

OFFICE OF THE STATE AUDITOR

Timothy M Keller



Acequia del Monte del Rio Chiquito

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ended December 31, 2014

**Acequia del Monte del Rio Chiquito
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Fiscal Year Ended December 31, 2014**

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**Acequia del Monte del Rio Chiquito
Official Roster
Fiscal Year Ending December 31, 2014**

Board of Commissioners

John McCarthy, Chairman

Gael Minton, Secretary

Arthur Coca, Treasurer

Mayordomos

Peter Barlow

Administrative Staff

None



Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

Independent Accountant's Report on Applying Agreed-Upon Procedures

John McCarthy, Chairman
and Members of the Board of Commissioners
Acequia del Monte del Rio Chiquito
HC 78 Box 9752
Ranchos de Taos, New Mexico 87557

We have performed the procedures enumerated below for the Acequia del Monte del Rio Chiquito (Acequia) for the year ended December 31, 2014, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 5 entity per Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Acequia through the New Mexico Office of the State Auditor. The Acequia's management is responsible for its accounting records and the subject matter. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

1. Cash

Procedures

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

Findings

Bank reconciliations were not performed for the Acequia's bank account with Peoples Bank for the fiscal year ended December 31, 2014. The Acequia did not have any uninsured deposits. Also, quarterly financial reports were not submitted to the Department of Finance and Administration-Local Government Division (DFA-LGD) throughout the fiscal year 2014

as required. See the Schedule of Findings and Responses 2014-001 and 2014-004 for items noted.

2. Capital Assets

Procedures

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

Findings

The Acequia did not perform a yearly inventory during 2014. See the Schedule of Findings and Responses 2014-002 for items noted.

3. Revenue

Procedures

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

- a. Perform an analytical review, test actual revenue compared to budgeted revenue for the year for each type of revenue.

For a sample of revenue based on auditor judgment the following procedures were performed.

- b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Findings

A complete general ledger was not provided for fiscal year 2014. Also, we noted a budget was not approved by the governing board. In addition, we noted a budget and quarterly reports were not submitted to DFA-LGD since the Acequia was missing these items we were unable to perform analytical procedures on revenue. In addition, we noted a copy of one out of eleven of the state warrants was not available for review. See the Schedule of Findings and Responses 2014-003 for items noted.

4. Expenditures

Procedures

For a sample of cash disbursements based on auditor judgment the following procedures were performed.

- a. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract, and canceled check, as appropriate.
- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings

We noted a budget and quarterly reports were not submitted to Department of Finance and Administration-Local Government Division (DFA-LGD). Cash disbursements tested agree to supporting documentation and were authorized and approved in accordance with legal requirements and established policies and procedures. Also, the Acequia advertised, obtained bids and quotes where necessary, and entered into contracts and purchase agreements in accordance with its procurement policies and applicable state laws and regulations.

5. Journal Entries

Procedures

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

Findings

The Acequia did not record non-routine journal entries.

6. Budget

Procedures

- a. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

- c. From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Findings

A complete general ledger was not provided for fiscal year 2014. Also, we noted a budget was not approved by the governing board. In addition, we noted a budget and quarterly reports were not submitted to the DFA-LGD. Therefore, we were unable to prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the Acequia for 2014. See the Schedule of Findings and Responses 2014-004 and 2014-005 for items noted.

Capital Outlay Appropriations

7. Test all capital outlay expenditures during the fiscal year to:

Procedures

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.

Findings

All of the cash disbursements for the capital award projects expended during the FY2014 were tested. The amounts disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check.

Procedures

- b. Determine that cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.

Findings

The Acequia did not submit the required budget or quarterly reports to the Department of Finance and Administration – Local Government Division. However, a project budget was required to be submitted by the terms of the agreements with the NM Office of the State Engineer Interstate Stream Commission (OSE/ISC) to the OSE/ISC. The cash disbursements tested were properly authorized and approved in accordance with the project budget, legal requirements and the Acequia's procurement policies and procedures with one exception on noncompliance with capital outlay agreement, see the Schedule of Findings and Responses 2014-006 for items noted.

