

**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, 2014**

James L. Hartogenesis, CPA LLC

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Certified Public Accountant

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

Table of Contents

	Page
<b>Official Roster</b> .....	1
<b>Independent Accountants' Report on Applying Agreed-Upon Procedures</b> .....	2-6
<b>Schedule of Revenues and Expenses- Budget and Actual (Cash Basis)</b> .....	7
<b>Schedule of Findings and Responses</b> .....	8-13
<b>Status of Prior Year Findings</b> .....	14
<b>Exit Conference</b> .....	15

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
OFFICIAL ROSTER  
JUNE 30, 2014

**Board of Directors**

<u>Name</u>	<u>Title</u>
Mark Trujillo	President
Shelley Winship	Secretary
Geraldine Baca	Treasurer
John Isaacson	Director
Miguel de Silva	Director

**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, 2014. 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 \$107,865 on July 1, 2013 to \$78,875 on June 30, 2014. 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 performed a capital asset inventory as required by Section 12-6-10 NMSA 1978.

## **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 test work. A sample of 24 cash receipts were tested. All deposits were agreed to billing reports and the general ledger without exception. An additional 8 amounts were transferred from deferred revenue to local grant revenue, for a total of \$73,505. Of the 8 transfers, none had supporting documentation and 1 of the 8, in the amount of \$41,722, was not authorized. See finding 2014-001.

## **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 17 of 24 disbursements, totaling \$28,471. Approvals were not documented for 21 of 24 disbursements tested, totaling \$38,658. See finding 2010-003. Documentation of procurement was not provided for 5 of 24 disbursements tested to 4 different vendors in the amount of \$29,077. 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. 9 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**

The Association did not submit a budget to DFA-LGD for the current fiscal year. See finding 2009-003. No other budget violations were noted.

## 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, 2014**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
<b>REVENUES:</b>				
Charges for services	\$ 146,870	\$ 146,870	\$ 144,957	\$ (1,913)
Grants and contracts	661,000	661,000	73,505	(587,495)
Other income	<u>1,100</u>	<u>1,100</u>	<u>2,741</u>	<u>1,641</u>
Total revenues	<u>\$ 808,970</u>	<u>\$ 808,970</u>	<u>\$ 221,203</u>	<u>\$ (587,767)</u>
<b>EXPENDITURES:</b>				
Professional fees	\$ 275,750	\$ 275,750	\$ 133,382	\$ 142,368
Operating expenses	12,350	12,350	5,966	6,384
Business expenses	60,800	60,800	39,505	21,295
Construction	442,250	442,250	-	442,250
Debt service	<u>17,820</u>	<u>17,820</u>	<u>17,762</u>	<u>58</u>
Total expenditures	<u>\$ 808,970</u>	<u>\$ 808,970</u>	<u>\$ 196,615</u>	<u>\$ 612,355</u>

**STATE OF NEW MEXICO  
GREATER CHIMAYO MUTUAL DOMESTIC  
WATER CONSUMERS ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2014**

**Current Year Findings**

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

*Condition:* The Association did not submit their 2014 agreed-upon procedures report to the Office of the State Auditor by November 30, 2014, the due date of the report. In addition, the auditor recommendation for 2014 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, 2014. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or November 30, 2014.

*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 2014 audit.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2014

**Current Year Findings - continued**

**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.

*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:* 24 disbursements were tested. There was no invoice provided for 17 of 24 disbursements, totaling \$28,471. Approvals were not documented for 21 of 24 disbursements tested, totaling \$38,658.

*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.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2014

**Current Year Findings - continued**

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

*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.

**2010-004 Procurement Violations (Noncompliance, Significant Deficiency)**

*Condition:* The Association could not provide evidence of procurement for 5 of 5 disbursements tested that were subject to procurement, in the amount of \$29,077.

*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.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2014

**Current Year Findings - continued**

**2010-004 Procurement Violations (Noncompliance, Significant Deficiency) - continued**

*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.

*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.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2014

**Current Year Findings - continued**

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

*Condition:* During the year ended June 30, 2014, 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.

*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.

**2014-001 – Transfers Not Authorized or Supported (Significant Deficiency)**

*Condition:* 8 amounts were transferred from deferred revenue to local grant revenue, for a total of \$73,505. Of the 8 transfers, none had supporting documentation and 1 of the 8, in the amount of \$41,722, was not authorized.

*Criteria:* Proper internal control procedures include authorization of all transactions, including bank transfers, and retention of supporting documentation to support the transactions.

*Cause:* The Association did not retain documentation to support the transfers.

*Effect:* The Association was exposed to increased risk as a result of unauthorized and unsupported bank transfers.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2014

**Current Year Findings - continued**

**2014-001 – Transfers Not Authorized or Supported (Significant Deficiency) - continued**

*Recommendation:* I recommend the Association implement a policy to approve all transactions, including bank transfers. The policy should require that supporting documentation be retained for every transaction that occurs.

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



**STATE OF NEW MEXICO  
GREATER CHIMAYO MUTUAL DOMESTIC  
WATER CONSUMERS ASSOCIATION  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2014**

**Prior Year Findings**

**Current Status**

2009-002 (2008-01)-Late Audit Report and Recommendation	Repeated and modified
2009-003-Budget Compliance	Resolved
2009-004-Capital Asset Inventory Not Completed	Resolved
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
2011-003-Uninsured Bank Balance	Repeated and modified

**STATE OF NEW MEXICO  
GREATER CHIMAYO MUTUAL DOMESTIC  
WATER CONSUMERS ASSOCIATION  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2014**

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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