

**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, 2014**

James L. Hartogenesis, CPA LLC

Certified Public Accountants

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

December 31, 2014

Table of Contents

	Page
Official Roster	1
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	2-6
Schedule of Findings and Responses	7-10
Status of Prior Year Findings	11
Exit Conference.....	12

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

OFFICIAL ROSTER
DECEMBER 31, 2014

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, and Budget 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, 2014. 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 4 of the Audit Act – Section 12-6-3 B (4) 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 2014-003 in the schedule of findings and responses for details

1. Bank accounts were reconciled timely and accurately, however the Association did not submit any cash information to DFA-LGD because no quarterly financial reports were completed.
2. The Association's bank accounts were fully insured, therefore no pledged collateral was required.

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 findings 2014-001 and 2014-003 in the schedule of findings and responses for details

1. We were not able to compare actual revenue to budgeted revenue because no budget was prepared.
2. Out of seventeen cash receipts tested, supporting documentation was not available for one deposit totaling \$2,500.
3. One deposit was coded to the wrong revenue account.

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 2014-002 in the schedule of findings and responses for details

1. 33 of 35 disbursements tested were agreed to supporting documentation without exception.
2. Authorization to complete the disbursement could not be located for fourteen disbursements totaling \$6,670.
3. Out of thirty five disbursements tested, two disbursements included mileage reimbursements totaling \$287 that were subject to the New Mexico Travel and Per Diem Regulations for mileage reimbursement. Required documentation for mileage reimbursements was not 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 finding 2014-003 in the schedule of findings and responses for details

1. No budget was provided and there was no evidence that the Association's 2014 budget was approved by the Board of Directors or DFA-LGD.

7. 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 – see finding 2014-004 in the schedule of findings and responses for details

The Association did not submit their Independent Public Accountant (IPA) recommendation or their agreed-upon procedures report to the Office of the State Auditor within the timeframe required by the State Audit Rule.

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
July 30, 2015

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

2014-001 (2009-03) Cash Receipts – No Documentation and Wrong Account Coding

Condition: Out of seventeen receipts tested, the Association could not locate supporting documentation for one receipt totaling \$2,500. The same receipt was incorrectly coded in the general ledger to member revenue.

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. Generally accepted accounting principles require transactions to be coded in the general ledger according to the nature of transaction. Nonoperating revenues should be separated from operating revenues.

Cause: The Association does not have a process for coding and retaining the proper documentation for nonoperating revenue. The receipt was included with member revenue instead of coding it to a separate revenue account.

Effect: Lack of supporting documentation for financial transactions can cause misstatements that may go undetected. Member revenue was overstated.

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. The Association should review their chart of accounts to ensure there are accounts set up for every type of revenue.

Management's Response: Beginning immediately, the Association will retain supporting documents for every deposit. The bookkeeper will keep copies of deposits, along with supporting documentation for each deposit. The bookkeeper with Board approval will ensure that the chart of accounts is updated with any other deposits made for the association.

2014-002 (2009-01) Lack of Approvals and Noncompliance for Operating Disbursements

Condition: Fourteen of thirty-five operating disbursements tested, totaling \$6,670, had no evidence of approval by the Association. Two expenditures involving travel and per diem totaling \$287 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.

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

2014-002 (2009-01) Lack of Approvals and Noncompliance for Operating Disbursements - Continued

Cause: The Association did not retain documentation of 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 authorized. The Association may be subject to fraud waste or abuse by not properly authorizing and retaining documentation for every transaction. When mileage reimbursements are not properly documented, there may be tax issues for the recipient.

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's bookkeeper and Board will create a policy that outlines procedures for authorization, documentation, and retention of all disbursements by the end of the current year. The Association's bookkeeper and Board will also create a policy for travel and per diem that includes payments for reimbursements for travel associated with the CMDWA by the end of the current year. Beginning immediately, the Board shall approve all travel and per diem prior to the travel taking place.

2014-003 (2008-5) Budget Approval and Quarterly Reporting

Condition: The Association did not prepare or approve their 2014 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 until late 2014.

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2014

2014-003 (2008-5) Budget Approval and Quarterly Reporting - Continued

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

Recommendation: We 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: By the end of the current year, the Association's bookkeeper will contact a DFA budget analyst to determine which reports need to be reported and by what deadline these reports need to be reported. The Association's bookkeeper and Board will then determine a policy to ensure compliance with reporting to DFA. Once contact with a DFA analyst has been established, the Association bookkeeper will also ensure that the reporting is conducted in a timely manner.

2014-004 (2008-4) Late Agreed-Upon Procedures Report and IPA Recommendation

Condition: The Association did not submit their 2014 agreed-upon procedures report to the Office of the State Auditor by June 1, 2015, the due date of the report. In addition, the IPA recommendation for 2014, which was due on December 1, 2014, was not submitted to the State Auditor until February 2015.

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, 2014. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or June 1, 2015.

Cause: The Association was not able to contract with an audit firm until their 2013 agreed-upon procedures were completed in June 2015.

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.

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2014

2014-004 (2008-4) Late Agreed-Upon Procedures Report and IPA Recommendation - Continued

Management's Response: The Association's bookkeeper and Board will create a policy and procedure to submit the annual audits paperwork to the state auditor's office before the end of December and complete the audit requirements within the five months after year-end.

STATE OF NEW MEXICO
CANJILON MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2014

<u>Prior Year Number</u>	<u>Prior Year Finding</u>	<u>Current Year Disposition</u>
2013-001 (2011-001)	Bank reconciliations untimely and not accurate	Resolved
2013-002 (2009-03)	Lack of documentation of cash receipts	Repeated and modified as finding 2014-001
2013-003 (2009-01)	Lack of supporting documents and approvals for operating and capital outlay disbursements	Repeated and modified as finding 2014-002
2013-004 (2008-5)	Budget approval and quarterly reporting	Repeated and modified as finding 2014-003
2013-005	Actual Expenses in Excess of Budgeted Expenses	Resolved
2013-006 (2008-4)	Late Agreed-Upon Procedures Report and IPA Recommendation	Repeated and modified as finding 2014-004

