

OFFICE OF THE STATE AUDITOR

Timothy M Keller



Tierra Azul Community Ditch

Independent Accountant's Report on Applying Agreed-Upon Procedures

Fiscal Year Ended December 31, 2010

**Tierra Azul Community Ditch
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Fiscal Year Ended December 31, 2010**

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**Tierra Azul Community Ditch
Official Roster
Fiscal Year Ending December 31, 2010**

Board of Commissioners

Jonathan Martinez, Chairman

Sam Martinez, Vice-Chairman

Robert Cox, Secretary/Treasurer

Mayordomo

J. Lucas Cordova

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

Jonathan Martinez, Chairman
and Members of the Board of Commissioners
Tierra Azul Community Ditch
P.O. Box 508
Abiquiu, New Mexico 87510

We have performed the procedures enumerated below for the Tierra Azul Community Ditch (Ditch) for the year ended December 31, 2010, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 3 entity per Section 12-6-3 B (3) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Ditch through the New Mexico Office of the State Auditor. The Ditch'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. Test all state-funded capital outlay expenditures.

- 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.

All of the cash disbursements for the capital award projects 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 with two exceptions, see Finding 2010-004 on page 10 of this report. Also, the Ditch did not record the disbursements in a general ledger, see Finding 2010-003 on page 9 of this report.

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

The cash disbursements tested were properly authorized and approved in accordance with the project budget, legal requirements and the Ditch's 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

For the work done on the ditch improvement and repair projects, the Ditch advertised, obtained bids where necessary, and entered into contracts and purchase agreements in accordance with its procurement policies and applicable state laws and regulation. However, the Ditch did not maintain adequate supporting documentation for all expenditures, see Finding 2010-002 on page 8 of this report.

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

The repair work was physically observed during a tour of the Tierra Azul Community Ditch on June 10, 2015.

- 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.

Status reports were not required by the terms of the agreements with the New Mexico Office of the State Engineer /Interstate Stream Commission (OSE/ISC). The Ditch submitted the required budgets and reimbursement forms for the projects to the OSE/ISC.

2. 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.

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

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

As shown in Exhibit 1 on page 6, the Ditch expended a total of \$15,000 in capital outlay. For the appropriation, the cash amounts received equaled the amount of expenditures. Therefore, the Ditch had no unexpended cash balance to revert.

4. 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.

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

5. 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.

For the ditch repair project, the Ditch filed Request for Reimbursement Forms with the OSE/ISC. The requests were supported by invoices submitted to the Ditch for the work done on the repair projects. The costs were not paid by the Ditch prior to the request for reimbursement because the Ditch did not have the necessary funds. The Ditch paid for its project expenditures after the checks were received from the OSE/ISC. A finding was not considered necessary since the Ditch complied with the OSE/ISC's reimbursement procedures requirements.

6. 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.

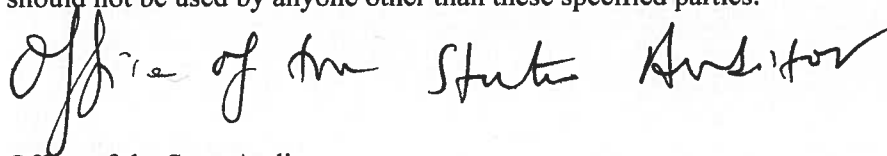
See Findings 2010-001 through 2010-004 on pages 7-10 of this report.

7. 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 3 criteria.

See Exhibit 1 — Schedule of Capital Outlay Awards to Ditch on page 6 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 3 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 Ditch, the NM Office of the State Auditor, the NM Office of the State Engineer, 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.



Office of the State Auditor
June 10, 2015

Tierra Azul Community Ditch
Exhibit 1 – Schedule of Capital Outlay Awards to Ditch
December 31, 2010

Note 1

Amount Awarded for Project	\$15,000
Amount Received by Ditch	15,000
Amount Expended by Ditch	<u>(15,000)</u>
Remaining Balance	<u>\$ -0-</u>

Agreement Provisions

Note 1: Capital Project Agreement between the New Mexico Office of the State Engineer (OSE), the Interstate Stream Commission (ISC), and Tierra Azul Community Ditch.

Legislative Authority: 2007 NM Laws, Chapter 42, Section 67, Item 37 (GF).

Date of Agreement with NM OSE/ISC: April 11, 2008

Project Description: To plan, design and construct improvements and repairs to the Tierra Azul Ditch in Abiquiu in Rio Arriba County.

Estimated Project Cost: \$15,000

Agreement termination/reversion date: June 30, 2011

**Tierra Azul Community Ditch
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2010**

Status of Prior Year Findings

Not applicable.

Current Year Findings

2010-001 – Failure to File Agreed Upon Procedures Report by the Required Due Date

Condition:

This agreed-upon procedures report for FY 2010 was not submitted to the NM Office of the State Auditor (OSA) by the due date of June 1, 2011.

Criteria:

Per Section 2.2.2.16(H) NMAC, "Local public bodies with a fiscal year-end other than June 30 must submit the agreed-upon procedures report no later than 5 months after the fiscal year-end."

