

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

October 31, 2013



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, 2013

Board of Directors

Jim Lukow	Chairman
Danene Sherwood	Co-Chairman
Cameron Miller	Secretary/Treasurer

Bookkeeper

Debra Currier	Bookkeeper
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**SCHEDULE OF CAPITAL OUTLAY AWARDS
For the Fiscal Year Ending October 31, 2013**

Amount Awarded for the Project	\$74,945.53
Amount Received in FY13	74,945.53
Amount Expended in FY 13	<u>(74,945.53)</u>
Ending Balance in FY13	\$0

Grant Agreement Between the State of New Mexico, Department of Homeland Security and Emergency Management and Farmers Mutual Ditch Company – 75/25 Disaster Assistance Program Grant Agreement

Legislative Authority: State of New Mexico Executive Order 2012-036 Declaring an Emergency in San Juan County Due to a Landslide.

Date of Agreement: October 30, 2012

Project Description: To repair damages made to the ditch as a result of a landslide on August 11, 2102 and restore functionality of the ditch.

Estimated Project Cost: \$99,927.37

State Grant Amount: \$74,945.53

Farmers Mutual Ditch Company Contribution Amount: \$24,981.84

Agreement/termination/reversion date: September 29, 2013

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, 2013. Farmers Mutual Ditch Company 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 \$190,934 and received and expended 100% of a state capital outlay grant of \$74,946, which requires Tier 5 agreed-upon procedures. Farmers Mutual Ditch Company (FMDC) contracted for, and we performed, a Tier 6 agreed-upon procedures engagement.

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 the reconciliations were not 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. 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 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.
- There were two bank reconciliations for August 2013. Both reconciliations agreed with the cleared balance per the bank statement. However, the New Transactions sections of the two reconciliations did not agree with each other. The ending balances were different by \$38,864.57. It was not possible to determine which reconciliation was accurate as neither reconciliation agreed to the general ledger. 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. Debt

If the local public body has any debt, verify that all required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

Results of Procedure 4

- Although FMDC made two payments instead of the required one payment on their Interstate Stream Commission loan in 2013, the outstanding loan balance was still delinquent by \$20,228.28 because the loan balance was underpaid in the prior years. See Finding 2013-001 – Required Debt Payments.

5. 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.

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

Select a sample of revenues 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 5 (a) – (c)

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

- We identified the nature and sources of revenue which include water assessments, finance charges on past-due assessments, and a disaster assistance grant; 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).

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

- Of the \$265,880 of total revenue, \$185,761 was from water assessments and finance charges for past-due water assessments, \$74,946 was a disaster assistance grant, and \$5,173 for share-the-shortage fees. We tested a random sample of thirty-seven items totaling \$62,321 for accuracy and agreement with the general ledger, bank statements, and supporting documentation. Five of the thirty-seven items totaling \$12,723 had errors or discrepancies. When applied to the total of 1,402 cash receipts transactions, this represents a projected potential of 189 errors for 2013. See Finding 2010-010 – General Ledger Contains Duplications, Errors and Omissions.

6. 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).

Results of Procedures 6(a) – (c)

As a result of performing the analytical review procedures in 6(a), we noted the following:

- Total expenditures per the 2013 general ledger were \$259,191. We tested 25 items totaling \$172,769 in disbursements or 66.7% of recorded expenditures. We tested to determine the following:
 - Vendor invoice is clerically accurate

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

- 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.
- 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:
 - 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.
 - Our testing sample included one transaction totaling \$9.90 for which FMDC did not have supporting documentation. See Finding 2010-011 – Internal Controls Over Cash Disbursements.

As a result of performing the analytical review procedures in 6(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.

7. 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 procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results of Procedures 7(a) – (b)

- We reviewed the records to identify any manual journal entries for the period November 1, 2012 through October 31, 2013. 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.

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

- 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.

8. 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 if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.
- 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 8 (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 2010, we have not prepared a Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis).

9. Capital Outlay Appropriations

The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital outlay appropriations of the New Mexico Legislature that meet Tier 6 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet the Tier 6 criteria. Perform the following tests on all state-funded capital outlay expenditures:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b) Determine that the cash disbursements were properly authorized and approved in accordance 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.

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

- e) Verify that status reports were submitted to the state agency charged with oversight per the terms of the agreement and verify that the amounts in the status report agree with the general ledger and other supporting documentation.
- f) If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g) If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and the agreement with the grantor.
- h) Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i) Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results of Procedures 9 (a) – (i)

- We determined that the amount recorded as disbursed agrees to adequate supporting documentation. We verified that amount, payee, date and description agree to the vendor's invoice and canceled check, as appropriate. FMDC did not issue purchase orders for capital outlays. See Finding 2010-005 – Purchase Orders and Payment Authorization.
- The cash disbursements were not properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures as FMDC did not maintain a budget and did not have established policies and procedures in place. See Finding 2010-005 – Purchase Orders and Payment Authorization.
- Farmers Mutual Ditch Company (FMDC) made a procurement in excess of \$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.
- We performed a physical inspection and review of capital assets located at the plant address reported and determined that the capital outlay is consistent with the assets inspected.
- Quarterly performance and financial reports were not to be submitted as the work was completed prior to the execution of the grant agreement. A final performance and financial report was not submitted to the Department of Homeland Security and Emergency Management. See Finding 2013-002 - Submission of Status Reports to the State Agency Charged with Oversight.
- The project was not funded in advance and there is no unexpended balance. The grant agreement did not require FMDC to account for the cash in a separate fund or separate bank account that is non-interest bearing.
- There were no reimbursement requests.

