

STATE OF NEW MEXICO

SIERRA

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

8038

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

TABLE OF CONTENTS
JUNE 30, 2006

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		i
Official Roster		ii
FINANCIAL SECTION		
Independent Auditor's Report		1
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	3
Statement of Activities	2	4
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	5
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets		6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds to the Statement of Activities		8
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – General and Special Revenue Fund	5	9
Notes to the Financial Statements		10
OTHER REPORTS		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		23
Schedule of Findings and Responses		25
Exit Conference		37

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STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<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
Anita Petersen	Member
DeAnne Wayne	Member
<u>District Personnel</u>	<u>Title</u>
Merry Jo Fahl	District Coordinator
Bonnie Freeman	District Clerk
Stephanie Bason	Resource Management
Bill Sallee	Noxious Weed Technician
Terry Miller	WUI planner



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. Willard Hall, Chairperson
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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2006, and the respective changes in financial position, thereof and the budgetary comparisons for the general fund and the special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis required by *GASB Statement No. 34* that the Governmental Accounting Standards Board has

determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2008 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

September 9, 2008

STATE OF NEW MEXICO
 SIERRA SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2006

Exhibit 1

Assets	<u>Governmental Activities</u>
Cash	\$ 159,426
Accrued Interest Receivable	191
Loans receivable	24,514
Accounts receivable-employees, net allowance	162
Due from grantors - state sources	27,929
Chemical inventory	28,712
Capital assets, net of depreciation	<u>174,652</u>
 Total assets	 <u>415,586</u>
 Liabilities	
Accounts payable	8,195
Compensated absences	9,334
Current liabilities - Due within one year	2,194
Noncurrent liabilities - Due in more than one year	<u>38,349</u>
 Total liabilities	 <u>58,072</u>
 Net Assets	
Invested in capital assets	174,652
Restricted for:	
For ISC loan repayment	40,543
Unrestricted	<u>142,319</u>
 Total net assets	 <u><u>\$ 357,514</u></u>

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, 2006

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	
Personnel expenses	\$ 109,493
Contractual services	2,000
Travel & per diem	4,722
Telephone	2,099
Office expenses	19,186
Workshops and meetings	5,322
Dues and Subscriptions	1,961
Insurance and bonding	4,214
Equipment maintenance	15,513
District awards	5,066
Project costs - rolling rivers	192
Project costs - tree seedlings	7,944
Project costs - community projects	832
Project costs - community awareness	1,702
Project costs - school activities	3,307
Project costs - LRGSC	35,768
Project costs - Wildland Urban Interface	113,561
Project costs - Taylor Creek	3,188
Project costs - WWW	90,709
Project costs - BLM Fire Funds	39,797
Soil Stewardship	70
NMAC Fire Fund	31,710
Cost - Share Program	15,545
Noxious weed administration	2,574
CWPP administration	50
Building operations	35,414
Miscellaneous expense	2,136
Loan administration	1,044
Depreciation	136,257
Interest on debt	303
	<hr/>
Total program expenses	691,679
Program Revenues:	
Federal operating grants and contracts	208,717
State operating grants and contracts	127,987
Charges for services	2,160
Tree sales	6,429
Equipment rental	28,617
	<hr/>
Total program revenues	373,910
Net program (expense) revenue	<hr/> (317,769)
General Revenues:	
NMDA allotment	9,944
Property taxes	167,822
Interest	1,599
Miscellaneous	611
	<hr/>
Total general revenues	179,976
Special Item-Loss on sale of vehicles	<hr/> (3,822)
Change in net assets	(141,615)
Net assets at beginning of year	<hr/> 584,507
Restatement	<u>\$ (85,378)</u>
Net assets at beginning of year, restated	<u>\$ 499,129</u>
Net assets at end of year	<u>\$ 357,514</u>