Procedures

- c. Determine that the bid process (or request for proposal process if applicable),

purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

Findings

For the work done on the ditch improvement and repair projects, the Acequia advertised, obtained bids and quotes where necessary, and entered into contracts and purchase agreements in accordance with its procurement policies and applicable state laws and regulations.

Procedures

- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.

Findings

The repair work was physically observed during a tour of the Acequia del Monte del Rio Chiquito on May 27, 2015.

Procedures

- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.

Findings

The amounts on the reimbursement forms agreed with the general ledger and other supporting documentation. Status reports were submitted in accordance with the terms of the agreements with the OSE/ISC. The Acequia submitted the required budgets and reimbursement forms for the projects to the OSE/ISC.

Procedures

- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.

Findings

The projects were not funded in advance. The Acequia was required to submit reimbursement forms to the OSE/ISC upon completion of work on the project. The Acequia paid for its project expenditures after the Acequia received checks from the OSE/ISC.

Procedures

If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.

Findings

As shown in Exhibit 1 on page 9, the Acequia expended a total of \$121,195 in the fiscal year ended December 31, 2014 and expended \$1,205 in the previous years. For each appropriation, the cash amounts received equaled the amount of expenditures. Therefore, the Acequia had no unexpended cash balance to revert.

Procedures

Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.

Findings

The checks received from the OSE/ISC were deposited in the Acequia's checking account at Peoples Bank. The capital outlay award agreement did not require a separate fund or separate non-interest bearing bank account to deposit the amounts received.

Procedures

Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Findings

The Acequia filed Request for Reimbursement Forms with the OSE/ISC based on unpaid invoices submitted to the Acequia by vendors who had performed work on Acequia projects. The costs were not paid by the Acequia prior to the request for reimbursement because the Acequia did not have the necessary funds. The Acequia paid for its project expenditures after the checks were received from the OSE/ISC. A finding was not considered necessary since the Acequia complied with the OSE/ISC's reimbursement procedures requirements.

8. Other

Procedures

- a. If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 I (3)(c) NMAC.

Findings

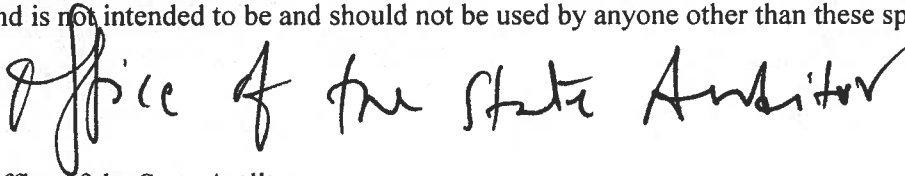
See findings noted above.

9. The report shall include the capital outlay amount awarded, amount received, amount expended, the remaining balance, and the actual legislation and effective dates for each capital outlay appropriation that meets the Tier 5 criteria.

See Exhibit 1 — Schedule of Capital Outlay Awards to Acequia on page 10 of this report.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Tier 5 agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Acequia, the NM Office of the State Auditor, the NM Office of the State Engineer, the Interstate Stream Commission, the NM Department of Finance and Administration — Local Government Division, and the NM State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Office of the State Auditor". The signature is written in a cursive, flowing style.

Office of the State Auditor
May 27, 2015

Acequia del Monte del Rio Chiquito
Exhibit 1 – Schedule of Capital Outlay Awards to Acequia
December 31, 2014

	Note1	Note 2	Note 3	Total
Amount Awarded for Project	\$ 50,000	\$ 56,000	\$ 16,400	\$ 122,400
Amount Received by the Acequia	\$ 50,000	\$ 56,000	\$ 16,400	\$ 122,400
Amount Expended by the Acequia in Prior Years	\$ (1,205)	\$ -	\$ -	\$ (1,205)
Amount Expended by the Acequia in Current Year	\$(48,795)	\$ (56,000)	\$(16,400)	\$(121,195)
Remaining Balance	\$ -	\$ -	\$ -	\$ -

Agreement Provisions:

Note 1- Capital Project Agreement between the Interstate Stream Commission (ISC), and Acequia del Monte del Rio Chiquito

Legislative Authority: 2012 NM Laws, Chapter 64, Section 15, Paragraph 25.

