



**STATE OF NEW MEXICO**

**HALFORD COMMUNITY DITCH  
INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

DECEMBER 31, 2014

## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**YEAR ENDED DECEMBER 31, 2014**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
Table of Contents	i
Official Roster	ii
<b>FINANCIAL SECTION</b>	
Independent Accountant's Report on Applying Agreed-Upon Procedures	iii
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis)	1
Schedule of Findings and Responses	2
Other Disclosures	15

**STATE OF NEW MEXICO  
HALFORD COMMUNITY DITCH  
YEAR ENDED DECEMBER 31, 2014**

OFFICIAL ROSTER

<u>Name</u>	<u>District Board</u>	<u>Title</u>
Joe Jaquez		Chairman
Raymond “Doug” Roberts		Treasurer
Dezmer “Jack” Harris		Secretary
	<u>Administration</u>	
Julie Cynova		Bookkeeper
Joe Jaquez		Ditch Rider

**FINANCIAL SECTION**



# Manning Accounting and Consulting Services, LLC

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Timothy Keller  
New Mexico State Auditor  
and  
Members of the Board  
Halford Community Ditch  
Flora Vista, New Mexico

We have performed the procedures enumerated below, which were agreed to by the State of New Mexico Halford Community Ditch (District), solely to assist you with respect to the District's compliance for a Tier 4 engagement of the Audit Act (Section 12-6-1 NMSA 1978 et seq.) with respect to the District's cash and capital assets as of December 31, 2014 and the District's revenues, expenditures, and budget for the year ended December 31, 2014. The District's management is responsible for the District's accounting records and financial information. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. The procedures were agreed to by the District through the NM Office of the State Auditor. 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.

We were engaged to perform the following agreed-upon procedures for the period January 01, 2014 to December 31, 2014 and our procedures and results are as follow:

### 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.

#### **Results:**

- a. We obtained copies of all bank reconciliations from January 2014 through December 2014. All reconciliations appear to be completed within 15 days of month's end and were on-hand. However, there is no official signature and date placed on the reconciliations from the bookkeeper, and there is no secondary signature indicating a review by a member of the Board. See Finding 2011-001 – Bank Reconciliation Procedures.

- b. We traced reconciled items for all reconciliations for the year to determine that they were properly cleared. We inspected all cancelled check images and deposit slips returned with the bank statements to compare actual names and amounts with the general ledger. We traced ending balances to the general ledger. However, the District doesn't file reports with the DFA – Local Government Division. See Finding 2011-002 – Submission of Required Budgets and Reports to the Department of Finance and Administration (DFA).
- c. We reviewed balances at each month end to determine if sufficient pledged collateral had been provided on all uninsured funds. No balances exceeded the FDIC coverage limit of \$250,000 during the year, so no exceptions were noted in these procedures.

## 2. **Capital Assets**

### **Procedures:**

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

### **Results:**

The District did not complete a yearly inventory of its capital assets that was certified by the Board as it was unaware of this requirement. The District's only assets are flumes which transport the water in areas where the normal ditch could not be constructed. The District has not capitalized these assets and does not maintain an asset listing or depreciate these assets over their estimated lives. This exception has been included as Finding 2011-003 – Annual Physical Inventory and Asset Classification.

## 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.

Select a sample of revenues based on auditor judgment and test using the following attributes:

- 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.

### **Results:**

- a. We identified the nature and sources of revenue; however, the District had no established budget to compare actual revenues against. See Finding 2011-002 – Submission of Required Budgets and Reports to the Department of Finance and Administration (DFA).
- b. The District received two basic sources of revenue during the year – member dues revenue and 90/10 Grant Funding, and the general ledger, bank statements, and supporting documentation agree with all deposits tested. The District also received \$10 in interest.
- c. We tested the following revenue sources on a cash basis which is how the District maintains its records:
  - i. Member Dues Revenue Recording – The District received \$47,044 in member dues revenue income in 2014. In January of each year, the District sends invoices to each shareholder based on the number of shares held at a rate of \$40 per share with a two share minimum charge and a \$30 legal cost special assessment fee. Amounts are due by February. We randomly selected 10 deposits plus the next 4 largest deposits not randomly selected. We tested 14 of 31 deposits made on the year which accounted for \$31,654 of \$47,044 of total revenue or 67.3% of total revenues. The revenues tested accounted for 145 separate payments to the District. Our testing identified no issues with properly recording payments received

throughout all of these payments. When payment is received from a shareholder, a copy of the invoice is stamped “paid” with the date of the payment, the check number of the payment, and the amount. A ledger is also maintained on each individual shareholder which records the payment amount, date, and check number.

