

STATE OF NEW MEXICO

**GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

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

**For the Year Ended
June 30, 2013**

James L. Hartogenesis, CPA LLC

Certified Public Accountant

**STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

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STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
OFFICIAL ROSTER
JUNE 30, 2013

Board of Directors

<u>Name</u>	<u>Title</u>
Mark Trujillo	President
Shelley Winship	Vice-President
Geraldine Baca	Treasurer

General Counsel

Ted Trujillo	General Counsel
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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To: Board of Directors
Greater Chimayo Mutual Domestic
Water Consumers Association
and
Honorable Timothy M. Keller
New Mexico State Auditor
Santa Fe, New Mexico

I have performed the procedures enumerated below which were agreed to by State of New Mexico Greater Chimayo Mutual Domestic Water Consumers Association ("Association") and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its Cash, Capital Assets, Revenues, Expenditures, Journal Entries, and Budget information and its compliance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended June 30, 2013. The Association is responsible for its financial reporting as described above. 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, I 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.

In accordance with Tier 4 of the Audit Act – Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC, my procedures and associated 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. For purposes of performing my procedures "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the Association.

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 Department of Finance & Administration - Local Government Division (DFA-LGD). For purposes of performing my procedures "accuracy" means that reconciling items agree to deposit slips and subsequent bank or investment statements, and the reconciliations are mathematically correct.

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

All bank reconciliations were completed timely, and all bank statements were on-hand. 2 months for each account, for a total of 4 reconciliations, were selected for additional testing. All 4 reconciliations were accurate, and balances agreed to the general ledger and bank statements. Cash balances were not reported to DFA-LGD, see finding 2009-006. The Association's savings account had an uninsured balance throughout the fiscal year, ranging from \$84,805 on July 1, 2012 to \$107,865 on June 30, 2013. No pledged collateral was noted, see finding 2011-003.

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

The Association did not perform a yearly inventory as required by Section 12-6-10 NMSA 1978, see finding 2009-004.

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 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.

Findings

Analytical test work showed variances but the variances were adequately explained by performing additional analysis. A sample of 24 cash receipts were tested. All deposits were agreed to billing reports and the general ledger without exception.

4. EXPENDITURES

Procedures

Select a sample of cash disbursements based on auditor judgment 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 cancelled check, 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

24 disbursements were tested. There was no invoice provided for 10 of 24 disbursements, totaling \$106,965. See finding 2010-003. Approvals were not documented for 14 of 24 disbursements tested, totaling \$126,961. See finding 2010-003. Documentation of procurement was not provided for 7 of 24 disbursements tested to 4 different vendors in the amount of \$158,562. See finding 2010-004.

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

Complete documentation of journal entries was not provided, see finding 2010-005. 5 general journal postings to cash were noted on the bank reconciliations for bank charges and were properly supported by the bank statements. No approvals were noted, see finding 2010-005.

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

Actual expenses exceeded budgeted expenses by \$356,748, see finding 2013-001.

7. OTHER

Procedures

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.

Findings

The Association did not complete an auditor recommendation or submit their annual agreed-upon procedures report to the Office of the State Auditor by the statutory deadline. See finding 2009-002 (2008-01) in the accompanying schedule of findings and responses.

No other findings were noted.

I was not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Association's financial reporting to the State Auditor as described above. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of State of New Mexico Greater Chimayo Mutual Domestic Water Consumers Association, New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico

August 31, 2016

SCHEDULE OF REVENUES AND EXPENSES

BUDGET AND ACTUAL (CASH BASIS)

**STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CASH BASIS)
Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
REVENUES:				
Charges for services	\$ 130,000	\$ 130,000	\$ 118,899	\$ (11,101)
Grants and contracts	-	-	95,729	95,729
Other income	<u>800</u>	<u>800</u>	<u>405</u>	<u>(395)</u>
Total revenues	<u>\$ 130,800</u>	<u>\$ 130,800</u>	<u>\$ 215,033</u>	<u>\$ 84,233</u>
EXPENDITURES:				
Professional fees	\$ 47,432	\$ 47,432	\$ 36,432	\$ 11,000
Operating expenses	37,900	37,900	252,251	(214,351)
Business expenses	27,650	27,650	39,601	(11,951)
Construction	-	-	140,776	(140,776)
Debt service	<u>17,818</u>	<u>17,818</u>	<u>18,488</u>	<u>(670)</u>
Total expenditures	<u>\$ 130,800</u>	<u>\$ 130,800</u>	<u>\$ 487,548</u>	<u>\$ (356,748)</u>

**STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Current Year Findings

2009-002 (2008-01) – Late Audit Report and Recommendation (Significant Deficiency, Noncompliance)

Condition: The Association did not submit their 2013 agreed-upon procedures report to the Office of the State Auditor by November 30, 2013, the due date of the report. In addition, the auditor recommendation for 2013 was not submitted to the State Auditor until July 2016.

Criteria: 2.2.2 NMAC (State Audit Rule) requires submission of auditor recommendations at least 30 days prior to year-end, or by May 31, 2013. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or November 30, 2013.

Cause: The Association did not recommend and contract with an audit firm until January 2016.

Effect: The Association was not in compliance with the State Audit Rule, which could impact its ability to receive grants from federal and state sources.

Recommendation: The Association should prepare the annual auditor recommendation by May 31 of each year and submit it to the Office of the State Auditor. The Association should also institute policies and procedures that will enable it to complete their annual audit within five months after year-end.

Agency's Response: The current Board (as of September 2014) recognizes the need to comply with State auditing rules. While the current Board cannot speak in behalf of the former GCMDWCA Board of Directors, it was clear, based on documents and correspondences within the office, that the audit requirement was clearly known, but appeared not to be an immediate priority. A CPA was retained but did not produce any substantive report(s). Under the newly elected Board of Directors we have identified this requirement and are actively addressing and budgeting the completion of all required audits to remain compliant. GCMDWCA has further developed a schedule to ensure time lines are met to solicit an independent State approved Certified Public Accountant (CPA) to complete our annual audit requirements. Further, since assuming responsibility for the operation of the system, the present Board has prioritized the need for Audit and has since released Robert Rivera, the former CPA from the process and GCMDWCA went out on RFP for services of auditors who would do audits of small water systems. GCMDWCA was able to finally enlist the present CPA, Mr. James Hartogensis to complete the 2013 audit.

STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2013

Current Year Findings - continued

2009-004 - Capital Asset Inventory Not Completed (Significant Deficiency, Noncompliance)

Condition: The Association did not perform an inventory of capital assets for the year ended June 30, 2013.

Criteria: Section 12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory.

Cause: The Association was not aware of this statutory requirement.

Effect: Lack of an annual inventory of capital assets may prevent the Association from properly safeguarding their assets. Timely replacement of unusable or obsolete assets may be prevented, which could affect the overall operation of the water delivery system.

Recommendation: The Association should complete an inventory of their capital assets annually, on or near year-end. The inventory should include all intangible assets, equipment and infrastructure owned by the Association, and it should be certified by management in accordance with state statute.

Agency's Response: GCMDWCA will correct this deficiency by completing and certifying an annual inventory of its capital assets.

2009-006 – DFA Reporting (Noncompliance)

Condition: The Association did not submit a budget to the New Mexico Department of Finance & Administration (DFA) – Local Government Division for certification. As a local public body, the Association is also required to transmit operating results quarterly to DFA, which were not submitted.

Criteria: Section 6-6-2 NMSA 1978 requires all local public bodies to submit their operating budget annually to DFA Local Government Division for certification. DFA also requires quarterly reporting by all agencies on prescribed forms.

Cause: The Association was not aware of the reporting requirements imposed by statute and DFA.

STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2013

Current Year Findings - continued

2009-006 – DFA Reporting (Noncompliance) - continued

Effect: DFA – Local Government Division lacked the necessary information to perform their oversight duties required by state statute.

Recommendation: I recommend the Association establish contact with their DFA budget analyst to determine what reports are required and whether retroactive reporting will be required. The Association should also institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

Agency's Response: GCMDWCA has established an excellent relationship with the assigned NM DFA-LGD Budget Analyst, Mr. Tom Dixon, with whom all budgetary reporting requirements and compliance issues are dispositioned.

2010-003 Lack of Supporting Documents and Approvals for Operating Disbursements (Significant Deficiency)

Condition: 10 out of 24 operating disbursements tested, totaling \$106,965, had no invoice or other supporting documentation retained by the Association. 14 of 24 operating disbursements, totaling \$126,961 had no documented approval.

Criteria: Proper internal controls dictate that a disbursement should only be made once the invoice is received and applicable authorizations are complete. These steps should be documented and the paperwork retained.

Cause: The Association did not retain documentation of invoices and approvals for disbursements for operating expenses.

Effect: Disbursements may be made that are not properly approved. The Association may be subject to fraud waste or abuse by not properly authorizing and retaining documentation for every transaction.

Recommendation: The Association should adopt a policy that outlines procedures for the authorization, documentation and retention of all disbursements, whether made by an outside entity or by the Association.

Agency's Response: GCMDWCA will develop a policy where all incoming and outgoing disbursements are duly documented, authorized and recorded for record keeping and archival purposes.

STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2013

Current Year Findings - continued

2010-004 Procurement Violations (Noncompliance, Significant Deficiency)

Condition: The Association could not provide evidence of procurement for 7 of 7 disbursements tested that were subject to procurement, in the amount of \$158,562.

Criteria: Agencies are required to comply with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) in order to obtain the best available terms for construction and professional service contracts.

Cause: The Association relied on a contract engineering firm to provide procurement services. Documentation was not retained relating to advertising for bids, bids received and bids awarded.

Effect: It could not be determined whether the Association received the best available terms for their construction contracts and other purchases. The Association may be exposed to fraud, waste or abuse of taxpayer monies.

Recommendation: I recommend the Association implement a procurement policy that complies with the state procurement code, and provides for retention of all documents related to each procurement.

Agency's Response: GCMDWCA, at the time relied on the past performance and reputation of the Engineering firm, at the time, to receive the best value for the money. Procurements were vetted to the Association for review and approval prior to taking action. During this period there were several state entities that were also cognizant of the vetting and selection process. Nonetheless, GCMDWCA will work with the Engineer of Record to produce documentation related to the advertising of bids, selection and award. The awards were done in accordance with NM procurement code. GCMDWCA, in principle does not agree with this finding and will research this further.

2010-005 – No Documentation or Approval of Journal Entries (Significant Deficiency)

Condition: Journal entries are prepared and posted to the general ledger by the Association's accountant with no supporting documentation and without review and approval from a board member. Supporting documentation, including approvals and other backup, was not retained.

STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2013

Current Year Findings - continued

2010-005 – No Documentation or Approval of Journal Entries (Significant Deficiency) – continued

Criteria: Because journal entries are a way to override the accounting system, organizations should always implement strong internal controls to mitigate the risk of material misstatements from journal entries. Section 12-6-3 B (6) NMSA 1978 requires the independent public accountant to determine whether the local public body has procedures in place that requires journal entries to be reviewed, and that evidence of the review is documented.

Cause: The Association does not have a policy or procedure in place that requires document retention, and board review and approval of journal entries prior to posting to the Association's books.

Effect: Without a policy for retaining, reviewing and approving journal entries, there is an increased risk that a material misstatement in the Association's financial statements will not be prevented, detected or corrected.

Recommendation: I recommend the Association adopt a policy for documenting, reviewing and approving journal entries prior to recording them in the general ledger. I also recommend the Association review other existing accounting policies and procedures to ensure all transactions that are recorded in the financial statements are properly authorized and documented.