Date of Agreements with ISC: November 1, 2012

Project Description: To plan, design, and construct improvements to the irrigation reservoir inlet acequia for the Acequia del Monte del Rio Chiquito in Talpa, irrigation system Acequia Taos County.

Estimated Project Cost: \$50,000

Agreement termination/reversion date: June 30, 2016

Note 2- Capital Project Agreement between the Interstate Stream Commission (ISC), and Acequia del Monte del Rio Chiquito

Legislative Authority: 2012 NM Laws, Chapter 64, Section 15, Paragraph 22.

Date of Agreements with ISC: October 2, 2012

Project Description: To plan, design, and construct compuertas for the Acequia del Monte del Rio Chiquito in Talpa, irrigation system Acequia Taos County.

Estimated Project Cost: \$56,000

Agreement termination/reversion date: June 30, 2016

Note 3- Capital Project Agreement between the Interstate Stream Commission (ISC), and Acequia del Monte del Rio Chiquito

Legislative Authority: 2013 NM Laws, Chapter 226, Section 29, Paragraph 40.

Date of Agreements with ISC: August 15, 2014

Project Description: To pay off a water project fund loan for the Acequias Madre and Monte del Rio Chiquito in Taos County.

Estimated Project Cost: \$16,400

Agreement termination/reversion date: June 30, 2017

**Acequia del Monte del Rio Chiquito
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

Status of Prior Year Findings

Not Applicable

Current Year Findings

2014-001 Controls Over Cash

Condition:

During our testwork over bank reconciliations we noted that the Acequia's bank account was not being reconciled in any form throughout fiscal year 2014.

Criteria:

Section 6-10-2 NMSA 1978 states "It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business."

Effect:

The Acequia does not maintain adequate controls over cash to safeguard cash and provide prompt and accurate reporting. In addition, unreconciled bank accounts could increase the risk of fraud going undetected and cash balances could be misstated which could lead to expenditures in excess of the budget.

Cause:

The Acequia was unaware of this requirement.

Recommendation:

The Acequia should ensure they are performing monthly reconciliations on each individual bank account.

Management's Response:

Effective immediately we will begin performing monthly reconciliations.

**Acequia del Monte del Rio Chiquito
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

2014-002 Capital Assets Inventory

Condition:

The Acequia did not perform a yearly inventory for fiscal year 2014.

Criteria:

Section 12-6-10 NMSA 1978 requires each agency to conduct a yearly inventory of movable chattels and equipment on the inventory list at the end of each fiscal year.

Effect:

The lack of a yearly inventory count increases the risk of theft being perpetrated and going undetected. Additionally, capital asset balances could be materially misstated.

Cause:

The Acequia was unaware of this requirement.

Recommendation:

The Acequia should ensure a complete physical inventory of all capital assets is performed at fiscal year end.

Management's Response:

Annually, we will complete a physical inventory of all assets.

**Acequia del Monte del Rio Chiquito
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

2014-003 Controls over Revenue

Condition:

During testwork performed over revenues, a copy of one out of eleven of the state warrants at an amount of \$64,659 was not available for review.

Criteria:

Section 6-10-2 NMSA 1978, states "It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business."

Effect:

Failing to properly preserve the audit trail related to revenues could lead to misstatements and misappropriation going unnoticed by the Acequia.

Cause:

The Acequia was unaware of this requirement.

Recommendation:

We recommend the Acequia implement a process to maintain documentation supporting all revenues received.

Management's Response:

We will implement a process to maintain documentation supporting all revenue received.

**Acequia del Monte del Rio Chiquito
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

2014-004 Controls over Budget

Condition:

We noted the Acequia did not submit a proposed budget to the Department of Finance and Administration-Local Government Division (DFA-LGD) for fiscal year 2014. Also, quarterly financial reports were not submitted to the DFA-LGD throughout the fiscal year 2014 as required. Additionally, during testwork we noted the Acequia did not prepare a complete general ledger for the fiscal year ended December 31, 2014. Therefore, we were unable to prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the Acequia for fiscal year 2014. A project budget was submitted to Interstate Stream Commission (ISC) for all of the state projects.

