</u>	<u>\$ 241,230</u>
<b>Liabilities and fund balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 7,779	\$ -	\$ 7,779
Accrued payroll	-	2,566	-
Due to Caballo SWCD	-	-	2,566
Total liabilities	<u>7,779</u>	<u>2,566</u>	<u>10,345</u>
<b>Fund balance:</b>			
Reserved for debt service	-	44,187	44,187
Reserved for inventory	28,712	-	28,712
Unreserved, designated for subsequent year's expenditures	8,412	-	8,412
Unreserved, undesignated	148,062	1,512	149,574
Total fund balance	<u>185,186</u>	<u>45,699</u>	<u>230,885</u>
Total liabilities and fund balance	<u>\$ 192,965</u>	<u>\$ 48,265</u>	<u>\$ 241,230</u>

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



STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005

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

Fund Balance - Balance Sheet (Exhibit 3)	\$ 230,885
------------------------------------------	------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	406,552
--------------------------------------------------------------------------------------------------------------------------	---------

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

Notes payable	(44,187)
Compensated absences	<u>(8,743)</u>

Net Assets - Statement of Net Assets (Exhibit 1)	<u>\$ 584,507</u>
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The notes to the financial statement are an integral part of this statement.

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

Exhibit 4

	Special		Total
	General Fund	Revenue Fund	
<b>Revenues</b>			
State allocation	\$ 9,775	-	\$ 9,775
Mill levy	149,702	-	149,702
Caballo SWCD personnel fees	1,890	-	1,890
Seeding sales	2,350	-	2,350
Rolling rivers	250	-	250
BLM contract	7,000	-	7,000
FRIF weed program	-	-	-
USFS grant	-	-	-
IGRSC project	141,561	-	141,561
WWW-CFRP	234,422	-	234,422
Wildland Urban Interface	86,969	-	86,969
Taylor Creek	16,864	-	16,864
CWPP	31,575	-	31,575
Rental income	30,000	-	30,000
Interest income-loans	24,267	-	24,267
Interest income-other	-	1,522	1,522
Miscellaneous	429	30	459
	7,890	-	7,890
<b>Total revenues</b>	<b>744,944</b>	<b>1,552</b>	<b>746,496</b>
<b>Expenditures</b>			
Conservation:			
Current:			
Personal expenses	62,696	-	62,696
Contractual services	4,000	-	4,000
Travel & per diem	6,998	-	6,998
Telephone	2,212	-	2,212
Office expenses	15,496	-	15,496
Workshops and meetings	1,820	-	1,820
Dues and Subscriptions	1,795	-	1,795
Insurance and bonding	5,021	-	5,021
Equipment maintenance	10,228	-	10,228
District awards	2,085	-	2,085
Project costs - rolling rivers	204	-	204
Project costs - tree seedlings	2,835	-	2,835
Project costs - community projects	931	-	931
Project costs - community awareness	3,905	-	3,905
Project costs - school activities	2,340	-	2,340
Project costs - IRRGSC	197,081	-	197,081
Project costs - USFS	107,707	-	107,707
Project costs - Wildland Urban Interface	14,603	-	14,603
Project costs - Taylor Creek	27,610	-	27,610
Project costs - WWW	70,633	-	70,633
Cost - Share Program	32,126	-	32,126
Noxious weed administration	1,226	-	1,226
CWPP administration	150	-	150
Building operations	29,374	-	29,374
Miscellaneous expense	575	-	575
Loan administration	1,170	-	1,170
Bad debt	154	-	154
Capital Outlay	100,178	-	100,178
Debt service:			
Principal and interest - vehicle	4,291	-	4,291
Principal and interest - ISC	-	10,428	10,428
<b>Total expenditures</b>	<b>709,444</b>	<b>10,428</b>	<b>719,872</b>
Excess (deficiency) of revenues over (under) expenditures	35,500	(8,876)	26,624
<b>Fund balance beginning of year</b>	<b>149,686</b>	<b>54,575</b>	<b>204,261</b>
<b>Fund balance end of year</b>	<b>\$ 185,186</b>	<b>\$ 45,699</b>	<b>\$ 230,885</b>