Effect:

If the report is late, users of the report are not receiving timely information about the results of the agreed-upon procedures and they are not in compliance with State of New Mexico requirements.

Cause:

According to State Audit Rule, Section 2.2.2.16.B NMAC, "Annually, the State Auditor shall provide local public bodies written authorization shall provide to proceed with obtaining services to conduct a financial audit or other procedures." The Ditch was unaware that by accepting and spending capital outlay money the Ditch would be obligated to have a Tier 3 engagement performed.

Recommendation:

The officers of the Ditch should read Section 2.2.2.16 NMAC of the State Audit Rule to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, if the Ditch's annual revenue is less than \$50,000 and the Ditch expended at least 50% of, or the remainder of, a single capital outlay award, then the Ditch shall procure services of an IPA for the performance of a Tier 3 Agreed Upon Procedures engagement (Section 2.2.2.16B(3) NMAC). If the annual revenues of the Ditch exceed \$50,000, review Section 2.2.2.16 NMAC for the applicable requirements; if you have any questions about the State Audit Rule, call the OSA at (505) 476-3800. If agreed-upon procedures are required for future fiscal years, take the necessary steps to ensure that the agreed-upon procedures report is submitted to the OSA by the due date.

Management's Response:

The officers of the Tierra Azul Community Ditch were unaware of the Audit Rule and its pertinence to Ditches in the state. Now that the Ditch is aware of this requirement, it will ensure that timely submissions of tier certification forms and agreed-upon procedures reports be filed with the NM Office of the State Auditor.

**Tierra Azul Community Ditch
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2010**

2010-002 – Lack of Documentation over Procurement

Condition:

In six instances totaling \$5,660 the Ditch could not provide adequate documentation such as oral quotes to support the expenditures followed the procurement code.

Criteria:

Capital Project Agreement pursuant to 2007 NM Laws, Chapter 42, Section 67, Item 60 (GF) states the Ditch will comply with the State Procurement Code and will keep files of all related procurement documents, including but not limited to, bids, advertisement, minutes of pertinent meetings, selection and award criteria, as well as contracts, subcontracts and agreements.

Effect:

This resulted in a violation of the State Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

Cause:

The Ditch was unaware of this requirement.

Recommendation:

The Ditch should implement policies and procedures pertaining to the application of the New Mexico Procurement Code and Purchasing Regulations and retention of all supporting documents for Capital Outlay Appropriations.

Management's Response:

The Ditch did comply with State Procurement Code by obtaining verbal quotes for all purchases but documentation was either not kept or lost. The Ditch will make it a requirement of its officers to keep documentation of compliance with State Procurement Code and State Purchasing Guidelines.

**Tierra Azul Community Ditch
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2010**

Finding 2010-003 No General Ledger to Record Financial Transactions

Condition:

The Ditch 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 Ditch. In addition, the Ditch may not be able to demonstrate compliance with laws, regulations, and agreements. Further, the Ditch was able to provide support for all capital outlay expenditures.

Cause:

The commissioners of the Ditch 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 Ditch 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 Ditch.

Management's Response:

The Ditch does have a ledger that tracks all expenditures and expenses of funds but it does not differentiate between the Ditch's own funds and the capital outlay funds. Many of the disbursements were made to individuals with payments made for both capital outlay projects and other work on the ditch for which capital outlay monies were not used. The Ditch will make it a requirement to track all funds separately in an electronic ledger so that it will be easier to identify the source of funds used for each disbursement made.

**Tierra Azul Community Ditch
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2010**

2010-004 Controls over Expenditures

Condition:

During testwork performed over expenditures, we noted a check in the amount of \$258 was not available for review. Also, the Ditch credited the Ditch accounts of two individuals totaling \$300 for their labor provided to the Ditch, however no supporting documentation could not be provided for review of the work performed.

Criteria:

Per section 6-5-8 NMSA 1978, all purchase vouchers for goods and services, other than personnel, shall be accompanied by supporting invoices and documentation required by the division.

Effect:

Failing to properly track expenditures could lead to unauthorized disbursements increasing the risk of theft or expenditures in excess of the budget. Also, when sufficient controls over expenditures are not designed, implemented and operating effectively, it increases the risk of financial statement misstatements going undetected.

Cause:

The Ditch failed to maintain the proper documentation on file for review.

Recommendation:

We recommend the Ditch implement a process to create and maintain adequate support for all expenditures.

Management's Response:

The Ditch does not normally make copies of checks when issued and instead relies on its bank since the bank images checks that have cleared and submits images of those checks with its monthly statements. For some reason not all checks made were imaged with a statement by the bank stating the image was not available. The Ditch will make copies of all checks issued in the future and copies of all invoices or pertinent documents to support all expenditures.

**Tierra Azul Community Ditch
Exit Conference
Fiscal Year Ended December 31, 2010**

On June 10, 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:

Tierra Azul Community Ditch

Jonathan Martinez, Chairman

Office of the State Auditor

U. Chan Kim, CPA, Audit Manager