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, 2006

Exhibit 3

	General Fund	Special Revenue Fund	Total
Assets			
Cash	\$ 141,359	\$ 18,067	\$ 159,426
Due from grantors - state sources	27,929	-	27,929
Loans receivable	-	24,514	24,514
Accrued interest receivable		191	191
Accounts receivable - employees	162	-	162
Inventory	28,712	-	28,712
	<u>28,712</u>	<u>-</u>	<u>28,712</u>
Total assets and other debts	<u>\$ 198,162</u>	<u>\$ 42,772</u>	<u>\$ 240,934</u>
Liabilities and fund balance			
Liabilities:			
Accounts payable	8,195	-	8,195
	<u>8,195</u>	<u>-</u>	<u>8,195</u>
Total liabilities	<u>8,195</u>	<u>-</u>	<u>8,195</u>
Fund balance:			
Reserved for debt service	-	40,543	40,543
Reserved for inventory	28,712	-	28,712
Unreserved, designated for subsequent year's expenditures	4,100	-	4,100
Unreserved, undesignated	157,155	2,229	159,384
	<u>157,155</u>	<u>2,229</u>	<u>159,384</u>
Total fund balance	<u>189,967</u>	<u>42,772</u>	<u>232,739</u>
Total liabilities and fund balance	<u>\$ 198,162</u>	<u>\$ 42,772</u>	<u>\$ 240,934</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-GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2006

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)	\$ 232,739
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Capital assets, net of accumulated depreciation	174,652
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Notes payable ISC	(40,543)
Compensated absences	<u>(9,334)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 357,514</u></u>

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, 2006

	General Fund	Special Revenue Fund	Total
Revenues			
State allocation	\$ 9,944	\$ -	\$ 9,944
Mill levy	167,822	-	167,822
Caballo SWCD personnel fees	2,160	-	2,160
Seeding sales	6,429	-	6,429
Rolling rivers	200	-	200
BLM contract	5,000	-	5,000
BLM Fire Funds	45,429	-	45,429
LGRSC project	46,248	-	46,248
NMAC Fire Funds	31,310	-	31,310
WWW-CFRP	104,780	-	104,780
Wildland Urban Interface	103,937	-	103,937
Rental income	28,417	-	28,417
Interest income-other	641	958	1,599
Miscellaneous	611	-	611
Total revenues	552,928	958	553,886
Expenditures			
Conservation:			
Current:			
Personnel expenses	108,902	-	108,902
Contractual services	2,000	-	2,000
Travel & per diem	4,722	-	4,722
Telephone	2,099	-	2,099
Office expenses	19,186	-	19,186
Workshops and meetings	5,322	-	5,322
Dues and Subscriptions	1,961	-	1,961
Insurance and bonding	4,214	-	4,214
Equipment maintenance	15,513	-	15,513
District awards	5,066	-	5,066
Project costs - rolling rivers	192	-	192
Project costs - tree seedlings	7,944	-	7,944
Project costs - community projects	832	-	832
Project costs - community awareness	1,702	-	1,702
Project costs - school activities	3,307	-	3,307
Project costs - LRGSC	35,768	-	35,768
Project costs - Wildland Urban Interface	113,561	-	113,561
Project costs - Taylor Creek	3,188	-	3,188
Project costs - WWW	90,709	-	90,709
Project costs - BLM Fire Funds	39,797	-	39,797
Soil Stewardship	70	-	70
NMAC Fire Fund	31,710	-	31,710
Cost - Share Program	15,545	-	15,545
Noxious weed administration	2,574	-	2,574
CWPP administration	50	-	50
Building operations	35,414	-	35,414
Miscellaneous expense	2,136	-	2,136
Loan administration	1,106	-	1,106
Debt service:			-
Principal and interest - ISC	-	3,885	3,885
Total expenditures	554,590	3,885	558,475
Excess (deficiency) of revenues over (under) expenditures	(1,662)	(2,927)	(4,589)
Special Item			
Gross proceed of vehicles	6,443	-	6,443
Net change in fund balance	4,781	(2,927)	1,854
Fund balance beginning of year	185,186	45,699	230,885
Fund balance end of year	\$ 189,967	\$ 42,772	\$ 232,739