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

STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT  
RECONCILIATION OF THE STATEMENT OF ACTIVITIES TO THE STATEMENT  
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balance - Governmental Funds (Exhibit 4)                     \$ 26,624

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: (671)

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                                                                                     100,178  
Donated assets in miscellaneous income                                             8,990

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:

Prior year accrued interest	1,299
Principal payments for vehicle loan	3,836
Principal payments to ISC	<u>8,199</u>

Change in net assets - Statement of Activities (Exhibit 2)	<u><u>\$ 148,455</u></u>
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The notes to the financial statement are an integral part of this statement.





STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Sierra 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 three years and continue in office until a successor is elected or appointed.

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

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

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District is required to implement GASB Statement No. 40, Deposit and Investment Risk in fiscal year 2005. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

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

The government-wide financial statements (i.e., the statement of net assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities,

STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

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 such as administrative fees for loans 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

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

STATE OF NEW MEXICO  
SIERRA 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.

The special revenue fund is utilized to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue fund which is a major fund was set up to account for the District's Re-Loan Program. The District receives low interest loans from the New Mexico Interstate Stream Commission (NMISC) to lend landowners in the District funds at low interest rates for projects to conserve irrigation water on their property.

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.

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

1. Cash

The District's cash and cash equivalents are considered to be demand deposits and savings accounts.

2. Receivables and Payables

As of June 30, 2005, \$17,701 was owed to the District from government agencies for conservation projects performed by the District which is considered fully collectible.

The District manager owes the District \$154 for a personal charge made on a District credit card. An allowance for uncollectibility has been established for the same amount.



STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

Accounts payable in the general fund represents routine monthly bills for services rendered and products purchased which are paid in the following month. Accrued payroll in the general fund represent payroll, FICA and workman's compensation payable at year end and remitted in the following month.

Property taxes attach an enforceable lien as of January 1. Taxes are payable in equal semi-annual installments on November 10 and April 10 of the subsequent year. The taxes become delinquent thirty days after the due date. The taxes are collected by the Sierra, Socorro and Catron Counties and are remitted to the District in the month following collection.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Loans Receivable

Loan receivable represent outstanding low interest loan balances from landowners within the District. Generally, the loans are repayable in annual installments over 10 years at an interest rate of 3.5% to 5%. An allowance for doubtful accounts has not been established since all loans are considered collectible.

5. Capital Assets

Capital assets which include land, buildings, vehicles and equipment (including software) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by state law as assets with an initial cost of \$1,000 and an estimated useful life of more than one year. The District has constructed earthen dams which might be considered infrastructure. However, it has not maintained an inventory of them and none are capitalized or depreciated in the financial statements. The total amounts spent for construction of other assets, if any, are capitalized and reported in the government-wide financial statements. For donations, the

STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

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 not depreciated. However, the District has adopted the following policy using the straight line method over the following estimated useful lives:

Buildings	50 years
Building improvements	20 years
Vehicles	5 years
Office equipment	5 years
Farm equipment	5 years
Computer equipment	5 years

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave or "comp" time. Annual vacation is earned at a rate of 4 hours per pay period, 6 hours after three years of employment and 8 hours after 15 years of employment. Two hundred and forty hours may be carried over to the next year, but any excess is forfeited. The vacation pay liability is reported as general long term.

7. Notes Payable

Long-term obligations are loans from the Interstate Stream Commission (ISC) to the District for loan projects promoting water conservation. The District then makes a loan to landowners (cooperators) for such projects. The loans from the ISC to the District are made at a 2.5% interest rate. Loans to private cooperators are made at a 5.0% interest rate.

The District purchased a vehicle in January 2001. The term of the loan is for five years at an interest rate of 7.9%.

8. Net Assets and Fund Balance

Net assets as reported in Exhibit 1 are associated with general government assets and liabilities in the government-wide financial statements. Net assets are restricted for amounts invested in capital assets (net of related debt) and restrictions for conservation projects and loan repayments.

STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

Fund balance as reported in Exhibit 3 represents assets less liabilities of the governmental fund types. A portion of fund balance of the special revenue fund is reserved for loan repayments. A portion of the general fund balance is reserved for inventory.

**II. Stewardship, Compliance and Accountability**

**A. Budgetary Information**

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

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

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

STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

**B. Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial Statements**

	General Fund	Special Revenue Fund
Non-GAAP revenues (Exhibit 5)	\$ 735,204	\$ 7,867
Prior year receivables	(7,961)	-
Prior year loans receivable	-	(36,713)
Current year loans receivable	-	30,398
Current year receivables	17,701	-
GAAP revenues (Exhibit 4)	<u>\$ 744,944</u>	<u>\$ 1,552</u>
Non-GAAP expenditures (Exhibit 5)	\$ 728,126	\$ 7,862
Prior year payable	(11,642)	-
Prior year payroll accrual	(1,684)	-
Increase in inventory	(13,135)	-
Due to Caballo SWCD	-	2,566
Current year payable	7,779	-
GAAP expenditures (Exhibit 4)	<u>\$ 709,444</u>	<u>\$ 10,428</u>

**III. Detailed Notes on all Funds**

**A. Cash**

As of June 30, 2005, the District had a carrying amount of deposits of \$164,369 and petty cash on hand of \$50. The bank balances for deposits were \$193,529. The difference between the carrying amount and the bank balance of deposits is due to deposits in transit of \$1,177 and outstanding checks of \$30,337. The total bank balance consisted of the following:

<u>Account Name</u>	<u>Type of Account</u>	<u>Balance at June 30, 2005</u>
Sierra SWCD	Checking	\$ 153,749
Sierra SWCD	Checking	16,789
Sierra SWCD -		
Loan Program	Checking	17,867
Sierra SWCD	Savings	<u>5,124</u>
Total		<u>\$ 193,529</u>

STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

*Custodial Credit Risk – Deposits.* Custodial Credit Risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District's demand and time deposits were covered by \$105,124 of FDIC insurance and \$90,000 in pledged collateral as follows:

Schedule of Collateral Requirements

Total demand deposits with the Bank of the Southwest	\$ 193,529
Less FDIC coverage	<u>105,124</u>
Total uninsured public funds	<u>\$ 88,405</u>
50% collateral requirement	\$ 44,203
Pledged securities at fair market value	<u>90,000</u>
Over (Under) Collateralized	<u>\$ 45,797</u>

The following is a description of the pledged collateral that is held under joint safekeeping receipts in the name of the District at the Federal Home Loan Bank (FHLB) of Dallas, in Irving, Texas:

FHLB Fixed CUSIP #3133XAY76 with a maturity date of 9/15/2006 (\$65,000 Face Value); and

FHLB Letter of Credit #812012285 with a maturity date of 5/16/2005. (\$25,000 Face Value).

**B. Capital Assets**

The District has not followed its adopted methodology for ensuring the proper accounting for capital assets and has not recorded accumulated depreciation or depreciation expense as required by Governmental Accounting Standards Board Statement Number 34. The District has constructed numerous earthen dams throughout the District but does not maintain an inventory of them. No determination has been made as to whether any would require capitalization and depreciation under GASBS 34. Accounting principles generally accepted in the United States of America require that capital assets be properly safeguarded and that a depreciation allowance be provided. See finding number 01-03 in the Findings and Recommendations section for more detailed information.

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NOTES TO THE FINANCIAL STATEMENTS  
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Capital asset activity for the year ended June 30, 2005 was as follows:

Building	\$ 142,345	\$ 3,820	\$ -	\$ 146,165
Land	19,993	-	-	19,993
Equipment	75,113	29,858	-	104,971
Vehicles	46,233	68,990	-	115,223
Donated Equipment	<u>13,700</u>	<u>6,500</u>	<u>-</u>	<u>20,200</u>
Totals	297,384	109,168	-	406,552
Less accumulated depreciation*	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 297,384</u>	<u>\$ 109,168</u>	<u>\$ -</u>	<u>\$ 406,552</u>

\* No depreciation was recorded in FY05 or for prior years.