- ii. Fee Waiver Procedures – During our review of revenue testing we identified that the District waives fees of certain shareholders. Fees for shares are waived while the \$30 legal cost special assessment fee is not waived. We identified that fees were waived for members who were serving on the Board and the bookkeeper. Additionally, fees were waived for the shareholder who provides the location for the annual shareholder meeting and the shareholder who provides a location for the storage of pipe. However, the by-laws of the District do not identify this process for waiver nor do the annual shareholder minutes address the waiving of fees for these positions or services. Additionally, these fee waivers are not recorded as revenues and expenditures for the District as they should be nor are W-2s or 1099s done for the individuals or organizations receiving the waivers. See Finding 2011-004 – Waiver of Member Fees.
- iii. Other revenues – The District received \$61,416 in grant revenue from the New Mexico Interstate Stream Commission 90/10 Program to help offset the cost of repairing a dilapidated high flume. This was reported and recorded in agreement with the supporting documentation. The amount was paid with a single payment in June 2014. The District also received \$10 in interest which was properly recorded.

#### 4. **Expenditures**

##### **Procedures:**

Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- 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 cancelled check, as appropriate.
- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

##### **Results:**

We randomly selected 20 disbursements plus the next 5 largest disbursements not randomly selected of the 51 total disbursements made for the year. Total disbursements were \$101,051, and the 25 items selected accounted for \$90,410, or 89.5% of total disbursements.

- a. We tested each disbursement to ascertain the following:
  - Vendor invoice is clerically accurate
  - Purchase order (P.O.) is clerically accurate and initiated by purchasing agent
  - Amount and payee per check agree to P.O. and invoice
  - P.O. is supported by proper quote or bid documentation as required by State Purchasing Requirements
  - Traced to general ledger
  - Does not violate Anti-Donation Laws
  - Receiving documents identify items received and when and who received them and that items are OK to pay



We tested all disbursement according to the above criteria. The items had proper documentation and amounts, payees, dates and descriptions agreed to supporting documentation except as noted below:

- The District did not issue purchase orders; thus, no disbursements had been properly encumbered during the year.
- The District did not have a formal receiving policy and 9 of 25 invoices had no indication of being reviewed by a responsible party indicating that the products and services had been received and were authorized for payment.
- The District had no written agreements identifying the amounts to be paid to the ditch rider or the bookkeeper.

The exceptions are noted in Finding 2011-005 – Purchase Orders and Payment Authorization.

- b. The District does not have a budget to identify if disbursements are made in accordance with the budget. Additionally, not all disbursements indicate that a member of the Board has reviewed and approved payments. See Finding 2011-005 – Purchase Orders and Payment Authorization.
- c. During our review of procedures related to the Procurement Code, we noted that the District did not properly bid work performed on an old dilapidated flume that exceeded \$60,000. The District obtained three quotations for the project but did not properly advertise and bid the project. See Finding 2014-001 – Incomplete Bidding Procedures.

## 5. **Journal Entries**

### **Procedures:**

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

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

### **Results:**

- a. We reviewed the records to identify any manual journal entries for the period January 01, 2014 through December 31, 2014. The District had no manual journal entries recorded during the fiscal year. As such, no further procedures are required here.
- b. As there are no manual journal entries, no secondary review is necessary.

## 6. **Budget**

### **Procedures:**

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a. Verify, through a review of the minutes and correspondence, that the 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.

### **Results:**

- a. The District did not prepare a budget for submittal to the DFA-LGD. See Finding 2011-002 – Submission of Required Budgets and Reports to the Department of Finance and Administration (DFA).
- b. We reviewed all expenditures and determined that the District did exceed its budgetary level of control as it didn't prepare and file a budget and was not in compliance with State guidelines. See Finding 2011-006 – Budgetary Controls.

