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**STATE OF NEW MEXICO**

**CAÑONCITO AT APACHE CANYON  
MUTUAL DOMESTIC WATER ASSOCIATION**

Independent Accountants' Report on Applying  
Agreed-Upon Procedures – Tier 4

Year Ended December 31, 2011

**STATE OF NEW MEXICO**

**CAÑONCITO AT APACHE CANYON  
MUTUAL DOMESTIC WATER ASSOCIATION**

**Independent Accountants' Report on Applying  
Agreed-Upon Procedures – Tier 4**

**Year Ended December 31, 2011**

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**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

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December 31, 2011**

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**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

**Official Roster  
at December 31, 2011**

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<u>Name</u>		<u>Title</u>
<b><u>Board of Directors</u></b>		
Rita Gurule		President
Andy Ortiz		Vice-President
Lupita Martinez		Secretary/Treasurer
Vacant		Member
Vacant		Member
<b><u>Staff</u></b>		
Ana M. Berry		Accounts Manager



Macias, Gutierrez  
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## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES - Tier 4**

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To: Rita Gurule, President  
Cañoncito at Apache Canyon Mutual Domestic Water Association  
and  
Honorable Timothy M. Keller  
New Mexico State Auditor

We have performed the procedures enumerated below for the Cañoncito at Apache Canyon Mutual Domestic Water Association (CaACMDWA), for the year ended December 31, **2011**, solely to assist the CaACMDWA in demonstrating compliance with a **Tier 4** entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978, as set forth in the accompanying Exhibit A. The procedures were agreed to by the CaACMDWA through the Office of the New Mexico State Auditor. The Cañoncito at Apache Canyon Mutual Domestic Water 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.

#### **Results of Procedures Performed**

- a) The CaACMDWA has one checking account and utilizes Quickbooks to record cash transactions. Bank reconciliations are performed on a timely basis and all bank statements were complete and on-hand for the entire year.

- a) Random tests of bank reconciliations revealed no exceptions. The reconciliations were accurate and agreed with supporting documentation. We did not trace the December 31, 2011 cash balance to the year-end quarterly financial report submitted to DFA-LGD since the CaACMDWA did not submit any quarterly financial reports but, currently, there is no DFA-LGD required quarterly cash balance reporting format.
- b) The single bank account balance never exceeded uninsured limits and, therefore, pledged collateral was not required on the 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.

### Results of Procedures Performed

Although there are substantial capital assets and accumulated depreciation shown on the balance sheet, the CaACMDWA 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. See Finding 2010-2 on p. 7 of this report.

## 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 auditor 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.

### Results of Procedures Performed

- a) An analytical review of prior-year to current-year revenue revealed no unexplained or unusual variations. The test of actual revenue compared to budgeted revenue for the year for each revenue type revealed no exceptions.
- b) We requested supporting documentation for seven (7) deposits (39% of total revenue) from a total of 26 deposits for the year. For the sample selected, amounts recorded on Quickbooks general ledger agreed with deposit tickets, other supporting documentation provided and the bank statements, with no exception.
- c) Amounts were properly recorded on a cash basis as to classification, amount and period per review of supporting documentation.

#### 4. Expenditures

##### Procedures

Select a sample of cash disbursements based on auditor 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 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 ).

##### Results of Procedures Performed

- a) We requested supporting documentation for (twenty-nine) 29 disbursements (20% of total expenditures) from a total of 228 disbursements for the year. For the sample selected, 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) Except as described below, disbursements were properly authorized and approved in compliance with the legal requirements and established policies and procedures. Payments to Board members for services are employee wages but were not treated as such. These payments are subject to payroll tax withholding and employer match. There were two such instances noted in our expenditures sample for FY 2011. See Finding 2011-1 on p. 9 of this report.
- 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.

##### Results of Procedures Performed

The CaACMDWA bookkeeper utilizes Quickbooks to record cash transactions but the fee accountant prepares general journal entries at the end of the year to reclassify equipment purchased from expenses to capital assets and record depreciation expense. Also at the end of the year, journal entries are made to reclassify loan payments to principal and interest. The results of our tests are as follows:

- a) Journal entries are reasonable and have supporting documentation.

- b) The CaACMDWA has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed through approval of monthly and yearly financial statements.

## **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.

### **Results of Procedures Performed**

- a) The annual membership Board meeting minutes reflect approval of the 2011 budget but this budget was not submitted to DFA-LGD for approval. The budget was prepared for internal use only and the CaACMDWA made no subsequent 2011 budget adjustments. See Finding 2010-1 on p. 6 of this report.
- b) The CaACMDWA prepared but did not submit budget vs. actual report for the year ended December 31, 2011 to DFA-LGD. See Finding 2010-1 on p. 6 of this report. Since the CaACMDWA did not submit a 2011 budget for DFA-LGD approval, the comparison of actual expenditures to budget for the purposes of determining whether actual expenditures exceeded the final budget does not apply.
- c) A schedule of revenues and expenses – budget and actual was prepared from CaACMDWA records on the cash budgetary basis. This schedule is included herein as Exhibit A.