**C. Leases**

Operating Leases

On May 19, 2004 the District entered into a five year lease agreement for the rental of a postage machine. Quarterly payments are \$160. Future payments that will be required under the agreement are as follows:

2006	\$ 640
2007	640
2008	640
2009	640
Total	<u><u>\$ 2,560</u></u>

On July 9, 2004 the District entered into a 47-month lease agreement for the rental of a Xerox copier. Monthly payments are \$186 per month. The District paid \$4,863 (including tax and other charges) during FY05. Future payments that will be required under the agreement are as follows:

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2006	\$	2,232
2007		2,232
2008		2,232
<b>Total</b>	<b>\$</b>	<b><u>6,696</u></b>

**D. Long-Term Debt**

Note Payable

The District has entered into four loan agreements with the New Mexico Interstate Stream Commission for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreements are as follows:

Loan #	<b>435</b>	<b>452</b>	<b>489</b>
Date of Loan	7/26/96	9/23/98	7/1/02
Amount of Loan	\$28,000	\$10,000	\$40,000
Interest Rate	2.5%	2.5%	2.5%
Total Years	20	20	20
Yearly Payment	\$1,796	\$641	\$2,566

The following schedule details the debt service requirements for the three loans payable to the Interstate Stream Commission at June 30, 2005.

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/06	\$ 3,476	\$ 1,485	\$ 4,961
6/30/07	2,362	970	3,332
6/30/08	2,249	914	3,163
6/30/09	2,305	857	3,162
6/30/010	2,362	799	3,161
2011 - 2015	12,728	3,058	15,786
2016 - 2020	13,760	1,352	15,112
2020 - 2021	<u>4,945</u>	<u>63</u>	<u>5,008</u>
<b>Total</b>	<b><u>\$ 44,187</u></b>	<b><u>\$ 9,498</u></b>	<b><u>\$ 53,685</u></b>

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Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2005 was as follows:

	Balance 6/30/04	Increases	Decreases	Balance 6/30/05	Amount due within 1 year
Note payable - NMISC	\$ 52,385	\$ -	\$ 8,199	\$ 44,186	\$ 3,427
Loan payable-vehicle	3,836	-	3,836	-	-
Compensated absences*	8,072	10,230	9,559	8,743	-
Totals	<u>\$ 64,293</u>	<u>\$ 10,230</u>	<u>\$ 21,594</u>	<u>\$ 52,929</u>	<u>\$ 3,427</u>

\* Compensated absences are usually liquidated by the general fund.

**IV. Other Information**

**A. Employee Retirement Benefits**

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

*Funding Policy.* Plan members are required to contribute 7.5% of their gross salary. The District is required to contribute 7.5% of the gross covered salary. The contribution requirements of plan members and the District are established in Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ended June 30, 2005, 2004, and 2003 are \$13,396, \$11,199, and \$3,062 respectively, equal to the amount of required contributions each year.



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**B. Other Employee Benefits**

The District did not offer a deferred compensation plan or post-employment benefits as of June 30, 2005 or during the year then ended.

**C. Risk Management**

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,050,000 for each wrongful act and \$1,050,000 for the policy aggregated. The District currently maintains a \$500,000 in commercial liability insurance and \$500,000 in business automobile insurance. The District is required to obtain a corporate surety bond on behalf of persons responsible for District assets. The District sustained no losses during the last several years and is not a defendant in any lawsuit. Currently, the District maintains the following surety bond with Hot Springs Insurance:

Bond:	Employee Dishonesty Coverage
Term:	March 1, 2004 to March 1, 2006
Coverage:	District coordinator, chairman and secretary/treasurer
Amount:	\$60,000 each

**D. Related Party Transaction**

The District's Chairman, Willard Hall was paid \$4,000 for professional services to provide natural resource training to the local high school.