Agency's Response: GCMDWCA will adopt a policy for documenting, reviewing and approving journal entries prior to recording them in the general ledger. GCMDWCA will ensure all transactions are recorded in the financial statements are properly authorized and documented.

2011-003 – Uninsured Bank Balance (Noncompliance)

Condition: During the year ended June 30, 2013, the Association's savings account balance exceeded insured amounts at the end of the month for 12 out of 12 months. There was no collateral pledged by the financial institution.

Criteria: Section 6-10-17 NMSA 1978 requires banks to pledge collateral equal to 50% of uninsured government bank balances. The Federal Deposit Insurance Corporation insured bank balances for \$100,000 until October 3, 2008, when it was raised to \$250,000.

Cause: The Association was unaware of statutory requirements related to uninsured bank balances.

STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2013

Current Year Findings - continued

2011-003 – Uninsured Bank Balance (Noncompliance) - continued

Effect: The Association was exposed to increased risk as a result of deposits exceeding insured amounts.

Recommendation: I recommend the Association become knowledgeable about state law regarding public monies and adopt a banking policy as part of its overall risk management policies. The policy should include a requirement that financial institutions pledge collateral equal to at least 50% of any uninsured deposits.

Agency's Response: GCMDWCA will become knowledgeable about state law banking policy as part of our overall risk management policy regarding public monies. GCMDWCA will adopt a policy that will include a requirement to at least 50% of any uninsured deposits.

2013-001 – Budget Overexpended (Significant Deficiency, Noncompliance)

Condition: Actual expenses exceeded budgeted expenses in the amount of \$356,748 at the fund level, which is the legal level of budgetary control.

Criteria: 2.2.2.10 P(1)(a) NMAC requires reporting a finding if actual expenditures exceed budgeted expenditures at the legal level of budgetary control. The budget is part of the internal controls of the organization, and a good system of internal controls requires budgeting for all sources and uses of funds.

Cause: The Association did not budget for construction and some professional services, and the budget was not amended to include those sources and uses of funds.

Effect: By not authorizing and monitoring a complete budget, including expenses paid for by an outside entity, unauthorized expenditures may occur and not be detected.

Recommendation: The Association should review their budgeted and actual expenses monthly, including all expenses funded by outside entities. If excess expenses are necessary, the Association should prepare and approve budget adjustments in a timely manner. If required, DFA approval should also be obtained for any adjustments to the budget.

STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2013

Current Year Findings - continued

2013-001 – Budget Overexpended (Significant Deficiency, Noncompliance) - continued

Agency's Response: The GCMDWCA currently conducts monthly budget review, for consideration and approval during its regular monthly board meeting, and if necessary Special Board meetings where unforeseen circumstances require budget adjustments. The Board adopts the motion by Resolution and where needed, seeks NMDFA approval where significant funding changes may be required.

**STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2013**

Prior Year Findings

Current Status

2009-002 (2008-01)-Late Audit Report and Recommendation	Repeated and modified
2009-004-Capital Asset Inventory Not Completed	Repeated and modified
2009-006 – DFA Reporting	Repeated and modified
2010-003-Lack of Supporting Documents and Approval for Operating Disbursements	Repeated and modified
2010-004-Procurement Violations	Repeated and modified
2010-005-No Documentation or Approval of Journal Entries	Repeated and modified
2011-002-Capital Outlay Noncompliance	Resolved
2011-003-Uninsured Bank Balance	Repeated and modified
2012-001-Budget Noncompliance	Resolved

**STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2013**

The report contents were discussed at an exit conference held on August 16, 2016 with the following in attendance:

Greater Chimayo Mutual Domestic Water Consumers Association

Paul Martinez	President
Benny Vigil Jr.	Vice-President
Ted Trujillo	General Counsel

James L. Hartogenesis, CPA LLC

James Hartogenesis, CPA, CGFM	Principal
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