

Accounting & Auditing Services, LLC

Financial Audits + Agreed Upon Procedures + Tax + Consulting

San Ysidro Community Ditch Association

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending December 31, 2016

**San Ysidro Community Ditch Association
Table of Contents
For the Fiscal Year Ending December 31, 2016**

	<u>Page</u>
Table of Contents	i
Official Roster	ii
Independent Accountant's Report	1
Schedule of Findings and Responses	8
Schedule of Revenues and Expenditures – Budget and Actual	14
Schedule of Capital Outlay Awards	15
Exit Conference	16

**San Ysidro Community Ditch Association
Official Roster
December 31, 2016**

Board of Commissioners

Gilbert Montoya, President

Barbara Trujillo, Treasurer

Michael R. Garcia, Secretary

Administrative Staff

Edward Trujillo, Mayordomo

Independent Accountant's Report on Applying Agreed-Upon Procedures

Gilbert Montoya, President
San Ysidro Community Ditch Association
and
Tim Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the San Ysidro Community Ditch Association (Association) for the year ended December 31, 2016, 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, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association'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. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

According to the Association's general ledger, total revenues for the fiscal year ending December 31, 2016 were \$117,341 excluding two capital outlay appropriations from the NM Interstate Stream Commission. Based on this information, the Association was properly determined to be a Tier 5 entity for 2016 since their total revenues were between \$50,000 and \$250,000 and they expended 50% or the remainder of a capital outlay appropriation during 2016.

2. Cash
 - 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.

The Association has one checking account and one savings account at the Jemez Valley Credit Union in Jemez Springs, NM. All bank statements for the fiscal year were complete and on hand.

- b. Test at least 30% of the bank reconciliations for accuracy 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.

The Association's Treasurer did not perform monthly bank account reconciliations. See Finding 2016-001 on p. 8.

- c. Determine whether the local public body's financial institutions have provided it with 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

The bank account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank balances were well below \$250,000 during the fiscal year.

3. Capital Assets

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

The Association did not have any movable chattels and equipment that cost more than \$5,000 and none were noted during the agreed-upon procedures.

4. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The major revenue sources of the Association consist of water assessments and capital outlay grants. The variances between budgeted revenues and actual revenues could not be analyzed since the Association did not prepare an annual budget or maintain a ledger for revenues. See Findings 2016-002 and 2016-003 on p. 9-10.

- b. Select a sample of revenue equal to at least 30% of the total dollar amount and test the following attributes:
 - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts were judgmentally selected and tested which amounted to 56% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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.

The cash receipts tested were properly classified and recorded in the general ledger.

5. Expenditures

- a. Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following attributes:

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

A sample of cash disbursements were tested which amounted to 59% of total expenditures. The amounts recorded as 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. The Association does not use purchase order forms.

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

The cash disbursements tested were properly authorized and approved in compliance with the budget and legal requirements.

- iii. 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), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Except for the capital outlay project expenditures, none of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in

accordance with applicable provisions of the State Procurement Code, State Purchasing Regulations and the Per Diem and Mileage Act, as applicable.

6. Journal Entries

- a. Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:

- i. Journal entries appear reasonable and have supporting documentation.

According to the Association's Treasurer, no non-routine journal entries were posted to the general ledger in 2016 and none were noted during the agreed-upon procedures.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association does not have a computerized general ledger system. Transactions are entered on a manual ledger. The Association's Treasurer provides financial reports and the manual ledger to the Board of Commissioners for their review during the board meetings.

7. Budgets

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following testwork:

- i. 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.

The Association did not prepare a budget for 2016. See Finding 2016-002 on p. 9.

- ii. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.

This procedure could not be performed since the Association did not prepare a budget for 2016. See Finding 2016-002 on p. 9.

- iii. 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.

See Exhibit 1 on p. 14.

8. Requested and reviewed all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet the Tier 5 criteria. Perform the following tests on 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 in 2016 for the capital award project 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 checks. The Association does not use purchase order forms.

- 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 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

The Association advertised and issued an invitation for bids for the construction project in accordance with the State Procurement Code.

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

The completed project work was observed on July 20, 2017. The work done agreed with the project description and contractor's invoices.

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

The Association did not provide evidence showing that the status reports were submitted to the NMISC. See Finding 2016-004 on p. 11.

- 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.

The project was not funded in advance. The Association was required to submit request for reimbursement forms to the NMISC along with the contractor's invoices and other supporting documentation.