## **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.

### **Results of Procedures Performed**

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 Capital Assets and Budget findings described above and Late Report (see Finding 2010-3 on p. 8 of this report).

\* \* \* \* \*

We were not engaged to, and did not conduct an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or a part thereof, including the accompanying Exhibit A. 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 Cañoncito at Apache Canyon Mutual Domestic Water Association, the New Mexico State Auditor's Office and the Department of Finance and Administration, Local Government Division and the NM Legislature 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  
January 20, 2016

**STATE OF NEW MEXICO**  
**CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**  
**Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)**  
**Year Ended December 31, 2011**

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
Billings	\$ 67,752	\$ 67,752	\$ 66,851	\$ (901)
Insurance Overpayment	-	-	9	9
Interest Income	1	1	1	-
New Service	950	950	-	(950)
NMFA Funding	-	-	6,338	6,338
Total revenues	68,703	68,703	73,199	4,496
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	68,703	68,703	73,199	4,496
<b>Expenses:</b>				
2011 System Improvements	843	843	-	843
Attorney Fees	736	736	1,543	(807)
Line Locates	51	51	78	(27)
Materials	1,801	1,801	636	1,165
Remote Sensors	-	-	302	(302)
Repairs and Maintenance	575	575	420	155
System Maintenance	256	256	132	124
Water Testing	681	681	272	409
Cost of Operation-Other	217	217	-	217
Depreciation Expense	-	-	19,749	(19,749)
Emergency Funds	-	-	-	-
Liability Insurance	2,079	2,079	2,387	(308)
License	250	250	500	(250)
Loans	22,100	22,100	8,129	13,971
NMFA Funding	-	-	-	-
NSF Check Fees	24	24	48	(24)
NSF Checks	227	227	746	(519)
Advertising	-	-	-	-
Annual Meeting	-	-	-	-
Call Multiplier	-	-	89	(89)
Dues and Subscriptions	240	240	129	111
General Meeting Supplies	36	36	52	(16)
Liens	17	17	15	2
Mileage	1,215	1,215	1,334	(119)
Monthly Meeting	1,560	1,560	1,470	90
PO Box Rental	60	60	60	-
Postage	528	528	653	(125)
Printing	49	49	-	49
Public Regulation Commission	20	20	-	20
Software Support	633	633	634	(1)

**STATE OF NEW MEXICO**  
**CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**  
**Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)**  
**Year Ended December 31, 2011**

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
<b>Expenses (cont'd):</b>				
Storage Unit	\$ 450	\$ 450	\$ 375	\$ 75
Supplies	509	509	706	(197)
Wire Transfer Fee	-	-	12	(12)
WTB Grant Application	-	-	560	(560)
Penalties and Interest	12	12	-	12
Accounting	541	541	541	-
Bookkeeping	10,248	10,248	10,248	-
Stenographer	1,200	1,200	495	705
Water Operator	8,800	8,800	13,942	(5,142)
Meter Reader	3,276	3,276	3,276	-
Conservation Fee	245	245	51	194
Corporate Income Tax	62	62	50	12
Gross Receipts	3,240	3,240	3,145	95
Property Taxes	4	4	4	-
State Income Taxes	50	50	-	50
Electricity	4,080	4,080	4,312	(232)
CPI Adjustment	532	532	710	(178)
	<u>67,447</u>	<u>67,447</u>	<u>77,805</u>	<u>(10,358)</u>
<b>Total expenses</b>				
<b>Excess revenues over (under) expenses</b>	<u>\$ 1,256</u>	<u>\$ 1,256</u>	<u>\$ (4,606)</u>	<u>\$ (5,862)</u>

**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2011**

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	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
<b>Current Year Findings:</b>			
Budget Submission/Approval and Quarterly Financial Reports	D	2010-1	2010-1
Capital Assets Inventory	D	2010-2	2010-2
Late Report	D	2010-3	2010-3
Payments to Board Members	D	N/A	2011-1
<b>Follow-up on Prior Year Findings:</b>			
Budget Submission/Approval and Quarterly Financial Reports	D	2010-1	2010-1
Capital Assets Inventory	D	2010-2	2010-2
Late Report	D	2010-3	2010-3

**\* Legend for Findings:**

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

**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2011**

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**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 Department of Finance and Administration-Local Government Division (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 states that every local public body shall make all reports as may be required by the DFA-LGD and conform to the rules and regulations adopted by the DFA-LGD. Section 6-6-6 NMSA 1978 states that when any budget for a local public body has been approved, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof.

**Condition**

The Cañoncito at Apache Canyon Mutual Domestic Water Association (CaACMDWA) did not submit a 2011 budget for DFA-LGD approval nor did they submit required quarterly financial reports to the DFA-LGD at any time during the year or at year end. This is a repeat finding from the agreed-upon procedures report from the year ended December 31, 2010.

**Cause**

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

**Effect**

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

**Recommendation**

We again recommend that the CaACMDWA 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 again also recommend that the CaACMDWA submit quarterly financial reports, as required, to DFA-LGD.

**Entity Response**

"We were not aware that the budget had to be submitted to DFA for initial approval nor that quarterly financial submissions were required.

**Corrective Action Plan** - All annual budgets will be prepared by the Accounts Manager in October and the budget will be submitted to the Board for approval in November. Budget will be submitted to DFA for initial approval by December 1<sup>st</sup>. All quarterly financial reports will be submitted as required."

**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2011**

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**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 Cañoncito at Apache Canyon Mutual Domestic Water Association (CaACMDWA) did not maintain a capital asset listing or performed a yearly inventory as required by Section 12-6-10 NMSA 1978. This is a repeat finding from the agreed-upon procedures report from the year ended December 31, 2010.

**Cause**

The CaACMDWA was not aware of the statute requirements.

**Effect**

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

**Recommendation**

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

**Entity Response**

"The association was not aware that a capital asset inventory listing needed to be done.

**Corrective Action Plan** - An inventory listing will be done by the Board and water operator around the end of 2016 and will be approved by the Board at the following board meeting. The inventory listing will be updated as needed by the Accounts Manager with Board approval."

**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2011**

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**2010-3**

**Late Report**

**Criteria**

Office of the State Auditor, Rule 2011, Section 2.2.2.16.H, requires that local public bodies with a fiscal year end other than June 30 must submit the agreed upon procedures report no later than five months after the fiscal year end.

**Condition**

The Cañoncito at Apache Canyon Mutual Domestic Water Association (CaACMDWA) has a December 31 year end but the agreed upon procedures report was submitted more than five months after the end of the fiscal year. This is a repeat finding from the agreed-upon procedures report from the year ended December 31, 2010.

**Cause**

Previously, the CaACMDWA did not have sufficient funding to contract for required agreed-upon procedures reports. Once the CaACMDWA was approved for funding through a State Auditor appropriation in FY 15, the CaACMDWA began the process of contracting for all required agreed-upon procedures engagements.

**Effect**

The CaACMDWA has not complied with Office of the State Auditor, Rule 2011, Section 2.2.2.16.H.

**Recommendation**

We again recommend that the CaACMDWA submit all future agreed-upon procedures reports by the required deadline.

**Entity Response**

"The association did not have the funding to follow the requirements set forth by the OSA, therefore, the forms were not submitted to the OSA and the agreed upon procedures were not done this year.

**Corrective Action Plan** - The Accounts Manager will ensure that the required forms are submitted to OSA by January 1<sup>st</sup> of the following year and the agreed upon procedures are conducted and submitted to OSA by June 1<sup>st</sup>."

**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2011**

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2011-1

**Payments to Board Members**

**Criteria**

Internal Revenue Code Section 3401 (c) defines employee to include an "officer, elected official of any political subdivision thereof, or any agency of instrumentality. Case law provides further support in that governmental officials have been delegated sovereign powers of a government to be exercised for the benefit of the public. They render services defined by law and functions established by and for the position held. An official's actions are controlled by the "position" with the governmental entity. Hence, the employer-employee relationship exists and board members are employees.

**Condition**

The Canoncito at Apache Canyon Mutual Domestic Water Association (CaACMDWA) pays their board members for various services but does not treat these payments as employee wages and, therefore, does not withhold, match FICA or Medicare or pay in payroll taxes. There were two instances noted in the expenditure sample.

**Cause**

The CaACMDWA was not aware of the requirements of Internal Revenue Code Section 3401 (c).

**Effect**

The CaACMDWA has not complied with Internal Revenue Code Section 3401 (c).

**Recommendation**

We recommend that CaACMDWA treat Board member payments as employee wages to comply with Internal Revenue Code Section 3401 (c).

**Entity Response**

"The Association was paying a stipend to board members for meeting attendance and mileage. We were not aware that the stipend was to be treated as a paycheck and when we were informed of this, all stipends were discontinued.

**Corrective Action Plan** - Stipends to board members have been discontinued."



**STATE OF NEW MEXICO  
CAÑONCITO AT APACHE CANYON MUTUAL DOMESTIC WATER ASSOCIATION**

**Exit Conference  
Year Ended December 31, 2011**

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**EXIT CONFERENCE**

The report contents were discussed at a telephonic exit conference held on January 25, 2016 with the following:

Cañonito at Apache Canyon Mutual Domestic Water Association

By telephone:

Rita Gurule, Board President  
Ana Berry, Accounts Manager

Accounting Firm

James R. (Jim) Macias, CPA