

**STATE OF NEW MEXICO  
EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**

**Independent Accountant's Report on  
Applying Agreed-Upon Procedures (TIER 5)**

**For the Fiscal Year Ended  
December 31, 2012**

**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**

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**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION  
OFFICIAL ROSTER  
Fiscal Year Ending December 31, 2012**

President  
Vice President  
Secretary/Treasurer

Juan Garcia  
Lucas O. Trujillo  
Pauline Varoz

**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES (TIER 5)**

Juan Garcia, President  
El Rito Regional Water and Waste Water Association  
and  
Honorable Timothy Keller  
New Mexico State Auditor  
Santa Fe, New Mexico

We have performed the procedures enumerated below which were agreed to by El Rito Regional Water and Waste Water Association and the New Mexico State Auditor (the specified parties), solely to assist users in determining compliance with the provisions of the Audit Act for a Tier 5 entity per Section 12-6-3 B (5) NMSA 1978, Section 2.2.2.16 NMAC as of and for the year ended December 31, 2012. The Association's management is responsible for its accounting records and financial reporting. 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, 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:

Before beginning the procedures below, the IPA must verify the local public body's revenue calculation and tier determination using the form provided at [www.osanm.org](http://www.osanm.org) under "Financial Audits" and "What IPA Services are Required."

We verified El Rito Regional Water and Waste Water Association'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" and it was determined that the Association falls under the Tier 5 procedures. General revenues were \$84,408.

**1. Cash**

- 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.

We determined that all bank reconciliations were performed and that all bank statements were complete and on hand without exception. The bank reconciliations were not performed in a timely manner. All monthly bank reconciliations for the operating account were examined without exception. See finding 2012-001 (2010-001).

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 DFA-Local Government Division.

We performed a test of bank reconciliations for accuracy and traced the ending balances to the general ledger. We determined that the bank reconciliations were not accurate. See finding 2012-001 (2010-001). The Association did not submit the quarterly financial reports to DFA-LGD. See finding 2012-002 (2010-002).

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.

We determined that the balance of the operating account at no time exceeded the insured limits provided by the FDIC of \$250,000. Therefore, pledged collateral by the financial institution was not required.

## **2. Capital Assets**

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

We inquired as to whether or not the Association is performing a yearly inventory as required by section 12-6-10 NMSA 1978. The Association did not perform the capital asset inventory for FY 2012. See finding 2012-003 (2010-003).

## **3. Revenue**

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.

We performed an analytical review of the revenue. We noted no exceptions.

Select a sample of revenue based on auditor judgment using the following attributes:

b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

We randomly selected a sample of 25 receipts and we traced the amounts recorded in the supporting documentation including deposit books to the general ledger and to the bank statements. The Association had inadequate documentation for revenue. The Association was unable to produce supporting documentation for 4 deposits out of the 25 selected for testing. The deposits totaled \$33,434. See finding 2012-004 (2010-004).

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.

We randomly selected a sample of 25 receipts and we traced the amounts recorded in the general ledger and comparing to the supporting documentation for proper coding and distribution. With the exception of the items noted in finding 2012-004 (2010-004), no exceptions were noted.

#### **4. Expenditures**

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 canceled check, as appropriate.

We selected a sample of 30 disbursements and determined that the Association had inadequate documentation for disbursements. Of the 30 disbursements selected, the Association was unable to produce supporting documentation for 23 checks amounting to \$8,396. In the testwork we checked that the amount recorded as disbursed agrees to adequate supporting documentation and that the amount, payee, date and description agreed to the purchase order, contract, vendor's invoice and canceled check as appropriate. Except for the above mentioned items, the amounts agreed and we noted no other exceptions. See finding 2012-004 (2010-004).

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

We determined that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures. No exceptions were noted.

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 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Note: The sample must be representative of the population.

We determined that the bid process, purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State purchasing Regulations. No major projects requiring bidding were started or completed during this

accounting period. None of the selected items for testing had travel and per diem reimbursement.

## **5. Journal Entries**

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.