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

The project work was completed. As of December 31, 2016, the unexpended balance of grant agreement #13-1591 was \$0. For the 90/10 grant agreement, the unexpended balance of \$17,394 reverted to the State of New Mexico since the grant agreement terminated on June 30, 2016. See the Schedule of Capital Outlay Awards on p. 15.

- h. 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 grant agreement did not mandate a separate bank account. The Association used its checking account at the Jemez Valley Credit Union to account for the grant receipts from the NMISC and check disbursements for the project expenditures.

- i. 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 grant #13-1591, the Association submitted two Request for Reimbursement forms to the NMISC totaling \$20,000 (#1 and #2 dated 7/7/16 for \$6,405 and \$13,595) to pay the invoices for the construction work done on the project.

For the 90/10 grant, the Association submitted two Request for Reimbursement forms to the NMISC totaling \$79,140.27 (#1 dated 6/20/16 for \$67,162.83 and #2 dated 7/7/16 for \$11,977.44). The reimbursement requests were supported by five invoices dated 5/26/16 - 6/29/16 from the contractor totaling \$207,917. The Association paid for the invoices after the grant checks were received from the NMISC. The NM Association of Conservation Districts paid the contractor \$87,934 directly instead of submitting the grant funds to the Association. The Association

used its cash balance and other funding sources to pay the remaining balance due to the contractor. See the Schedule of Capital Outlay Awards on p. 15.

9. Other

- 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 all required content detailed in Section 2.2.2.10 (L) NMAC.

The Association did not submit the agreed-upon procedures contract and this report to the NM Office of the State Auditor by the required due dates. See Finding 2016-005 on p. 12.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter. Accordingly, we do not express such an opinion or conclusion. 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 and others with the Association, the NM State Auditor, the NM 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.

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

August 25, 2017

**San Ysidro Community Ditch Association
Schedule of Findings and Responses
For the Fiscal Year Ending December 31, 2016**

Status of Prior Year Findings

Not applicable.

Current Year Findings

Finding 2016-001. No Bank Account Reconciliations

Condition

The Association did not perform any bank account reconciliations in 2016.

Criteria

For proper internal control over cash and to safeguard assets, it is a prudent business practice to perform monthly bank accounts reconciliations to verify that all monetary transactions are accurately recorded and accounted for by the Association and the bank.

Effect

Recording errors and irregularities could occur and not corrected or detected in a timely manner.

Cause

The Association's Treasurer did not take the time to perform and document the monthly bank account reconciliations. Association's Board of Commissioners has not established a policy and procedure to ensure that monthly bank account reconciliations are performed in a timely manner.

Recommendation

The Association's Board of Commissioners should develop and implement a policy requiring the contract bookkeeper to perform and document a monthly bank account reconciliation of all bank accounts shortly after the bank statements are received, but no later than the beginning of the next month. Also, the Board of Commissioners should develop and implement a review procedure to ensure that the bank reconciliations are performed in a timely and accurate manner.

**San Ysidro Community Ditch Association
Schedule of Findings and Responses
For the Fiscal Year Ending December 31, 2016**

Management's Response

San Ysidro Community Ditch Association's (SYCDA) Board of Commissioners will develop and implement a "Policy of Procedures" to ensure that the monthly bank reconciliation is done shortly after the bank statement is received. The chair, or secretary, will assist the treasurer to do the bank reconciliations as soon as it is retrieved from the mailbox. This will begin in September 2017 and be retroactive to January 2017 so as to be current.

Finding 2016-002. Non-compliance with Budget Laws and Regulations

Condition

The Association did not prepare and submit its FY16 annual budget to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for review and approval by December 1, 2015. Also, the Association did not submit its FY16 quarterly financial reports to DFA-LGD as required.

Criteria

Pursuant to Section 6-6-2.A NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year. Since the Association's fiscal year end is December 31, the Association is required to submit its proposed budget to DFA-LGD by December 1 of each year. Also, each local public body is required to submit quarterly financial reports and budget adjustments to DFA-LGD per Section 6-6-2.F and 6.6.2.G NMSA 1978, respectively.

Effect

Without an approved budget or quarterly reports, DFA-LGD was unable to perform their oversight duties over the District's financial affairs. There is a lack of financial oversight of the Association's financial activities since the Association was not in full compliance with the State's budget laws and regulations.

Cause

The Association was not aware of the State of New Mexico's budget laws and reporting requirements for local governments.