- c. We have prepared a Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis) which was prepared on the cash basis which is the basis used by the District in preparing its financial statements. This schedule is included in this report on page 1.

**Other**

**Procedures:**

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.

**Results:**

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud or illegal acts.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the District's cash and capital assets as of December 31, 2014 and the District's revenue, expenditures, and budget for the year ended December 31, 2014. 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, others within the District, the State Auditor, and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

*Manning Accounting and Consulting Services, LLC*

Manning Accounting and Consulting Services, LLC  
Kirtland, New Mexico  
January 15, 2016

**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET**  
**AND ACTUAL (NON - GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDING DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
Member dues revenue	\$ -	\$ -	\$ 47,044	\$ 47,044
State grant revenue	-	-	61,416	61,416
Interest income	-	-	10	10
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>108,470</u>	<u>108,470</u>
<i>Expenses:</i>				
Accounting	-	-	288	(288)
Ditch maintenance	-	-	75,389	(75,389)
Insurance expense	-	-	4,035	(4,035)
Legal services	-	-	5,436	(5,436)
Membership dues	-	-	200	(200)
Office supplies	-	-	1,192	(1,192)
Payroll	-	-	14,511	(14,511)
<i>Total expenses</i>	<u>-</u>	<u>-</u>	<u>101,051</u>	<u>(101,051)</u>
<i>Excess (deficiency) of revenues</i> <i>over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>7,419</u>	<u>7,419</u>
<i>Cash - beginning of year</i>	<u>-</u>	<u>-</u>	<u>64,426</u>	<u>64,426</u>
<i>Cash - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,845</u>	<u>\$ 71,845</u>

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011- 001 – Bank Reconciliation Procedures (Repeated and Revised)**

**Criteria:** In accordance with proper accounting procedures and 2.20.5.8 NMAC, we were not able to verify that Halford Community Ditch (District) was completing their reconciliations in a timely manner. A timely reconciliation of bank accounts is normally considered to be completed within 30 days of month end. Also, bank reconciliations should be reviewed and signed and dated by someone other than the individual completing the bank reconciliations.

**Condition:** While the bank statements have marks on them indicating someone reviewed them, the reconciliations have no indication of who performed the reconciliation and when the reconciliations were completed. Additionally, there is no secondary signature to show that a member of the board is reviewing the reconciliations performed by the bookkeeper.

**Cause:** The District did not think about the need to identify when the reconciliation was done or who was doing the reconciliation. They also had not considered the need to document the review by a board member. The District assured us that reconciliations are normally done by the 10<sup>th</sup> the following month and that a board member consistently reviewed those reconciliations but never thought about documenting the review.

**Effect:** The District is unable to document that reconciliations are done timely and are reviewed by a member of the Board.

**Auditor's Recommendation:** We recommend that all cash reconciliations be signed and dated by the individual performing the reconciliations and that they also be signed and dated by a member of the board to verify secondary review of the bank reconciliations.

***Responsible Official's Plan:***

- Specific corrective action plan for finding:

***Sign and date each bank statement and perform reconciliation every month to be completed by Bookkeeper or Commissioner within 10 days of bank statement date.***

***Sign and date completed reconciliation form by Bookkeeper.***

***Commissioner will review and place signature on each bank statement when review is completed.***

***Commissioner will review and place signature on each reconciliation when review is completed.***

- Timeline for completion of corrective action plan:

***December 2015***

- Employee position(s) responsible for meeting the timeline:

***Bookkeeper***

***Commissioners (Chair, Secretary, & Treasurer)***

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011- 002 – Submission of Required Budgets and Reports to the Department of Finance and Administration (DFA) (Repeated and Revised)**

**Criteria:** Section 6-6-2 NMSA 1978 establishes that local public bodies submit periodic financial reports, at least quarterly.

**Condition:** Halford Community Ditch (District) did not create an annual budget nor file the budget or quarterly and year-end financial reports with the DFA – Local Government Division.

**Cause:** The District was unaware that they were required to establish a budget and file quarterly and year-end reports with DFA – Local Government Division.

**Effect:** The District is not in compliance with 6-6-2 NMSA 1978

**Auditor's Recommendation:** We recommend that the District adhere to state statutes and establish budgets and file quarterly and year-end financial reports accurately and timely with the DFA – Local Government Division.