Because there were no manual journal entries created during FY 2012, no testing was performed in this area.

b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Because there were no manual journal entries created during FY 2012, no testing was performed in this area.

## **6. Budget**

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.

The Association did not prepare or approve their FY 2012 operating budget and they could not provide minutes to show that the Board reviewed and approved the budget. The Association's budget was not approved by DFA-LGD. See finding 2012-002 (2010-002).

b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

The Association did not prepare or approve their FY 2012 operating budget and they could not provide minutes to show that the Board reviewed and approved the budget. The Association's budget was not approved by DFA-LGD. See finding 2012-002 (2010-002).

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.

See Attached Statement of Revenues and Expenses – Actual Cash Basis on page 10 of this report.

## **7. Capital Outlay Appropriations**

Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds

expended by the recipient during the fiscal year. Test all capital outlay expenditures during the fiscal year to:

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.

We determined that amounts recorded as disbursed agreed to adequate supporting documentation and we verified that amounts, payees, dates and descriptions agreed to the vendor's invoice, contracts and cancelled check copies, as appropriate. The Association does not use purchase order forms.

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

We looked at the Association request for reimbursement forms and observed the chairman, treasurer and secretary approval of the disbursement, therefore we determined 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

Johnny M asked Juan Garcia about the project, and was informed that the project included The Threat Analysis Study and use of the mapping data acquisition and watershed assessment data compilation. Because the project required specialized research and knowledge of the water flow and inter relationships of soils, plants, water usage and return flows, the Association chose to engage Dr. Alexander Fernald from the New Mexico State University. The Association did not consider necessary and feasible to advertise the request for proposal as experts in the area are limited and no other interest in the project could be generated.

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

Johnny M asked Juan Garcia about the project, and was informed that the project included The Threat Analysis Study and use of the mapping data acquisition and watershed assessment data compilation. No physical project was completed that could be verified. Therefore we could not determine the physical existence by observation of the capital asset based on expenditures to date. We consider this step not applicable to the project.



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

Per the Capital Project Agreement dated September 18, 2009, no status reports are required to be submitted to the state agency. We consider this step not applicable to the project.

f) 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 Association had one state-funded capital outlay expenditure of \$10,000 during the audit period. The project was not intended to be funded in advance but on a reimbursement basis. The project was invoiced on 6/20/2012, Request for Reimbursement was submitted on 7/09/2012 and payment to vendor was completed on 9/06/2012.

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

El Rito Regional Water and Waste Water Association was awarded a \$10,000 state-funded Capital Appropriation, and for the audit period there were capital outlay expenditures of \$10,000. The unexpended balance for the Capital Appropriation is \$0. The Reversion Date is 6/30/2012.

h) 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 Office of State Engineer were deposited in the Association's checking account at Century Bank. The capital award agreement did not require a separate fund or separate non-interest bearing bank account to deposit the amount received. When the funds were received from the OSE, the disbursement to the vendor was completed.

i) 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 filed Requests for Reimbursement Forms with the NM Interstate Stream Commission (NMISC) when invoiced by the provider of study that was completed in the current fiscal year. The requests were supported by invoices submitted to the Association for work done on the Threat Analysis Study and use of mapping data acquisition and watershed assessment data compilation project. The costs were not paid by the Association prior to the request for reimbursement. The Association paid for its project

expenditures after the payment was received from the Office of State Engineer. A finding was not considered necessary since the Association complied with the reimbursement procedures.

#### **8. Other**

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(1)(3)(C) NMAC.

