

**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, 2012**

James L. Hartogenesis, CPA LLC

Certified Public Accountants

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

December 31, 2012

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

OFFICIAL ROSTER
DECEMBER 31, 2012

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, 2012. 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 2012-001 in the schedule of findings and responses for details

1. Four month's reconciliations were not completed in a timely manner.
2. Two month's reconciliations were tested in detail. The reconciled balance for one of the 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 2012-002 in the schedule of findings and responses for details

1. Out of seventeen cash receipts tested, supporting documentation was not available for one deposit.

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 2012-003 in the schedule of findings and responses for details

1. Authorization to complete the disbursement could not be located for 14 of 27 disbursements.

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 no general journal entries 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 finding 2012-004 in the schedule of findings and responses for details

1. There was no evidence that the Association's 2012 budget was approved by the Board of Directors or DFA-LGD.

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 finding 2012-003 in the schedule of findings and responses for details

1. Out of two total capital outlay disbursements during the year, one had missing supporting documentation.
2. Approval or authorization was not documented for two of two disbursements tested.

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. Hartogensis, CPA LLC

James L. Hartogensis, 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, 2012

<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	\$50,000	\$ 50,000	\$ -	7/1/2008 - 6/30/2012

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CASH BASIS)
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
REVENUES:				
Charges for services	\$ 61,344	\$ 61,344	\$ 58,360	\$ (2,984)
Grants and contracts	<u>1,257</u>	<u>1,257</u>	<u>4,372</u>	<u>3,115</u>
Total revenues	<u>\$ 62,601</u>	<u>\$ 62,601</u>	<u>\$ 62,732</u>	<u>\$ 131</u>
EXPENDITURES:				
Salaries and payroll taxes	\$ 9,267	\$ 9,267	\$ 9,267	\$ -
Operating expenses	24,460	24,460	22,919	1,541
Contractual services	27,683	27,683	27,048	635
Debt service	<u>7,683</u>	<u>7,683</u>	<u>\$ 9,709</u>	<u>(2,026)</u>
Total expenditures	<u>69,093</u>	<u>69,093</u>	<u>\$ 68,943</u>	<u>\$ 150</u>
Cash available to balance budget	<u>\$ 6,492</u>	<u>\$ 6,492</u>		

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2012

2012-001 (2011-001) Bank Reconciliations – Untimely and Not Accurate

Condition: Four out of twelve bank reconciliations were not completed within one month. One month's reconciled balance 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.

2012-002 (2009-03) Lack of Documentation of Cash Receipts

Condition: Out of twelve receipts tested, the Association could not locate supporting documentation for one receipt totaling \$3,746.

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.

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2012

2012-002 (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.

2012-003 (2009-01) Lack of Supporting Documents and Approvals for Operating Disbursements and Capital Outlay Disbursements

Condition: One of two capital outlay disbursements, totaling \$1,258, had no invoice or other supporting documentation retained by the Association. 14 of 25 operating disbursements, totaling \$3,407, had no documented approval by the operator or Board. Two of two capital outlay disbursements, totaling \$2,889, had no documented approval by the operator or 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
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2012

2012-004 (2008-5) Budget Approval and Quarterly Reporting

Condition: The Association did not approve their 2012 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.

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.

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2012

2012-005 (2008-4) Late Agreed-Upon Procedures Report and IPA Recommendation

Condition: The Association did not submit their 2012 agreed-upon procedures report to the Office of the State Auditor by June 1, 2013, the due date of the report. In addition, the IPA recommendation for 2012 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, 2012. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or June 1, 2013.

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

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, 2012

2011-001	Bank reconciliations untimely and not accurate	Repeated as finding 2012-001
2011-002 (2009-03)	Lack of documentation of cash receipts	Repeated as finding 2012-002
2011-003 (2009-01)	Lack of supporting documents and approvals for operating disbursements and capital outlay disbursements	Repeated as finding 2012-003
2011-004 (2009-02)	Violation of Per Diem and Mileage Act	Resolved
2011-005 (2008-5)	Budget approval and quarterly reporting	Repeated as finding 2012-004
2011-006	Actual expenses in excess of budgeted expenses	Resolved
2011-007	Procurement violations	Resolved
2011-008 (2008-4)	Late Agreed-Upon Procedures Report and IPA Recommendation	Repeated as finding 2012-005

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2012

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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