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Cerro Regional Mutual Domestic Water Consumers Association
Independent Accountant's Report on Applying Agreed-Upon Procedures
For the Fiscal Year Ended December 31, 2012

Cerro Regional Mutual Domestic Water Consumers Association
Table of Contents
Fiscal Year Ending December 31, 2012

	<u>Page</u>
Table of Contents	i
Official Roster	ii
Independent Accountant's Report	1
Schedule of Capital Outlay Awards	5
Schedule of Findings and Responses	6
Exit Conference	9

**Cerro Regional Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2012**

Board of Directors

Vilma Bailon, President

Michael Montoya, Vice President

Paul Quintana, Secretary/Treasurer

Daniel Quintana, Board Member

Gene Garcia, Board Member

Marshall Bailon, Board Member

Administrative Staff

None

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P.O. Box 24164
Santa Fe, NM 87502
Office: 505.920.4024
Fax: 505.984.8088
nmauditors@gmail.com

Independent Accountant's Report on Applying Agreed-Upon Procedures

Vilma Bailon, President
Cerro Regional Mutual Domestic Water Consumers Association
and
Honorable Hector H. Balderas
New Mexico State Auditor

I have performed the procedures enumerated below for the Cerro Regional Mutual Domestic Water Consumers Association (Association) for the year ended December 31, 2012, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 3 entity per Section 12-6-3 B (3) 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. Test all state-funded capital outlay expenditures:
 - 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.

All of the cash disbursements for the capital award project were tested. The amounts 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.

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

The cash disbursements tested were properly authorized and approved in accordance with the project budget, legal requirements and the Association's procurement 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).

For the work done on the project, the Association advertised, obtained bids and quotes where necessary, and entered into contracts and purchase agreements in accordance with its procurement policies and applicable state laws and regulations.

- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.

The project work done was physically observed at the Association.

- 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.

The Engineer's Construction Status Reports were submitted to the NM Environment Department (NMED) with the disbursement request forms, contractor's invoices and partial payment estimates. The status reports generally agreed with the Association's ledger and supporting documentation. See the results of procedure #5.

- 2. 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.

The project was not funded in advance.

- 3. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.

According to the grant agreement with NMED, any remaining unexpended balance will revert to the State of New Mexico on June 30, 2012. The \$60,000 appropriation to the Association was not fully expended by the Association. The unexpended balance of \$760.18 was reverted on August 22, 2012.

4. 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.

The checks received from the NMED were deposited in the Association's checking account at Centinel Bank in Taos, NM. The grant agreement did not require a separate fund or separate non-interest bearing bank account to deposit the amounts received.

5. 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.

The disbursement requests were supported by invoices and contractor's pay estimates submitted to the Association for work done on the project. The costs were not paid by the Association prior to the request for reimbursement because the Association did not have the necessary funds. The Association made two payments to the contractors totaling \$26,156.44 after they received the warrants from NMED. The NMED also made two payments totaling \$33,083.38 directly to the contractors. A finding was not considered necessary since the Association complied with NMED's disbursement request procedures.

6. 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.

See Findings 2012-1 and 2012-2 on p. 6-8 of this report.

7. The report shall include the capital outlay amount awarded, amount received, amount expended, the remaining balance, and the actual legislation and effective dates for each capital outlay appropriation that meets the Tier 3 criteria.

See Exhibit 1 – Schedule of Capital Outlay Awards to Association on p. 5 of this report.

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 3 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 of the Association, the New Mexico State Auditor, the NM Environment Department, the NM Department of Finance and Administration – Local Government Division, and the NM 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
December 3, 2014

Exhibit 1 - Schedule of Capital Outlay Awards to Association

1

Amount Awarded for Project	\$ 60,000.00
Amount Received/Expended by Association	(59,239.82)
Amount Reverted to State	<u>(760.18)</u>
Remaining Balance	<u>\$ -</u>

Agreement Provisions

1 - Grant Agreement between the NM Environment Department and the Cerro Regional Mutual Domestic Water Consumers & Sewage Works Association

Legislative Authority: NM Laws of 2008, Chapter 92, Section 48, Subsection 120

Date of Grant Agreement with NMED: September 23, 2008

Project Description: To plan, design and construct water line improvements, including water meters for the Cerro Regional Mutual Domestic Water Consumers and Sewage Works Association in Taos County.

Estimated Project Cost: \$862,000

Grant agreement termination/reversion date: June 30, 2012

Cerro Regional Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012

Status of Prior Year Findings

Not applicable.

Current Year Findings

Finding 2012-1. Late Submission of IPA Recommendation Form and Agreed-Upon Procedures Contract to OSA

Condition

The IPA recommendation form and the agreed-upon procedures contract with a CPA firm for FY12 were not submitted to the NM Office of the State Auditor (OSA) by the due date of January 1, 2013. The required forms weren't submitted to the OSA until September 2014.