No information came to our attention indicating any fraud or illegal acts. Instances of noncompliance and internal control deficiencies are disclosed in the findings of this report.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Association's accounting records and financial reporting. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of directors and management of the El Rito Regional Water and Waste Water Association, the New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

*Assurance Tax Accounting P.C.*

Assurance Tax Accounting P.C.  
Albuquerque, New Mexico  
May 29, 2016

STATE OF NEW MEXICO  
 EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES AND EXPENSES  
 ACTUAL (Cash Basis)  
 For the year ended December 31, 2012

	<u>Actual</u>
	Cash
	<u>Basis</u>
Revenue	
Usage Charges	84,408
Loan	<u>17,464</u>
Total revenues	<u>101,872</u>
 Expenses	
Personnel services	9,266
Operating expenses	40,912
System maintenance / utilities	19,289
Utilities	<u>3,200</u>
Total expenses	<u>72,666</u>
 Revenues over (under) expenses	<u>29,206</u>

**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Fiscal Year Ended December 31, 2012**

**Prior Year Findings:**

2011-001 (2010-001) – Bank Reconciliations

2011-002 (2010-002) – Budget Approval and Quarterly Reporting

2011-003 (2010-003) – No Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End

2011-004 (2010-004) – Lack of Documentation of Cash Receipts and Disbursements

2011-005 (2010-005) – Late Agreed-Upon Procedures Report and IPA Recommendation

**Current Year Findings**

Finding 2012-001 (2010-001) – Bank Reconciliations

Finding 2012-002 (2010-002)– Budget Approval and Quarterly Reporting

Finding 2012-003 (2010-003) – No Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End

Finding 2012-004 (2010-004)– Lack of Documentation of Cash Receipts and Disbursements

Finding 2012-005 (2010-005) – Late Agreed-Upon Procedures Report and IPA Recommendation

**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
Fiscal Year Ended December 31, 2012

**Finding 2012-001 (2010-001) - Bank Reconciliations**

Condition:

While applying the agreed upon procedures over timeliness and accuracy of cash reconciliations, it was noted that all the bank reconciliations tested for timeliness were inaccurate and performed between three and four years after the statement date.

Criteria:

In accordance with Subsection I of 2.2.2.16 NMAC, all agreed upon procedures engagements should report as findings and fraud, illegal acts, noncompliance or internal control deficiencies, consistent with Section 12-6-5 NMSA 1978 which states any violation of good accounting practices shall be set out in detail in a written report. Good accounting practices dictate that reconciliation of bank balances should be completed on a timely basis, to provide assurance that all transactions have been entered by the bank and recorded in the financial statements properly. If bank reconciliations are to serve as an effective control over the cash accounts, they must be prepared on a timely basis and all reconciling items should be investigated and resolved properly. Ideally all bank accounts should be reconciled prior to the close of the bank statement for the following month.

Cause:

The Association was not aware of the requirement to reconcile the bank accounts within 30 days after the statement end date. Because of the length of time between the transaction and reconciliation, accurate documentation could not be located.

Effect:

Bank reconciliations that are not reconciled on a timely basis could lead to inaccurate interim financial reporting. In addition, errors and misappropriation of assets could be more difficult to detect if not identified in a timely manner or if historical bank reconciliations do not tie to the current records.

Recommendation:

The Association should establish a policy by which bank reconciliations are required to be performed within thirty days of the statement end date for all bank accounts.

Management's Response:

The Association will begin reconciling the bank statements on a timely basis effective immediately. The President will ensure that these reconciliations are being performed within thirty days after the statement end date.

**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**Fiscal Year Ended December 31, 2012**

**Finding 2012-002 (2010-002) - Budget Approval and Quarterly Reporting**

Condition:

The Association did not prepare or approve their FY 2012 operating budget and also did not submit their budget to the New Mexico Department of Finance and Administration (DFA) – Local Government Division. 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 requirement imposed by statute and DFA.

Effect:

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

Recommendation:

We 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.

Management's Response:

Effective immediately, the Association's President will contact a DFA budget analyst to determine which reports need to be reported and by what deadline these reports need to be reported. The Association's Board will then determine a policy to ensure compliance with reporting to DFA. Once contact with a DFA analyst has been established, the President will also ensure that the reporting is conducted in a timely manner.

**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
Fiscal Year Ended December 31, 2012

**Finding 2012-003 (2010-003) - No Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End**

Condition:

For the fiscal year ending December 31, 2012 the Association did not perform and document a physical inventory of its capital assets. For each capital asset, the description of the asset, date acquired, cost, location, useful life, and ending balance of its capital assets (tanks, wells, pumps, pump houses, distribution system, office equipment, etc.) should be recorded on the Association's capital asset listing. Also, the governing body of the Association did not certify the correctness of the capital asset inventory after the physical inventory was performed.

