

Bluewater Acres Domestic Water User Association

**Report of Independent Accountant's
on Applying Agreed Upon Procedures (TIER 4)**

For the Year Ended June 30, 2019



**Office of the State Auditor
Brian S. Colón, Esq.**

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State of New Mexico
Bluewater Acres DWUA
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**State of New Mexico
Bluewater Acres DWUA
Official Roster
June 30, 2019**

Board of Directors

<u>Name</u>	<u>Title</u>
Randall Smith	President
Gerald Whelan	Vice-President
Jacqui Gardner	Secretary/Treasurer
Bill Poe	Director
Rebecca Shiermeyer	Director



State of New Mexico Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

Members of the Board of Directors
Bluewater Acres Domestic Water Users' Association

We have performed the procedures enumerated below for the Bluewater Acres Domestic Water User Association (Association) for the year ended June 30, 2019, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor (OSA). The Association management is responsible for its accounting records and the subject matter. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

1. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

Results of Procedure 1

We verified the Association's revenue calculation and tier determination form for the fiscal year 2019. The Association was properly determined to be a Tier 4 entity for 2019 since its revenue was between \$50,000 and \$250,000 and it did not receive or expend a capital outlay award during 2019.

2. Cash

- a. **Procedure** - 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.

Results of Procedure 2a

We were unable to verify bank reconciliations are being performed in a timely manner. The bank statements tested indicate that transaction amounts were reviewed but did not include a reconciliation to the general ledger or documentation of the date performed and reviewed, see finding 2016-001. We were unable to obtain two quarterly bank statements for the savings account, see finding 2016-001. Additionally, the Association was unable to provide supporting documentation for the certificate of deposit account, see finding 2016-001. Monthly bank statements for the checking account and two of the four quarterly statements for the savings account were complete and on hand.

- b. **Procedure** - 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.

Results of Procedure 2b

We selected four months (33%) of bank reconciliations for testwork. The Association was unable to provide documentation of a cash reconciliation, see finding 2016-001. The Association did not submit financial reports to DFA-Local Government Division, see finding 2016-006.

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

Results of Procedures 2c

The bank account balance was fully insured by the FDIC during the fiscal year 2019. Pledged collateral from the bank was not required.

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

The Association did not perform a yearly inventory required by NMSA 1978, Section 12-6-10 for fiscal year 2019, see finding 2016-002. The Association provided an Inventory List as of June 1, 2019, however, the list did not include the cost of the acquisition and was not certified by the governing authority as to correctness. Additionally, the list provided appears incomplete.

4. Revenue

Procedure - Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

Results of Procedure 4

The revenue sources for the Association consisted of monthly water usage and related fees.

- a. **Procedure** - Perform an analytical review, test actual revenue compared to budgeted revenue for the year for each type of revenue.

Results of Procedure 4a

We were unable to obtain documentation that the budget was approved by Department of Finance and Administration-Local Government Division, see finding 2016-006. The Association's Board of Directors approved a budget for fiscal year 2019 and received contingent approval of the budget from DFA-LGD but was unable to provide documentation of final approval. The budget approved by the Board of Directors included classification of revenue by type but the general ledger recorded one type of revenue, see finding 2015-001. Actual revenue was \$15,039 more than budgeted revenue, however, actual revenue appears reasonable after consideration of explanation obtained from the agency.

For a sample of revenue equal to at least 30% of the total dollar amount and test the following attributes:

- b. **Procedure** - Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

Results of Procedure 4b

We tested four months of revenue, equal to 34% of revenue. We noted one deposit slip did not agree to the Association's list of checks, the deposit was \$30 less than the list of checks, see finding 2016-003. We noted supporting documentation received did not agree to the amount deposited for 27 deposits totaling \$22,644, see finding 2016-004. Amounts recorded in the general ledger agreed to the bank statement.

- c. **Procedure** - 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 Procedure 4c

We tested four months of revenue, equal to 34% of revenue. The Association recorded all transactions as deposits in the general ledger. We noted the general ledger does not include classification of revenue amounts, see finding 2015-001. The amount and period recorded in the general ledger agreed to deposit amounts listed in the bank statements.

5. Expenditures

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

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

Results of Procedure 5a

We tested 37% of the total dollar amount of cash disbursements. Amounts tested were recorded as disbursed agreed to adequate supporting documentation.