# 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. Willard Hall, Chair  
and Members of the Board of Supervisors  
Sierra Soil and Water Conservation District  
2101 South Broadway  
Truth or Consequences, NM 87901

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Sierra Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated March 16, 2006 where we issued an adverse opinion due to the District's management failure to follow its adopted methodology for ensuring the proper accounting for capital assets and for not recording accumulated depreciation or depreciation expense or required Governmental Accounting Standards Board Statement No. 34. 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 01-3, 05-1, 05-02 and 05-3.

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<http://www.saoonm.org>

A material weakness is a reportable 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 error 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 matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-3 and 05-2 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 16, 2006

STATE OF NEW MEXICO  
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2005

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 01-03 Capital Assets (Material Weakness) - Modified and Repeated
- 03-2 ISC Loan: Payment of Excess Funds - Resolved
- 03-3 Internal Controls of the General Ledger – Resolved
- 04-1 Cash Deposits Not Made in a Timely Manner - Resolved

CURRENT YEAR AUDIT FINDINGS

**01-03. Capital Assets (Material Weakness)**

Condition

The following problems were noted during our tests of capital assets:

1. Two capital asset lists were provided for fiscal 2005. The lists had different costs for the same asset.
2. Asset listings were prepared as of two different dates in March 2006 rather than for June 30, 2005.
3. Asset list did not include all capital assets carried forward from June 30, 2004.
4. Asset list did not include all capital assets acquired in FY05.
5. The District has not made a determination as to whether any of the earthen dams which it has constructed would be required to be capitalized as infrastructure under GASBS 34.
6. Depreciation expense was not provided or calculated for fiscal 2005 or prior years.

Criteria

Good accounting practice and State regulations (INMAC 1.2.1.8 *Accounting and Control of Fixed Assets of Government*) require agencies to maintain records for all fixed assets, including those received by donation. Records should include date of acquisition, description, serial number, and date of disposition if applicable. The Governmental Accounting Standards Board (GASB) statement No. 34 requires depreciation of capital assets.

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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Effect

The financial statements are misstated and do not comply with generally accepted accounting principles. There is an increased risk that assets will not be adequately safeguarded.

Cause

The District did not adequately account for its capital assets. Also, knowledge of the procedures for capital asset accounting and the depreciation requirements of GASBS 34 may be outside the expertise of District staff.

Recommendation

Implement procedures to ensure that all capital assets are recorded and dispositions documented. Depreciate capital assets in accordance with GASBS 34, NMAC and District policy. Board should adopt amendment whenever disposing of capital assets and provide timely notification to the State Auditor.

District's Response

The District will request the District's bookkeeper to work with District staff to ensure the capital assets list is correct with accurate financial information and will develop a spreadsheet detailing the necessary information.

**05-1. Improper ISC Loan Payment**

Condition

During our testwork of the Interstate Stream Commission payments, we noted that the District's payment of \$2,566 for loan # 489 was actually paid from Caballo SWCD's bank account. The error went undetected until March 13, 2006 when it was found by State Auditor staff.

Criteria

Good accounting practice mandates that an accurate record be kept on the activities of the District. The Soil and Water Conservation District Handbook requires the Board of Supervisors to approve vouchers for payment prior to that payment being made.

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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Effect

The District's records do not accurately reflect the activities of the District. Also, using another District's public funds is improper.

Cause

It appears the Board is not being diligent in reviewing monthly payments and financial reports. The District Coordinator, who performs administrative services for both Districts, improperly made the ISC payments for both districts from the same account.

Recommendation

We recommend that the Board of Supervisors carefully review the financial activities in detail to verify that the correct bank account is being used. Also, the District should reimburse the Caballo SWCD for those funds.

District's Response

Both Sierra and Caballo ISC loan payment requests are received at this District's address and in previous years only one staff person handled the payments and disbursements. The payments were inadvertently made by the Caballo SWCD but since Caballo SWCD hired its own staff, this should not happen in the future. Caballo SWCD will bill the District for the payments made by Caballo.

