

**STATE OF NEW MEXICO  
CANJILON MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

**Independent Accountants' Report on  
Applying Agreed-Upon Procedures**

**For the Year Ended  
December 31, 2011**

James L. Hartogenesis, CPA LLC

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Certified Public Accountants

**STATE OF NEW MEXICO  
CANJILON MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

December 31, 2011

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**STATE OF NEW MEXICO  
CANJILON MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

OFFICIAL ROSTER  
DECEMBER 31, 2011

**Board of Directors**

Cipie Maez	President
Ross Martinez	Vice-President
Sabino Rivera	Secretary/Treasurer
Tom Montano	Director
Luis Torres	Director

**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

To: Board of Directors  
Canjilon Mutual Domestic Water Consumers  
and Mutual Sewage Works Association  
and  
Honorable Timothy Keller  
New Mexico State Auditor  
Santa Fe, New Mexico

We have performed the procedures enumerated below which were agreed to by Canjilon Mutual Domestic Water Consumers and Mutual Sewage Works Association (Association) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its Cash, Capital Assets, Revenues, Expenditures, Journal Entries, Budget and Capital Outlay Appropriations information and its compliance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended December 31, 2011. The Association is responsible for its financial reporting 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.

In accordance with Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC, the procedures and associated findings are as follows:

**1. CASH**

**Procedures**

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. For purposes of performing my procedures "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the Association.

b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to Department of Finance & Administration - Local Government Division (DFA-LGD). For purposes of performing my procedures "accuracy" means that reconciling items agree to deposit slips and subsequent bank or investment statements, and the reconciliations are mathematically correct.

c) 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.

**Findings – see finding 2011-001 in the schedule of findings and responses for details**

1. Two month's reconciliations were not completed in a timely manner.
2. Two month's reconciliations were tested in detail. The reconciled balance for both months tested did not agree to the general ledger balance.
3. The Association did not submit any cash information to DFA-LGD because no quarterly financial reports were completed.

**2. CAPITAL ASSETS**

**Procedures**

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

**Findings**

The Association completed their annual capital asset inventory in accordance with Section 12-6-10 NMSA 1978.

**3. REVENUE**

**Procedures**

Identify the nature and amount of revenue from 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 revenues based on accountant's judgment and test using 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.

**Findings - see finding 2011-002 in the schedule of findings and responses for details**

1. Out of twelve cash receipts tested, supporting documentation was not available for two deposits.

**4. EXPENDITURES**

**Procedures**

Select a sample of cash disbursements based on accountant's judgment and test using the following attributes:

- a) 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 cancelled check, as appropriate.
- b) Determine that 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 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC ).

**Findings - see finding 2011-003 and 2011-004 in the schedule of findings and responses for details**

1. Out of 25 disbursements, supporting documentation could not be located for four.
2. Authorization to complete the disbursement could not be located for 16 of 25 disbursements.
3. Out of 25 disbursements tested, one was subject to the New Mexico Travel and Per Diem Regulations. It could not be determined whether the disbursement was in compliance because no supporting documentation could be located.

## 5. JOURNAL ENTRIES

### Procedures

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items 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.

### Findings

The Association had one general journal entry during the year. No exceptions were noted.

## 6. BUDGET

### Procedures

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- 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 so, 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. The Schedules of Revenues and Expenditures - Budget and Actual (Cash Basis) are presented on pages 8 through 11 of this report.

### Findings - see findings 2011-005 and 2011-006 in the schedule of findings and responses for details

- 1. There was no evidence that the Association's 2011 budget was approved by the Board of Directors or DFA-LGD.
- 2. Actual expenditures exceeded budgeted expenditures by \$126,628.

## **7. CAPITAL OUTLAY APPROPRIATIONS**

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 and perform the following:

Test all capital outlay expenditures during the fiscal year to:

- 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
- e) Verify that status reports were submitted to the state agency per terms of agreement and 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 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.