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

Results of Procedure 5b

We tested 37% of the total dollar amount of cash disbursements. The Association did not have a budget approved by DFA-LGD for fiscal year 2019, see finding 2016-006. Disbursements were properly authorized and approved in compliance with other legal requirements and established policies and procedures.

- c. **Procedure** - 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 Procedure 5b

We tested 37% of the total dollar amount of cash disbursements. Contracts and agreements tested 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.

6. Journal Entries

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

- a. **Procedure** - Journal entries appear reasonable and have supporting documentation.

Results of Procedure 6a

We noted the Association did not prepare or post journal entries for fiscal year 2019.

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

Results of Procedure 6b

Not applicable, the Association did not prepare or post journal entries for fiscal year 2019.

7. Budget

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

- a. **Procedure** - 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.

Results of Procedure 7a

The budget was not legally adopted because it was not approved by DFA-LGD, see finding 2016-006. We noted the Association's Board of Directors approved a budget for fiscal year 2019.

- b. **Procedure** - 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.

Results of Procedure 7b

All expenditures listed in the schedule of revenues and expenditures – budget and actual exceed the legally adopted budget, see finding 2016-006. The budget was not legally adopted because it was not approved by DFA-LGD, see finding 2016-006. We noted the Association's Board of Directors approved a budget for fiscal year 2019.

- c. **Procedure** - 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 Procedure 7c

See the schedule of revenues and expenditures – budget and actual prepared on a cash basis on page 7.

8. Other

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies by the former Board of Trustees during the years covered by this Report, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(L)(3)(C) NMAC.

Results of Procedure 8

We noted the Association was not maintaining an accurate general ledger, see finding 2015-001. In addition, the Association was not reconciling amounts billed to amounts paid by members, see finding 2016-004. We noted the Association was not in compliance with the next business day deposit requirements, see finding 2016-007. Also, the Association did not submit the required financial report to OSA on a timely basis, see finding 2016-008. We noted the Association did not submit the required amount of Gross Receipt tax payments to the New Mexico Department of Taxation and Revenue during the year, see finding 2018-001. We noted the Association did not resolve a prior year finding related to documentation of authorization and services received to one individual, see finding 2016-005. All noncompliance items noted are reported in the schedule of findings and responses. No instances of fraud, illegal acts and other noncompliance were noted.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusions, respectively, on the Tier 4 agreed upon procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Association, the OSA, the New Mexico Department of Finance and Administration - Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

Office of the State Auditor
Santa Fe, NM
June 30, 2020

State of New Mexico
Bluewater Acres DWUA
Schedule of Revenues and Expenditures
Budget and Actual (Cash Basis)
For the Year Ended June 30, 2019

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance With Final Budget Favorable/ (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Water Sales (Water user fees)	\$ -	\$ -	\$ 66,488	\$ 66,488
Other Operating Revenue	-	-	73	73
Total revenues	<u>-</u>	<u>-</u>	<u>66,561</u>	<u>66,561</u>
Expenditures				
Bookkeeping	-	-	15,600	(15,600)
Operator	-	-	19,850	-
Electricity	-	-	3,581	(3,581)
Other utilities	-	-	2,556	(2,556)
System Parts and supplies	-	-	1,466	(1,466)
System Repairs and Maintenance	-	-	159	(159)
Postage	-	-	365	(365)
Office and Administrative Expenses	-	-	2,100	(2,100)
Insurance	-	-	4,804	(4,804)
Dues, Fees, Permits and Licenses	-	-	2,160	(2,160)
County Tax - Property	-	-	227	(227)
Vehicle Expenses	-	-	80	(80)
Miscellaneous	-	-	932	(932)
USDA loans	-	-	8,760	(8,760)
Total expenditures	<u>-</u>	<u>-</u>	<u>62,640</u>	<u>(42,790)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,921</u>	<u>\$ (3,921)</u>

