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STATE OF NEW MEXICO

CAÑON MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

Independent Accountants' Report on Applying
Agreed-Upon Procedures

Year Ended December 31, 2010

STATE OF NEW MEXICO

**CAÑON MUTUAL DOMESTIC
WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

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

Official Roster
at December 31, 2010

<u>Name</u>		<u>Title</u>
<u>Board of Directors</u>		
Prexie Lucero		President
Herman Herrera		Vice-President
Frances Strain		Secretary/Treasurer
Sally Lucero		Member
Joseph Jaramillo		Member
<u>Staff</u>		
Fita Herrera		Bookkeeper
Roy Spencer		Water Operator



Macias, Gutierrez
& Co., P.C.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To: Prexie Lucero, President
Cañon Mutual Domestic Water Consumers and Sewage Works Association
and
Honorable Hector H. Balderas
New Mexico State Auditor

We have performed the procedures enumerated below for the Cañon Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA), for the year ended December 31, 2010. The CMDWCSWA was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the CMDWCSWA through the Office of the New Mexico State Auditor. The Cañon Mutual Domestic Water Consumers and Sewage Works Association's management is responsible for the organization's accounting records. 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. Our procedures and 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.
- 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 DFA-Local Government Division (DFA-LGD).
- 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

- a) The CMDWCSWA has two checking accounts and four savings accounts and utilizes Quickbooks to record cash transactions. For the entire year, there were no records of any bank reconciliations being performed; however, all bank statements were complete and on-hand for the entire year.

- b) There was no record of bank reconciliations for any of the six bank accounts for the entire year; however, we were able to reconcile all six bank accounts and agree them to the general ledger at December 31, 2010, with no exceptions. Also, since a quarterly financial report was not submitted to DFA-LGD at year-end, we could not trace ending balances to that report.

Required quarterly financial reports were not submitted to DFA-LGD at any time during the year. Although now late, the CMDWCSWA bookkeeper indicated that submission of quarterly financial reports would begin with the March 2011 report.

- c) Bank account balances never exceeded uninsured limits and, therefore, pledged collateral was not required on any bank account at any time during the year.

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

Although there are capital assets (System & Tank, Property) shown on the balance sheet, the CMDWCSWA did not maintain a capital assets inventory listing and, therefore, did not perform a yearly inventory as required by Section 12-6-10 NMSA 1978. The current bookkeeper is not certain how the amounts were arrived at or what is included in the details.

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.

Test 50% of the total amount of revenues for 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

- a) We were provided a profit and loss statement for the year ended December 31, 2010 showing six revenue sources. However, the CMDWCSWA did not prepare a budget for the year ended December 31, 2010. Therefore, we could not perform an analytical review or test actual revenue compared to budgeted revenue for the year for each type of revenue.
- b) Amounts recorded on Quickbooks general ledger agreed with deposit tickets provided and the bank statements, with no exception.
- c) Amounts were recorded on a cash basis to the six different revenue sources. However, there was no supporting documentation to test revenue as to classification, amount and the period applicable. The only supporting documentation provided was deposit tickets with customer names, check numbers and amounts.

4. Expenditures

Procedures

Select a sample of cash disbursements and test at least 25 transactions and 50% of the total amount of expenditures for 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 check clearing amount (cancelled checks not returned), 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

- a) Our tests of transactions revealed that amounts recorded as disbursed agreed to supporting documentation, with no exceptions. Amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and check clearing amount, as appropriate.
- b) Disbursements were properly authorized and approved in compliance with the legal requirements and established policies and procedures. We could not test compliance with the budget since one was not established for 2010.
- c) 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).

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 CMDWCSWA utilizes Quickbooks to record cash transactions only and did not prepare formal journal entries for the year ended December 31, 2010.

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.

Findings

- a) The CMDWCSWA did not prepare a budget for the year ended December 31, 2010. The 2011 budget was prepared in March 2011 but has not yet been submitted to DFA-LGD for approval.
- b) Since there was no approved budget, we could not determine if total actual expenses exceeded the final budget at the total fund level, the legal level of budgetary control.
- c) A schedule of revenues and expenses – budget and actual was prepared from CMDWCSWA records on the cash budgetary basis. This schedule is included herein as Exhibit A. The CMDWCSWA did not submit a budget report for the year ended December 31, 2010 to DFA-LGD.

Other

Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose 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

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts, or any internal control deficiencies. However, see the Schedule of Findings and Responses for noncompliance issues related to the Cash, Capital Assets and Budget findings above.

* * * * *

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. 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 Cañon Mutual Domestic Water Consumers and Sewage Works Association, the New Mexico State Auditor's Office and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

Macias, Gutierrez & Co., CPAs, P. C.