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 REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL AND SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund				Special Revenue Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues								
Mill levy	\$ 143,000	\$ 143,000	\$ 167,822	\$ 24,822	\$ -	\$ -	\$ -	\$ -
State allocation	9,000	9,000	9,944	944	-	-	-	-
Interest income	265	265	7,292	7,027	75	75	766	691
Seedling sales	4,000	4,000	6,429	2,429	-	-	-	-
Caballo SWCD personnel fees	2,000	2,000	2,160	160	-	-	-	-
Rental income	50	50	28,417	28,367	-	-	-	-
Rolling Rivers	200	200	200	-	-	-	-	-
BLM contract	15,000	15,000	12,000	(3,000)	-	-	-	-
LRGSC project	-	25,000	23,748	(1,252)	-	-	-	-
NMAC Fire Funds	-	50,000	31,310	(18,690)	-	-	-	-
BLM Fire Funds	-	40,000	40,000	-	-	-	-	-
Wildland Urban Interface	-	145,000	103,937	(41,063)	-	-	-	-
WWW/CFRP	-	89,120	104,780	15,660	-	-	-	-
CWPP	-	30,000	-	(30,000)	-	-	-	-
Taylor Creek 319	-	-	10,701	10,701	-	-	-	-
Miscellaneous income	550	50	241	191	47,681	47,681	5,885	(41,796)
Total revenues	174,065	552,685	\$ 548,981	\$ (3,704)	\$ 47,756	\$ 47,756	\$ 6,651	\$ (41,105)
Cash balance budgeted	6,338	16,208						
Total revenues and cash	\$ 180,403	\$ 568,893						
Expenditures								
Current:								
Personnel expenses	\$ 90,693	\$ 120,893	\$ 109,026	\$ 11,867	\$ -	\$ -	\$ -	\$ -
Contractual services	3,000	2,000	2,000	-	-	-	-	-
Travel & per diem	4,650	6,900	4,490	2,410	-	-	-	-
Telephone	2,400	2,400	1,994	406	-	-	-	-
Office expenses	17,060	16,560	18,131	(1,571)	-	-	-	-
Workshops and meetings	4,550	5,300	4,292	1,008	-	-	-	-
Dues and Subscriptions	1,600	1,820	1,962	(142)	-	-	-	-
Insurance and bonding	5,100	5,800	4,214	1,586	-	-	-	-
Equipment maintenance	8,900	8,900	13,355	(4,455)	-	-	-	-
District awards	2,000	2,000	4,897	(2,897)	-	-	-	-
Soil Stewardship	250	250	70	180	-	-	-	-
Project costs - rolling rivers	200	200	192	8	-	-	-	-
Project costs - tree seedlings	4,000	4,000	7,944	(3,944)	-	-	-	-
Project costs - community projects	2,000	2,000	833	1,167	-	-	-	-
Project costs - community awareness	3,000	3,000	1,702	1,298	-	-	-	-
Project costs - school activities	2,000	2,000	3,307	(1,307)	-	-	-	-
Project costs - LRGSC	-	25,000	36,572	(11,572)	-	-	-	-
Project costs - Wildland Urban Interface	-	145,000	113,438	31,562	-	-	-	-
Project costs - Taylor Creek	-	-	3,189	(3,189)	-	-	-	-
Project costs - WWW	-	89,120	90,710	(1,590)	-	-	-	-
Project costs - BLM fire Funds	-	40,000	39,797	203	-	-	-	-
NMAC Fire Fund	-	40,000	31,710	8,290	-	-	-	-
Cost - Share Program	26,000	26,000	19,945	6,055	-	-	-	-
Noxious weed administration	-	2,000	2,478	(478)	-	-	-	-
CWPP administration	-	4,000	-	4,000	-	-	-	-
Building operations	-	8,750	34,898	(26,148)	-	-	-	-
Miscellaneous expense	-	-	1,922	(1,922)	-	-	-	-
Admin fees for CSWCD	-	2,000	-	2,000	-	-	-	-
Loan administration	-	-	1,106	(1,106)	-	-	-	-
Capital Outlay	3,000	3,000	-	3,000	-	-	-	-
Debt service:								
Principal and interest - vehicle	-	-	-	-	-	-	-	-
Principal and interest paid to ISC	-	-	-	-	46,700	46,700	6,451	40,249
Total expenditures	\$ 180,403	\$ 568,893	\$ 554,174	\$ 14,719	\$ 46,700	\$ 46,700	\$ 6,451	\$ 40,249

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

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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).

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, 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

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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, equipment rentals and tree sales 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.

Major individual governmental funds are reported as separate columns in the fund financial statements.

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.

The District reports the following major governmental funds:

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 consists of demand deposits and savings accounts.

2. Receivables and Payables

Due from grantors represents money owed to the District from government agencies for conservation projects performed by the District and is considered fully collectible.

Accounts receivable - employees relates to amounts due to the District on behalf of employees.

