

Farmers Mutual Ditch Company
Independent Accountants' Report on
Applying Agreed Upon Procedures

October 31, 2011



R Shane Chance, CPA PC

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Farmers Mutual Ditch Company

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Farmers Mutual Ditch Company

Official Roster
As of October 31, 2011

Board of Directors

Lawrence Stock	Chairman
Jim Lukow	Co-Chairman
Rick Arnold	Secretary/ Treasurer

Bookkeeper

Debra Currier	Bookkeeper
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Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Board of Directors
Farmers Mutual Ditch Company
Kirtland, New Mexico
And
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below, which were agreed to by Farmers Mutual Ditch Company and New Mexico Office of the State Auditor; (State Auditor), solely to assist the users in evaluating the Acequia's financial reporting to the State Auditor relating to its Cash, Capital Assets, Revenue, Expenditures, Journal Entries and Budget information and its compliance with Section 12-6-3B(4) NMSA 1978 and Section 2.2.2.16 NMAC as of and for the fiscal year ended October 31, 2011. Farmers Mutual Ditch Company (FMDC) is responsible for its financial reporting to the State Auditor as described above. 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 those parties specified in the 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.

This engagement is to be performed pursuant to the AICPA Statements on Standards for Attestation Engagements (Clarified), AT-C Section 215 for agreed-upon procedures engagements.

1. Verify the Local Public Body's Revenue Calculation for Tiered System Reporting

- a) We used the tiered system reporting worksheet provided by the New Mexico State Auditor's Office to recalculate the tiered system reporting calculation prepared by the Association.

Results of Procedure 1(a)

- FMDC had operating revenues of \$170,105 and no state capital outlays, which requires Tier 4 agreed-upon procedures.

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.
- b) Test at least 30% of the 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 50% pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

Results of Procedures 2(a) - (c)

- FMDC has copies of all bank reconciliations for review, however our analysis determined not all of the reconciliations were being performed in a timely manner and we were unable to confirm whether a review of the reconciliations by the board was performed, see Finding 2010-001 – Bank Reconciliation Timeliness. We did determine that all bank statements for FMDC were available and on hand.
- We randomly selected six (6) bank reconciliations for review of accuracy and comparison to the general ledger and bank statement balances. We identified instances where the bank reconciliations did not agree with the ending general ledger balances. In addition to inconsistencies in the general ledger balances, we also determined FMDC did not file reports with the DFA – Local Government Division, see Finding 2010-002 – Bank Reconciliation Accuracy and DFA Reporting.
- After examination of the bank accounts, we found that average daily bank account balances do not exceed FDIC insured limits of \$250,000 and additional collateral under the Public Money Act is not necessary at this time.

3) Capital Assets

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

Results of Procedure 3

- FMDC did not complete a yearly inventory of its capital assets that was certified by the Board as it was unaware of this requirement. FMDC's assets consist of land, equipment, ditch lining, and capitalized ditch repairs. This exception has been included as Finding 2010-003 - Annual Physical Inventory and Asset Classification.

4) Revenue

Identify the nature and amount of revenue from all 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 revenue equal to at least 30% of the total dollar amount and test 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 of Procedures 4 (a) – (c)

As a result of performing the analytical review procedures in 4(a), we noted the following:

- We identified the nature and sources of revenue which include water assessments and finance charges on past-due assessments; however, FMDC had no established budget to compare actual revenues

Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

against. See Finding 2010-004 – Submission of Required Budgets and Reports to the Department of Finance and Administration (DFA).

As a result of performing the analytical review procedures in 4(b) and (c), we noted the following:

- FMDC received two forms of revenue during the year, water assessments and finance charges on past-due assessments. We were able to trace revenues to the general ledger. We reviewed the following information:
 - Water Assessments and Finance Charges – FMDC's primary source of revenue in 2011 was water assessment fees with finance charges on past-due assessments being the secondary source. The total sample of \$74,326.27 and 47 items exceeds the required 30% of total reported sales and finance charge revenue of \$43,852.20 (30% of \$146,174.00). All revenue amounts tested agreed to the general ledger, deposit slips, bank receipts, and the corresponding bank statements. No exceptions were noted.

