

# **Accounting & Auditing Services, LLC**

**Financial Audits + Agreed Upon Procedures + Tax + Consulting**

**Canon Mutual Domestic Water Consumers Association**

**Independent Accountant's Report on Applying Agreed-Upon Procedures**

**For the Fiscal Year Ended December 31, 2014**

**Canon Mutual Domestic Water Consumers Association  
Table of Contents  
Fiscal Year Ended December 31, 2014**

	<u>Page</u>
Table of Contents	i
Official Roster	ii
Independent Accountant's Report	1
Schedule of Findings and Responses	6
Schedule of Revenues and Expenditures – Budget and Actual	10
Copy of Year-End Financial Report Submitted to DFA-LGD	11
Exit Conference	12

**Canon Mutual Domestic Water Consumers Association  
Official Roster  
Fiscal Year Ending December 31, 2014**

**Board of Directors**

Vicente Fernandez, President

Adrian Trujillo, Vice President

James Lucero, Board Member

Jamie Lucero, Board Member

Porfie Baker, Board Member

**Administrative Staff**

Julie Krupcale, Office Manager

# Accounting & Auditing Services, LLC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

Vicente Fernandez, President  
Canon Mutual Domestic Water Consumers Association  
and  
Timothy Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Canon Mutual Domestic Water Consumers Association (Association) for the year ended December 31, 2014, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. 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 the parties specified in this 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

- 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.

The bank reconciliations were performed on a monthly basis in a timely manner. All bank statements for the fiscal year were complete and on hand. The Association has one checking account at the Centinel Bank in Taos, NM and did not have any investment accounts.

- 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.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the general ledger and supporting documentation. The fiscal year-end cash balance on the bank reconciliation could not be traced to the financial report submitted to DFA since the Association did not submit a balance sheet report to DFA for FY14.

- 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.

The bank account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank balances were well below \$250,000 during the fiscal year.

## 2. Capital Assets

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

According to the Office Manager, the Association performed a capital asset inventory for the fiscal year ending December 31, 2014. However, the year-end capital asset listing was incomplete, and the governing body of the Association did not certify the correctness of the inventory after the physical inventory was performed. See Finding No. 2010-2.

## 3. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The revenue sources of the Association consist of monthly water dues, interest income and miscellaneous income. The variances between actual revenues for FY13 and FY14 were adequately explained by the Office Manager. No unusual or unexplained variances were noted.

The actual revenue compared to budgeted revenue for each type of revenue was reviewed. Actual revenues were \$914 more than budgeted revenues for FY14. No significant or unusual variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
  - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts were judgmentally selected and tested which amounted to 69.1% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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 basis, or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger.

#### 4. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- i. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of cash disbursements were tested which amounted to 56.5% of total expenses. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The Association does not use purchase order forms.

- ii. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- iii. 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 13-1-199 NMSA 1978), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC). None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code, Purchasing Regulations and the Per Diem and Mileage Act.

## 5. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:
  - i. Journal entries appear reasonable and have supporting documentation.

According to the Office Manager, no non-routine journal entries were posted to the general ledger during the fiscal year. No non-routine journal entries were noted during the agreed-upon procedures.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association has procedures in place to ensure that non-routine journal entries posted by the Office Manager are reviewed and approved by a member of the governing body.

## 6. Budgets

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:
  - i. 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.

An original budget was adopted by the governing body and approved by DFA-LGD. There were no budget adjustments in FY14. However, the original budget adopted by the Board was not submitted to DFA-LGD by the required due date, and the original budget approved by DFA-LGD was not recognized in the minutes of the Association's board meetings. See Finding No. 2010-1.

- ii. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

Total expenditures for FY14 did not exceed the final approved budget. According to the Association's general ledger, actual expenditures for FY14 were approximately \$24,120 less than budgeted expenditures.

- iii. 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.

Based on the Association's general ledger, the Schedule of Revenues and Expenditures was prepared on the cash basis of accounting. See Exhibit 1 on p. 10.

7. Other

- a. 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.

The Association did not submit the IPA Recommendation Form and the Agreed-Upon Procedures contract to the NM Office of the State Auditor by the required due date. See Finding No. 2010-3.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed upon procedures. 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 management and others with the Association, the New Mexico State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Auditing Services, LLC*

Accounting & Auditing Services, LLC  
Santa Fe, New Mexico  
April 10, 2015



**Canon Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2014**

**Status of Prior Year Findings**

Finding 2010-1. Modified and Repeated.

Finding 2010-2. Repeated.

Finding 2010-3. Modified and Repeated.

**Current Year Findings**

**Finding 2010-1. Non-compliance with Budget Laws and Regulations**

**Condition**

The Association's Board of Directors did not adopt its FY14 budget until January 11, 2014. Therefore, the Association did not submit its FY14 annual budget to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for review and approval by December 1, 2013 as required by state law. Also, after DFA-LGD approved the FY14 budget on February 11, 2014, the Board did not recognize the approval in the minutes of its meetings.

