

**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, 2015**

James L. Hartogenesis, CPA LLC

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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, 2015

**Board of Directors**

<u>Name</u>	<u>Title</u>
Paul Martinez	President
Yvette Martinez	Vice-President/Secretary
Charlie Vigil	Treasurer
Minnie Miera	Member-at-Large

**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, 2015. 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. REVENUE DETERMINATION**

**Procedures**

Verify the local public body's revenue calculation and tier determination documented on the form provided at [www.osanm.org](http://www.osanm.org) under "Tier System Reporting Main Page".

**Results of Procedures**

The Association's revenue calculation and tier determination were verified as correct. Total revenue was \$202,633 which requires Tier 4 agreed-upon procedures.

## **2. 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. The Association's savings account had an uninsured balance during the fiscal year, ranging from \$78,875 on July 1, 2014 to \$44,743 on August 31, 2014. No pledged collateral was noted, see finding 2011-003. From September 16, 2014 through June 30, 2015, all bank balances were fully insured.

## **3. 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 capital asset inventory as required by Section 12-6-10 NMSA 1978. See finding 2015-001.

## **4. 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. A sample of 24 cash receipts were tested. All deposits were agreed to billing reports and the general ledger without exception.

## **5. 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 \$10,996. Approvals were not documented for 21 of 24 disbursements tested, totaling \$24,368. See finding 2010-003. There were no other exceptions.

## **6. 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. 8 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.

## **7. 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 was in compliance, no budget violations were noted.

## **8. 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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amount Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Charges for services	\$ 281,460	\$ 281,460	\$ 199,207	\$ (82,253)
Grants and contracts	625,000	625,000	-	(625,000)
Other income	<u>26,100</u>	<u>26,100</u>	<u>3,426</u>	<u>(22,674)</u>
Total revenues	<u>\$ 932,560</u>	<u>\$ 932,560</u>	<u>\$ 202,633</u>	<u>\$ (729,927)</u>
<b>EXPENDITURES:</b>				
Professional fees	\$ 316,700	\$ 316,700	\$ 155,227	\$ 161,473
Operating expenses	30,900	30,900	26,426	4,474
Business expenses	47,160	47,160	43,111	4,049
Construction	405,000	405,000	-	405,000
Capital expenses	100,000	100,000	-	100,000
Debt service	17,762	17,762	-	17,762
Transfers to reserves	<u>15,038</u>	<u>15,038</u>	<u>647</u>	<u>14,391</u>
Total expenditures	<u>\$ 932,560</u>	<u>\$ 932,560</u>	<u>\$ 225,411</u>	<u>\$ 707,149</u>

**STATE OF NEW MEXICO  
GREATER CHIMAYO MUTUAL DOMESTIC  
WATER CONSUMERS ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**Current Year Findings**

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

*Condition:* The Association did not submit their 2015 agreed-upon procedures report to the Office of the State Auditor by November 30, 2015, the due date of the report. In addition, the auditor recommendation for 2015 was not submitted to the State Auditor until July 2016. As of the date of this report, management has not yet complied with their prior year corrective action plan regarding this finding. The Association has contracted with an independent public accountant to perform 2016 agreed-upon procedures.

*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, 2015. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or November 30, 2015.

*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 Greater Chimayo MDWCA has adopted a policy for recommending and completing our annual audit by the statutory deadlines. The Board President is responsible for implementing the policy. Compliance with the Audit Rule is expected to be completed by submitting our FY16 audit to the Office of the State Auditor prior to the December 15, 2016 deadline. The Association will further submit Auditor recommendation to the Office of the State Auditor annually, no later than the first week of May.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2015

**Current Year Findings - continued**

**2009-006 – DFA Reporting (Noncompliance)**

*Condition:* The Association did not submit quarterly special district reports to the New Mexico Department of Finance & Administration (DFA) – Local Government Division for certification. As of the date of this report, management has not yet complied with their prior year corrective action plan regarding this finding. Contact with DFA has been established but management is waiting to file the required reports until they are current with the Audit Rule.