**05-02. Credit Card Purchases**

Condition

The District issued FNB of Omaha credit cards to its board members, some of its employees, and a sub-contractor. Eighteen (18) credit card statements (six months) were reviewed which had total charges of \$11,598. Included in these charges were \$1,723 for meals and \$2,283 for lodging. Auditors found that some expenditures lack adequate documentation and/or may not comply with State procurement regulations and good accounting practice. The following problems were noted:

1. January 2005. Two (2) motel rooms (\$244) were reserved and charged to District credit cards prior to services being rendered. Since the computer screen was not printed, auditors were unable to ascertain that the amounts charged were the amounts offered and agreed to by the purchaser.

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2. August 2004. The District did not have receipts or other written documentation for nine credit card purchases (\$455). Auditors are unable to determine allowability of the expenditures.
3. June 2004. Lunch (\$19) was purchased for two persons who drove to Socorro to pick up a printer. The person who signed the credit card receipt is a District employee; however, the name of the second person was not documented. Auditors are unable to determine allowability of the expenditure.
4. June 2004. Two meals (\$33) were purchased in TorC for a Salt Cedar presentation. The person who signed the credit card receipt is a District employee; however, the name of the second person was not documented. Auditors are unable to determine allowability of the expenditure.
5. June 2004. A board member's meal charges for a 24 hour period totaled \$71; of this amount, \$41 is not allowable under state law.
6. July 2004. Three receipts (\$150) for one employee's credit card bill could not be found. There was also no expense report for two of those missing receipts & no expense report for another charge. On the same statement, \$22 of meals for two persons were charged in an Elephant Butte restaurant; a \$39 meal was charged for a day trip to Albuquerque; and a \$52 meal expense was charged in Roswell. It is unclear whether there was overnight travel to Roswell. Auditors are unable to determine allowability of these expenditures.
7. July 2004. Purpose of meals (\$25) purchased for an employee and a second unidentified person was not documented on an expense report. Auditors are unable to determine allowability of this expenditure.
8. August 2004. Purpose of three meals (\$144) and for whom the meals were purchased is not clear from documentation. Auditors are unable to determine allowability of these expenditures.
9. August 2004. Purpose of a \$52 purchase from a gift shop was unclear. A \$27 meal purchase from a local restaurant did not indicate for whom the meals were purchased and whether they were board members or employees. In the first 24 hour period of overnight travel, \$69 of meals were purchased by an employee. Depending upon when the trip commenced, at least \$39 is not allowable. Also, the purpose of travel is unclear from the expense report.

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10. August 2004. Receipts were missing for seven charges (\$355). A trip report with a stated purpose was missing for a \$76 motel charge. The motel receipt indicates that another District employee actually stayed in the room, rather than the cardholder.
11. September 2004. Purpose of overnight travel (\$218) was not explained on two trip reports until requested by auditors. One charge (\$154) was for personal travel which could not be documented as having been reimbursed. There were also no receipts for two other charges (\$363).
12. September 2004. Four days of meals (\$124) were purchased for workers in the field. It is unclear whether these are allowable expenditures under state guidelines. During the same time period, the cardholder charged \$11 in tobacco products. Although management indicates that the employee reimbursed this amount, a deposit in this amount could not be located.
13. April 2005. Purpose of a \$16 charge was not indicated. There was no receipt for a \$3 charge and a \$68 meal charge for four persons was made for which actual hotel expense was paid. It is unclear who the other three persons were for whom meals were purchased. Allowability of all purchases cannot be determined by auditors.
14. April 2005. Meals (\$42) were purchased at the local Taco Bell for a "field trip". There is no indication as to the persons who went on the field trip nor its purpose. Meals (\$69) were purchased at a Radium Springs restaurant. There is no indication as to the purpose or who participated in the meals.
15. March & April 2005. A subcontractor purchased two meals (\$92) within a 24 hour period for an overnight trip to Ruidoso where payment for actual lodging expense was made. Also, the purpose of a \$12 purchase of food was not documented.