Accounts receivables-employees	\$354
Allowance for accounts receivables - employees	<u>(162)</u>
Total receivables	<u>\$162</u>

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 \$5,000 and an estimated useful life of more than one year. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

The District has adopted the following policy using the straight line method over the following estimated useful lives:

Buildings	50 years
Equipment/Vehicles	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.

8. Net Assets and Fund Balance

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of three components – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, unrestricted net assets, and restricted net assets – wherein the constraints are placed on net asset use either by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. As reported in Exhibit 1, the District's net assets as of June 30, 2006 consist of \$174,652 invested in capital assets, \$40,543 is restricted for ISC loan repayment, and the remaining net assets of \$142,319 are unrestricted.

In fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation and/or are legally restricted by outside parties for use for a specific purpose. As reported in Exhibit 3, the fund balance in Special Revenue Fund pertains to Interstate Stream Fund which is reserved for debt service and re-loans to land owners. In

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

the General Fund, \$28,712 is reserved for inventory, \$4,100 is designated for subsequent year's expenditures and the rest of the fund balance is unreserved.

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's Board of Supervisors 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, 2006

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

	General Fund	Special Revenue Fund
Non-GAAP revenues (Exhibit 5)	\$ 548,981	\$ 6,651
Prior year receivables	(17,701)	-
Prior year loans receivables	-	(30,398)
Current year loans receivables	-	24,514
Current year accrued interest receivables	-	191
Current year receivables	28,091	-
Proceeds on sale of capital assets	(6,443)	-
GAAP revenues (Exhibit 4)	<u>\$ 552,928</u>	<u>\$ 958</u>
Non-GAAP expenditures (Exhibit 5)	\$ 554,174	\$ 6,451
Prior year payable	(7,779)	-
Prior year due to Caballo SWCD	-	(2,566)
Current year payable	8,195	-
GAAP expenditures (Exhibit 4)	<u>\$ 554,590</u>	<u>\$ 3,885</u>

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2006, the District had a carrying amount of deposits of \$159,376 and petty cash on hand of \$50. The bank balances for deposits were \$185,536. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$26,160. The total bank balance consisted of the following:

<u>Account Name</u>	<u>Type of Account</u>	<u>Balance at June 30, 2006</u>
Sierra SWCD	Checking	\$ 145,187
Sierra SWCD	Checking	17,128
Sierra SWCD – Loan Program	Checking	18,067
Sierra SWCD	Savings	<u>5,154</u>
 Total		 <u>\$ 185,536</u>

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

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

demand and saving deposits were covered by \$105,154 of FDIC insurance and \$89,740 in pledged collateral as follows:

Schedule of Collateral Requirements

Total demand deposits with the Bank of the Southwest	\$ 180,382
Total savings deposits with the Bank of the Southwest	<u>5,154</u>
Less FDIC coverage	<u>105,154</u>
 Total uninsured public funds	 <u>\$ 80,382</u>
 50% collateral requirement	 \$ 40,191
Pledged securities at fair market value	<u>89,740</u>
 Over (Under) Collateralized	 <u>\$ 49,549</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 (\$64,740 Market Value); and

FHLB Letter of Credit #812012285 with a maturity date of 5/16/2007. (\$25,000 Market Value).

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

B. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

<u>Governmental Activities</u>	Balance 06/30/05	Additions	Deletions	Audit * Adjustments	Balance 06/30/06
Capital assets not being depreciated:					
Land	\$ 19,993	\$ -	\$ -	\$ (7,293)	\$ 12,700
Capital Assets being depreciated:					
Building	146,165	-	-	(50,132)	96,033
Equipment/Vehicles	240,394	-	(26,100)	(27,953)	186,341
Total Capital Assets being depreciated	<u>386,559</u>	<u>-</u>	<u>(26,100)</u>	<u>(78,085)</u>	<u>282,374</u>
Total Capital Assets	<u>406,552</u>	<u>-</u>	<u>(26,100)</u>	<u>(85,378)</u>	<u>295,074</u>
Less: Accumulated Depreciation* for:					
Building	-	(1,921)	-	(21,146)	(23,067)
Equipment/Vehicles	-	(35,628)	15,835	(77,562)	(97,355)
Total Accumulated Depreciation	<u>-</u>	<u>(37,549)</u>	<u>15,835</u>	<u>(98,708)</u>	<u>(120,422)</u>
Total capital assets, net	<u>\$ 406,552</u>	<u>\$ (37,549)</u>	<u>\$ (10,265)</u>	<u>\$ (184,086)</u>	<u>\$ 174,652</u>

* Depreciation was NOT recorded in prior years and other audit adjustments were posted.

