

**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, 2013**

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, 2013

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

OFFICIAL ROSTER  
DECEMBER 31, 2013

**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, 2013. 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 2013-001 in the schedule of findings and responses for details**

1. Two month's bank reconciliations were not available for testing.
2. Five month's reconciliations were not completed in a timely manner.
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 2013-002 in the schedule of findings and responses for details**

1. Out of fourteen 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 2013-003 in the schedule of findings and responses for details**

1. Out of thirty disbursements, supporting documentation could not be located for one.
2. Authorization to complete the disbursement could not be located for five of thirty disbursements.
3. Out of thirty 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 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 findings 2013-004 and 2013-005 in the schedule of findings and responses for details

- 1. There was no evidence that the Association's 2013 budget was approved by the Board of Directors or DFA-LGD.
- 2. Actual expenditures exceeded budgeted expenditures by \$31,363.

## **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**

No exceptions were noted.

## **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, 2013**

<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>
12-1363-STB	Water System Improvements	\$25,000	\$ 25,000	\$ 25,000	\$ -	7/1/2012 - 6/30/2016

**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, 2013**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
<b>REVENUES:</b>				
Charges for services	\$ 61,344	\$ 61,344	\$ 60,612	\$ (732)
Grants and contracts	1,257	1,257	25,000	23,743
Other income	3,114	3,114	-	(3,114)
Total revenues	<u>\$ 65,715</u>	<u>\$ 65,715</u>	<u>\$ 85,612</u>	<u>\$ 19,897</u>
<b>EXPENDITURES:</b>				
Salaries and payroll taxes	\$ 9,267	\$ 9,267	\$ 10,943	\$ (1,676)
Operating expenses	24,460	24,460	23,117	1,343
Contractual services	27,683	27,683	53,468	(25,785)
Debt service	7,683	7,683	\$ 12,928	(5,245)
Total expenditures	<u>69,093</u>	<u>69,093</u>	<u>\$ 100,456</u>	<u>\$ (31,363)</u>
Cash available to balance budget	<u>\$ 3,378</u>	<u>\$ 3,378</u>		

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2013

2013-001 (2011-001) Bank Reconciliations – Untimely and Not Accurate

*Condition:* Five out of twelve bank reconciliations were not completed within one month.

*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.

2013-002 (2009-03) Lack of Documentation of Cash Receipts

*Condition:* Out of fourteen receipts tested, the Association could not locate supporting documentation for one receipt totaling \$100.

*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, 2013

2013-002 (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.

2013-003 (2009-01) Lack of Supporting Documents and Approvals for Operating Disbursements

*Condition:* One of thirty operating disbursements tested, totaling \$24, had no invoice or other supporting documentation retained by the Association. Five of thirty operating disbursements, totaling \$2,032 had no documented approval by the operator or Board. One expenditure involving travel and per diem for \$100 could not be verified for compliance with the Per Diem and Mileage Act.

*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. 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:* The Association did not retain documentation of invoices and approvals for disbursements for operating expenses. 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:* 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. 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 has established policies and procedures which will require the Association President to review all invoices, authorize payment, sign checks and comply with the Per Diem and Mileage Act.

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED DECEMBER 31, 2013

2013-004 (2008-5) Budget Approval and Quarterly Reporting

*Condition:* The Association did not approve their 2013 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.

2013-005 Actual Expenses in Excess of Budgeted Expenses

*Condition:* The Association's actual expenses exceeded their budgeted expenses by \$31,363.

*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.

**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED DECEMBER 31, 2013

2013-005 Actual Expenses in Excess of Budgeted Expenses (continued)

*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.

2013-006 (2008-4) Late Agreed-Upon Procedures Report and IPA Recommendation

*Condition:* The Association did not submit their 2013 agreed-upon procedures report to the Office of the State Auditor by June 1, 2014, the due date of the report. In addition, the IPA recommendation for 2013 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, 2013. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or June 1, 2014.

*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, 2013

2012-001 (2011-001) Bank reconciliations untimely and not accurate	Repeated as finding 2013-001
2012-002 (2009-03) Lack of documentation of cash receipts	Repeated as finding 2013-002
2012-003 (2009-01) Lack of supporting documents and approvals for operating disbursements and capital outlay disbursements	Repeated as finding 2013-003
2012-004 (2008-5) Budget approval and quarterly reporting	Repeated as finding 2013-004
2012-005 (2008-4) Late Agreed-Upon Procedures Report and IPA Recommendation	Repeated as finding 2013-006



**STATE OF NEW MEXICO**  
**CANJILON MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
EXIT CONFERENCE  
YEAR ENDED DECEMBER 31, 2013

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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