**State of New Mexico
Bluewater Acres DWUA
Exit Conference
For the Year Ended June 30, 2019**

<u>Prior Year Findings:</u>	<u>Status</u>	<u>Finding Number</u>
Incomplete/Inaccurate General Ledger	Modified and Repeated	2015-001
No Cash Reconciliations	Repeated	2016-001
No Physical Inventory at Fiscal Year End	Modified and Repeated	2016-002
Lack of Supporting Documentation for Deposits	Repeated	2016-003
Lack of Reconciliation of Water Fees Billed	Repeated	2016-004
Lack of Supporting Documentation for Expenditures	Repeated	2016-005
Submission of Budget and Financial Reports to the New Mexico Department of Finance and Administration-Local Government Division	Repeated	2016-006
Untimely Cash Deposits	Repeated	2016-007
Late Financial Reporting	Repeated	2016-008
Lack of Gross Receipt Tax Payments	Repeated	2018-001

2015-001 – Transactions Not Tracked in a General Ledger (Modified and Repeated)

Condition:

The Association provided general ledger was produced manually. The general ledger provided did not classify revenue, provide postings by date or include transactions posted. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

Effective internal controls and procedures include tracking transactions in a general ledger to enhance accountability and accurate financial reporting.

Cause:

The Association does not own software to post transactions to a general ledger.

Effect:

Not all transactions were recorded in the general ledger. The Association was unable to provide financial reports that detail, summarize and total its revenue and expenditures transactions and account balances of assets, liabilities and fund balance. Misstatements due to errors or fraud may go undetected. Untimely and/or inaccurate financial reporting and noncompliance with State statute could affect Federal and State funding. The Association may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

Recommendation:

We recommend the Association obtain an accounting package and post all accounting transactions to a general ledger. The Association should adopt policies and procedures for processing and recording all transactions.

Agency Response:

The association agrees with the finding. The Association is currently keeping a general ledger on excel for the current year and is posting all transactions there. The Association has purchased the QuickBooks accounting software and is working on getting the software set-up. We will then post all transactions to the general ledger in the software. The association will also develop policies and procedures for processing and recording all transactions.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: End of FY2021

2016-001 – No Cash Reconciliations (Repeated)

Condition:

The Association was unable to provide documentation of a cash reconciliation for the fiscal year 2019. The bank statements tested indicate that transaction amounts were reviewed but did not include a reconciliation to the general ledger or documentation of the date performed and reviewed. The Association was unable to provide two of the four quarterly bank statements for the savings account. Also, the Association was unable to provide supporting documentation for the certificate of deposit account totaling \$10,100. In addition, the general ledger does not include a daily cash record. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

Effective internal controls and procedures require timely and accurate reconciliations to ensure cash transactions completely and accurately recorded in general ledger. NMSA 1978, Section 10-6-2 states, "It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business."

Cause:

The Association was not aware that bank reconciliations should be performed and reviewed timely.

Effect:

Misstatements due to errors or fraud may go undetected. Untimely and/or inaccurate financial reporting and noncompliance with State statute could affect Federal and State funding. The Association may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

Recommendation:

We recommend the Association's accountant obtain training on how to perform and document the monthly cash reconciliation shortly after the bank statements are received. The accountant should initial and date the reconciliation as documentation of who performed the reconciliation and the date completed. A member of the board should review the reconciliation for accuracy and timeliness and initial and date it as documentation of who performed the review and the date completed.

Agency Response:

The association agrees with the finding. Bank reconciliations are now being done when the bank statements are received and are being initialed and dated to document who performed the reconciliation and the date completed.

The Secretary/Treasurer will obtain training on how to perform and document the monthly cash reconciliation shortly after the bank statements are received. The Association will have a 2nd person reviewing the reconciliations.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: End of FY2021

2016-002 - No Physical Inventory at Fiscal Year End (Modified and Repeated)

Condition:

The Association did not have the physical inventory certified by its Board of Directors. Additionally, the physical inventory list did not include the cost of the acquisition and appeared incomplete. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

NMSA 1978, Section 12-6-10.A requires each agency to conduct a physical inventory at the end of each fiscal year of all assets costing more than \$5,000. The inventory is required to be certified by the governing authority as to correctness.

Cause:

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

Effect:

Misstatements due to errors or fraud may go undetected. Untimely and/or inaccurate financial reporting and noncompliance with State statute could affect Federal and State funding. The Association may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

Recommendation:

We recommend the Association perform an annual physical inventory of all its assets costing more than \$5,000. The list should include a description of the asset, date acquired, cost, location, and useful life. The written inventory report should be certified and approved by the Board of Directors.