**Responsible Official's Plan:**

- Specific corrective action plan for finding:

*Complete yearly budget submissions as per the timeline set by the New Mexico Department of Finance.*

*Complete quarterly financial reports as per the timeline set by the New Mexico Department of Finance.*

*Complete year-end financial reports as per the timeline set by the New Mexico Department of Finance.*

- Timeline for completion of corrective action plan:

*December 2015*

- Employee position(s) responsible for meeting the timeline:

*Bookkeeper*

*Commissioners (Chair, Secretary, & Treasurer)*

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011- 003 – Annual Physical Inventory and Asset Classifications (Repeated and Revised)**

**Criteria:** In accordance with proper accounting procedures and 2.20.1.16 NMAC, Halford Community Ditch (District) should complete an annual “physical inventory ... recorded in a written inventory report, certified as to correctness and signed by the governing authority of the agency.” Per 2.20.1.9 NMAC, it is recommended that fixed assets be classified in various categories, i.e., land, land improvements, buildings and structures, etc.

**Condition:** The District did not do a physical inventory which was detailed and certified by the Board for the year ended December 31, 2014. Additionally, the District has never recorded the value of its assets and maintained them on their books of record. The only assets that the District has are flumes which carry water in areas where the normal ditch could not be constructed.

**Cause:** The District was unaware of the requirement to perform an annual physical inventory that is certified by its Board. Additionally, the District had never thought of the need to capitalize the flumes when they were constructed.

**Effect:** The District is not in compliance with state statutes with regards to completing an annual physical inventory that is certified by the Board or with the requirement to maintain records which properly record and classify the fixed assets of the governmental unit.

**Auditor’s Recommendation:** We recommend that the District record its assets, segregate its assets into proper categories, and complete an annual physical inventory which will be certified by the Board at its annual meeting to be in compliance with state statutes.

***Responsible Official’s Plan:***

- Specific corrective action plan for finding:

***Complete an annual physical asset inventory as per the New Mexico Department of Finance statutes.***

***Compile asset inventory list into proper categories and prepare for submission for certification by the Halford Community Ditch Board.***

***Upon completion of annual physical asset inventory and categorization, board will meet to certify asset inventory as per the New Mexico Finance statutes.***

***Maintain yearly annual asset inventory records in the books of record after Board certification is complete.***

***Submit annual asset inventory reports as per the timeline set by the New Mexico Department of Finance.***

- Timeline for completion of corrective action plan:

***January 2016***

- Employee position(s) responsible for meeting the timeline:

***Bookkeeper***

***Commissioners (Chair, Secretary, & Treasurer)***

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011- 004 – Waiver of Member Fees (Revised and Repeated)**

**Criteria:** Good accounting procedures require the recording of all revenues and expenditures of an organization. Additionally, Internal Revenue Service (IRS) requirements dictate that all compensation should be properly recorded for tax purposes and those receiving that compensation be provided either a W-2 or a 1099 as the circumstances may dictate.

**Condition:** During our revenue testing, we identified that those serving as officers of Halford Community Ditch and the bookkeeper have their share fees waived for the year. Additionally, we identified that the organization providing the location for the annual shareholder meeting, or other meetings as needed, and the individual who provides a location for pipe storage have their fees waived as well. We have identified the following issues related to the waiver of shareholder fees:

- The by-laws do not have a provision for the waiver of fees for officers or others who provide services to the District.
- The minutes of the annual meeting don't identify any approval by the membership that fees be waived for officers of the District or others who provide services for the District.
- Revenues and expenses related to the fee waiver are not recorded to properly identify total revenue sources and total expenditures incurred during the year.
- Proper handling of this compensation is not recorded and reported to the IRS for employee revenue (officers) and outside services revenue.

The following individuals and organizations had fees waived in 2014:

- Joe Jaquez, Chairman - \$448.00
- Raymond "Doug" Roberts, Treasurer - \$800.00
- Dezmer "Jack" Harris, Secretary - \$1,080.00
- Julie Cynova, Bookkeeper - \$116.00
- Holy Trinity Catholic Church, location for meetings - \$80.00
- Diane Grieser, pipe storage - \$80.00

The IRS considers any board member of an organization as an employee of that organization. As such, the waiver of fees to the three board members would be considered compensation for services provided as a board member. The amounts waived would also be subject to FICA and Medicare taxes. However, the District did not issue a W-2 to these officers in a total amount of \$2,328.