**Criteria**

Pursuant to Section 6-6-2.A NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year. Since the Association's fiscal year end is on December 31, the Association is required to submit its proposed budget to DFA-LGD by December 1 of each year. Furthermore, per Section 6-6-5 NMSA 1978, upon receipt of any budget approved by DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body.

**Effect**

For FY14, the Association was not in full compliance with the State's budget laws and regulations.

**Cause**

The Board was not aware of DFA's due date for the budget, and was not aware that it was required to recognize DFA's approval of the budget in the minutes of its meetings.

**Canon Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2014**

**Recommendation**

The Association should adopt, approve and submit its annual budget for the next fiscal year to DFA-LGD by December 1 of each fiscal year. After the Association receives the budget certification letter from DFA-LGD, the Association's Board of Directors should make record of the approval in the minutes of its meetings. The Association should develop and implement written policies and procedures to ensure that the budget laws and regulations are fully complied with in the future.

**Management's Response**

Canon MDWCA was not aware of this regulation and will adopt, approve and submit its annual budget for the next fiscal year to DFA by December 1 of each fiscal year. The Board will also make note of the budget certification letter from DFA in the next meeting minutes.

**Finding 2010-2. No Certification of Capital Asset Inventory at Fiscal Year-End**

**Condition**

For the period ending December 31, 2014, the Association did not fully document a physical inventory of its capital assets. The date acquired, cost, location and ending balance of its capital assets (tanks, wells, pumps, pump houses, distribution system, office equipment, etc.) was not recorded on the Association's capital asset listing. Also, the governing body of the Association did not certify the correctness of the capital asset inventory after the physical inventory was performed.

**Criteria**

Section 12-6-10.A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness." Section 2.20.1 NMAC requires an annual inventory and establishes standards to properly record, control and account for capital assets acquired by agencies. Also, in accordance with generally accepted accounting principles, capital assets should be capitalized in accordance with Association policy and properly recorded and valued.

**Canon Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2014**

Effect

The Association does not have a complete listing and an established carrying amount for the value of its capital assets as of December 31, 2014 which is useful for the Association to properly control, account for, and manage its capital assets.

Cause

Historical cost records are not available for all the capital assets and water systems in the Association.

Recommendation

At the end of each fiscal year, the Association should perform and document a complete physical inventory of its capital assets. The date acquired, actual or estimated cost, location and capital asset balance should be recorded on the capital asset listing. The results of the inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the Association. The Association should develop and implement written policies and procedures to perform the capital asset inventory on an annual basis, and record and account for its capital assets in accordance with state laws and regulations.

Management's Response

Canon MDWCA will perform and document a complete physical inventory of its capital assets which will include the date acquired, the cost and location which will be certified as to correctness and signed by the board members.

**Finding 2010-3. Late Submission of Firm Recommendation Form and Agreed-Upon Procedures Contract**

Condition

For the fiscal year ending December 31, 2014, the Association did not submit the Recommendation Form for Tiered System Local Public Bodies and the signed agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until February 2015.

Criteria

According to State Audit Rule, Section 2.2.2.16.D (6) NMAC, the Association should have submitted the completed Recommendation Form for Tiered System Local Public Bodies

**Canon Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2014**

and the completed and signed agreed-upon procedures contract to the State Auditor by January 1, 2015.

**Effect**

If the recommendation form and contract are not submitted to the OSA by the required due date, it is possible that the agreed-upon procedures report will not be submitted to the OSA by the required due date.

**Cause**

The Association was unaware of the State Auditor's contracting requirements for agreed-upon procedures, and therefore, did not submit the required forms in a timely manner.

**Recommendation**

The Board of Directors and Office Manager of the Association should read Section 2.2.2.16 NMAC of the State Audit Rule to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, the Association shall determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B NMAC to determine what agreed-upon procedures or audits are required for the fiscal year. When required, the Association should take the necessary steps to ensure that future IPA recommendation forms and contracts are submitted to the State Auditor by January 1.

**Management's Response**

The Board will annually determine its total revenues to determine which agreed-upon procedures will be required and will then take the necessary steps to have the contract forms submitted to the State Auditor by January 1 of the following year.