Criteria

According to State Audit Rule, Section 2.2.2.16.D (6) NMAC, "Local public bodies with a fiscal year end other than June 30 must use an IPA Recommendation Form and contract due date of one day after the end of the fiscal year."

Effect

If the contract recommendation forms are late, the agreed-upon procedures report will probably be late. If the agreed-upon procedures report is late, users of the report are not receiving timely information about the results of the agreed-upon procedures.

Cause

Until 2014, the President of the Association stated that she was unaware of the state laws and regulations (2.2.2.16 NMAC) requiring the agreed-upon procedures.

According to State Audit Rule, Section 2.2.2.16.B NMAC, "Annually, the State Auditor shall provide local public bodies written authorization to proceed with obtaining services to conduct a financial audit or other procedures." However, the OSA did not send the written authorization to proceed to agencies with fiscal years ending on December 31.

Recommendation

The board members 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 selecting and contracting with a CPA firm to perform the agreed-upon procedures. For future fiscal

Cerro Regional Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012

years, if the Association's annual revenue is less than \$50,000 and the Association expended at least 50% of, or the remainder of, a single capital outlay award, then the Association shall procure services of an IPA for the performance of a Tier 3 Agreed Upon Procedures engagement (Section 2.2.2.16.B(3) NMAC). If the annual revenues of the Association exceed \$50,000, review Section 2.2.2.16 NMAC for the applicable requirements; if you have any questions about the State Audit Rule, call the OSA at (505) 476-3800. If agreed-upon procedures are required for future fiscal years, the Association should take the necessary steps to ensure that it selects a CPA firm and submits the IPA recommendation form and proposed contract to the OSA by the first day after the end of the Association's fiscal year (January 1).

Association's Response

In 2005, Vilma Bailon became the President of the Association and the Cerro Regional MDWCA has received capital outlay funding. The Association and the President were not aware that these procedures needed to be completed. The President does not recall getting any information from OSA or the Legislature regarding these procedures. The Association was not aware of the State Audit rules and regulations. If this would have been known to the CRMDWA, this would have not happened.

After completing this audit with Accounting & Auditing Services, LLC and bringing this to our attention, the Association will abide with the State Audit Rules and Regulations in the future, including the submission of the IPA recommendation form and contract by the due date. The CRMDWA has not received any capital outlay funding for 2013 and 2014.

Finding 2012-2. Late Agreed-Upon Procedures Report

Condition

This agreed-upon procedures report for FY12 was not submitted to the NM Office of the State Auditor (OSA) by the due date of May 31, 2013. The report was submitted to the OSA on November, 2014.

Criteria

According to State Audit Rule, Section 2.2.2.16 (H) NMAC, "Local public bodies with a fiscal year-end other than June 30 must submit the agreed-upon procedures report no later than 5 months after the fiscal year-end."

Cerro Regional Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012

Effect

If the report is late, users of the report are not receiving timely information about the results of the agreed-upon procedures.

Cause

Until 2014, the President of the Association stated that she was unaware of the state laws and regulations (2.2.2.16 NMAC) requiring the agreed-upon procedures. The Association did not select a CPA firm to perform the agreed-upon procedures until September 2014.

Recommendation

The board members 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, if the Association's annual revenue is less than \$50,000 and the Association expended at least 50% of, or the remainder of, a single capital outlay award, then the Association shall procure services of an IPA for the performance of a Tier 3 Agreed Upon Procedures engagement (Section 2.2.2.16.B(3) NMAC). If the annual revenues of the Association exceed \$50,000, review Section 2.2.2.16 NMAC for the applicable requirements; if you have any questions about the State Audit Rule, call the OSA at (505) 476-3800. If agreed-upon procedures are required for future fiscal years, the Association should take the necessary steps to ensure that the agreed-upon procedures report is submitted to the OSA by May 31.

Association's Response

In 2005, Vilma Bailon became the President of the Association and the Cerro Regional MDWCA has received capital outlay funding. The Association and the President were not aware that these procedures needed to be completed. The President does not recall getting any information from OSA or the Legislature regarding these procedures. The Association was not aware of the State Audit Rules and Regulations. If this would have been known to the CRMDWA, this would have not happened.

After completing this audit with Accounting & Auditing Services, LLC and bringing this to our attention, the Association will abide with the State Audit Rules and Regulations in the future, including the submission of the agreed-upon procedures report by the due date. The CRMDWA has not received any capital outlay funding for 2013 and 2014.

**Cerro Regional Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ended December 31, 2012**

On December 3, 2014, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Cerro Regional Mutual Domestic Water Consumers Association

Vilma Bailon, President

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager