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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, 2016

Cerro Regional Mutual Domestic Water Consumers Association
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Fiscal Year Ending December 31, 2016

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**Cerro Regional Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2016**

Board of Directors

Vilma Bailon, President

Michael Montoya, Vice President

Paul Quintana, Secretary/Treasurer

Daniel Quintana, Board Member

Eugene Garcia, Board Member

Marshall Bailon, Board Member

Administrative Staff

None

Independent Accountant's Report on Applying Agreed-Upon Procedures

Vilma Bailon, President
Cerro Regional Mutual Domestic Water Consumers Association
and
Timothy Keller, 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, 2016, 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. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

Based on the Association's final budgetary comparison schedule, total revenues for the fiscal year ending December 31, 2016 were \$17,088 (excluding the capital outlay grant). Based on this information, the Association was properly determined to be a Tier 3 entity for FY16 since their total revenues were less than \$50,000 and they expended the remaining balance of a capital outlay grant during FY16.

2. Perform the following tests on 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 purchase orders, invoices, contracts and canceled checks, as applicable.

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Santa Fe, NM 87502
Office: 505.920.4024
nmauditors@gmail.com

- b. Determine that the 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 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

None of the constructions services purchased for the project required an invitation for sealed bids or a request for proposals. However, the Association does not have any written procurement policies and procedures. See Finding 2016-001 on p. 7.

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

The completed project work was physically observed on August 4, 2017. The work done agreed with the project description and contractor's invoices.

- e. Verify that status reports were submitted to the state agency charged with oversight per the terms of agreement and verify that the amounts in the status report agree with the general ledger and other supporting documentation.

The Association did not provide evidence showing that the status reports were submitted to the NMED. See Finding 2016-002 on p. 8.

3. 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.

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

As of December 31, 2016, the \$50,000 appropriation was fully expended by the Association.

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5. 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.

6. 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 Association submitted two disbursement request forms to the NMED (#1 dated 12/31/15 for \$17,116.84 and #2 dated 8/23/16 for \$32,883.16) which were supported by invoices submitted to the Association for materials and 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 seven payments to vendors and contractors totaling \$50,000 after they received the grant checks from the NMED.

7. 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 all required detailed in Section 2.2.2.10 (L) NMAC.

The Association did not submit the agreed-upon procedures contract and report to the NM Office of the State Auditor by the required due dates. See Finding 2012-1 on p. 6.

8. 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 the Schedule of Capital Outlay Awards on p. 5.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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This report is intended solely for the information and use of management of the Association, the NM 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

August 22, 2017

**Cerro Regional Mutual Domestic Water Consumers Association
 Schedule of Capital Outlay Awards
 For the Fiscal Year Ending December 31, 2016**

	1
Amount Awarded for Project	\$ 50,000.00
Amount Received and Expended in 2016	(50,000.00)
Remaining Balance	\$ -

Agreement Provisions

**1 - Grant Agreement Between the New Mexico Department of Environment and the
 Cerro Regional MDWC&SWA
 Fund 89200 Capital Outlay Appropriation Project #14-1708-STB**

Legislative Authority: NM Laws of 2014, Chapter 66, Section 16, Paragraph 117

Date of Agreement: July 29, 2015

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

Estimated Project Cost: \$64,760

State Grant Amount: \$50,000

Agreement termination/reversion date: June 30, 2018

**Cerro Regional Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Status of Prior Year Findings

Finding 2012-001. Late Submission of IPA Recommendation Form and Agreed-Upon Procedures Contract to OSA – Revised and Repeated.

Current Year Findings

Finding 2012-001. Late Agreed-Upon Procedures Contract and Report

Condition

For the fiscal year ending December 31, 2016, the Association did not submit an agreed-upon procedures contract with a CPA firm to the NM Office of the State Auditor (OSA) by the due date of December 1, 2016. The Association submitted the contract information to the OSA on July 25, 2017.

Also, the agreed-upon procedures report for the fiscal year ending December 31, 2016 was not submitted to the OSA by the due date of June 1, 2017. This agreed-upon procedures report was submitted to the OSA in August 2017.

The Association did not make any progress to correct the prior year finding.

Criteria

According to the State Audit Rule, Section 2.2.2.16.D (6) NMAC, the Association should have submitted the agreed-upon procedures contract to the State Auditor by December 1, 2016.

According to the State Audit Rule, Section 2.2.2.16.G (1) 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."

Effect

Since the Association did not submit the agreed-upon procedures contract to the OSA until July 25, 2017, the agreed-upon procedures report was not submitted by the required due date of June 1, 2017.

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

**Cerro Regional Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Cause

The President of the Board stated that she was extremely busy and forgot to submit the contract to the OSA by the due date.

Recommendation

The Board of Directors should read Section 2.2.2.16 NMAC of State Audit Rule 2017 to understand the specific requirements and due dates for agreed-upon procedures. For each fiscal year, 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.

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 during the fiscal year, the Association shall procure the services of an IPA for the performance of Tier 3 Agreed Upon Procedures as required by Section 2.2.2.16.B(3) NMAC.

Since the Association's current fiscal year-end is December 31, the Association should take the necessary steps to ensure that future agreed-upon procedures contracts are submitted to the State Auditor by December 1, and the agreed-upon procedures report by the following June 1st.

Management's Response

The Cerro Regional MDWCA board of directors will have a meeting on September 3, 2017 to discuss the necessary agreed-upon procedures for FY17. If agreed-upon procedures are required, Vilma Bailon, President, will procure the services of an IPA and submit the agreed-upon procedures contract to the OSA by December 1, 2017. The President will also ensure that the agreed-upon procedures report is submitted to the OSA by the following June 1st.

Finding 2016-001. No Written Procurement Policies and Procedures

Condition

The Association does not have any written procurement policies and procedures to control the procurement of goods and services and ensure compliance with the State Procurement Code.

**Cerro Regional Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Criteria

Adequate procurement policies and procedures provide for the fair and equal treatment of all persons involved in public procurement, maximize the purchasing value of public funds and provide safeguards for maintaining a procurement system of quality and integrity.

Effect

Without any procurement policies and procedures, the Association may not be getting the best obtainable price for the purchase of goods and services, and the Association is at risk of noncompliance with the State Procurement Code.

Cause

The District's Board of Directors was unaware of the need to establish written procurement policies and procedures.

Recommendation

The Board of Directors should establish and implement written procurement policies and procedures to ensure compliance with the State Procurement Code (Sections 13-1-28 through 13-1-199 NMSA 1978). For the purchase of all goods and services, the Association should consider adopting the State Procurement Code Regulations (1.4.1 NMAC). The procurement policy should include a record retention policy whereas all procurement decisions and documentation shall be filed, retained and safeguarded for at least three years after the end of the fiscal year in which the procurement occurred.

Management's Response

By the end of August 2017, Vilma Bailon, President, will contact Tom Dixon, Budget Analyst, at DFA-LGD, to obtain a procurement policy template. The Board of Directors will then have a board meeting on September 3, 2017 to develop and adopt the procurement policies and procedures for the Association.

Finding 2016-002. Non-Submission of Project Status Reports

Condition

The Association did not submit the project status reports and final report to the New Mexico Environment Department (NMED).

**Cerro Regional Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Criteria

Article VIII.A (Reports) of the grant agreement between the Association and NMED states that the Association shall submit paper periodic reports and a final report to the NMED for the project work.

Effect

The NMED did not receive the required status reports from the Association to adequately monitor the grant and project activity.

Cause

The President of the Association stated that she was unaware of the requirement to submit the status reports to the NMED.

Recommendation

For future capital outlay grant agreements, the Association's Board of Directors should thoroughly read the grant agreement to understand all of the reporting requirements. The Board of Directors should develop and implement a procedure to ensure that all required project status reports are submitted to the granting agency by the required due date in accordance with the terms of the grant agreement.

Management's Response

Vilma Bailon, President, will read the grant agreement more carefully. By the end of August 2017, the President will contact Tom Brant, Project Manager, NMED, to fully understand the requirements for status reports. Starting in September 2017, Vilma Bailon, President or Daniel Quintana, Board Member, will submit the project status reports to NMED as required by the grant agreement.

Cerro Regional Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ended December 31, 2016

On August 22, 2017, 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, General Manager