

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

October 31, 2016



R Shane Chance, CPA PC

Table of Contents

Farmers Mutual Ditch Company

Official Roster	3
Independent Accountants' Report	
On Applying Agreed-Upon Procedures	4
Schedules of Revenues and Expenditures	
Statement of Financial Position.....	10
Statement of Activities	11
Statement of Activities (Budget and Actual)	12
DFA Report.....	Not available
Other Information	
Schedule of Findings and Responses	13
Exit Conference.....	26

Farmers Mutual Ditch Company

Official Roster
As of October 31, 2016

Board of Directors

Danene Sherwood	Chairman
Alan Walraven	Co-Chairman
Travis Hamblin	Secretary/Treasurer

Bookkeeper

Debra Currier	Bookkeeper
---------------	------------

Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Board of Directors
Farmers Mutual Ditch Company
Kirtland, New Mexico
And
Mr. Brian S. Colón
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, 2016. 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 \$236,288 and no state capital outlays, which requires Tier 4 agreed-upon procedures.

2. Cash

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Test at least 30% of the bank reconciliations for accuracy. Also trace ending balances to the general ledger, supporting documentation, and the financial reports submitted to DFA-Local Government Division.
- c) Determine whether the local public body's financial institutions have provided it with 50% pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

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

Results of Procedures 2(a) - (c)

- FMDC had copies of all bank statements and reconciliations on hand for review and our analysis determined that all of the reconciliations were performed in a timely manner.
- We randomly selected six (6) bank reconciliations for review of accuracy and comparison to the general ledger and bank statement balances. All of the bank reconciliations were accurate and agreed to the general ledger balances and bank statement. We determined FMDC did not file reports with the DFA – Local Government Division, see Finding 2010-004 – Submission of Required Budgets and Reports to DFA.
- 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, lawyer and audit fees related to 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 three forms of revenue during the year, water assessments, lawyer and audit fees related to water assessments, and finance charges on past-due assessments. Additional cash receipts not related to water assessments or finance charges included a share-the-shortage agreement with Arizona Public Service in the amount of \$5,173 in 2016 for bulk water purchases. 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 2016 was water assessment fees with associated lawyer, audit fees, and finance charges on past-due assessments being the secondary source. The purchase from Arizona Public Service related to bulk water sales. The total sample of \$94,659 and 101 items exceeds the required 30% of total revenues of \$70,886 (30% of operating revenues of \$236,288). All revenue amounts tested agreed to the general ledger, deposit slips, bank receipts, and the corresponding bank statements. No exceptions were noted.

5. Expenditures

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

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.
- b) Determine that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Note: The sample must be representative of the population.

Results of Procedures 5(a) – (c)

- Total expenditures per the 2016 general ledger were \$59,091. We tested 45 items totaling \$45,905 in disbursements, or 78% of recorded expenditures. We tested to determine the following:
 - Vendor invoice is clerically accurate
 - Purchase order (P.O.) is clerically accurate and initiated by purchasing agent
 - Amount and payee per check agree to bank statement, P.O. and invoice.
 - P.O. is supported by proper quote or bid documentation as required by State Purchasing Requirements
 - Traced to general ledger
 - Does not violate Anti-Donation Laws
 - Receiving documents identify items received and when, who received them, and that items are authorized for payment.

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

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

- 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 was an expenditure with a transposed number in the date causing a 27-day difference in the actual date of the transaction and the date of record in the general ledger. See Finding 2010-010 – General Ledger Contains Duplications, Errors, and Omissions.
 - The general ledger contained gaps in the check number sequence for which voided checks were not included with FMDC's bank statements. See Finding 2010-010 – General Ledger Contains Duplications, Errors, and Omissions.
 - A check in our testing sample had one signature instead of the required two signatures. See Finding 2010-011 Internal Controls Over Cash.
 - Our testing sample included payment of a valid invoice for fuel. The supporting receipt was lost, as noted on the invoice, and there was no indication for which vehicle and for what purpose the fuel was purchased. See Finding 2010-011 – Internal Controls Over Cash.
 - 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.

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)

- There were 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.

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

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 approval by the local public body's governing body or 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 2017, we have not prepared a Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis).

8. Other

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include all required content detailed in Section 2.2.2.10(L) NMAC.

Results of Procedure 8

- FMDC 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.
- Although FMDC made the required debt payments in 2016, the loan balance due to Interstate Stream Commission was delinquent in the amount of \$21,783.63 because the loan balance was underpaid in the prior years. See Finding 2013- 001 – Required Debt Payments.
- During 2016, 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.