**Canon Mutual Domestic Water Consumers Association    Exhibit 1**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP Cash Basis) - General Fund**  
**For the Fiscal Year Ending December 31, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest	\$ 50	\$ 50	\$ 35	\$ (15)
New Memberships	-	-	-	-
Water Dues	65,000	65,000	65,929	929
Other	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Revenues</b>	<b><u>\$ 65,050</u></b>	<b><u>\$ 65,050</u></b>	<b><u>\$ 65,964</u></b>	<b><u>\$ 914</u></b>
<b>Expenditures</b>				
<b>Current:</b>				
Car & Truck	\$ 1,200	\$ 1,200	\$ 972	\$ 228
Contractor	7,200	7,200	7,200	-
Insurance	750	750	740	10
Maintenance & Repairs	7,000	7,000	8,745	(1,745)
Minor Equipment	2,000	2,000	-	2,000
Miscellaneous Expenses	300	300	-	300
Operating Expenses	7,500	7,500	658	6,842
Payroll	6,000	6,000	5,193	807
Postage	750	750	663	87
Professional and Legal Fees	2,500	2,500	871	1,629
Supplies	2,000	2,000	1,132	868
Taxes	5,800	5,800	4,740	1,060
Travel	500	500	-	500
Utilities	7,000	7,000	5,399	1,601
Capital Fund	9,850	9,850	-	9,850
Debt Service - Construction Loan	4,700	4,700	4,617	83
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Expenditures</b>	<b><u>\$ 65,050</u></b>	<b><u>\$ 65,050</u></b>	<b><u>\$ 40,930</u></b>	<b><u>\$ 24,120</u></b>

**Canon MDWCA 2014 budget vs actuals  
BUDGET ACTUALS**

		Qtr 1	Qtr 2	Qtr 3	Qtr 4	end year totals
<b>Revenue:</b>						
Monthly water dues	\$ 65,000.00	\$ 16,741.68	\$ 14,477.97	\$ 18,566.48	\$ 16,142.88	\$ 65,929.01
New Memberships	\$ -					\$ -
Other income	\$ -					\$ -
Account Interest	\$ 50.00	\$ 7.30	\$ 8.30	\$ 9.20	\$ 9.74	\$ 34.54
<b>TOTAL REVENUE</b>	<b>\$ 65,050.00</b>	<b>\$ 16,748.98</b>	<b>\$ 14,486.27</b>	<b>\$ 18,575.68</b>	<b>\$ 16,152.62</b>	<b>\$ 65,968.55</b>
<b>Sub Total:</b>						
<b>Expenditures:</b>						
Car & truck mileage	\$ 1,200.00	\$ 243.00	\$ 243.00	\$ 162.00	\$ 324.00	\$ 972.00
Construction Loan(s)	\$ 4,700.00	\$ 1,154.16	\$ 1,154.16	\$ 1,154.16	\$ 1,154.16	\$ 4,616.64
Contractor (MT)	\$ 7,200.00	\$ 1,800.00	\$ 1,800.00	\$ 1,800.00	\$ 1,800.00	\$ 7,200.00
Capital Fund	\$ 9,850.00					\$ -
Insurance	\$ 750.00				\$ 740.00	\$ 740.00
Maintenance & Repairs	\$ 7,000.00	\$ 1,419.40	\$ 314.63	\$ 5,004.11	\$ 2,007.08	\$ 8,745.22
Minor Equipment	\$ 2,000.00					\$ -
Misc. Expenses	\$ 300.00					\$ -
Operating Expenses	\$ 7,500.00	\$ 353.86	\$ 150.00		\$ 153.67	\$ 657.53
Payroll	\$ 6,000.00	\$ 1,298.25	\$ 1,298.25	\$ 1,298.25	\$ 1,298.25	\$ 5,193.00
Postage	\$ 750.00	\$ 268.30	\$ 88.40	\$ 277.20	\$ 29.40	\$ 663.30
Prof & Legal fees	\$ 2,500.00		\$ 333.00		\$ 538.00	\$ 871.00
Supplies	\$ 2,000.00	\$ 25.58	\$ 761.32	\$ 319.91	\$ 24.73	\$ 1,131.54
Taxes	\$ 5,800.00	\$ 1,252.53	\$ 1,071.99	\$ 1,273.72	\$ 1,142.21	\$ 4,740.45
Travel	\$ 500.00					\$ -
Utilities	\$ 7,000.00	\$ 1,265.04	\$ 1,124.12	\$ 1,144.77	\$ 1,865.36	\$ 5,399.29
<b>Total Expenses</b>	<b>\$ 65,050.00</b>	<b>\$ 9,080.12</b>	<b>\$ 8,338.87</b>	<b>\$ 12,434.12</b>	<b>\$ 11,076.86</b>	<b>\$ 40,929.97</b>
<b>Gain/loss</b>		<b>\$ 7,668.86</b>	<b>\$ 6,147.40</b>	<b>\$ 6,141.56</b>	<b>\$ 5,075.76</b>	<b>\$ 25,038.58</b>
year end bank balance						\$ 79,403.23

**Canon Mutual Domestic Water Consumers Association  
Exit Conference  
Fiscal Year Ended December 31, 2014**

On April 10, 2015, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Canon MDWCA

Vicente Fernandez, President  
Jamie Lucero, Board Member  
Julie Krupcale, Office Manager

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager