

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

October 31, 2012



**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, 2012

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, 2012. 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 \$204,041 and no state capital outlays, which requires Tier 4 agreed-upon procedures.

### 2. Cash

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

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

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. Additional cash receipts not related to water assessments or finance charges were a loan from San Juan County in the amount of \$24,981.84 and a share-the-shortage agreement with APS in the amount of \$5,173.00 in 2012. 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 2012 was water assessment fees with finance charges on past-due assessments being the secondary source. The total sample of \$53,979.47 and 52 items exceeds the required 30% of total reported sales and finance charge revenue of \$52,165.91 (30% of \$173,886.37). All revenue amounts tested agreed to the general ledger, deposit slips, bank receipts, and the corresponding bank statements except as noted in Finding 2010-010 – General Ledger Contains Duplications, Errors, and Omissions.

### 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 2012 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.

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

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:
  - There were discrepancies when we compared cash disbursements with vendor invoices, receipts, check copies, bank statements, and the general ledger. 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. Additionally, a payment for an expense incurred by FMDC was incorrectly paid from a third party's bank account and a reimbursement to the third party had to be made. Invoices related to this transaction were not recorded on FMDC's general ledger. See Finding 2010-010 – General Ledger Contains Duplications, Errors, and Omissions.
  - 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.

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 See Finding 2010-004 – Submission of Required Budgets and Reports to DFA. 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.
- Farmers Mutual Ditch Company (FMDC) made a procurement in greater than \$20,000 but less than \$60,000 for emergency repairs to the ditch after a rock slide. FMDC did not provide a written determination of the basis for the emergency procurement to the department of information technology for posting on the sunshine portal or forward the same information to the legislative finance committee 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). Additionally, FMDC did not maintain a procurement file for public record. See Finding 2012-001 – Non-Compliance with Procurement Code.

### **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 01, 2011 through October 31, 2012. 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

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

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.
- 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 2012, 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-7**

- FMDC did not obtain IRS Form W-9 or file Form 1099-MISC 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.
- 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.



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

- During 2012, 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.
- 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.

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We are not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion on FMDC's cash and capital assets as of October 31, 2012 and FMDC's revenue, expenditures, and budget for the year ended October 31, 2012. 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 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, 2012**  
**See Independent Agreed Upon Procedures Report**

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**Assets**

Current Assets	
Cash and cash equivalents	\$ 8,662
Accounts receivable	107,685
Total current assets	<u>116,347</u>
Noncurrent Assets	
Property and equipment, net of accumulated depreciation of \$887,603 in 2012	1,678,871
Land	3,399
Total noncurrent assets	<u>1,682,270</u>
Total Assets	<u><u>\$ 1,798,617</u></u>

**Liabilities and Net Assets**

Current Liabilities	
Accounts payable	\$ 75,075
Sales tax payable	0
Accrued payroll liabilities	1,636
Total current liabilities	<u>76,711</u>
Noncurrent Liabilities	
Long-term debt	105,456
Long-term debt	24,982
Unearned Revenue LVWU	64,259
Total noncurrent liabilities	<u>194,697</u>
Total Liabilities	271,408
Net Assets	
Unrestricted	1,527,209
Total Liabilities and Net Assets	<u><u>\$ 1,798,617</u></u>

**Farmers Mutual Ditch Company**  
**Statement of Activities**  
**For the Year Ended October 31, 2012**  
**See Independent Agreed Upon Procedures Report**

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**Revenues**

Water assessments	\$ 151,526
Disaster Assistance Program	24,982
APS water shortage	5,173
Late fees and NSF charges	22,360
Total revenue	<u>204,041</u>

**Operating Expenses**

Auto maintenance	7,768
Depreciation	63,469
General wages	45,396
Insurance	8,128
Legal and professional fees	14,011
Maintenance and repairs	69,791
Miscellaneous expense	2,208
Office expenses	3,045
Payroll taxes and benefits	1,601
Taxes, licensing, and permits	319
Total operating expenses	<u>215,736</u>

**Other Income (Expense)**

Interest expense	<u>(3,013)</u>
Total other income (expense)	(3,013)

**Change in Net Assets**

	(14,708)
Net Assets at Beginning of Year	1,541,917
Net Assets at End of Year	<u><u>\$ 1,527,209</u></u>

**Farmers Mutual Ditch Company**  
**Statement of Activities (Budget and Actual)**  
**For the Year Ended October 31, 2012**  
**See Independent Agreed Upon Procedures Report**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
<b>Revenues</b>				
Water assessments	\$ -	\$ -	\$ 151,526	\$ 151,526
Disaster Assistance Program	-	-	24,982	24,982
APS water shortage	-	-	5,173	5,173
Late fees and NSF charges	-	-	22,360	22,360
Total revenue	-	-	204,041	204,041
<b>Operating Expenses</b>				
Auto maintenance	-	-	7,768	(7,768)
Depreciation	-	-	63,469	(63,469)
General wages	-	-	45,396	(45,396)
Insurance	-	-	8,128	(8,128)
Legal and professional fees	-	-	14,011	(14,011)
Maintenance and repairs	-	-	69,791	(69,791)
Miscellaneous expense	-	-	2,208	(2,208)
Office expenses	-	-	3,045	(3,045)
Payroll taxes and benefits	-	-	1,601	(1,601)
Taxes, licensing, and permits	-	-	319	(319)
Total operating expenses	-	-	215,736	(215,736)
<b>Other Income (Expense)</b>				
Interest expense	-	-	(3,013)	(3,013)
Total other income (expense)	-	-	(3,013)	(3,013)
<b>Change in Net Assets</b>				
Net Assets at Beginning of Year	-	-	1,541,917	1,541,917
Net Assets at End of Year	\$ -	\$ -	\$ 1,527,209	\$ 1,527,209