The \$116 issued to the bookkeeper should have been added to the total compensation recorded on the 1099 for that year.

The amounts waived for the location of meetings and the pipe storage are below the \$600 requirement for a 1099, so no tax consequences exist here.

However, the District should have recorded an additional \$2,604 in membership dues and \$2,604 as additional expenses of the District in the respective categories of employee compensation or other expenses.

Additionally, this may cause contention between the shareholders who are unaware of this policy and create the image that officers and those who provide services are taking advantage of their positions.

**Cause:** The District has followed a policy, even though not written or approved by the membership, of waiving fees for members who hold certain positions or provide certain services to the District. The District did not consider the need to record these amounts as revenues and expenditures and properly account for them from a taxable basis.



**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011- 004 – Waiver of Member Fees (Revised and Repeated) (continued)**

**Effect:** The District is under recording revenues and expenditures related to the amounts of fees waived. The fees are waived because the District is receiving service in one form or another from the individuals and organizations. The real effect of the transaction is that the individuals and organizations pay dues as do other members of the District but then those fees are returned to them for the service they provide the District. The District also is not properly recording income to the IRS or paying the related payroll taxes for the compensation provided to the officers of the District. This puts the District in position of possibly being fined by the IRS and being responsible for back taxes, penalties, and interest for all compensation provided which hasn't been properly reported to the IRS.

**Auditor's Recommendation:** We recommend that the District properly record all revenues and expenditures, including those related to waiver of fees for services provided to the District. We also recommend that the District properly report this compensation for officers as taxable salary income with its related payroll taxes and that it report the outside services through a 1099 when compensation amounts reach required reporting requirements. We also recommend that if the District is going to continue waiving fees for the services provided and for members of the Board that it be put to a vote at the shareholders meeting or established in the by-laws of the District, voted upon by the shareholders at an annual meeting.

**Responsible Official's Plan:**

- Specific corrective action plan for finding:

*Invoice all commissioners, bookkeeper, and ditch rider for their water shares annually until bylaw amendment can be drafted and passed to waive annual fees for serving as commissioner, bookkeeper, and ditch rider by the members at the Halford Community Ditch Annual Meeting. If amendment is passed, provide proper 1099 or W-2 form to each commissioner, bookkeeper, and ditch rider for compensation received. Document, record, and delegate compensation amounts for service by commissioner, bookkeeper, and ditch rider each year in revenue accounting program.*

*Invoice Holy Trinity Catholic Church and Diane Grieser for their water shares annually until bylaw amendment can be drafted and passed to waive annual fees for providing services to the ditch by the members at the Halford Community Ditch Annual Meeting. If amendment is passed, provide proper 1099 or W-2 form to Holy Trinity Catholic Church and Diane Grieser for compensation received. Document, record, and delegate compensation amounts for services Holy Trinity Catholic Church and Diane Grieser each year in revenue accounting program.*

- Timeline for completion of corrective action plan:

**January 2016**

- Employee position(s) responsible for meeting the timeline:

**Bookkeeper**

**Commissioners (Chair, Secretary, & Treasurer)**

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011-005 – Purchase Orders and Payment Authorization (Revised and Repeated)**

**Criteria:** In accordance with proper accounting procedures and 1.4.1 NMAC purchases of goods and services should be preceded with the issuance of a purchase order to encumber the funds. Additionally, sound accounting practices require proper segregation of duties, proper receiving procedures, proper documentation for payments, and proper authorization of expenditures.

**Condition:** Halford Community Ditch (District) does not issue purchase orders before expending funds. Therefore, all expenditures are not in compliance with state guidelines. Additionally, the District does not have a formal receiving or authorization for payment policy. During our review of disbursements we identified that 10 of 23 disbursements had no indication on the supporting documentation of the individual who had received the goods or services or when they had been received. These purchases ranged from \$19.28 to \$2,673.00. There is no signature of an officer of the District on the supporting documentation and the check is signed by the bookkeeper, so there is improper indication of segregation of duties and proper authorization of payments.