Deprecation expense of \$136,257 was charged to the general fund.

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:

<u>Period</u>	<u>Amount</u>
2007	\$ 640
2008	640
2009	640
Total	<u>\$ 1920</u>

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 \$6,172 (including tax and other charges) during FY06. Future payments that will be required under the agreement are as follows:

<u>Period</u>	<u>Amount</u>
2007	2,232
2008	2,232
Total	<u>\$ 4,464</u>

D. Long-Term Debt

Note Payable

The District has entered into three loan agreements with the New Mexico Interstate Stream Commission for the purpose of lending funds to landowners in the District for water conservation projects. Loan #435 was paid off as of June, 30, 2006. The terms of the remaining agreements are as follows:

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

The following schedule details the debt service requirements for the two loans payable to the Interstate Stream Commission at June 30, 2006.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,194	\$ 1,014	\$ 3,208
2008	2,249	959	3,208
2009	2,305	903	3,208
2010	2,362	845	3,207
2011	2,422	786	3,208
2012 - 2016	13,047	2,990	16,037
2017 - 2021	13,462	1,292	14,754
2022	<u>2,502</u>	<u>63</u>	<u>2,565</u>
Total	<u>\$ 40,543</u>	<u>\$ 8,852</u>	<u>\$ 49,395</u>

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2006 was as follows:

	<u>Balance</u> <u>6/30/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/06</u>	<u>Amount due</u> <u>within 1 year</u>
Note payable - NMISC	\$ 44,187	\$ -	\$ 3,644	\$ 40,543	\$ 2,194
Compensated absences*	<u>8,743</u>	<u>7,435</u>	<u>6,844</u>	<u>9,334</u>	<u>-</u>
Totals	<u>\$ 52,930</u>	<u>\$ 7,435</u>	<u>\$ 10,488</u>	<u>\$ 49,877</u>	<u>\$ 2,194</u>

* Compensated absences are usually liquidated by the general fund.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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% of their gross salary. The District is required to contribute 7% 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, 2006, 2005, and 2004 are \$8,424, \$13,396, and \$11,199 respectively, equal to the amount of required contributions each year.

B. Other Employee Benefits

The District did not offer a deferred compensation plan or post-employment benefits during the year ending June 30, 2006.

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 is not a defendant in any lawsuit. Currently, the District maintains the following surety bond with Hot Springs Insurance:

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Bond: Employee Dishonesty Coverage
Term: March 1, 2005 to March 1, 2007
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.

E. Restatement

Prior year fund balance was restated \$85,378 due to deletions of prior year capital assets that were not correctly removed in the prior year from the capital asset balances.



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

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, 2006 and have issued our report dated September 9, 2008. 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 responses as items 01-03, 05-01, 05-02, 06-01, 06-02, 06-03, 06-04 and 06-05.

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 01-03 and 05-02 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 01-03, 05-01, 05-02, 06-04 and 06-05.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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, Department of Finance and Administration – Local Government Division, 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

September 9, 2008

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 01-03 Capital Assets (Material Weakness) - Modified and Repeated
- 05-01 Improper ISC Loan Payment – Modified and Repeated
- 05-02 Credit Card Purchases (Material Weakness) – Modified and Repeated
- 05-03 Employee Pay Rates – Resolved

CURRENT YEAR AUDIT FINDINGS

01-03. Capital Assets (Material Weakness) – Modified and Repeated

Condition

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

1. Asset listings were prepared as of two different dates in March 2005 rather than for June 30, 2006.
2. Asset list did not include all capital assets carried forward from year end June 30, 2005.
3. Depreciation expense was neither provided nor calculated for fiscal year 2006 and prior years.
4. The District did not complete a physical inventory of assets for fiscal year 2006 or prior years.
5. The District did not remit the required notice of fixed asset deletion (for all deleted assets) to the Office of the State Auditor.

Criteria

Proper accounting practice and State regulations (2.20.1.8 NMAC) *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 for fiscal years ended June 30, 2004 and each year following. Section 12-6-10, NMSA 1978, requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency's auditors. Sections 13-6-1 and 13-6-2, NMSA 1978 state that at least thirty days prior to any disposition of property on the agency's inventory list, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the State Auditor.