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

10. 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 10

- 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.
- During 2013, 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.

11. Reports

Prepare and submit to the Office of the State Auditor an agreed-upon procedures report and a compilation report that comply with AT-C Section 215 and AR-C Section 80, respectively.

At a minimum, the compilation report shall include fund financial statements on the GAAP basis of accounting, for each individual fund (for all fund types) that the local public body has, consisting of:

- a) Balance Sheets – governmental funds, and/or Statements of Net Position – proprietary funds, and/or Statements of Net Position- fiduciary funds, for each individual fund.
- b) Statements of Revenues, Expenditures, and Changes in Fund Balances – governmental funds, and/or Statements of Revenues, Expenses, and Changes in Net Position - proprietary funds, and/or Statements of Changes in Net Position - fiduciary funds, for each individual fund.
- c) Notes related to the statements required in a) and b) above.
- d) An explanatory paragraph(s) for the departure from GAAP for the omission of the Government Wide Financial Statements, the Statements of Cash Flows- proprietary funds, the related note disclosures, and any other departures from GAAP where modification of the standard report is considered by the IPA to be adequate to disclose the departure (AR-C 80).
- e) 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.
- f) A copy of the year-end financial report submitted to DFA.

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

- g) Schedule of Findings and Responses.
- h) Exit conference information (Section 2.2.2.16(E)(3) NMAC).
- i) 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 or conclusion on Farmer's Mutual Ditch financial reporting to the State Auditor as described above. 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 Farmer's Mutual Ditch, 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

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To Management
Farmers Mutual Ditch Company
4124 Hwy 64
Kirtland, NM 87417

Management is responsible for the accompanying financial statements of Farmers Mutual Ditch Company (an acequia), which comprise the statement of financial position as of October 31, 2013, and the related statement of activities and change in net assets, and statement of activities and change in net assets (budget to actual) for the year then ended.

We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with U.S. generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, net assets, revenues, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

R. Shane Chance CPA PC

R. Shane Chance CPA, PC
Aztec, New Mexico

June 18, 2018

Farmers Mutual Ditch Company
Statement of Financial Position
October 31, 2013
See Independent Accountant's Compilation Report

Assets

Current Assets	
Cash and cash equivalents	\$ 35,493
Accounts receivable	98,327
Total current assets	<u>133,820</u>
Noncurrent Assets	
Property and equipment, net of accumulated depreciation of \$953,421 in 2013	1,613,053
Land	3,399
Total noncurrent assets	<u>1,616,452</u>
Total Assets	<u><u>\$ 1,750,272</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 2,759
Accrued payroll liabilities	806
Total current liabilities	<u>3,565</u>
Noncurrent Liabilities	
Note payable Interstate Stream Commission	71,904
Note payable San Juan County	19,982
Unearned Revenue LVWU	55,119
Total noncurrent liabilities	<u>147,005</u>
Total Liabilities	150,570
Net Assets	
Unrestricted	1,599,702
Total Liabilities and Net Assets	<u><u>\$ 1,750,272</u></u>

Farmers Mutual Ditch Company
Statement of Activities
For the Year Ended October 31, 2013
See Independent Accountant's Compilation Report

Revenues	
Water assessments	\$ 164,723
Disaster Assistance Program	74,946
APS water shortage	5,173
Late fees and NSF charges	21,038
Total revenue	<u>265,880</u>
GROSS PROFIT	265,880
Operating Expenses	
Auto maintenance	7,885
Depreciation	65,818
General wages	43,706
Insurance	8,863
Legal and professional fees	14,902
Maintenance and repairs	52,495
Miscellaneous expense	343
Office expenses	10,811
Payroll taxes and benefits	39
Taxes, licensing, and permits	1,401
Total operating expenses	<u>206,263</u>
Other Income (Expense)	
Other Income	18,164
Interest expense	<u>(2,636)</u>
Total other income (expense)	15,528
Change in Net Assets	75,145
Net Assets at Beginning of Year	1,524,557
Net Assets at End of Year	<u><u>\$ 1,599,702</u></u>

Farmers Mutual Ditch Company
Statement of Activities (Budget and Actual)
For the Year Ended October 31, 2013
See Independent Accountant's Compilation Report