5) Expenditures

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

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

Note: The sample must be representative of the population.

Results of Procedures 5(a) – (c)

- Total expenditures per the 2011 general ledger were \$202,702.68. We tested 25 items totaling \$128,645.35 in disbursements or 63% of recorded expenditures. We tested to determine 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 bank statement, 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, who received them, and that items are authorized for payment.

As a result of performing the analytical review procedures in 5(a), we noted the following:

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

Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

- FMDC did not issue purchase orders; thus, no disbursements had been properly encumbered during the year. See Finding 2010-005 – Purchase Orders and Payment Authorization.
- FMDC did not have a formal receiving policy and many of the disbursements had no indication of being reviewed by a responsible party indicating that the products and services had been received and were authorized for payment. See Finding 2010-005 – Purchase Orders and Payment Authorization.
- When comparing the general ledger to FMDC's bank statements, the general ledger contained Payee errors, duplicate check numbers and omitted check numbers that were not voided and included with FMDC's bank statements. See Finding 2010-010 – General Ledger Contains Duplications, Errors, and Omissions.

As a result of performing the analytical review procedures in 5(b) and (c), we noted the following:

- FMDC 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 2010-005 - Purchase Orders and Payment Authorization.
- During our review of procedures related to the Procurement Code, we noted no violations.

6) Journal Entries

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

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

Results of Procedures 6(a) – (b)

- We reviewed the records to identify any manual journal entries for the period November 1, 2010 through October 31, 2011. Per FMDC, the year-end manual journal entries for this time period were recommended to the Board and recorded by their accounting firm. FMDC's agreement with the accounting firm was verbal. There was no written supporting documentation or approval available for these entries. See Finding 2010-008 - Improper Control over Journal Entries.
- There were additional manual journal entries made throughout the year by the bookkeeper. There is no supporting documentation for these entries and FMDC does not have a policy that requires secondary review and approval of journal entries by the Board or officers of the Board. See Finding 2010-008 - Improper Control over Journal Entries.

7) Budget

Obtain the original fiscal year budget and all budget adjustments made throughout the fiscal year and perform the following test work:

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

Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

- 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 of Procedures 7 (a) – (c)

- FMDC did not prepare a budget for submittal to the DFA-LGD. See Finding 2010-004 – Submission of Required Budgets and Reports to the Department of Finance and Administration (DFA).
- We reviewed all expenditures and determined that FMDC 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 2010-004 – Submission of Required Budgets and Reports to the DFA.
- As FMDC had not adopted a budget in 2011, we have not prepared a Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis).

8. Other

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.

Results of Procedure 8

- FMDC authorized a year-end salary payment of \$5,400.00 to the Ditch Rider, Ken Hubbs. The payment was authorized in the Board minutes dated December 6, 2010 but payment was not issued through the payroll accounting function. It was issued through the vendor payments function. Therefore, no payroll taxes were deducted from the bonus. See Finding 2010-009 - Non-compliance with IRS Payroll Publication 15.
- FMDC has limited staff and it is not possible to segregate the cash accounting duties as performed by the bookkeeper. The bookkeeper performs the duties of authorization, custody of assets, record keeping, and reconciliation without oversight or secondary review. This leaves FMDC open to errors, fraud, and misappropriation of assets. See Finding 2010-011 – Internal Controls over Cash.
- FMDC did not obtain IRS form W-9 or file 1099-MISC forms for each entity who received at least \$600 in rents, services, prizes or awards, or gross proceeds of \$600 or more paid to an attorney. See Finding 2010-012 – Non-Compliance with IRS Requirements for Forms W-9 and 1099.
- During 2011, no exceptions were found as result of applying the procedures described above, regardless of materiality indicating any fraud or illegal acts, noncompliance, or any internal control deficiencies other than those identified in the Schedule of Findings and Responses.

9. Report

Prepare and submit to the Office of the State Auditor an agreed-upon procedures report that complies with ATC Section 215. Additionally, the report shall include the following,

- a) Table of Contents.


Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

- b) Official Roster.
- c) The procedures performed and the results of those procedures.
- d) For each individual fund, a Schedule of Revenues and Expenditures – Budget and Actual. Each budgetary comparison must show the original and final appropriated budget (same as final budget approved by DFA), the actual amounts on the budgetary basis, and a column with the variance between the final budget and the actual amounts. The budgetary comparisons shall include the amount of prior-year cash balance required to balance the budget.
- e) A copy of the year-end financial report submitted to DFA.
- f) Schedule of Findings and Responses.
- g) Exit conference information (Section 2.2.2.16(E)(3) NMAC).
- h) Summary of Findings form (Section 2.2.2.16(E)(4) NMAC). The Summary of Findings form must be submitted electronically in a separate Excel file in addition to being included with the final report.

.....

We are not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on FMDC's cash and capital assets as of October 31, 2011 and FMDC's revenue, expenditures, and budget for the year ended October 31, 2011. 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 Farmers Mutual Ditch Company, the State of New Mexico, the Department of Finance and Administration – Local Government Division, and the Office of the State Auditor and their designees and is not intended to be and should not be used by anyone other than those specified parties.


R. Shane Chance, CPA
Aztec, New Mexico
June 18, 2018

Farmers Mutual Ditch Company
Statement of Financial Position
October 31, 2011

See Independent Accountant's Agreed Upon Procedures Report

Assets

Current Assets

Cash and cash equivalents	\$ 32,959
Accounts receivable	88,920
Total current assets	<u>121,879</u>

Noncurrent Assets

Property and equipment, net of accumulated depreciation of \$824,134 in 2011	1,642,413
Land	3,399
Total noncurrent assets	<u>1,645,812</u>

Total Assets \$ 1,767,691

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 2,342
Sales tax payable	1,694
Accrued payroll liabilities	3,920
Total current liabilities	<u>7,956</u>

Noncurrent Liabilities

Long-term debt	120,536
Unearned Revenue LVWU	72,300
Total noncurrent liabilities	<u>192,836</u>

Total Liabilities 200,792

Net Assets

Unrestricted	1,566,899
Total Liabilities and Net Assets	<u><u>\$ 1,767,691</u></u>

Farmers Mutual Ditch Company
Statement of Activities
For the Year Ended October 31, 2011
See Independent Accountant's Agreed Upon Procedures Report

Revenues	
Water assessments	\$ 153,146
Late fees and NSF charges	6,298
Total revenue	<u>159,444</u>
 Operating Expenses	
Auto maintenance	3,947
Depreciation	60,954
General wages	48,815
Insurance	6,814
Legal and professional fees	67,356
Maintenance and repairs	19,160
Miscellaneous expense	561
Office expenses	3,950
Payroll taxes and benefits	50
Taxes, licensing, and permits	1,833
Total operating expenses	<u>213,440</u>
 Other Income (Expense)	
Interest expense	<u>(15,460)</u>
Total other income (expense)	(15,460)
 Change in Net Assets	
	(69,456)
Net Assets at Beginning of Year	1,636,355
Net Assets at End of Year	<u><u>\$ 1,566,899</u></u>

Farmers Mutual Ditch Company
Statement of Activities (Budget and Actual)
For the Year Ended October 31, 2011
See Independent Accountant's Agreed Upon Procedures Report

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Water assessments	\$ -	\$ -	\$ 153,146	\$ 153,146
Late fees and NSF charges	-	-	6,298	6,298
Total revenue	-	-	159,444	159,444
Operating Expenses				
Auto maintenance	-	-	3,947	(3,947)
Depreciation	-	-	60,954	(60,954)
General wages	-	-	48,815	(48,815)
Insurance	-	-	6,814	(6,814)
Legal and professional fees	-	-	67,356	(67,356)
Maintenance and repairs	-	-	19,160	(19,160)
Miscellaneous expense	-	-	561	(561)
Office expenses	-	-	3,950	(3,950)
Payroll taxes and benefits	-	-	50	(50)
Supplies	-	-	0	-
Taxes, licensing, and permits	-	-	1,833	(1,833)
Total operating expenses	-	-	213,440	(213,440)
Other Income (Expense)				
Interest expense	-	-	(15,460)	(15,460)
Total other income (expense)	-	-	(15,460)	(15,460)
Change in Net Assets				
Net Assets at Beginning of Year	-	-	1,636,355	1,636,355
Net Assets at End of Year	\$ -	\$ -	\$ 1,566,899	\$ 1,566,899