Effect

The financial statements are exposed to an increased risk of misstatement and the District is not fully complying with generally accepted accounting principles. Risk related to the safeguarding of assets is increased due to the lack of financial accounting control.

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 GASB 34 may be outside the expertise of District staff.

Recommendation

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

District's Response

Sierra SWCD has purchased an upgrade to their QuickBooks accounting system to include a section for managing assets. The District bookkeeper will enter and track capital assets over \$5,000 for depreciation and will expense out all property purchased that cost less than \$5,000.

05-01. Improper ISC Loan Payment – Modified and Repeated

Condition

During our testwork of the Interstate Stream Commission (ISC) payments, we noted that the District's payments of \$642 and \$1,541 for loans # 452 and # 435 respectively, were actually paid from Caballo SWCD's bank account. Although the "due to Caballo" for

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

this amount was repaid in the same fiscal year; it is improper accounting. Payment also resulted in interest fees that would not have been incurred if the ISC was paid directly.

Criteria

Proper 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 payment being made.

Effect

The District's records do not accurately reflect the activities of the District. In addition, using another District's public funds is improper. The District's assets will be overstated.

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.

District's Response

The Sierra SWCD and the Caballo had the same mailing address in the past with the same staff person responsibility for accounts receivable for both SWCDs. These billings got mixed up and Caballo inadvertently paid for both the Sierra and Caballo payables. Since FY06 those two entities have two different staff persons and mailing addresses so this situation should not occur again.

05-02 Credit Card Purchases (Material Weakness) – Modified and Repeated

Condition

The District issued FNB of Omaha credit cards to its board members, some of its employees and a sub-contractor. Ten (10) credit card statements were reviewed which had total charges of \$22,442. Auditors found that some expenditures lack adequate

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

documentation and/or may not comply with State procurement regulations and good accounting practice. The following problems were noted:

1. July 2005. Three (3) fuel charges (\$124) were made to a District credit card without an explanation of which vehicle was used, the beginning and ending mileage or the reason for travel. The purpose and adequate supporting documentation of a (\$113) charge to Wal-Mart was not indicated. Auditors are unable to determine if expenditures were allowable.
2. July 2005. Four (4) meals (\$147) were purchased; three in T or C, one in Socorro for RCD, WWW and CWPP. One did not include the purpose for this meal. It was unclear whom the meals were purchased for and whether they were allowable.
3. July 2005. The purpose of four (4) purchases (\$434) was not indicated. There was no supporting documentation to ensure the expenditures were allowable.
4. September 2005. Four (4) fuel charges (\$163) were made to a District credit card without an explanation of which vehicle was used, the beginning and ending mileage, or the reason for travel. The purpose and adequate supporting documentation of three charges (\$592) was not indicated. Auditors were unable to determine whether the expenditures were allowable.
5. September 2005. Purpose of a meal (\$25) was purchased for an employee and a second unidentified person was not documented on an expense report. Auditors were unable to determine whether the expenditures were allowable.
6. September 2005. Purpose of overnight travel (\$89) was not explained on a trip report. Allowability of purchase cannot be determined by auditors.
7. October 2005. Eight (8) fuel charges (\$292) were made to a District credit card without an explanation of which vehicle was used, the beginning and ending mileage or the reason for travel. Auditors were unable to determine whether the expenditures were allowable.
8. October 2005. Six (6) meals (\$154) were purchased; two in Socorro, one in T or C, two in Las Cruces, and one in Albuquerque for Socorro SWCD, WWW, Caballo SWCD and NMACDE. It was unclear whom the meals were purchased for and whether they are allowable.
9. October 2005. The purpose of four (4) purchases (\$264) was not indicated. There was no supporting documentation to ensure the expenditures were allowable.
10. October 2005. Three (3) fuel charges (\$89) were made to a District credit card without an explanation of which vehicle was used, the beginning and ending mileage, or the reason for travel. The adequate supporting documentation of four