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Water assessments	\$ -	\$ -	\$ 164,723	\$ 164,723
Disaster Assistance Program	-	-	74,946	74,946
APS water shortage	-	-	5,173	5,173
Late fees and NSF charges	-	-	21,038	21,038
Total revenue	-	-	265,880	265,880
Operating Expenses				
Auto maintenance	-	-	7,885	(7,885)
Depreciation	-	-	65,818	(65,818)
General wages	-	-	43,706	(43,706)
Insurance	-	-	8,863	(8,863)
Legal and professional fees	-	-	14,902	(14,902)
Maintenance and repairs	-	-	52,495	(52,495)
Miscellaneous expense	-	-	343	(343)
Office expenses	-	-	10,811	(10,811)
Payroll taxes and benefits	-	-	39	(39)
Taxes, licensing, and permits	-	-	1,401	(1,401)
Total operating expenses	-	-	206,263	(206,263)
Other Income (Expense)				
Other Income	-	-	18,164	18,164
Interest expense	-	-	(2,636)	(2,636)
Total other income (expense)	-	-	15,528	15,528
Change in Net Assets				
Net Assets at Beginning of Year	-	-	1,524,557	1,524,557
Net Assets at End of Year	\$ -	\$ -	\$ 1,599,702	\$ 1,599,702

Farmers Mutual Ditch Company
 Schedule of Findings and Responses
 Year Ended October 31, 2013

	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
General Ledger Contains Duplications, Errors, and Omissions (Repeated and Revised)	C		2010-010
Internal Controls Over Cash (Repeated and Revised)	C		2010-011
Non-Compliance with IRS Requirements for Forms W-9 and 1099 (Repeated)	D		2010-012
Non-Compliance with Procurement Code (Repeated and Revised)	D		2012-001
Required Debt Payments (New)	D	2013-001	
Submission of Status Reports to the State Agency Charged With Oversight (New)	D	2013-002	
Follow-up on Prior Year Findings:			
N/A			

• **Legend for Findings:**

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

2010-001

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. 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. FMDC did have record of all bank reconciliations for the fiscal year, but not all of the reconciliations were performed within 30 days of month end 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.

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Schedule of Findings and Responses
Year Ended October 31, 2013

- 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, 2013. 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.

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- 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 \$9.90 and \$62,772.28.

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

Farmers Mutual Ditch Company
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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, 2014 deadline.

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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, 2014 deadline.

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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 2013 fiscal year. Per the FMDC representative, the year-end manual journal entries recorded in 2013 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.

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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

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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, 4 out of the 37 items in the test sample, or 11%, 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 rate of 11% applied to the total population of cash receipts of 667 is a projected potential of 73 errors for 2013.

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.

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.

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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 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,

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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.

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 – Significant Deficiency (Repeated and Revised)

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;

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- 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 \$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. A corrective action plan to in the future there is proper notification and retention of records related to emergency procurement was developed in 2018.

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.

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

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(\$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

2013-001

Required Debt Payments (New)

Criteria

Tier 6 Agreed-Upon Procedures require verification that all required debt payments were made during the year and if debt agreements require reserves, verification that the local public body is in compliance with those requirements.

Condition

Farmers Mutual Ditch Company (FMDC) did not make all required debt payments on their loan from Interstate Stream Commission which originated in 2006. FMDC did pay twice the normal annual payment in 2013, but the loan balance was still delinquent in the amount of \$20,228.28 with an ending 2013 balance of \$71,904.56.

Cause

FMDC did not have the funds available to keep the loan current.

Effect

The related loan agreement states, "If the undersigned shall fail to make any payment provided above by its due date, then this NOTE shall be in DEFAULT. In the event of any default in the terms of this Note, the entire unpaid principal balance hereof shall, at the election of the holder, bear interest at the rate of Ten percent (10%) per annum from the date of default until paid in full. All payments hereunder shall be allocated first to costs of collection including reasonable attorneys' fees, then to late charges, then to interest, and the remainder to principal."

Recommendation

FMDC should, to the best of its ability, make payments to bring the loan current. If funds are not available, FMDC should attempt to renegotiate the terms of the loan and loan payments.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
The Company had to spend a significant amount of its cash reserves on an emergency repair and was not able to make a debt payment on time. The Board is building up its reserves to be sure it is in a better financial position to handle all required debt payments.
- Timeline for completion of corrective action plan:
Already implemented.
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board

2013-002

Submission of Status Reports to the State Agency Charged With Oversight (New)

Criteria

Tier 6 Agreed-Upon Procedures require submission of a final performance and financial report to the state agency charged with oversight.

Condition

Farmers Mutual Ditch Company (FMDC) did not submit a final performance and financial report to the Department of Homeland Security and Emergency Management (DHSEM) as required in Grant Agreement Number 2012-036-001.

Cause

FMDC was unaware of the requirement to submit a final performance and financial report to DHSEM.

Effect

FMDC was not in compliance with Article III of Grant Agreement Number 2012-036-001 with New Mexico Department of Homeland Security and Emergency Management.

Recommendation

FMDC should implement policies and procedures to facilitate compliance with all requirements related to grants of public money in the future.

Management's Response

Responsible official's view:

- Specific corrective action plan for finding:
In the future the Board will ensure it is aware of all grant requirements and submit reports as required to oversight agencies.
- Timeline for completion of corrective action plan:
July 2018
- Employee position(s) responsible for meeting the timeline:
Board

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Exit Conference
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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.