The District also has no formal written agreement in place for the monthly fees paid to the ditch rider and the bookkeeper for their services. We also could identify nothing in the annual meeting minutes establishing the pay for the coming year.

**Cause:** The District was unaware of the state purchasing guidelines affecting state agencies which require the issuance of a purchase order prior to committing or expending funds. Additionally, while the District tries to have an officer of the District review all expenditures, it hadn't been a policy to indicate anywhere on the documentation that this review had occurred. The District has worked on a verbal basis with the ditch rider and the bookkeeper.

**Effect:** The District is not in compliance with state regulations regarding purchases with regards to issuance of purchase orders. Funds are not being encumbered prior to purchase. Additionally, a formal receiving process is not performed by the District whereby an authorized official signs and dates invoices indicating products or services have been received and are authorized for payment. This could lead to payments for products or services which haven't been received or that are not properly completed or authorized by the Board.

**Auditor's Recommendation:** We recommend that the District begin issuing purchase orders for all purchases. We also recommend that an authorized official sign and date all invoices for products and services indicating that the invoice is "OK to pay" and that all payments have a proper invoice on file. This will provide assurance that an authorized individual is accepting responsibility for the products and services provided to the District. Finally, we recommend that the rates for compensating the bookkeeper and the ditch rider be put in writing and that when changes occur to the monthly fee that the agreement be amended.

***Responsible Official's Plan:***

- Specific corrective action plan for finding:

***A commissioner or bookkeeper will be required to issue a purchase order for all purchases prior to expending funds. A commissioner's signature will be required for approval on both the purchase order and the invoice prior to payment being issued by the commissioner and bookkeeper as verification that services or products were received. All checks written for invoice payment will be signed by both a commissioner and the bookkeeper. Copies of all invoices will be filed with a copy of purchase order attached, including all proper signatures for both the purchase order and invoice.***

- Timeline for completion of corrective action plan:

***January 2016***

**STATE OF NEW MEXICO**  
HALFORD COMMUNITY DITCH  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2014

**2011-005 – Purchase Orders and Payment Authorization (Revised and Repeated) (continued)**

- Employee position(s) responsible for meeting the timeline:

*Bookkeeper*

*Commissioners (Chair, Secretary, & Treasurer)*

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011-006 – Budgetary Controls (Repeated and Revised)**

**Criteria:** Sections 6-3-1 through 6-3-25 NMSA 1978 require, in part, that expenditures not exceed budgetary authority.

**Condition:** Halford Community Ditch (District) incurred expenses in excess of budgetary authority in the following amounts:

	<b>Amount</b>
Accounting	\$ 288
Ditch Maintenance	75,389
Insurance Expense	4,035
Legal Services	5,436
Membership Dues	200
Office Supplies	1,192
Payroll	<u>14,511</u>
Total	<u>\$ 101,051</u>

**Cause:** The District was unaware that they were required to file an original budget with the Department of Finance and Administration’s Local Government Division (DFA LGD).

**Effect:** The internal controls established by adherence to budgets have been compromised, and excess spending could, and did, result. In addition, New Mexico statutes have been violated.

**Auditor’s Recommendation:** We recommend that the District establish a budget, approve that budget in a board meeting, and file that budget with the DFA. We also recommend that the District adhere to proper accounting procedures and state guidelines of reviewing expenses on an on-going basis and requesting budget adjustments where necessary.

**Responsible Official’s Plan:**

- Specific corrective action plan for finding:

***Halford Community Ditch will establish a budget annually, approve the budget, submit approved budget, and submit quarterly reports as required by the State of New Mexico. Any exceedances to the budget will be reported and justified to the State of New Mexico as required.***

- Timeline for completion of corrective action plan:

***January 2016***

- Employee position(s) responsible for meeting the timeline:

***Bookkeeper***

***Commissioners (Chair, Secretary, & Treasurer)***

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011-007 – Late Submission of IPA Recommendation Form and Agreed-Upon Procedures Contract (Repeated and Revised)**

**Criteria:** 2.2.2.8(G)(6)(c) NMAC requires local public bodies that qualify for the tiered system pursuant to Subsections A and B of 2.2.2.16 NMAC to follow the procedures at Subsection D of 2.2.2.16 NMAC and submit the required recommendation for tiered system local public bodies and the completed signed agreed upon procedures contract to the state auditor by January 1<sup>st</sup>.

**Condition:** Halford Community Ditch (District) did not complete this process in a timely manner.

**Cause:** The District was unaware that they were required to select an IPA and complete an agreed-upon procedures contract. As such, they did not meet the January 1, 2015 deadline.

**Effect:** The submission of the form and the contract to the State Auditor was late.

**Auditor's Recommendation:** We recommend that the District complete the IPA recommendation form and agreed-upon procedures contract by the January 1<sup>st</sup> deadline.

**Responsible Official's Plan:**

- Specific corrective action plan for finding:

***Halford Community Ditch will comply with the New Mexico Tier reporting requirements and perform the completion of IPA recommendation forms and agreed upon procedures contract as required.***

- Timeline for completion of corrective action plan:

***January 2016***

- Employee position(s) responsible for meeting the timeline:

***Bookkeeper***

***Commissioners (Chair, Secretary, & Treasurer)***

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2011-008 – Late Submission of Agreed-Upon Procedures Report Revised and Repeated)**

**Criteria:** 2.2.2.9 NMAC requires local public bodies that qualify for the tiered system pursuant to Subsections A and B of 2.2.2.16 NMAC and have a fiscal year-end other than June 30<sup>th</sup> to file their agreed-upon procedures report no more than five months after the fiscal year-end (June 1<sup>st</sup>).

**Condition:** Halford Community Ditch (District) did not complete the agreed-upon procedures report in a timely manner.

**Cause:** The District was unaware that they were subject to the Audit Rule and required to submit an agreed-upon procedures report. As such, they did not meet the June 1, 2015 deadline.

**Effect:** The submission of the agreed-upon procedures report to the State Auditor was late.

**Auditor's Recommendation:** We recommend that the District complete the agreed-upon procedures report by the June 1<sup>st</sup> deadline.

**Responsible Official's Plan:**

- Specific corrective action plan for finding:

*Halford Community Ditch will complete all agreed upon Tier system reports as required by the State of New Mexico. The Halford Community Ditch fiscal year is from January 1<sup>st</sup> through December 31<sup>st</sup> each year, all proper tiered system reports will be filed accordingly as per New Mexico State requirements.*

- Timeline for completion of corrective action plan:

*January 2016*

- Employee position(s) responsible for meeting the timeline:

*Bookkeeper*

*Commissioners (Chair, Secretary, & Treasurer)*

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2014-001 – Incomplete Bidding Procedures**

*Criteria:* According to 1.4.1.15 NMSA 1978, All procurement shall be achieved by competitive sealed bids except procurement achieved pursuant to the following methods:

- A. competitive sealed proposals;
- B. small purchases;
- C. sole source procurement;
- D. emergency procurement;
- E. procurement under existing contracts; and
- F. purchases from anti-poverty program businesses.

Additionally, 1.4.1.48 NMAC sets forth the guidelines for small purchases. The provisions of 1.4.1.48 through 1.4.1.52 NMAC of this rule apply to the procurement of nonprofessional services, construction or items of tangible personal property having a value not exceeding sixty thousand dollars (\$60,000) and to the procurement of professional services having a value not exceeding sixty thousand dollars (\$60,000) the use of a statewide price agreement, an existing contract or the methods of procurement set forth in 1.4.1.50 through 1.4.1.52 NMAC of this rule provide alternatives to the competitive sealed bid and competitive sealed proposal methods of procurement. If an existing statewide price agreement, an existing contract or, the procurement methods set forth in 1.4.1.50 through 1.4.1.52 NMAC of this rule are not used, the competitive sealed bid or competitive sealed proposal methods shall apply.

