

STATE OF NEW MEXICO

EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION

**Independent Accountant's Report on
Applying Agreed-Upon Procedures (TIER 4)**

**For the Year Ended
December 31, 2016**

ASSURANCE TAX ACCOUNTING PC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

Office: (505) 620-8526 **Fax:** (866) 800-6970; PO Box 27213 Albuquerque, NM 87125; johnnymangu@msn.com

EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION

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**EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION
OFFICIAL ROSTER
For the Year Ended December 31, 2016**

Name	Title
Juan Garcia	President
Lucas O. Trujillo	Vice-President
Pauline Varoz	Secretary/Treasurer

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES (TIER 4)**

Juan Garcia, President
El Rito Regional Water and Waste Water Association
and
Honorable Brian S. Colon
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 (Association) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its compliance with Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC as of and for the year ended December 31, 2016. The Association's management is responsible for its financial reporting as described above. This agreed-upon procedures engagement was conducted in accordance with AICPA Statements on Standards for Attestation Engagements (Clarified), AT-C Section 215 for agreed-upon procedures engagements. 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.

Procedure to be Performed:

1. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tier System Reporting Main Page."

Results of Procedure 1:

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 under "Tier System Reporting Main Page" and it was determined that the El Rito falls under the Tier 4 procedures. General revenues were \$58,506 and no capital projects were started or completed.

Procedure to be Performed:

2. **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.

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Results of Procedure 2(a)

We determined that all bank reconciliations were not performed at all for 2016. See finding 2010-001.

Procedure to be Performed:

- b) Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

Results of Procedure 2(b)

We tested at least 30% of the bank reconciliations and we determined that all bank reconciliations were not performed. The bank reconciliations were not performed at all for 2016. See finding 2010-001. The Association did not submit the quarterly financial reports to DFA-LGD. See finding 2010-002

Procedure to be Performed:

- 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.

Results of Procedure 2(c)

We determined that the balances of the operating account and the savings 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.

Procedure to be Performed:

3. Capital Assets

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

Results of Procedure 3:

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 2016. See finding 2010-003.

Procedure to be Performed:

4. 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.

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Results of Procedure 4(a):

We performed an analytical review of each type of revenue and compared each type of revenue to the budget. We noted no exceptions.

Procedure to be Performed:

Select a sample of revenues equal to at least 30% of the total dollar amount and test using the following attributes:

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

Results of Procedure 4(b):

We selected a sample of 15 receipts (55% of total receipts), The Association did not record transactions in a general ledger format, therefore we could not determine if the amount recorded matched the supporting documentation. See finding 2016-001.

Procedure to be Performed:

- 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.

Results of Procedure 4(c):

We selected a sample of 15 receipts (55% of total receipts), The Association did not record transactions in a general ledger format, therefore we could not determine the classification, amount, and proper period per review of supporting documentation. See finding 2016-001.

Procedure to be Performed:

5. Expenditures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test 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.

Results of Procedure 5(a):

We selected a sample of cash disbursements equal to 70% of the total dollar amount and determined that the Association had inadequate documentation for disbursements. In the testwork we could not determine that the amount recorded as disbursed since the Association did not record transactions in a software that tracks coding. See finding 2016-001. The Association did not provide supporting documentation for 9 of the 25 disbursements selected to testing, amounting to \$7,193. See finding 2010-004. The

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Association did not provide supporting documentation that 1099 forms were filed for calendar year 2016. See finding 2016-002.

Procedure to be Performed:

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

Results of Procedure 5(b):

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.

Procedure to be Performed:

- 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.

Results of Procedure 5(c):

No major projects requiring bidding were started or completed during this accounting period.

Procedure to be Performed:

6. 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.

Results of Procedure 6(a):

Because there were no manual journal entries created during 2016, no testing was performed in this area.

Procedure to be Performed:

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

Results of Procedure 6(b):

Because there were no manual journal entries created during 2016, no testing was performed in this area.

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Procedure to be Performed:

7. Budget

Obtain the original fiscal year budget and all budget adjustments made throughout the fiscal year and perform the following test work:

- 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.