**San Ysidro Community Ditch Association
Schedule of Findings and Responses
For the Fiscal Year Ending December 31, 2016**

Recommendation

The Association Board of Commissioners should adopt, approve and submit its annual budget for the next fiscal year to DFA-LGD by December 1 of each fiscal year. After the Association receives the budget certification letter from DFA-LGD, the Association's Board of Commissioners should make record of the approval in the minutes of its meetings. The Association should submit its budget adjustments and quarterly financial reports to DFA-LGD as required by state law and in the manner prescribed by DFA-LGD.

Management's Response

SYCDA did submit and get a budget approval letter from DFA for 2017 fiscal year and is currently submitting quarterly reports to DFA for 2017.

Finding 2016-003. No Ledger to Record Revenues

Condition

The Association does not maintain a ledger to record all of its revenues.

Criteria

Generally accepted accounting principles require the recording of all financial transactions in a general ledger.

Effect

The Association was unable to provide a financial report that summarized and totaled its revenues for the fiscal year by account and source. Reporting errors or an illegal scheme to embezzle funds from the Association could occur and not be detected if revenues are not recorded in a general ledger and reconciled to the bank statements and cash receipt records.

Cause

The Association's Treasurer was unaware of the need to establish a ledger to record all of the revenue transactions during each fiscal year.

**San Ysidro Community Ditch Association
Schedule of Findings and Responses
For the Fiscal Year Ending December 31, 2016**

Recommendation

The Association's Treasurer should immediately establish a cash receipts journal to record all of its revenues. At a minimum, the cash receipts journal should record the date of the transaction, payee, revenue source/account and amount.

Management's Response

The Treasurer of SYCDA has set up a Revenues (cash receipts journal) Journal for 2017 fiscal year which includes the date, amount, source, revenue account and payee. The Treasurer is currently recording all cash receipts and revenue transactions in this journal.

Finding 2016-004. Non-Submission of Monthly Project Status Reports

Condition

The Association did not submit the monthly project status reports and final report to the New Mexico Environment Department (NMED).

Criteria

Article VIII.A (Reports) of the grant agreement between the Association and NMED states that the Association shall submit paper periodic reports and a final report to the NMED for the project work.

Effect

The NMED did not receive the required status reports from the Association to adequately monitor the grant and project activity.

Cause

The President of the Association stated that she was unaware of the requirement to submit the status reports to the NMED.

Recommendation

For future capital outlay grant agreements, the Association's Board of Directors should thoroughly read the grant agreement to understand all of the reporting requirements. The Board of Directors should develop and implement a procedure to ensure that all required project status reports are submitted to the granting agency by the required due date in accordance with the terms of the grant agreement.

**San Ysidro Community Ditch Association
Schedule of Findings and Responses
For the Fiscal Year Ending December 31, 2016**

Management's Response

SYCDA Board of Commissioners will develop and implement a procedure at the annual board meeting in January 2018 to ensure that all required project status reports are submitted to the granting agency as required by the grant agreement. If future capital outlay appropriations are received and expended by SYCDA, the Treasurer will have a set procedure and be diligent to adhere to it.

Finding 2016-005. Late Agreed-Upon Procedures Contract and Report

Condition

For the fiscal year ending December 31, 2016, the Association did not submit the information for the agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until June 2017. Also, this agreed-upon procedures report was not submitted to the OSA until August 2017.

Criteria

According to State Audit Rule 2016, 2.2.2 NMAC, the Association should have submitted the agreed-upon procedures contract to the OSA by December 1, 2016 and the agreed-upon procedures report by June 1, 2017.

Effect

A late agreed-upon procedures contract could cause the agreed-upon procedures report to be late. Users of the report are not receiving timely information about the results of the agreed-upon procedures.

Cause

The Association was unaware of the specific requirements and due dates for agreed-upon procedures.

Recommendation

The Association's Board of Commissioners should thoroughly read Section 2.2.2.16 NMAC of Audit Rule 2017 to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, the Board of Commissioners shall determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B NMAC (Determination of Revenues and Services) to determine what agreed-upon procedures or audits are required for the fiscal year.

**San Ysidro Community Ditch Association
Schedule of Findings and Responses
For the Fiscal Year Ending December 31, 2016**

The Board of Commissioners should develop and implement a monitoring procedure to ensure that future contracts for agreed-upon procedures or audits are submitted to the NM Office of the State Auditor as follows:

- According to State Audit Rule 2017, Section 2.2.2.8.F (8.f) NMAC (effective March 14, 2017), “After selected an IPA, each agency must enter the appropriate requested information online on the OSA-Connect website (www.osa-app.org) and deliver the unsigned contract generated by OSA-Connect to the OSA no later than 30 days before the end of the fiscal year (December 1).