Agency Response:

The association agrees with the finding. The Association will do an annual physical inventory of all our assets costing more than \$5000.00. The list will include a description of the asset, date acquired, cost, location, and useful life. The Association will also establish policies and procedures to perform the annual inventories.

Responsible person(s): Secretary/Treasurer and Operations Manager with RCAC assistance

Timeline of corrective action: End of FY2021

2016-003 –Lack of Supporting Documentation for Deposits (Modified and Repeated)

Condition:

During our revenue testwork, we noted the water invoices provided by the Association did not agree to the amounts deposited in the bank statement. We tested water revenue deposits totaling \$22,644 and the Sales by Customer Report provided for these deposits totaled \$21,269, a difference of \$1,375. We also noted one deposit that did not agree to the payment listing document, resulting in deposits being \$30 less than the payment listings. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

Effective internal controls and procedures include maintaining supporting documentation for all revenues.

Cause:

The Association is unfamiliar with the water fee billing system and was unable to produce reports that include the gross receipts taxes billed and collected during the fiscal year. The Association has not developed and implemented adequate internal controls to maintain supporting documentation for all deposits.

Effect:

The Association was unable to provide supporting documentation for all amounts billed and collected from members and other deposits. Misstatements due to errors or fraud may go undetected. Untimely and/or inaccurate financial reporting could affect Federal and State funding. The Association may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

Recommendation:

We recommend the Association adopt policies and procedures for processing and recording of revenues. The Association should maintain supporting documentation for all revenues collected.

Agency Response:

The association agrees with the finding. The Association has improved the tracking and filing system for payments received and deposits. The association will update policies and procedures for making and documenting deposits. Currently as payments come in, the Secretary/Treasurer writes down the customer's name, check #, date received, and the amount paid in an Accounts Receivable book. If the customer is paying with cash, the customer is given a receipt from a receipt book with a unique number for each receipt and the copy of the receipt is paper clipped to the cash. That customers name is also written in the Accounts Receivable book along with the unique receipt number, the date received, and the amount paid. When making the bank deposit, the items on that page are added up and the total amount or Total Deposit is written on the page at the bottom of the column. Copies of the checks and cash receipts are made, along with the deposit slip. The copy

of the deposit slip is stapled to the page along with the cash receipt copies. Once the deposit is made, the bank deposit slip is also stapled to the page.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: ongoing, it will be completed by the end of FY2021

2016-004 –Lack of Reconciliation of Water Fees Billed (Repeated)

Condition:

During our revenue testwork, we tested \$22,644 in water fees transactions. We noted the Association was not reconciling amounts paid to member accounts billed or determining amounts under/overpaid. The Association is unable to determine amounts due to/from the Association related to under/overpaid member accounts, if any. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

Effective internal controls and procedures require timely and accurate reconciliation of member payments to amounts billed to determine if any under/overpaid amounts exist.

Cause:

The Association has not implemented adequate internal controls to reconcile member payments to amounts billed.

Effect:

The Association is unable to determine amounts under/overpaid by members. The Association may not be collecting all amounts due from members. Misstatements due to errors or fraud may go undetected. Untimely and/or inaccurate financial reporting could affect Federal and State funding. The Association may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

Recommendation:

We recommend the Association reconcile amounts billed to amounts paid by members on a monthly basis. The Association should implement a process to determine amounts under/overpaid on accounts and subsequent resolution of the under/over collected amounts. The Association should improve its record-keeping system for all revenue transactions, cash receipts and deposits. Supporting documentation for all revenue transactions (meter reading reports, monthly water billings for each member, detailed payment and deposit reports, and a complete accounts receivable ledger for each water customer and revenue source) should be generated and maintained.