Macias, Gutierrez & Co., CPAs, P. C.
Española, New Mexico
May 19, 2011

STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)
Year Ended December 31, 2010

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Monthly Sales	\$ -	\$ -	\$ 45,635	\$ 45,635
Reconnect Fee	-	-	190	190
Membership Transfer Fee	-	-	1,905	1,905
New Membership	-	-	3,809	3,809
Meter Hookup	-	-	1,429	1,429
Dividend Income	-	-	588	588
Total revenues	-	-	53,556	53,556
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	-	-	53,556	53,556
Expenses:				
Operator Contract	-	-	8,100	(8,100)
Operator Mileage Reimbursement	-	-	232	(232)
Electric	-	-	1,999	(1,999)
Maintenance	-	-	1,971	(1,971)
Chemical Supplies	-	-	225	(225)
Storage Rental	-	-	660	(660)
NM One Call	-	-	77	(77)
Water Conservation Fee	-	-	192	(192)
Bookkeeper Contract	-	-	6,750	(6,750)
Bookkeeper Mileage Reimbursement	-	-	599	(599)
Office Supplies	-	-	1,615	(1,615)
Postage	-	-	1,026	(1,026)
Bank Fees	-	-	230	(230)
Internet Telephone	-	-	393	(393)
Attorney Fee	-	-	743	(743)
Advertisement	-	-	896	(896)
Mileage Reimbursement	-	-	68	(68)
Bond Insurance	-	-	100	(100)
Director & Officer	-	-	897	(897)
Liability Insurance	-	-	2,496	(2,496)
Interest Expense	-	-	6,307	(6,307)
Subscription & Dues	-	-	181	(181)
Training	-	-	455	(455)
Total expenses	-	-	36,212	(36,212)
Excess revenues over (under) expenses	\$ -	\$ -	\$ 17,344	\$ 17,344

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

**Schedule of Findings and Responses
Year Ended December 31, 2010**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	N/A	2010-1
Capital Assets Inventory	D	N/A	2010-2
Follow-up on Prior Year Findings:			
None	N/A	N/A	N/A

*** Legend for Findings:**

- A. Fraud
- B. Illegal Act(s)
- C. Internal Control Deficiency(ies)
- D. Noncompliance

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

**Schedule of Findings and Responses
Year Ended December 31, 2010**

2010-1

Budget Submission/Approval and Quarterly Financial Reports

Criteria

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD, on or before December 1, of each year, a proposed budget for the next fiscal year. Upon receipt of any budget approved by the DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. Section 6-6-2 (B) NMSA, 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-3 NMSA, 1978 Compilation states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

The Cañon Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA) did not prepare or submit a 2010 budget for DFA-LGD approval nor did they submit required quarterly financial cash activity and budget reports to the DFA-LGD at any time during the year or at year end.

Cause

The CMDWCSWA was not aware of the DFA-LGD requirements.

Effect

The CMDWCSWA has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978.

Recommendation

We recommend that the CMDWCSWA submit their proposed budget to DFA-LGD for approval, on or before December 1 of each year and that upon receipt of the approved budget cause such budget to be made a part of the minutes. We further recommend that the CMDWCSWA submit quarterly financial reports, as required, to DFA-LGD.

Entity Response

“CMDWCSWA will submit the annual budget to the DFA-LGD for approval, on or before December 1st of each year. The minutes will reflect receipt of the approved budget. CMDWCSWA will submit quarterly financial reports, as required, to DFA-LGD.”

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

**Schedule of Findings and Responses
Year Ended December 31, 2010**

2010-2

Capital Assets Inventory

Criteria

Section 12-6-10 NMSA, 1978 requires each local public body to, at the end of each fiscal year, conduct a physical inventory of capital assets costing more than five thousand dollars (\$5,000) and under control of the governing authority. The inventory shall list all capital assets and the date and cost of acquisition. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each local public body shall maintain one copy in its files.

Condition

The Cañon Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA) has not maintained a capital asset listing or performed a yearly inventory as required by Section 12-6-10 NMSA 1978.

Cause

The CMDWCSWA was not aware of the statute requirements.

Effect

The CMDWCSWA has not complied with Section 12-6-10 NMSA 1978.

Recommendation

We recommend that the CMDWCSWA develop a capital asset inventory listing and perform a yearly inventory as required by Section 12-6-10 NMSA 1978.

Entity Response

"CMDWCSWA Board of Directors will develop criteria for a capital asset inventory listing. The Association bookkeeper will develop the inventory listing based on the criteria. The Board of Directors will ensure that inventory is performed on a yearly basis and recorded in the minutes."

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

**Exit Conference
Year Ended December 31, 2010**

EXIT CONFERENCE

The report contents were discussed at an exit conference held on May 26, 2011 with the following in attendance:

Cañon Mutual Domestic Water Consumers and Sewage Works Association

Prexie Lucero, Board President
Frances Strain, Board Secretary/Treasurer
Diane Nunez, Bookkeeper

Accounting Firm

James R. (Jim) Macias, CPA