Farmers Mutual Ditch Company
 Schedule of Findings and Responses
 Year Ended October 31, 2011

	Type of Finding	Current Year Finding Number	Prior Year Finding Number
Current Year Findings:			
Bank Reconciliation Timeliness (Repeated)	D		2010-001
Bank Reconciliation Accuracy and DFA Reporting (Repeated)	D		2010-002
Annual Physical Inventory and Asset Classification (Repeated)	D		2010-003
Submission of Required Budgets and Reports to DFA (Repeated)	D		2010-004
Purchase Orders and Payment Authorization (Repeated)	D		2010-005
Late Submission of IPA Recommendation Form and Agree-Upon Procedures Contract (Repeated)	D		2010-006
Late Submission of Agreed-Upon Procedures Report (Repeated)	D		2010-007
Improper Control over Journal Entries (Repeated)	C		2010-008
Non-compliance with IRS Payroll Publication 15 (Repeated)	C		2010-009
General Ledger Contains Duplications, Errors, and Omissions (Repeated)	C		2010-010
Internal Controls Over Cash (Repeated)	C		2010-011
Non-Compliance with IRS Requirements for Forms W-9 and 1099 (Repeated)	D		2010-012
Follow-up on Prior Year Findings:			
N/A			

• **Legend for Findings:**

- A. Fraud
- B. Illegal Act(s)
- C. Internal Control Deficiency(ies)
- D. Noncompliance

Bank Reconciliation Timeliness (Repeated)

Criteria

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.

Condition

We requested a random sample of bank statements and reconciliation reports for reporting period from client and cross-checked bank statements against reconciliation reports and dates reconciled provided by client. A timely reconciliation of bank accounts is normally considered to be completed within 30 days of the month end and should be reviewed, signed, and dated by someone other than the individual completing the bank reconciliation. From review of bank statements and reconciliation reports provided by client, we have determined that client does have record of all bank reconciliations for the fiscal year. However, not all of the reconciliations were performed within 30 days of the end of the month and there was no evidence of review. A corrective action plan was developed in 2018 to ensure that future bank reconciliations will be completed within 30 days, signed and dated by the individual performing the bank reconciliations, and a member of the board will review the timeliness and accuracy of the bank reconciliations.

Cause

Farmers Mutual Ditch Company (FMDC) did not consider reviewing bank statements and reconciliation reports for timeliness and accuracy.

Effect

FMDC is unable to document the timeliness of the bank reconciliations and whether they were reviewed by a member of the Board in accordance with proper accounting procedures and 2.20.5.8 NMAC Statutes.

Recommendation

We recommend that all bank reconciliations be performed within 30 days of the month end as well as be signed and dated by the individual performing the bank reconciliations and the member of the board reviewing the timeliness and accuracy of the bank reconciliations.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
FMDC will ensure that future bank reconciliations will be completed within 30 days and that the reconciliation is signed and dated by those completing the reconciliation.
- Timeline for completion of corrective action plan:
This process has already been implemented.
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board President

2010-002

Bank Reconciliation Accuracy and Department of Finance (DFA) Reporting (Repeated)

Criteria

Section 6-6-2 NMSA 1978 establishes that local public bodies submit a budget and periodic financial reports, at least quarterly. State guidelines also require that expenditures not exceed the final budget at the legal level of budgetary control.

Condition

We requested a sample of the following documents from the Farmers Mutual Ditch Company (FMDC): bank statements and reconciliation reports from the reporting period from client as well as budgets and financial reports submitted to DFA-Local Government Division. We randomly sampled six bank statements for the year and performed tests against the bank statements and bank reconciliations for each of the sample months for accuracy and traced ending balances back to the general ledger. During our analysis we determined that the bank reconciliations agreed to the bank statements, but when tracing the general ledger balances per the bank reconciliation back to the general ledger they did not agree. In addition to tracing the ending balances from supporting documentation back to the general ledger, FMDC did not create an annual budget nor file the budget or quarterly and year-end financial reports with the DFA – Local Government Division. As such, all expenditures were the year were in excess of their legal budgetary authority. A corrective action plan to ensure bank reconciliation accuracy and that reports are sent on time to the proper oversight agency was developed in 2018.