Agency Response

The association agrees with the finding. With the current and past software used, we are and have been able to track amounts under/overpaid by each customer. With the *past* software used, each month a current bill was sent to each customer including current and previous meter readings, and the amounts due for that billing cycle. If the customer had under paid or over paid, a statement was also sent reflecting payments for the last 6 months and also included the current amount owed or the current amount credited to that customers account. The association obtained a new billing software that facilitates bills reconciliation, keeps track of current and previous meter readings. It also shows the customer what the amount in arrears is which could be and amount they owe us or a credit they have. Each month every customer receives this information on their bill. The Association will work on connecting billing software to QuickBooks which will help with tracking A/R and A/P.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: ongoing, it will be completed by the end of FY2021

2016-005 – Lack of Supporting Documentation for Expenditures (Repeated)

Condition:

We noted that the prior year expenditure finding was not resolved. The Association did not have supporting documentation authorizing payments and acknowledging services received for one individual. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

Effective internal controls and procedures include maintaining supporting documentation for expenditures including authorization of payments and acknowledgment of services received. New Mexico Procurement Code NMSA 1978, Section 13-1-102, requires agencies to procure tangible personal property having a value exceeding \$60,000 to be achieved by competitive sealed bids. New Mexico Procurement Code, NMSA 1978, Section 13-1-125, requires agencies to procure services or tangible personal property having a value not to exceed \$20,000 to be based upon the best obtainable price.

Cause:

The Association has not developed and implemented adequate internal controls to maintain supporting documentation for all expenditures and document compliance with the procurement code.

Effect:

Misstatements due to errors or fraud may go undetected. The Association may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

Recommendation:

We recommend the Association adopt policies and procedures for processing and recording of expenditures in accordance with the procurement code. Expenditures should be processed only after supporting documentation is obtained and an authorized employee or board member certifies that the goods or services have been received. The Association should maintain supporting documentation for every individual performing services and contracts should be approved by the Board of Directors.

Agency Response:

The association agrees with the finding. The Secretary/Treasurer is currently attaching the copy of each check to its bill and keeping it in a file for the year. We are currently working on updating our policies and procedures to implement adequate internal controls.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: ongoing, it will be completed by the end of FY2021

2016-006 – Submission of Budget and Financial Reports to the New Mexico Department of Finance and Administration-Local Government Division (Repeated)

Condition:

The fiscal year 2019 budget was not legally adopted because it was not approved by DFA-LGD. As such, all expenditures totaling \$62,640 for the year were in excess of the legal budgetary authority. The Association did not prepare and submit quarterly financial reports to DFA-LGD for the fiscal year ending June 30, 2019. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

Pursuant to NMSA 1978, Section 6-6-2, each local public body is required to furnish and file with DFA-LGD, on or before June 1st of each year, a proposed budget for the next fiscal year.

Pursuant to NMSA 1978, Section 6-6-2.F, the Association is required to submit quarterly financial reports to DFA-LGD.

NMSA 1978, Section 6-6-6 requires that no governing authority or official of a local public body allow or approve claims in excess of the approved budget.

Cause:

The Association was not aware of these requirements.

Effect:

Noncompliance with State statute could affect Federal and State funding. The Association may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information. The Association was operating without an approved budget for the fiscal year ending June 30, 2019. The governing authority or official approving the expenditures may be held liable for claims in excess of the approved budget. Overspending may occur if an operating budget is not adopted, approved and periodically monitored. DFA-LGD was unable to perform its oversight function of the Association without the submission of the budget and quarterly financial reports.

Recommendation:

We recommend the Association implement procedures to adopt an operating budget for each fiscal year and document the board approval in the board minutes. The adopted budget for the next fiscal year should be submitted to DFA-LGD by June 1st of each year. After the Association receives the budget certification letter from DFA-LGD, the Board of Directors should make record of the approval in the minutes of its meetings. The Association should monitor budget and actual amounts to ensure expenditures do not exceed the legally adopted budget. By the last day of the month following the end of each quarter, the Association should submit quarterly financial reports to DFA-LGD that reports the cash balance, loan balance and cumulative totals for revenues and expenditures in the manner prescribed by DFA-LGD.

Agency Response:

The association agrees with the finding. The Association is working on sending the budget, quarterly and Year End reports within the dates required by DFA and will continue to do so.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: ongoing

2016-007 – Untimely Deposit of Cash (Repeated)

Condition:

We noted several deposits slips were processed on the same day. Deposits slips were prepared as the payments came in during the month, however, in four months tested, one deposit was completed in October, two in July and January and three in April. Three out of seven groups of payments received in October were deposited on November 7, 2018. We also noted one out of six groups of payments received in January were deposited on February 15, 2019 and one group out of nine payments received in April were deposited on May 6, 2019. The Association was not depositing public money on a timely basis. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

NMSA 1978, Section 6-10-3, Payment of State Money into Treasury; Suspense Funds, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as provided in Section 6-1054 NMSA 1978, must deposit the public money before the close of the next succeeding business day after the receipt of the money and deliver or remit it to the state treasurer.

Cause:

The Association's financial institution is located 44 miles away. The Association does not have a procedure in place to complete deposits on a timely basis.

Effect:

Untimely deposits may cause the Association to be at risk of misappropriation of funds. The Association did not comply with State statutes regarding timely deposit of public money.

Recommendation:

The Association should implement procedures to complete deposits timely and in accordance with State statutes.

Agency Response:

The association agrees with the finding. The Association is looking for options to comply with State statutes. One option is using the bank's phone app that we will download onto the office smart-phone, allowing us to make check deposits on a daily basis via the smart-phone app. We are currently working on implementing a procedure for completing deposits in a timely manner.

Responsible person(s): Secretary/Treasurer

Timeline of corrective action: ongoing

2016-008 – Late Financial Reporting (Repeated)

Condition:

The Association did not submit the 2019 agreed upon procedures (AUP) report to the OSA by the required due date of no later than five months after the fiscal year end. Management did not make progress in resolving this finding in fiscal year 2019 because the 2016, 2017, 2018 and 2019 agreed upon procedures were completed concurrently.

Criteria:

Section 2.2.2.16(H)(1) NMAC (Audit Rule) states that "Local public bodies with a fiscal year end other than June 30 shall submit the AUP report or certification no later than five months after the fiscal year-end."

Cause:

The Association was not aware of this requirement.

Effect:

Noncompliance with the Audit Rule could impact the Association's ability to receive funding. Decision making bodies such as the New Mexico Interstate Stream Commission, the Department of Finance and Administration, the State Auditor, and the New Mexico Legislature did not have timely information regarding the Association.

Recommendation:

The Association should implement procedures to ensure the annual financial reporting requirements to the OSA are completed timely.

Agency Response:

The association agrees with the finding. The Association is working on getting up to date with the annual financial reporting requirements to OSA and we are working on updating policies and procedures to ensure the annual financial reporting requirements to the OSA are completed timely.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: June 30th, 2020

2018-001 – Lack of Gross Receipt Tax Payments (Repeated)

Condition:

During our revenue testwork, we noted the payments from members included gross receipts tax (GRT). We also noted the Association did not make any payments to the New Mexico Taxation and Revenue Department (NMTRD) during the fiscal year 2019. The Association reported \$66,488 in water user fees including GRT and GRT payments should have totaled \$3,324 to NMTRD. Management did not make progress in resolving this finding in fiscal year 2019 because the 2018 and 2019 agreed upon procedures were performed concurrently.

Criteria:

NMSA 1978, 7-9-3.2(A)(5) defines governmental gross receipts to include receipts from the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the state. NMSA 1978, 7-9-4.3 imposes an excise tax of five percent of governmental gross receipts.

Cause:

The Association was unaware of the State statute requiring the payment of governmental gross receipts tax.

Effect:

The Association did not pay governmental gross receipts tax on water user fees as required by State statute. The Association may be subject to fines and penalties imposed by the New Mexico Taxation and Revenue Department. Noncompliance with State statute could affect Federal and State funding.

Recommendation:

We recommend the Association evaluate and determine the amount of governmental gross receipts tax due to the NMTRD. The Association should remit all required payments to the NMTRD. The Association should implement a process to remit future governmental gross receipts taxes on a timely basis.

Agency Response:

The association agrees with the finding. The Association will evaluate and determine the amount of governmental gross receipts tax due to the NMTRD and remit all required payments to the NMTRD. The Association is currently working on implementing policies and procedures to remit future governmental gross receipts taxes on a timely basis.

Responsible person(s): Secretary/Treasurer with RCAC assistance

Timeline of corrective action: December 30th, 2020

On June 30, 2020, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report.

Attendees

Blue water Acres DWUA:

Jacqui Gardner
Karen Pereira Tapias

Title:

Secretary/Treasurer
RCAC Rural development specialist

Office of the State Auditor:

Natalie Cordova, CPA
Lynette Kennard, CPA
Lucia Santini, CPA

Deputy State Auditor
Financial Audit Director
Audit Manager