**Findings - see findings 2011-003 and 2011-007 in the schedule of findings and responses for details**

1. Out of seven total capital outlay disbursements during the year, one invoice could not be located.
2. Approval or authorization was not documented for five of seven disbursements.
3. Four capital outlay disbursements were subject to New Mexico Procurement Regulations. Documentation of procurement was not retained by the Association.

**8. OTHER**

**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. The findings must include the required content per Section 2.2.2.10 (I) (3) (C) NMAC.

**Findings**

None.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Association's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Canjilon Mutual Domestic Water Consumers and Mutual Sewage Works Association, New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

*James L. Hartogenesis, CPA LLC*

James L. Hartogenesis, CPA LLC  
Albuquerque, New Mexico  
May 27, 2015

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
**SCHEDULE OF CAPITAL PROJECTS**  
**Year Ended December 31, 2011**

<u>Project Number</u>	<u>Project Name</u>	<u>Amount Awarded</u>	<u>Amount Received</u>	<u>Amount Expended</u>	<u>Remaining Balance</u>	<u>Effective Dates</u>
08-3899-GF	Water System Improvements	\$50,000	\$ 47,111	\$ 47,111	\$ 2,889	7/1/2008 - 6/30/2012
11-1177-GF	Water System Improvements	35,857	35,857	35,857	-	7/1/2011 - 6/30/2013

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
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**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CASH BASIS)**  
**Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
<b>REVENUES:</b>				
Charges for services	\$ 58,340	\$ 58,340	\$ 55,759	\$ (2,581)
Grants and contracts	-	-	123,317	123,317
Other income	-	-	166	166
Total revenues	<u>\$ 58,340</u>	<u>\$ 58,340</u>	<u>\$ 179,242</u>	<u>\$ 120,902</u>
<b>EXPENDITURES:</b>				
Salaries and payroll taxes	\$ 5,912	\$ 5,912	\$ 8,172	\$ (2,260)
Operating expenses	18,437	18,437	17,743	694
Contractual services	14,961	14,961	140,309	(125,348)
Debt service	<u>7,100</u>	<u>7,100</u>	<u>\$ 6,814</u>	<u>286</u>
Total expenditures	<u>\$ 46,410</u>	<u>\$ 46,410</u>	<u>\$ 173,038</u>	<u>\$ (126,628)</u>

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2011

2011-001 Bank Reconciliations – Untimely and Not Accurate

*Condition:* Two out of twelve bank reconciliations were not completed within one month. Two of two reconciled balances tested did not agree to the general ledger balance.

*Criteria:* Internal control and proper stewardship requires timely and accurate bank reconciliations each month.

*Cause:* The Association's former bookkeeper was not able to complete the reconciliations accurately or timely.

*Effect:* If cash is not accurately reconciled and reported correctly, it may be difficult to properly safeguard the Association's assets.

*Recommendation:* We recommend the Association implement policies and procedures that require timely and accurate completion of the bank reconciliation each month. The procedures should provide for proper review and approval of the reconciliation by a person independent of the accounting function.

*Management's Response:* The Association has established policies and procedures which will require the bookkeeper to accurately reconcile bank accounts within one month.

2011-002 (2009-03) Lack of Documentation of Cash Receipts

*Condition:* Out of twelve receipts tested, the Association could not locate supporting documentation for two receipts totaling \$542.

*Criteria:* Proper internal controls require supporting documentation for all transactions that occur. The supporting documentation should be retained along with a copy of the deposit.

*Cause:* The Association does not have a process for retaining the proper documentation for new membership.

*Effect:* Lack of supporting documentation for financial transactions can cause misstatements that may go undetected.

*Recommendation:* The Association should adopt a policy of retaining supporting documents for every deposit, to help determine that deposits recorded are complete, accurate and timely.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED DECEMBER 31, 2011

2011-002 (2009-03) Lack of Documentation of Cash Receipts (continued)

*Management's Response:* The Association has established requirements that every board member receive a copy of the financial statements showing all transactions, including deposits.