Results of Procedure 7(a):

We verified through review of minutes that the original budget was approved by the Association governing body but not approved by DFA-LGD. See finding 2010-002.

Procedure to be Performed:

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

Results of Procedure 7(b):

We determined through comparing the Original/Final Budget to the Actual Expenditures that the Association is not in compliance with statutes by over-expending at the fund level, which is the legal level of budgetary control. See finding 2010-002.

Procedure to be Performed:

- 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.

Results of Procedure 7(c):

See Attached Statement of Revenues and Expenditures – Budget and Actual.

Procedure to be Performed:

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 all the required content detail in Section 2.2.2.10(L) NMAC.

Results of Procedure 8:

The Association did not submit their 2016 agreed-upon procedures report to the Office of the State Auditor by May 31, 2017, the due date of the report. In addition, the IPA recommendation for 2016, which was due on December 1, 2016, was not submitted to the State Auditor until January 5, 2019. See finding 2010-005

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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 examination or review, the objective of which would be the expression of an opinion or conclusion on the El Rito Regional Water and Waste Water Association's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the El Rito Regional Water and Waste Water Association, the New Mexico Office of the State Auditor, the New Mexico Office Legislature, 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.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C.
Albuquerque, New Mexico
February 1, 2019

STATE OF NEW MEXICO
EL TITO REGIONAL WATER & WASTE WATER ASSOCIATION
PROPRIETARY FUNDS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (Cash Basis)
For the year ended DECEMBER 31, 2016

	Budgeted Amount		Actual	Variance
	Original	Final	Budget Basis	Favorable (Unfavorable)
Revenue				
Water Sales	-	-	58,506	58,506
Other Miscellaneous Sources	-	-	18,884	18,884
	<u>-</u>	<u>-</u>	<u>77,391</u>	<u>77,391</u>
Expenses				
Salaies	-	-	11,261	(11,261)
Electric	-	-	3,180	(3,180)
System Maintenance / utilities	-	-	3,602	(3,602)
Vehicle Expenses	-	-	-	-
Office and Administrative Expense	-	-	2,275	(2,275)
Professional Service, accounting, Engineering	-	-	18,981	(18,981)
Insurance	-	-	-	-
Dues fees	-	-	180	(180)
Taxes Gross Receipts tax, Water Conservation Fee	-	-	4,007	(4,007)
Bank Service Charge	-	-	209	(209)
	<u>-</u>	<u>-</u>	<u>43,694</u>	<u>(43,694)</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>33,697</u>	<u>33,697</u>
Other financing sources (uses):				
Interest earned	-	-	3	3
Operating transfers in	-	-	-	-
	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>33,700</u>	<u>33,700</u>

EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2016

Prior Year Findings:

Finding 2010-001 –Bank Reconciliations	Repeated
Finding 2010-002 – Budget Approval and Quarterly Reporting	Repeated
Finding 2010-003 – No Capital Asset Inventory Listing and No Board Certification of Inventory at the Year-End	Repeated
Finding 2010-004 – Lack of Documentation of Cash Receipts and Disbursements	Repeated
Finding 2010-005 – Late IPA Recommendation	Repeated

Current Year Findings

Finding 2010-001 –Bank Reconciliations	Finding that do not rise to the level of significant deficiency
Finding 2010-002 – Budget Approval and Quarterly Reporting	Finding that do not rise to the level of significant deficiency
Finding 2010-003 – No Capital Asset Inventory Listing and No Board Certification of Inventory at the Year-End	Finding that do not rise to the level of significant deficiency
Finding 2010-004 – Lack of Documentation of Disbursements	Finding that do not rise to the level of significant deficiency
Finding 2010-005 – Late Agreed-Upon Procedures Report and IPA Recommendation	Other Non-Compliance
Finding 2016-001 – Lack of Recording of Cash Receipts and Disbursements	Other Non-Compliance
Finding 2016-002 – Lack of Documentation for filling 1099 forms	Other Non-Compliance

EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 2010-001 - Bank Reconciliations (Findings that do not rise to the Level of significant deficiency)

Condition:

While applying the agreed upon procedures over bank reconciliations, it was noted that none of the bank reconciliations for 2016 were performed. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

In accordance with Subsection H 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
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 2010-002 – Budget Approval and Quarterly Reporting to DFA (Findings that do not rise to the Level of significant deficiency)

Condition:

The Association did not produce the Certification letter from DFA showing approved budget by DFA and did not prepare or submit their operating results quarterly to DFA. Management did not make any progress towards implementing the prior year corrective action plan.

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. The entity did not comply with 6-6-3 NMSA 1978, which requires local public bodies to use all books, records and accounts in the form prescribed by DFA-LGD.

Effect:

DFA – Local Government Division lacked the necessary information to perform their oversight duties required by state statute. The entity operated the entire year without any budget authority. Because there was no budget, all expenditures were in excess of approved amounts. Officials of the local public body may be held personally liable for any amounts paid in excess of approved budget per 6-6-6 NMSA 1978.

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. They should also institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

Management's Response:

Effective immediately, the 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.

RITO REGIONAL WATER AND WASTE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 2010-003 - No Capital Asset Inventory Listing and No Board Certification of Inventory at Year-End (Findings that do not rise to the Level of significant deficiency)

Condition:

For the year ending December 31, 2016 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. Management did not make any progress towards implementing the prior year corrective action plan.

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). 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, 2016 which is useful for the Association to properly control, account for, and manage its capital assets.

Recommendation:

At the end of each 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.

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 year.

EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 2010-004 - Lack of Documentation of Disbursements (Findings that do not rise to the Level of significant deficiency)

Condition:

The Association had inadequate documentation for revenue and disbursements. The Association was unable to produce supporting documentation for 9 items of the 25 disbursements selected, amounting to \$7,193. Management did not make any progress towards implementing the prior year corrective action plan.

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
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 2010-005 - Late Agreed-Upon Procedures Report and IPA Recommendation (Other Non-Compliance)

Condition:

The Association did not submit their 2016 agreed-upon procedures report to the Office of the State Auditor by May 31, 2017. In addition, the IPA recommendation for 2016, which was due on December 1, 2016, was not submitted to the State Auditor until January 5, 2019. Management did not make any progress towards implementing the prior year corrective action plan with respect to the timeliness of the IPA recommendation and the Agreed-Upon Procedures Report.

Criteria:

2.2.2 NMAC (State Audit Rule) requires submission of the IPA recommendation by December 1, 2016. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or May 31, 2017

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. The Association President is responsible for meeting the deadline as required.

EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 2016-001 - Lack of Recording of Cash Receipts and Disbursements (Other Non-Compliance)

Condition:

The Association was not using a software and did not track receipts and disbursements with coding and ability to determine if transactions were coded properly.

Criteria:

Proper internal controls require supporting documentation for all transactions that occur and coding those transactions in the financial statements appropriately.

Cause:

The Association does not have a process for recording of receipts and disbursements for accurate financial statements preparation.

Effect:

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

Recommendation:

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

Management's Response:

The Association 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 President will ensure that there will be appropriate coding for the transactions.

EL RITO REGIONAL WATER AND WASTE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding 2016-002 – Lack of Documentation on Filing 1099 forms (Other Non-Compliance)

Condition:

The Association did not provide supporting documentation that 1099 forms were filed for calendar year 2016.

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.

Cause:

The Association did not issue the 1099 forms or processing the payments through payroll.

Effect:

By not complying with Federal and State laws regarding to payroll, could adversely affect the entity in the eyes of the stakeholders, DFA, OSA and NM State Legislature.

Recommendation:

The Association should process the payments through payroll or issue 1099 forms at the end of the calendar year.

Management's Response:

The Association Board will ensure effective immediately that the Association complies with Federal and State Law for reporting 1099 forms or processing the payments through payroll. The Association President is responsible for meeting the deadline as required.