Cause

FMDC made changes to the general ledger causing timing differences in the supporting documentation which resulted in the inconsistencies of ending balances. FMDC was also unaware that they were required to establish a budget and file quarterly and year-end reports with DFA-Local Government Division.

Effect

FMDC is not in compliance with 6-6-2 NMSA 1978 and has internal control deficiencies that should be addressed.

Recommendation

We recommend FMDC establish budgets and file quarterly and year-end financial reports accurately and timely with the DFA – Local Government Division.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board was previously unaware a budget was mandatory and required to submit quarterly and year-end reports submitted to the DFA. The Board is now aware of the requirement and is taking action to ensure reports are sent on time to the proper oversight agency.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

- Timeline for completion of corrective action plan:
October 2018
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board President

2010-003

Annual Physical Inventory and Asset Classification (Repeated)

Criteria

In accordance with proper accounting procedures and 2.20.16, Farmers Mutual Ditch Company (FMDC) 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

FMDC did not do a physical inventory which was detailed and certified by the Board for the year ended October 31, 2011. A corrective action plan to ensure an annual inventory is completed and certified by the Board was developed in 2018.

Cause

FMDC was unaware of the requirement to perform an annual physical inventory that is certified by its Board.

Effect

FMDC is not in compliance with state statutes with regards to completing an annual physical inventory that is certified by the Board.

Recommendation

We recommend that FMDC record its assets in a detail register and complete an annual physical inventory which will be certified by the Board at its annual meeting to be in compliance with state statutes.

Management’s Response

Responsible official’s view:

- Specific corrective action plan for finding:
The Board was previously unaware a yearly physical inventory report was required to be completed and signed off by the board. The Board is now aware of the requirement and is taking action to ensure an annual inventory is completed and certified by the Board.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

- Timeline for completion of corrective action plan:
October 2018
- Employee position(s) responsible for meeting the timeline:
Board

2010-004

Submission of Required Budgets and Reports to DFA (Repeated)

Criteria

Section 6-6-2 NMSA 1978 establishes that local public bodies submit a budget and periodic financial reports, at least quarterly. State guidelines also require that expenditures not exceed the final budget at the legal level of budgetary control.

Condition

Farmers Mutual Ditch Company (FMDC) did not create an annual budget nor file the budget or quarterly and year-end financial reports with the DFA – Local Government Division. As such, all expenditures for the year (\$213,440) were in excess of their legal budgetary authority. A corrective action plan to ensure the ensure a budget is completed and reports are sent on time to the proper oversight agency was developed in 2018.

Cause

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

Effect

FMDC is not in compliance with 6-6-2 NMSA 1978.

Recommendation

We recommend that FMDC adhere to state statutes and establish budgets and file quarterly and year-end financial reports accurately and timely with the DFA – Local Government Division.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board was previously unaware a budget was mandatory and required to submit quarterly and year-end reports submitted to the DFA. The Board is now aware of the requirement and is taking action to ensure a budget is completed and reports are sent on time to the proper oversight agency.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

- Timeline for completion of corrective action plan:
October 2018
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board President

2010-005

Purchase Orders and Payment Authorization (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

Farmers Mutual Ditch Company (FMDC) does not issue purchase orders before expending funds. Therefore, all expenditures (\$213,440) are not in compliance with state guidelines. Additionally, FMDC does not have a formal receiving or authorization for payment policy.

- There was no indication on the invoices or other supporting documentation that a member of the Board had reviewed the invoice and approved its payment on all of the disbursements tested. The value of these goods and services ranged between \$7.56 and \$50,000.

A corrective action plan to ensure the accountant will issue a PO which will be signed by a Board member, and all goods and services will have a signature and date to verify they were received was developed in 2018.

Cause

FMDC was unaware of the state purchasing guidelines affecting local public bodies which require the issuance of a purchase order prior to committing or expending funds. Additionally, FMDC, has no formal receiving process documenting that goods and services have been received, and has no policy which requires a member of the board to review and authorize payments.

Effect

FMDC 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 FMDC 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.