Farmers Mutual Ditch Company  
 Schedule of Findings and Responses  
 Year Ended October 31, 2012

	<b>Type of Finding</b>	<b>Current Year Finding Number</b>	<b>Prior Year Finding Number</b>
<b>Current Year Findings:</b>			
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 (Resolved)	C		2010-009
General Ledger Contains Duplications, Errors, and Omissions (Repeated and Revised)	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
Non-Compliance with Procurement Code (New)	D	2012-001	
<b>Follow-up on Prior Year Findings:</b>			
Non-compliance with IRS Payroll Publication 15 (Resolved)	D		2010-009

• **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**

**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, 2012

- 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, 2012. 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, 2012

- 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 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.**
- 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 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 \$12.82 and \$25,000.

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.

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**Condition**

Farmers Mutual Ditch Company (FMDC) did not complete this process in a timely manner. There was no change in this area in 2012. 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, 2013 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 31<sup>st</sup> (March 31<sup>st</sup>).

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**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, 2013 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 31<sup>st</sup> 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.

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**Condition**

Farmers Mutual Ditch Company (FMDC) could provide no supporting documentation for manual journal entries recorded during the 2012 fiscal year. Per the FMDC representative, the year-end manual journal entries recorded in 2012 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.

**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**

**2010-010**

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

**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.

**Condition**

Farmers Mutual Ditch Company's (FMDC) 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.

During our analysis of revenues and cash receipts, there were some discrepancies when we agreed the deposits the bank statements, bank receipts, deposit slips, and general ledger. 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.

As a result of our revenue testing, 2 out of the 52 items in the test sample, or 4%, contained errors. Although the errors were immaterial to the financial statements as a whole, the items were randomly selected to test the internal controls in place to ensure the accuracy of the general ledger. An error

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rate of 4% applied to the total population of cash receipts of 626 is a projected potential of 25 errors for 2012.

### Recommendation

We recommend that FMDC have a member of the board review and sign off on expenditure and revenue transactions as recorded in the general ledger monthly. The Board member 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. 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,



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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.**
- 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

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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 31<sup>st</sup> of the following year as required by the IRS.

**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**

**2012-001**

**Non-Compliance with Procurement Code (New)**

**Criteria**

According to NMAC 1.4.1, Section 1.4.1.15 states that “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.

NMSA 1.4.1, Section 1.4.1.63 states that “A written determination of the basis for the emergency procurement shall be made containing the information set forth in statute and listed on the form issued by the state purchasing agent and available on the purchasing agent’s website. Within three business days of awarding an emergency procurement, the awarding central purchasing office within a state agency shall:

- a) provide the information required by statute to the department of information technology for posting on the sunshine portal; and
- b) forward the same information to the legislative finance committee.

NMSA 1.4.1, Section 1.4.1.64 states, “The state purchasing agent or central purchasing office shall maintain records of emergency procurements for a minimum of three years. The party responsible for the procurement must retain the records...The record of each such procurement shall be a public record and shall contain:

- a) The contractor’s name and address;
- b) The amount and term of the contract;
- c) A listing of the services, construction or items of tangible personal property procured under the contract; and
- d) The justification for the procurement method.

**Condition**

Farmers Mutual Ditch Company (FMDC) made a procurement in excess of \$20,000 but less than \$60,000 for emergency repairs to the ditch after a rock slide. FMDC did not provide a written determination of the basis for the emergency procurement to the department of information technology for posting on the sunshine portal or forward the same information to the legislative finance committee. Additionally, FMDC did not maintain a procurement file for public record.

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**Cause**

FMDC was unaware of the requirement to provide a written determination of the basis for the emergency procurement to the department of information technology for posting on the sunshine portal or forward the same information to the legislative finance committee. FMDC was also unaware of the requirement to maintain a procurement file. A corrective action plan to in the future there is proper notification and retention of records related to emergency procurement was developed in 2018.

**Effect**

FMDC failed to provide written information to the proper authoritative bodies and maintain a procurement file for public record. Section 13-1-196 NMSA 1978 states “Any person, firm or corporation that knowingly violates any provision of the Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978] is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code.” Additionally, Section 13-1- 199 NMSA 1978 states, “Any business or person that willfully violates the Procurement Code is guilty of: (A) a misdemeanor if the transaction involves fifty thousand dollars (\$50,000) or less; or (B) a fourth degree felony if the transaction involves more than fifty thousand dollars (\$50,000).”

**Recommendation**

We recommend the FMDC staff and board members review the provisions of the procurement code in regards to construction contracts and establish procedures to ensure compliance with the code.

**Management’s Response**

*Responsible official’s view:*

- Specific corrective action plan for finding:  
**The Board was unaware of the requirements for emergency procurement and has updated its policies to ensure in the future there is proper notification and retention of records related to emergency procurement.**
- Timeline for completion of corrective action plan:  
**July 2018**
- Employee position(s) responsible for meeting the timeline:  
**Bookkeeper and Board**

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**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.