1.4.1.65 goes on to state, The state purchasing agent or a central purchasing office may contract for services, professional services, construction, or items of tangible personal property without the use of competitive sealed bids or competitive sealed proposals as follows:

A. at a price equal to or less than the contractor's current federal supply contract (GSA), providing the contractor has indicated in writing a willingness to extend the contract's pricing, terms and conditions to the state agency and the purchase order adequately identifies the contract relied upon; or

B. with a business which has a current price agreement with the state purchasing agent or a central purchasing office for the item, services, or construction meeting the same standards and specifications as the items to be procured, if the following conditions are met:

(1) the total quantity purchased does not exceed the quantity which may be purchased under the applicable price agreement; and

(2) the purchase order adequately identifies the price agreement relied upon;

C. other than Subsection A and B of this section and cooperative procurements as authorized by statute (and described in 13-1-135 NMSA 1978) or the state procurement card program (described in 6-5-9.1 NMSA 1978), no other procurement under existing contracts is authorized; no central purchasing office of a state agency or any other governmental entity may utilize a contract entered into by a different state agency or other governmental entity if not involved in the procurement itself (i.e., so-called "piggybacking" of contracts; the practice of "piggybacking" is not allowed under the Procurement Code); purchases under contracts developed through cooperative procurement authorized under 13-1-135 NMSA 1978 or contracts which qualify under 13-1-129 NMSA 1978 is permitted and does not constitute "piggybacking."

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**2014-001 – Incomplete Bidding Procedures (continued)**

Finally 1.4.1.67 NMAC requires, “A central purchasing office shall retain for public inspection and for the use of auditors a copy of each state purchasing agent contract or current price agreement relied upon to make purchases without seeking competitive bids.”

**Condition:** During our testing of disbursements we noted one instance in which proper procedures were not followed for obtaining bids for purchases in excess of \$60,000. Halford Community Ditch (District) performed work on an old dilapidated flume during the year. The cost of the project was \$68,239.56, including gross receipts tax, which exceeded the \$60,000 threshold, excluding gross receipts tax, as well. The District obtained three quotations for the project, which would have been sufficient had the cost been less than \$60,000. However, the cost required the District to follow the statute for large purchases.

**Cause:** The District has not followed proper state statutes in making sure that all purchases of items in excess of \$60,000 have gone through the proper bidding process. The District was unaware of the requirement to formally bid this large purchase.

**Effect:** The District is not in compliance with State Purchasing Guidelines. This opens the District up to possible incidences of fraud and possible occurrences of disputed awards which could cause additional legal and monetary consequences.

**Auditor’s Recommendation:** We recommend that the District follow proper procedures for purchases in excess of the \$60,000 threshold which require proper completion of bid documents, advertising the bid for the proper length of time prior to opening, documenting receipt of bid packets, opening bid packets, and awarding of the bid. While the District rarely has such large purchases, it should follow proper procedures when those occasions arise.

***Responsible Official’s Plan:***

- Specific corrective action plan for finding:

***Halford Community Ditch will follow guidelines set by the New Mexico Procurement Code for obtaining and awarding quotes for purchases as per the State of New Mexico recommendations including the proper completion of bid documents, advertising the bid for the proper length of time prior to opening, documenting receipt of bid packets, opening bid packets, and awarding of the bid.***

- Timeline for completion of corrective action plan:

***January 2016***

- Employee position(s) responsible for meeting the timeline:

***Bookkeeper***

***Commissioners (Chair, Secretary, & Treasurer)***



**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**Prior Year Findings:**

2011-001 Bank Reconciliation Procedures – Repeated and Revised  
2011-002 Submission of Required Budgets and Reports to the Department of Finance and Administration (DFA) – Repeated and Revised  
2011-003 Annual Physical Inventory and Asset Classifications – Repeated and Revised  
2011-004 Waiver of Member Fees – Repeated and Revised  
2011-005 Purchase Orders and Payment Authorization – Repeated and Revised  
2011-006 Budgetary Controls – Repeated and Revised  
2011-007 Late Submission of IPA Recommendation and Agreed-Upon Procedures Contract – Repeated and Revised  
2011-008 Late Submission of Agreed-Upon Procedures Report – Repeated and Revised

**STATE OF NEW MEXICO**  
**HALFORD COMMUNITY DITCH**  
**OTHER DISCLOSURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**Exit Conference**

The contents of this report were discussed on January 15, 2016. The following individuals were in attendance.

Halford Community Ditch

Joe Jaquez, Treasurer

Julie Cynova, Bookkeeper

Manning Accounting and Consulting Services, LLC

Byron R. Manning, CPA