Recommendation

We recommend that FMDC 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". This will provide assurance that an authorized individual is accepting responsibility for the products and services provided to FMDC.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board was previously unaware a purchase order was required before issuing payment and someone should be verifying goods and or services were received. The accountant will issue a PO which will be signed by a Board member, and all goods and services will have a signature and date to verify they were received.
- Timeline for completion of corrective action plan:
August 2018
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and the Board

2010-006

Late Submission of IPA Recommendation Form and Agree-Upon Procedures Contract (Repeated)

Criteria

2.2.2.8(B)(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 the statutory deadline.

Condition

Farmers Mutual Ditch Company (FMDC) did not complete this process in a timely manner. A corrective action plan to ensure that the Board will contract with an approved firm before the deadline was developed in 2018.

Cause

FMDC was unaware that they were required to select an IPA and complete an agreed-upon procedures contract. As such, they did not meet the March 31, 2012 deadline.

Effect

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

Recommendation

We recommend that FMDC complete the IPA recommendation form and agreed upon procedures contract by the statutory deadline.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board was previously unaware they were required to do a yearly AUP. The Board has contracted with an approved firm to complete past years AUP's to bring the organization into compliance. In the future the Board will contract with an approved firm before the deadline.
- Timeline for completion of corrective action plan:
September 2018
- Employee position(s) responsible for meeting the timeline:
Board

2010-007

Late Submission of Agreed-Upon Procedures Report (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 30th to file their agreed-upon procedures report according to Subsection H of 2.2.2.16 NMAC which is no more than five months after the fiscal year-end of October 31st (March 31st).

Condition

Farmers Mutual Ditch Company (FMDC) did not complete the agreed-upon procedures report in a timely manner. A corrective action plan to ensure that the Board will submit the agreed-upon procedures report to the State Auditor before the deadline was developed in 2018.

Cause

FMDC 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 March 31, 2012 deadline.

Effect

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

Recommendation

We recommend that FMDC complete the agreed-upon procedures report by the March 31st deadline.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board was previously unaware they were required to do a yearly AUP. The Board has contracted with an approved firm to complete past years AUP's to bring the organization into compliance. In the future the Board will contract with an approved firm before the deadline.
- Timeline for completion of corrective action plan:
December 2018
- Employee position(s) responsible for meeting the timeline:
Board

2010-008

Improper Control over Journal Entries – Material Weakness (Repeated)

Criteria

Good accounting procedures require that all manual journal entries should have proper supporting documentation and be reviewed by at least two individuals who should sign and date the journal entry. This should be performed in order to detect errors and to prevent improper movement of funds. This provides an internal deterrent to errors, fraud, and misappropriation of assets.

Condition

Farmers Mutual Ditch Company (FMDC) could provide no supporting documentation for manual journal entries recorded during the 2011 fiscal year. Per the FMDC representative, the year-end manual journal entries recorded in 2011 were at the direction of FMDC's accounting firm. However, the agreement was verbal and FMDC had no written record of the agreement and no written approval from the accounting firm. Additionally, the bookkeeper made manual journal entries throughout the year, including adjustments to the cash balance and miscellaneous income. There is no supporting documentation for these entries and FMDC does not have a policy that requires secondary review and approval of journal entries by the Board or officers of the Board. A corrective action plan to ensure that all journal entries have supporting documentation and that all adjusting journal entries are presented to the board for signed approval was developed in 2018.

Cause

The necessity to review journal entries and maintain written supporting documentation is not an item which the board has ever considered.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

Effect

FMDC has no internal control which would deter the bookkeeper from performing journal entries which have no valid reason for entry. This leaves FMDC open to errors, fraud, and misappropriation of assets.

Recommendation

We recommend that FMDC ensure that all manual journal entries have additional supporting documentation which identifies the amounts and reasons for the journal entries. These journal entries should be printed, signed and dated by the individual performing the journal entry, and maintained for further review. Additionally, a member of the board should review each journal entry on a timely basis and sign and date the journal entry as well.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board has implemented requirements that all journal entries have supporting documentation and that all adjusting journal entries are presented to the board for signed approval.
- Timeline for completion of corrective action plan:
July 2018
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board

2010-009

Non-compliance with IRS Payroll Publication 15 (Repeated)

Criteria

IRS Publication 15 states "Wages subject to federal employment taxes generally include all pay you give to an employee for services performed. The pay may be in cash or in other forms. It includes salaries, vacation allowances, bonuses, commissions, and fringe benefits."

Condition

Farmers Mutual Ditch Company (FMDC) authorized and paid a bonus of \$5,400.00 to the Ditch Rider in December 2010. The bonus was paid through the vendor accounting system and not through FMDC's regular payroll system. As such, no payroll taxes were withheld from the bonus.

Cause

The Ditch Rider was an employee of FMDC and was paid as an employee for the fiscal year ended October 31, 2011. The bonus paid to the Ditch Rider was a supplemental wage as defined in IRS

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

Publication 15 and was subject to applicable payroll taxes. FMDC did not consider the payroll tax obligations under IRS Publication 15 at the time the bonus was paid.

Effect

FMDC was not in compliance with IRS Publication 15 at the time the bonus was paid.

Recommendation

We recommend that FMDC pay all employee wages, whether regular or supplemental, through FMDC's payroll system so that all applicable payroll taxes will be withheld.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
Beginning in fiscal year 2012, FMDC changed its payroll policies to discontinue supplemental wages through annual bonuses and increase regular employee wages by the usual bonus amount. No bonuses were paid after fiscal year 2011 and applicable payroll taxes were appropriately withheld from the salary increases. In 2018, FMDC implemented policies to ensure that any future bonuses would be paid through the payroll system and all applicable payroll taxes would be withheld.
- Timeline for completion of corrective action plan:
Fiscal year 2018
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board

2010-010

General Ledger Contains Duplications, Errors, and Omissions – Material Weakness (Repeated)

Criteria

Proper segregation of duties is an internal control intended to prevent or decrease the occurrence of innocent errors or intentional fraud. Good accounting procedures require segregation of duties for authorization, custody, and record keeping so that one individual cannot complete a transaction from start to finish. However, it can be difficult to properly segregate some duties for entities with a small number of staff. Small entities can mitigate the lack of segregation of duties with policies and procedures that utilize oversight and review of expenditure and revenue transactions as recorded in the general ledger monthly. Review of transactions should verify the accuracy of the expenditures and cash receipts to supporting documentation, certify they are for services rendered or goods received, and ensure the timeliness of payments and deposits and accuracy of the related general ledger records. Documentation of review is a key component of the internal control.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

Condition

FMDC's general ledger includes duplicate check numbers, gaps in the check number sequence, missing check numbers for recorded expenditures, and incorrect payees when compared to the check copies of expenditures clearing the bank. This makes it difficult to verify the validity of the expenditures and opens FMDC up to fraud and misappropriation of funds. A corrective action plan to ensure that the board will review and sign off on expenditures and revenue transactions at its board meetings was developed in 2018.

Cause

The bookkeeper is responsible for all cash receipts, cash disbursements, record keeping, and bank reconciliations. The bookkeeper is responsible for recording transactions and maintaining custody of related assets such as cash. FMDC does not have a policy of separation of duties policy or an oversight and review procedure in place to ensure that the bookkeeper is performing the duties in an accurate and timely manner.

Effect

Verifying the actual checks against the general ledger is difficult and time consuming. The general ledger contains false and misrepresented source documentation. Gaps in the check sequence without voided checks maintained with the bank statements opens FMDC up to fraud and misappropriation of funds.

Recommendation

We recommend that FMDC have a member of the board review and sign off on expenditure and revenue transactions and related general ledger records monthly. The Board member should verify the accuracy of the expenditures to supporting documentation, certify they are for services rendered or goods received, and ensure the timeliness of payments and accuracy of the related general ledger records. Additionally, the Board member should verify that all expenditures have a public benefit or purpose, are necessary, and are consistent with the appropriation, the expenditure authority from the legislature and comply with Section 6-5-3 NMSA 1978, as amended.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board has implemented controls that require the board to review and sign off on expenditures and revenue transactions at its board meetings.

- Timeline for completion of corrective action plan:
 - **July 2018**

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

2010-011

Internal Controls Over Cash – Material Weakness (Repeated)

Criteria

Good accounting practices require safeguarding assets through the establishment of internal controls. A key internal control is segregation of duties. Proper segregation of duties dictates that, to the extent possible, the duties of authorization, custody of assets, record keeping, and reconciliation should be separated. For cash disbursements, the duties of invoice approval, check signing, recording transactions in the general ledger, and performing bank reconciliations should be separated. When an entity has a small number of staff and each responsibility cannot be separated, weaknesses can be mitigated by a secondary review or approval.

Condition

Farmers Mutual Ditch Company (FMDC) has one bookkeeper who performs all cash accounting duties. These duties include approval and payment of invoices, preparing payroll, check signing, recording all receipts and disbursements in the general ledger, performing bank reconciliations, and recording adjusting journal entries. FMDC does not have a policy in place for separation of these duties or a policy for secondary review or approval. The FMDC Board does not approve invoices before payment is made and there is no secondary review to ensure the accuracy and validity of transactions after these duties are performed by the bookkeeper. A corrective action plan to ensure that the board will review and approve invoices by the bookkeeper was developed in 2018.

Cause

FMDC has a small number of staff and each responsibility cannot be separated. FMDC did not consider the need for invoice approval or secondary review of the bookkeeping function.

Effect

FMDC has no internal control over the cash accounting duties as performed by the bookkeeper. The bookkeeper performs the duties of authorization, custody of assets, record keeping, and reconciliation without secondary review. This leaves FMDC open to errors, fraud, and misappropriation of assets.

Recommendation

Because FMDC has a small number of staff and each responsibility above cannot be separated, we recommend that FMDC implement a policy of invoice approval and secondary review of the bookkeeping function to ensure the accuracy and validity of transactions after these duties are performed by the bookkeeper. FMDC should maintain documentation of secondary review.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board has implemented new polices that require the board to review and approve invoices by the bookkeeper.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

- Timeline for completion of corrective action plan:
July 2018
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board

2010-012

Non-Compliance with IRS Requirements for Forms W-9 and 1099 (Repeated)

Criteria

Internal Revenue Service (IRS) instructions for 1099-MISC requires a 1099 to be filed for each entity who received at least \$10 in royalties, \$600 in rents, services, prizes or awards, or gross proceeds of \$600 or more paid to an attorney. Certain entity types are exempt from 1099 reports. An IRS Form W-9 should be obtained from entities to which payments are made to determine if the entity is exempt or reportable.

Condition

Farmers Mutual Ditch Company (FMDC) did not obtain IRS Form W-9 from entities to which payments are made to determine if the entity is exempt or reportable. FMDC did not file 1099 forms for each entity who received at least \$10 in royalties, \$600 in rents, services, prizes or awards, or gross proceeds of \$600 or more paid to an attorney. A corrective action plan to ensure the bookkeeper will send these forms when required was developed in 2018.

Cause

FMDC did not have a process in place to ensure that a W-9 is obtained from entities FMDC pays. FMDC did not understand which entities should receive 1099 forms at year-end, or a process to ensure that 1099 filing is complete.

Effect

FMDC could be subject to penalties for not filing 1099 forms for applicable entities and for not providing each entity with a copy of their 1099.

Recommendation

FMDC should implement procedures to ensure that W-9's are obtained from each entity for which a 1099 will be filed. FMDC should implement procedures to ensure that 1099 forms are filed with the IRS and a copy is mailed to each entity by January 31st of the following year as required by the IRS.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2011

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Board was unaware they were required to issue 1099's and W-9's to certain vendors. The Board has implemented a new policy requiring the bookkeeper to send these forms when required.
- Timeline for completion of corrective action plan:
January 2019
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board

Farmers Mutual Ditch Company
Exit Conference
Year Ended October 31, 2011

Exit Conference

The report contents were discussed at an exit conference held on August 22, 2018 with the following in attendance:

Representing Farmers Mutual Ditch Company:

Danene Sherwood, Current President

Debra Currier, Bookkeeper

Byron R. Manning, Manning Accounting and Consulting Services, LLC

Representing R Shane Chance CPA PC:

R Shane Chance, CPA, President

The Schedules of Revenues and Expenditures were prepared with the assistance of R Shane Chance, CPA PC.