Criteria

Department of Finance and Administration (DFA) Rule 2.42.2 NMAC establishes travel and per diem regulations pursuant to various sections of New Mexico Statutes Annotated 1978 (NMSA). The rule establishes criteria for reimbursement of certain expenses when overnight travel is required. In-state per diem is capped at \$135 per day for special areas such as Santa Fe and \$85 per day in other areas. When actual payment for lodging is provided, payment for meals is limited to \$30 (in-state) per individual for each 24-hour period.

Attorney General Opinion No. 97-02 interprets NMSA and related case law. Within certain guidelines, a government agency may pay for meals and travel expenses *demonstrably related* to the agency's authorized functions as long as they do not violate



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the anti-donation clause of Article IX, Section 14 of the New Mexico Constitution even though incidental benefit may accrue to private individuals or entities. For example, reasonable expenditures for meals and refreshments during board meetings when business is being discussed or conducted and for employee professional development activities are permissible. However, expenditures such as meals for employee birthday parties are not allowable.

The District's contract for professional services to coordinate efforts of the Wahoo Watershed work group does not allow travel or per diem to be paid.

Effect

Some expenses are not allowable and documentation is inadequate for others which increase the possibility of abuse and fraud. The District is also in violation of its agreement with its subcontractor.

Cause

Management was unaware of the criteria and is not reviewing credit card purchases closely enough to ensure that the charges are adequately documented to maintain a sufficient audit trail. The District also has no written policy establishing criteria for credit card charges and payment of travel expenses for employees and other persons.

Recommendation

Review DFA and Attorney General guidance and develop written policies relating to the reimbursement and provision of meals to employees. Request an Attorney General opinion for those expenses which the District wishes to make which are not clearly defined as allowable such as provision of meals/food for field workers and other day trips not involving overnight travel. Provide written policy to all persons with access to District credit cards or to whom reimbursements might be paid.

Limit meals for overnight travel in-state to \$30. Consider per diem rates in lieu of actual cost of expenditures. Obtain reimbursement for future meal purchases which exceed the \$30 limit. Develop a form or adopt the DFA form for documenting 24 hour travel periods. At a minimum, expense (trip) reports should document the day, hour and minute when travel commenced and when it concluded.

Improve documentation of allowable expenditures. Document the names of all persons for whom meals are purchased and their business purpose. Ensure that meals are purchased only for allowable persons. Make sure each trip report clearly documents the business purpose for the trip.

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Comply with the terms of the contract in place and/or amend the contract as allowed by state law.

District's Response

Supervisors and staff of the Sierra SWCD all have credit cards for travel purposes and also for purchase of supplies and equipment. A basic travel form had been used when in travel status, but this form did not adequately explain the purpose, who was traveling and the timeline of the trip. SWCD was not aware of the \$30 per day limit for meals. Sometimes travel is on an actual expenses and sometimes per diem. SWCD board will develop a travel policy with detailed information and will also develop a travel expense form to provide for adequate documentation. Also, the District intends to pursue requesting an attorney general opinion on travel expenditures for meals and rooms for SWCD's and how that follows DFA guidelines.

**05-3. Employee Pay Rates**

Condition

In a random test of 30 disbursements, 11 paychecks were tested. Although the rates of pay appeared reasonable, there was no written documentation in employee personnel files indicating the pay rate authorized by management. Although minutes of Board of Supervisors meetings indicate that pay raises have been authorized, they do not specifically state the rate of pay authorized for each individual.

Criteria

Good accounting practice requires written authorization of management for employee pay rates at the time of hire and for each raise received thereafter.

Effect

Audit trail is inadequate. Employees could be paid at improper rates.

Cause

Sierra SWCD has grown from a small operation over the years to one now employing as many as 26 persons during winter months with higher activity. The development of written policies has not kept pace with the District's growth.

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Recommendation

Develop and consistently use a *personnel action form* to document authorized pay rates for each employee. Use at the time of hire and whenever an employee receives a raise.

District's Response

The District will consider the recommendation.

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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 17, 2006, an exit conference was held at the District Office with Board Member DeAnne Wayne and Ms. Mary Jo Fahl, District Coordinator. Representing the Office of the State Auditor was LaVonne Cornett, CPA, Audit Manager.