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

- charges (\$444) was not found. Auditors are unable to determine whether the expenditures were allowable.
11. October 2005. Purpose of overnight travel (\$959) was not explained on an expense report. There is no proper support to determine whether the expenditure was allowable.
 12. October 2005. Purpose of a (\$138) purchase from a gift shop was unclear. A meal was purchased for \$23 in Socorro for NMACD the adequate supporting documentation was not found. Auditors were unable to determine whom the meal was purchased for and whether it was allowable. One meal was purchased for \$18 which did not have adequate supporting documentation. In a 24 hour period of overnight travel, \$51 of meals was purchased by an employee. Depending upon when the trip commenced, at least \$21 is not allowable based on the State Per Diem Act. In addition, the adequate supporting documentation was not found.
 13. February 2006. Five (5) fuel charges (\$114) were made to a District credit card without an explanation of which vehicle was used, the beginning and ending mileage, or the reason for travel. The adequate supporting documentation of one charge (\$186) was not found. Auditors are unable to determine whether the expenditures were allowable.
 14. February 2006. Purpose of a three meals (\$147) were purchased; one in Las Cruces, one in T or C, and one in Albuquerque. Meals were for CHEP and Re-Leaf. One did not include the purpose for the meal. It was unclear whom the meals were purchased for and whether they are allowable.
 15. June 2006. Six (6) fuel charges (\$230) were made to a District credit card without an explanation of which vehicle was used, the beginning and ending mileage, or the reason for travel. Adequate supporting documentation of two charges (\$49) was not found. Auditors are unable to determine whether expenditures were allowable.
 16. June 2005. Purpose of overnight travel (\$74) was not explained on a trip report. Auditors are unable to determine whether the expenditure was allowable.

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

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

period. The public officer or employee must submit receipts for the actual meal and lodging expenses incurred.

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 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.

Good accounting practices and the Local Government Finances Statutes require that proper supporting documentation be kept on all purchases. Section 6-6-3 NMSA 1978 requires a complete record of the transactions of the entity.

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. The District is also in violation of its agreement with its subcontractor. The questionable charges for mileage and per diem are subject to repayment of twice the amount claimed but not supported or allowable per section 10-8-7 NMSA 1978.

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.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

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.

Document the vehicle model record the start end ending odometer readings and the number of mileage. Ensure the purpose for travel is clearly documented.

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

District Response

During FY08 the Board of Supervisors implemented a credit card usage policy, stipulating documentation requirements. In addition a travel policy was implemented. A travel expense report had been utilized in the past but the report was not attached to the credit card billing statement. During FY09 a new policy will be implemented that has a travel report with the credit card receipts attached to the report.

Finding 06-01: Expenditures were not properly classified in the general ledger

Condition

Two cash disbursements, out of a sample of 106, were incorrectly classified as building maintenance expense and office supplies expense in the general ledger.

Criteria

Generally acceptable accounting principles require the proper classification of all transactions.

Effect

Expenditures for building maintenance and office expense were overstated by \$81.91 and \$43.00 other expenses and per diem and mileage-employee were understated by this amount.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

Cause

Clerical error made by the District clerk.

Recommendation

The District should ensure that all expenditures are properly reordered in the general ledger.

Department Response

The District Manager and District fiscal officer will work diligently to ensure that all expenditures are posted to the correct line item; all expenditures will be reviewed by a member of the executive board of the Board of Supervisors for concurrence.

06-02 Cash Receipts

Condition

Cash receipts records are not being adequately maintained. In 3 out of 12 receipts tested, receipts were not issued and therefore limited the ability to determine if those specific receipts were deposited on time. In addition, the only documentation for revenue recorded is the bank statements.

Criteria

Section 6-10-3 NMSA 1978 requires deposit of all receipts within the subsequent day close of business of intake. Good accounting practices further require documentation and formalized procedures for the receipt of revenue.

Effect

The audit trail is impaired. The source and date of numerous deposits cannot be identified. Deposits could be misplaced or lost.

Cause

Documentation detailing and supporting the receipt of revenue is not being consistently maintained.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

Recommendation

All sources of revenue should be adequately supported by, but not limited to, an invoice, statement of funding, deposit slip, and/or an electronic funds transfer schedule. Files including the aforementioned should be maintained in an organized manner.

District's Response

The Sierra SWCD will photocopy each check received for deposit; those photocopies will be attached to the bank receipt and filed in a "Cash Receipts" folder that will be archived at the end of each fiscal year. Any receipts for direct deposits will be documented by including a copy of the invoice for that deposit in with the cash receipts folder.