Criteria:

Section 12-6-10A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness." Section 2.20.1 NMAC requires an annual inventory and establishes standards to properly record, control and account for capital assets acquired by agencies.

Cause:

The Association was not aware of the annual capital asset inventory laws and regulations.

Effect:

The Association does not have a complete listing and an established carrying amount for the value of its capital assets as of December 31, 2012 which is useful for the Association to properly control, account for, and manage its capital assets.

Recommendation:

At the end of each fiscal year, the Association should perform and document a complete physical inventory of its capital assets. For each capital asset, the description of the asset, date acquired, cost, location, useful life, and ending balance of its capital assets should be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the Association. The Association should develop and implement written policies and procedures to perform the capital asset inventory on an annual basis, record and account for its capital assets in accordance with state laws and regulations.

Management's Response:

Effective immediately, the Association's President will create a policy and procedure and perform a complete physical inventory of its capital assets which will include the required data. After the inventory is performed, the inventory listing will be certified as to correctness and signed by the governing body at the end of the fiscal year.

**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**Fiscal Year Ended December 31, 2012**

**Finding 2012-004 (2010-004) - Lack of Documentation of Cash Receipts and Disbursements**

Condition:

The Association had inadequate documentation for revenue and disbursements. The Association was unable to produce supporting documentation for 4 deposits out of the 25 selected for testing. The deposits totaled \$33,434. Of the 30 disbursements selected, the Association was unable to produce supporting documentation for 23 checks amounting to \$8,396.

Criteria:

Proper internal controls require supporting documentation for all transactions that occur. The supporting documentation should be retained along with the copy of the deposit and check disbursement.

Cause:

The Association does not have a process for retaining the proper documentation for receipts and disbursements.

Effect:

Lack of supporting documentation for financial transactions can cause misstatements that may go undetected.

Recommendation:

The Association should adopt a policy of retaining supporting documentation for every deposit and disbursement, to help determine that deposits and disbursements recorded are complete, accurate and timely.

Management's Response:

The Association's President will ensure effective immediately that every Board member receive a copy of the financial statements showing all transactions including all deposits and disbursements. Along with every deposit and disbursement going forward the Association's President will ensure that there will be supporting documentation for the transactions.



**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**Fiscal Year Ended December 31, 2012**

**Finding 2012-005 - Late Agreed-Upon Procedures Report and IPA Recommendation**

Condition:

The Association did not submit their FY 2012 agreed-upon procedures report to the Office of the State Auditor by June 1, 2013, the due date of the report. In addition, the IPA recommendation for FY 2012, which was due on December 1, 2012, was not submitted to the State Auditor until February 26, 2016.

Criteria:

2.2.2 NMAC (State Audit Rule) requires submission of the IPA recommendation by December 1, 2012. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or June 1, 2013.

Cause:

The Association was not aware of the State Audit Rule requirements to contract with an audit firm.

Effect:

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

Recommendation:

The Association should prepare the annual auditor recommendation by December 1, 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 five months after year-end.

Management's Response:

The Association's President and Board will create a policy and procedure to submit the IPA recommendation to the State Auditor Office before December 1, and complete the audit requirements within the five months after year-end.

**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION**  
**STATUS OF PRIOR YEAR FINDINGS**  
**Fiscal Year Ended December 31, 2012**

<u>Prior Year Number</u>	<u>Prior Year Finding</u>	<u>Current Year Disposition</u>
2011-001 (2010-001)	Bank Reconciliations	Repeated
2011-002 (2010-002)	Budget Approval and Quarterly Reporting	Repeated
2011-003 (2010-003)	No Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End	Repeated
2011-004 (2010-004)	Lack of Documentation of Cash Receipts and Disbursements	Repeated
2011-005 (2010-005)	Late Agreed-Upon Procedures Report and IPA Recommendation	Repeated