*Criteria:* DFA requires quarterly reporting by all agencies on prescribed forms.

*Cause:* The Association did not have the resources to comply with reporting requirements imposed by DFA.

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

*Recommendation:* I recommend the Association institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

*Agency's Response:* The Greater Chimayo MDWCA has adopted a policy/process for submitting the quarterly financial reports by the statutory deadlines. The Association accountant in coordination with the assigned NM DFA-LGD Budget Analyst, Mr. Tom Dixon have developed a reporting mechanism that ensures reporting requirements are timely, accurate and supported with supporting documentation. The Board President is responsible for implementing this policy/process which is already in effect. The timeline for adherence is immediate and verifiable.

**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. As of the date of this report, management has not yet complied with their prior year corrective action plan regarding this finding.

*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, 2015

**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:* The Greater Chimayo MDWCA has adopted a policy to ensure checks and balances are maintained. The original finding dates back to a previous group of board directors who, for whatever unknown reason, neglected to accurately document all transactions, both incoming and outgoing. All expenditures will be reviewed and documented by a minimum of two board members or designees (in our case the office manager) to ensure the integrity and accuracy of the expenditure. All incoming and outgoing payments are also subject to review and documentation by the Greater Chimayo MDWCA Billing contractor and Accountant for documentation and archival purposes. Further documentation is located in the Monthly or Special meeting minutes. The Board President is responsible for implementing this policy/process which is already in effect. The timeline for adherence is immediate and available for verification/inspection.

**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. As of the date of this report, management has not yet complied with their prior year corrective action plan regarding this finding.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2015

**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:* The Greater Chimayo MDWCA has adopted a policy to ensure journal entries reviewed and appropriately dispositioned. The original finding also dates back to a previous group of board directors who, for whatever unknown reason, neglected to ensure journal entries were appropriately handled. All journal entries will be subject to review and documentation by the Greater Chimayo Board and Accountant for documentation and archival purposes. Further review in the Monthly or Special meeting minutes will occur as well. The Board President is responsible for implementing this policy/process. The timeline for adherence is immediate and will be available for verification/inspection.

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

*Condition:* During the current fiscal year, the Association's savings account balance exceeded insured amounts at the end of the month for 2 out of 12 months. There was no collateral pledged by the financial institution. As of the date of this report, management has not yet complied with their prior year corrective action plan regarding this finding.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2015

**Current Year Findings - continued**

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

*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:* The Board President is responsible for implementing this policy/process. The Greater Chimayo MDWCA board will become knowledgeable on the laws about state banking policy and develop a banking policy as part overall risk management policy. This corrective action plan and internal policy shall be implemented within three months from the release date of this submittal.

**2015-001 - 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, 2015.

*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.

**STATE OF NEW MEXICO**  
**GREATER CHIMAYO MUTUAL DOMESTIC**  
**WATER CONSUMERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
YEAR ENDED JUNE 30, 2015

**Current Year Findings - continued**

2015-001 - Capital Asset Inventory Not Completed (Significant Deficiency, Noncompliance) - continued

*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:* The Board President is responsible for implementing this policy/process. This corrective action plan will correct this deficiency by completing and certifying of its assets on an annual basis to begin as soon as the Greater Chimayo Water Improvement Project Phase II A is completed in late January 2017. The Engineer of Record Molzen Corbin, is tasked to update the Annual inventory upon completion of this project.



**STATE OF NEW MEXICO  
GREATER CHIMAYO MUTUAL DOMESTIC  
WATER CONSUMERS ASSOCIATION  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2015**

**Prior Year Findings**

**Current Status**

2009-002 (2008-01)-Late Audit Report and Recommendation	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	Resolved
2010-005-No Documentation or Approval of Journal Entries	Repeated and modified
2011-003-Uninsured Bank Balance	Repeated and modified
2014-001-Transfers Not Authorized	Resolved

**STATE OF NEW MEXICO  
GREATER CHIMAYO MUTUAL DOMESTIC  
WATER CONSUMERS ASSOCIATION  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2015**

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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