2011-003 (2009-01) Lack of Supporting Documents and Approvals for Operating Disbursements and Capital Outlay Disbursements

*Condition:* Four of 25 operating disbursements tested, totaling \$462, had no invoice or other supporting documentation retained by the Association. One of seven capital outlay disbursements, totaling \$19,868, had no invoice or other supporting documentation retained by the Association. 15 of 25 operating disbursements and 1 of 1 journal entries tested had no documented approval by the operator or Board. Five of seven capital outlay disbursements, totaling \$93,462, had no documented approval by management or the Board.

*Criteria:* Proper internal controls dictate that a disbursement should only be made once the invoice is received and applicable authorizations are complete. These steps should be documented and the paperwork retained.

*Cause:* The Association did not retain documentation of invoices and approvals for disbursements for operating and capital outlay. All capital outlay documentation was forwarded to the applicable oversight agency for each project.

*Effect:* Disbursements may be made that are not properly approved. The Association may be subject to fraud waste or abuse by not properly authorizing and retaining documentation for every transaction.

*Recommendation:* The Association should adopt a policy that outlines procedures for the authorization, documentation and retention of all disbursements, whether made by an outside entity or by the Association.

*Management's Response:* The Association has established policies and procedures which will require the Association President to review all invoices, authorize payment, and sign checks.

**STATE OF NEW MEXICO**  
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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED DECEMBER 31, 2011

2011-004 (2009-02) Violation of Per Diem and Mileage Act

*Condition:* Out of 25 general disbursements tested, one was for travel and per diem. The travel reimbursement was for attendance at a conference in the amount of \$100 and was paid to a board member without retaining the required documentation.

*Criteria:* 2.42.2 NMAC (Per Diem and Mileage Act) requires documentation of travel and conferences include a travel expense report and either actual receipts or in lieu of receipts per diem rates may be claimed.

*Cause:* There were no policies in place for travel and per diem expenses that are reimbursed to employees and contractors of the Association. The Association did not adhere to the Per Diem and Mileage Act.

*Effect:* Lack of verification and documentation of conference attendance and/or travel reimbursements could result in excess costs to the organization.

*Recommendation:* The Association should adopt a travel and per diem policy that includes payments for reimbursement for travel, including conference attendance, while performing Association business. The policy should incorporate the Per Diem and Mileage Act or include stricter guidelines.

*Management's Response:* The Association will adopt the State travel and per diem policy to comply with travel guidelines.

2011-005 (2008-5) Budget Approval and Quarterly Reporting

*Condition:* The Association did not approve their 2011 operating budget and also did not submit their budget to the New Mexico Department of Finance & Administration (DFA) – Local Government Division. As a local public body, the Association is also required to transmit operating results quarterly to DFA, which were not submitted.

*Criteria:* Section 6-6-2 NMSA 1978 requires all local public bodies to submit their operating budget annually to DFA Local Government Division for certification. DFA also requires quarterly reporting by all agencies on prescribed forms.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED DECEMBER 31, 2011

2011-005 (2008-5) Budget Approval and Quarterly Reporting (continued)

*Cause:* The Association was not aware of the reporting requirements imposed by statute and DFA.

*Effect:* DFA – Local Government Division lacked the necessary information to perform their oversight duties required by state statute.

*Recommendation:* I recommend the Association establish contact with their DFA budget analyst to determine what reports are required and whether retroactive reporting will be required. The Association should also institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

*Management's Response:* The Association accountant will establish contact with a DFA Budget Analyst to obtain knowledge of required reporting. Policies will be implemented to ensure compliance.

2011-006 Actual Expenses in Excess of Budgeted Expenses

*Condition:* The Association's actual expenses exceeded their budgeted expenses by \$126,628.

*Criteria:* 2.2.2.10 P(1)(a) requires reporting a finding if actual expenditures exceed budgeted expenditures at the legal level of budgetary control, which is at the fund level for mutual domestic water associations.

*Cause:* The Association did not budget for state capital outlay projects and did not prepare and authorize any budget adjustments during the year.

*Effect:* By not authorizing and monitoring a complete budget, including expenses paid for by an outside entity, unauthorized expenditures may occur and not be detected.

*Recommendation:* The Association should review their budgeted and actual expenses monthly, including all expenses funded by outside entities. If excess expenses are necessary, the Association should prepare and approve budget adjustments in a timely manner. If required, DFA approval should also be obtained for any adjustments to the budget.

*Management's Response:* The Association will prepare an annual budget and review financial statements monthly making budget adjustments as needed. Approval from DFA will be obtained if necessary.

**STATE OF NEW MEXICO**  
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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED DECEMBER 31, 2011

2011-007 Procurement Violations

*Condition:* Procurement documentation was not retained or made available for four out of seven capital outlay disbursements tested, totaling \$84,352.

*Criteria:* Procurement of goods or services are regulated by the New Mexico Procurement Code. Documentation of bids or quotes, along with all other procurement documentation, is required to be retained by the Association.

*Cause:* The Association forwarded all paperwork related to capital outlay projects procurement to the state agency that reimbursed the Association. Procurement documentation was not available for review.

*Effect:* The Association could not subsequently determine whether contracts were procured in compliance with state law.

*Recommendation:* Prior to forwarding any paperwork for reimbursement, the Association should retain copies of all applicable procurement paperwork.

*Management's Response:* The Association will adopt a policy outlining procedures to ensure authorization, documentation and retention of all procurements such as legislative grants, federal grants or loans and other funds which are disbursed by an outside entity or the Association.

2011-008 (2008-4) Late Agreed-Upon Procedures Report and IPA Recommendation

*Condition:* The Association did not submit their 2011 agreed-upon procedures report to the Office of the State Auditor by June 1, 2012, the due date of the report. In addition, the IPA recommendation for 2011 was not submitted to the State Auditor until December 2014.

*Criteria:* 2.2.2 NMAC (State Audit Rule) requires submission of the IPA recommendations at least 30 days prior to year-end, or by December 1, 2011. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or June 1, 2012.

*Cause:* The Association was not able to recommend and contract with an audit firm until their 2010 audit was completed in December 2014.



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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED DECEMBER 31, 2011

2011-008 (2008-4) Late Agreed-Upon Procedures Report and IPA Recommendation (continued)

*Effect:* The Association was not in compliance with the State Audit Rule, which could impact their ability to receive grants from federal and state sources.

*Recommendation:* The Association should prepare the annual auditor recommendation by December 1 of each year and submit it to the Office of the State Auditor. The Association should also institute policies and procedures that will enable it to complete their annual audit within five months after year-end.

*Management's Response:* The Association will contract for the annual audit in sufficient time to allow for completion by the due date.

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED DECEMBER 31, 2011

2008-1	Lack of segregation of accounting duties	Resolved
2008-3	Internal control over financial reporting	Resolved
2008-4	Failure to submit audit report on time	Repeated as finding 2011-008
2008-5	Failure to submit an operating budget	Repeated as finding 2011-005
2009-01	Internal control over disbursements	Repeated as finding 2011-003
2009-02	Violation of Per Diem and Mileage Act	Repeated as finding 2011-004
2009-03	Internal control over receipts	Repeated as finding 2011-002
2009-04	Capital asset inventory not completed	Resolved
2010-01	Internal control over federal disbursements	Resolved
2010-02	ARRA Reporting	Resolved
2010-03	Late submission of Data Collection Form	Resolved

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
EXIT CONFERENCE  
YEAR ENDED DECEMBER 31, 2011

The report contents were discussed at an exit conference held on May 27, 2015 with the following in attendance:

**Canjilon Mutual Domestic Water Consumers  
and Mutual Sewage Works Association:**

Cipie Maez	President
Albert Martinez	System Operator
Martha Montoya	Contract Accountant

**James L. Hartogenesis, CPA LLC**

James Hartogenesis, CPA, CGFM	Principal
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