Criteria:

Section 6-6-2A NMSA 1978 states “A proposed budget for the next fiscal year to be submitted by the local public body to the [DFA-LGD] by December 1 of each year.” Section 6-6-2F NMSA 1978 requires the Acequia to submit periodic financial reports to the DFA-LGD at least quarterly.

Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 states “From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.”

Effect:

The Acequia did not comply with state statutes referenced in the criteria section above. Also, the Acequia is unable to comply with state statute as they do not have the documentation to complete the required schedule of revenues and expenditures – budget and actual. Additionally, the Acequia’s ability to prevent and detect misstatements in the accounting records, fraud, waste and abuse is diminished in the absence of periodic comparisons between actual revenues and expenditures and budgeted revenues and expenditures.

Cause:

The Acequia was unaware of these requirements.

Recommendation:

We recommend the Acequia implement a process to create and maintain adequate accounting records. Also, the Acequia should work with the Department of Finance and Administration-Local Government Division to ensure all compliance requirements are identified.

Management’s Response:

We will create and maintain adequate accounting records. We will work with DFA to ensure compliance.

**Acequia del Monte del Rio Chiquito
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

Finding 2014-005 No General Ledger to Record Financial Transactions

Condition:

The Acequia does not have a complete general ledger or cash receipts or disbursements journal to record the financial transactions of the capital outlay awards and related projects.

Criteria:

Section 6-10-2 NMSA 1978, states "It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business."

Effect:

Financial reporting errors and fraud could occur if complete and accurate records and check registers are not maintained by the Acequia. In addition, the Acequia may not be able to demonstrate compliance with laws, regulations, and agreements.

Cause:

The commissioners of the Acequia del Monte Del Rio Chiquito were not aware that a complete check register and separate general ledger or a cash receipts or disbursement journal should be maintained to account for transactions.

Recommendation:

The Acequia should maintain a general ledger to records its assets, liabilities, revenues and expenditures and a cash receipts and disbursements journal to record the purpose and details for all cash received and disbursed by the Acequia.

Management's Response:

As a small organization we will maintain a ledger of receipts and disbursements and will maintain a record of assets and liabilities.

**Acequia del Monte del Rio Chiquito
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

2014-006– Noncompliance with Capital Outlay Agreement

Condition:

The capital outlay agreement stipulated a required termination clause and a non-appropriations clause in contracts funded in whole or part by funds made available under the agreement. The project was funded entirely through funds made available under the capital outlay agreement. The termination clause and/or the non-appropriations clause was not included in the contract with the Acequia's vendor.

Criteria:

The Capital Outlay Agreement for Fund 10-1121 Acequia Capital Appropriation Project, Articles XVI & XVII. Specified the "Grantee [Acequia] acknowledges and agrees that Grantee shall include a termination clause and a "non-appropriations" clause in all contracts that are (i) funded in whole or in part by funds made available under this Agreement and (ii) entered into after the effective date of this agreement."

Effect:

In the event of early termination of the agreement and/or non-appropriation the Acequia and the State of New Mexico would not be protected from an impairment of contract claim against them.

Cause:

The Acequia was not aware of the language required by the Capital Outlay Agreement with Office of the State Engineer/Interstate Stream Commission.

Recommendation:

Management should ensure that all contracts funded in whole or in part by funds made available through the capital outlay agreements have the early termination clause and "non-appropriation" clause in accordance with the capital outlay agreement.

Management's Response:

We will ensure that all funded contracts include an early termination clause and "nonappropriation" clause.

**Acequia del Monte del Rio Chiquito
Exit Conference
Fiscal Year Ended December 31, 2014**

On May 27, 2015 an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Acequia del Monte del Rio Chiquito

Arthur Coca, Treasurer

Office of the State Auditor

U. Chan Kim, CPA, Audit Manager