06-03 Inadequate Payroll Documentation

Condition

During our audit of payroll expenditures, auditors noted the following:

1. In 2 out of 20 transactions tested, the timesheet did not agree to the actual amount paid. The timesheets were signed by the employee and approved by a board member at 79 and 72 hours worked. The actual amounts paid out were each 80 regular hours plus an additional overtime pay in the amounts of 4 and 8 hours. According to the timesheet versus actual time paid, a total of \$301.84 was overpaid.
2. A district employee was paid at an unapproved rate for 11 pay periods. The difference between the approved rate in the personnel action form and the actual amount being paid out was \$0.23. This amounts to an underpayment of \$202.40.

Criteria

Good accounting practice and Section 6-5-8 NMSA 1978 requires payroll expenditures to be documented and reviewed for accuracy prior to being disbursed. Approved timesheets should be checked against actual payments being disbursed. In addition, approved personnel action form pay rates should agree to actual payments disbursed to employees.

Effect

The District lacks the support it needs to substantiate certain payroll expenditures. In effect, certain employees were either over or underpaid. The District is liable for the amount underpaid to its employee.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

Cause

The District failed to thoroughly review payments prior to disbursement.

Recommendation

Check timesheets against payment disbursements for accuracy. Ensure that the rates employees are being paid out are the approved rate supported in the personnel file.

District's Response

Sierra SWCD has since hired a fiscal officer, who will be working with the District Manger on payroll issues; ensuring proper payroll documentation.

06-04 PERA Contributions and Deductions

Condition

During our audit of PERA contributions, we noted that 3 out of 23 sampled transactions were not remitted correctly. In one transaction, the amount remitted to PERA for one employee was understated by \$5.60. In the other two transactions, the employee's portion was never deducted from the employee's pay. The amounts of \$67.26 and \$95.01 were paid out of the general fund to PERA instead of being deducted from each employee's pay.

Criteria

In accordance with the Public Employees Retirement Act 2.80.500.8 NMAC, each state agency or affiliated public employer shall be responsible for deducting the applicable contribution from the salary or wages paid to each member for each payroll period. In the event the employer fails to make the necessary deductions, the employer shall be responsible to remit to PERA the total amount due for both the member and employer contributions plus interest as provided in subsection C.

Effect

The District is not in accordance with the PERA Act. An employee has been shorted in the contribution remittance and the District has incorrectly used general funds to pay for

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

the employee portion on behalf of two employees. This resulted in overpayment of the District's expenditures to PERA.

Cause

The District failed to thoroughly review employee payroll deductions and remittances of the required employee amounts prior to submission.

Recommendation

Require the two employees to reimburse the general fund the amount that was not deducted from their individual wages. Remit the amount that the one employee was shorted to PERA, including the interest calculated as required by the PERA Act. Going forward, ensure that PERA calculations and deductions are correct prior to remitting to PERA.

District's Response

Sierra SWCD has since hired a fiscal officer, who will be working with the District Manger on payroll issues; ensuring proper payroll documentation. Will work with PERA to ensure proper remittance was completed.

06-05 Related Party Contract

Condition

The District paid two payments of \$2,000 for a \$2,000 contract that resulted in an unauthorized payment of \$2,000.

Criteria

The Professional Services Contract entered into between Sierra Soil and Water District (District) and the Chairman of the Board of the District in February of 2006 states "Contract amount shall not exceed Two thousand dollars (\$2,000) excluding applicable gross receipts tax".

Effect

The District did not pay the vendor in accordance with the agreement in place. The District has circumvented the agreement and purchasing process by disbursing payments in excess of the agreed upon Professional Service Contract amount. The District

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

employee who authorized the payment not contracted for and the Chairman who received the additional payment for work performed could each be subject to repaying twice the amount that was for work not contracted for.

Cause

The District failed to abide by the restriction of the Professional Service Contract in place.

Recommendation

The District should review Professional Service Contracts prior to disbursing payment. If the original contract needs to be revised, an amendment should be created and signed by all applicable parties prior to disbursing additional funds.

District's Response

District Board will ensure that if changes need to be made to an existing professional services contract, that said contract is amended prior to additional expenditures are made; a statement will be added to professional services contracts that states the contract will not exceed a certain amount unless additional duties are assigned and approved by the Board of supervisors and noted in the official minutes.

STATE OF NEW MEXICO
SIERRA SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
JUNE 30, 2006

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 September 9, 2008 an exit conference was held via teleconference with Anita Petersen, Member, John Able, Vice-Chair and Ms. Mary Jo Fahl, District Coordinator. Representing the Office of the State Auditor was Natalie Cordova, Audit Supervisor.