- According to State Audit Rule 2017, Section 2.2.2.16.G (1) NMAC,, “Local public bodies with a fiscal-year end other than June 30 must submit the agreed-upon procedures report or certification no later than five months after the fiscal year-end (June 1).”

Management’s Response

The Treasurer of SYCDA contacted DFA and OSA employees who were wonderful in the assistance given to understand the requirements for agreed-upon procedures. The member of the Board of Commissioners will read Section 2.2.2.16 NMAC by November 2017 to fully understand the annual requirements for the SYCDA.

For the fiscal year ending December 31, 2017, it is expected that the SYCDA will either be a Tier 1 or Tier 2 agency. In mid-November of each fiscal year, the Treasurer of SYCDA will determine its total revenues and capital outlay expenditures for the fiscal year and complete the State Auditor’s tier determination form. If the SYCDA is in Tier 3 or above, the Treasurer will procure the services of an IPA and submit the agreed-upon procedures contract information to the Office of the State Auditor by December 1, and the agreed-upon procedures report to the Office of the State Auditor by the following June 1st.

San Ysidro Community Ditch Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2016

Exhibit 1

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water Assessments	\$ -	\$ -	\$ 13,288	\$ 13,288
Capital Outlay Appropriation - NMISC	-	-	99,140	99,140
Jemez River Basin Acequia Grant	-	-	12,050	12,050
NMACD Grant - RCP Program	-	-	87,934	87,934
Cuba SWCD Grant	-	-	4,000	4,000
Interest	-	-	69	69
Total Revenues	\$ -	\$ -	\$ 216,481	\$ 216,481
Expenditures:				
P.O. Box Rental	\$ -	\$ -	\$ 68	\$ (68)
Pueblo of Jemez	-	-	1,182	(1,182)
Office Supplies	-	-	111	(111)
Ditch Cleaning	-	-	217	(217)
Cell Phone Reimbursement	-	-	155	(155)
Culvert Installation	-	-	1,625	(1,625)
Cement	-	-	148	(148)
Mayordomo Stipend	-	-	4,000	(4,000)
Ditch Labor - Cleaning Day	-	-	250	(250)
Returned Check Fee	-	-	5	(5)
Ditch Improvement Project	-	-	207,917	(207,917)
Total Expenditures	\$ -	\$ -	\$ 215,679	\$ (215,679)

**San Ysidro Community Ditch Association
Schedule of Capital Outlay Awards
For the Fiscal Year Ending December 31, 2016**

	1	2
Amount Awarded for Project	\$ 20,000.00	\$ 96,533.88
Amount Received and Expended in 2016	(20,000.00)	(79,140.27)
Remaining Balance	\$ -	\$ 17,393.61

Agreement Provisions

1 - Fund 13-1591 Capital Appropriation Project Agreement Between the New Mexico Interstate Stream Commission and the San Ysidro Community Ditch Association

Legislative Authority: NM Laws of 2013, Chapter 226, Section 29, Paragraph 24

Date of Agreement: July 23, 2015

Project Description: To construct improvements including replacing the concrete lining, head gates and turnouts to the San Ysidro Community Ditch system in Sandoval County.

Estimated Project Cost: \$246,570

State Grant Amount: \$20,000

Agreement termination/reversion date: June 30, 2017

2 - 90/10 Acequia Rehabilitation Cost Share Grant Agreement Between the New Mexico Interstate Stream Commission and the San Ysidro Community Ditch Association

Legislative Authority: NM Laws of 2015, Chapter 101, p. 83, Lines 20-25 and p. 84, Lines 1-10

Date of Agreement: March 25, 2016

Project Description: To construction of an irrigation pipeline and appurtenant structures for the San Ysidro Community Ditch Association in San Ysidro, NM.

Estimated Project Cost: \$246,570

State Grant Amount: \$96,533.88

NM Association of Conservation Districts Funding: \$107,259.87

San Ysidro Community Ditch Association Contribution: \$10,725.99

Agreement termination/reversion date: June 30, 2016

**San Ysidro Community Ditch Association
Exit Conference
For the Fiscal Year Ending December 31, 2016**

On August 25, 2017, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

San Ysidro Community Ditch Association

Barbara Trujillo, Treasurer

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, General Manager