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

.....

We are not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on FMDC's cash and capital assets as of October 31, 2016 and FMDC's revenue, expenditures, and budget for the year ended October 31, 2016. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Farmers Mutual Ditch Company, the State of New Mexico, the Department of Finance and Administration – Local Government Division, Office of the State Auditor and their designees, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

R. Shane Chance CPA PC

R. Shane Chance, CPA
Aztec, New Mexico
February 23, 2019

Farmers Mutual Ditch Company
Statement of Financial Position
October 31, 2016

See Independent Accountant's Agreed-Upon Procedures Report

Assets

Current Assets

Cash and cash equivalents	\$ 204,930
Accounts receivable	167,932
Total current assets	<u>372,862</u>

Noncurrent Assets

Property and equipment, net of accumulated depreciation of \$1,149,050 in 2016	1,460,176
Land	3,399
Total noncurrent assets	<u>1,463,575</u>

Total Assets \$ 1,836,437

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 62,715
Accrued payroll liabilities	85
Total current liabilities	<u>62,800</u>

Noncurrent Liabilities

Note payable Interstate Stream Commission	21,784
Note payable San Juan County	4,982
Unearned Revenue LVWU	24,826
Total noncurrent liabilities	<u>51,592</u>

Total Liabilities 114,392

Net Assets

Unrestricted	1,722,045
Total Liabilities and Net Assets	<u><u>\$ 1,836,437</u></u>

Farmers Mutual Ditch Company
Statement of Activities
For the Year Ended October 31, 2016
See Independent Accountant's Agreed-Upon Procedures Report

Revenues	
Water assessments	198,094
Lawyer and audit fees	8,600
APS water shortage	5,173
Late fees and NSF charges	24,421
Total revenue	<u>236,288</u>
 Operating Expenses	
Auto maintenance	255
Bad debts expense	354
Bank charges	24
Collection fees	168
Contract labor	90
Depreciation	66,199
Dues and subscriptions	40
General wages	8,894
Insurance	13,384
Legal and professional fees	15,447
Maintenance and repairs	8,861
Miscellaneous expense	2,794
Office expenses	3,080
Payroll taxes and benefits	84
Taxes, licensing, and permits	50
Total operating expenses	<u>119,724</u>
 Other Income (Expense)	
Other income	632
Interest expense	(973)
Total other income (expense)	<u>(341)</u>
 Change in Net Assets	
	116,223
Net Assets at Beginning of Year	1,605,822
Net Assets at End of Year	<u><u>\$ 1,722,045</u></u>

Farmers Mutual Ditch Company
Statement of Activities (Budget and Actual)
For the Year Ended October 31, 2016
See Independent Accountant's Agreed-Upon Procedures Report

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Water assessments	\$ -	\$ -	\$ 198,094	\$ 198,094
Lawyer and audit fees	-	-	8,600	8,600
APS water shortage	-	-	5,173	5,173
Late fees and NSF charges	-	-	24,421	24,421
Total revenue	-	-	236,288	236,288
Operating Expenses				
Auto maintenance	-	-	255	(255)
Bad debts expense	-	-	354	(354)
Bank charges	-	-	24	(24)
Collection fees	-	-	168	(168)
Contract labor	-	-	90	(90)
Depreciation	-	-	66,199	(66,199)
Dues and subscriptions	-	-	40	(40)
General wages	-	-	8,894	(8,894)
Insurance	-	-	13,384	(13,384)
Legal and professional fees	-	-	15,447	(15,447)
Maintenance and repairs	-	-	8,861	(8,861)
Miscellaneous expense	-	-	2,794	(2,794)
Office expenses	-	-	3,080	(3,080)
Payroll taxes and benefits	-	-	84	(84)
Taxes, licensing, and permits	-	-	50	(50)
Total operating expenses	-	-	119,724	(119,724)
Other Income (Expense)				
Other income	-	-	632	632
Interest expense	-	-	(973)	(973)
Total other income (expense)	-	-	(341)	(341)
Change in Net Assets				
Net Assets at Beginning of Year	-	-	1,605,822	1,605,822
Net Assets at End of Year	\$ -	\$ -	\$ 1,722,045	\$ 1,722,045

Farmers Mutual Ditch Company
 Schedule of Findings and Responses
 Year Ended October 31, 2016

	<u>Type of Finding</u>	<u>Current Year Finding Number</u>	<u>Prior Year Finding Number</u>
Current Year Findings:			
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)	C		2010-011
Non-Compliance with IRS Requirements for Forms W-9 and 1099 (Repeated)	D		2010-012
Required Debt Payments (Repeated)	D		2013-001
Follow-up on Prior Year Findings:			
Bank Reconciliation Timeliness (Resolved)	D		2010-001
Bank Reconciliation Accuracy and DFA Reporting (Accuracy Resolved, See Finding 2010-004 for DFA Reporting)	D		2010-002
Non-Compliance with Procurement Code (Resolved)	C		2015-001

- **Legend for Findings:**

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

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, 2016. 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.
- Timeline for completion of corrective action plan:
October 2018
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board President

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 \$2.00 and \$18,093.79.

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 Agreed-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. There was no change in this area in 2016. 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 required to select an IPA and complete an agreed-upon procedures contract. As such, they did not meet the March 31, 2017 deadline.

Effect

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

Recommendation

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

Management's Response

Responsible official's view:

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

2010-007

Late Submission of Agreed-Upon Procedures Report (Repeated)

Criteria

2.2.2.9 NMAC requires local public bodies that qualify for the tiered system pursuant to Subsections A and B of 2.2.2.16 NMAC and have a fiscal year-end other than June 30th to file their agreed-upon procedures report according to Subsection H of 2.2.2.16 NMAC which is no more than five months after the fiscal year-end of October 31st (March 31st).

Condition

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

Cause

FMDC was unaware that they were subject to the Audit Rule and required to submit an agreed-upon procedures report. As such, they did not meet the March 31, 2017 deadline.

Effect

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

Recommendation

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

Management's Response

Responsible official's view:

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

2010-008

Improper Control over Journal Entries – Material Weakness (Repeated)

Criteria

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

Condition

Farmers Mutual Ditch Company (FMDC) could provide no supporting documentation for manual journal entries recorded during the 2016 fiscal year. The bookkeeper made manual journal entries throughout the year. 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 included a transposed date on a general ledger record and gaps in the check number sequence. 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.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2016

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

The general ledger contains errors and gaps in the check sequence without voided checks maintained with the bank statements. This opens FMDC up to fraud and misappropriation of funds.

Recommendation

We recommend that FMDC have a member of the board review and sign off on expenditure and revenue transactions 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

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2016

reconciliation should be separated. For cash disbursements, the duties of invoice approval, check signing, recording transactions in the general ledger, and performing bank reconciliations should be separated. When an entity has a small number of staff and each responsibility cannot be separated, weaknesses can be mitigated by a secondary review or approval.

Condition

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

Cause

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

Effect

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

Recommendation

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

Management's Response

Responsible official's view:

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

- Timeline for completion of corrective action plan:
July 2018

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

2010-012

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

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

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.

Farmers Mutual Ditch Company
Schedule of Findings and Responses
Year Ended October 31, 2016

- Timeline for completion of corrective action plan:
January 2019
- Employee position(s) responsible for meeting the timeline:
Bookkeeper and Board

2013-001

Required Debt Payments (Repeated)

Criteria

As part of the requirements of Tier 4 Agreed-Upon Procedures, if information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. A delinquent loan balance represents non-compliance with financial debt covenants. Delinquency and non-compliance by any amount may technically result in a loan default, which means that the lender can legally call the debt, or demand repayment in full. Financial debt covenants may also include provisions for additional penalties and interest in the event of default, which can exacerbate the inability of the borrower to bring the liability into compliance.

Condition

For the fiscal year ended October 31, 2016, Farmers Mutual Ditch Company (FMDC) made the required payment on their loan from the New Mexico Interstate Stream Commission which originated in 2006. The loan balance should have been \$0 at the end of 2016, but the loan had an outstanding balance of \$21,783.63 due to underpayment in previous years. A corrective action plan was implemented in 2018 to build up FMDC's reserves to be sure it is in a better financial position to handle all required debt payments.

Cause

FMDC made the required 2016 debt payment but did not have the additional funds available to bring the loan balance out of delinquency.

Effect

FMDC's loan agreement with New Mexico Interstate Stream Commission 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. In the event of any default in the terms of this Note, the holder hereof may, at his option, declare the entire unpaid principal balance together with any accrued interest thereon as herein provided immediately due and payable without further notice from the holder hereof, and the undersigned, makers, endorsers, guarantors and sureties waive presentment, protest, demand, and notice of protest, dishonor, and nonpayment."

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:
In prior years, the Company had to spend a significant amount of its cash reserves on an emergency repair and was not able to make debt payments 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

Farmers Mutual Ditch Company
Exit Conference
Year Ended October 31, 2016

Exit Conference

The report contents were discussed at an exit conference held on February 20, 2019 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.