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STATE OF NEW MEXICO

El Vadito de los Cerrillos Mutual Domestic Water Association

**Independent Accountant's Report
on Applying Agreed-Upon Procedures**

For the Year Ended December 31, 2012

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
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December 31, 2012

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STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Official Roster
December 31, 2012

Official Roster

Board Members

Position

Allen Fowler

President

Ann Murry

Vice President

Carol O'Keefe

Secretary

Ren Greene

Treasurer

Todd Brown

Director

Charles L. Henry

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

**Allen Fowler, President
and Members of the Board
El Vadito de los Cerrillos Mutual Domestic Water Association
and
Honorable Hector H. Balderas
New Mexico State Auditor**

I have performed the procedures enumerated below for the El Vadito de los Cerrillos Mutual Domestic Water Association (Association), for the year ended December 31, 2012. The Association was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The management of the El Vadito de los Cerrillos Mutual Domestic Water Association is responsible for the organization's accounting records. 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. My procedures and findings are as follows:

CASH

PROCEDURES:

- a) Determined 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.
- b) Performed 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 (DFA-LGD).
- c) Determined 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.

OBSERVATIONS:

- a) The Association has one checking account, and one savings account. The QuickBooks software package is used to record Association transactions. Bank reconciliations were not performed on a timely basis but were complete and on hand. [Finding - 10-03]
- b) Bank reconciliations were reviewed for the year and were found to be accurately prepared and balances reflected in the reconciliations were traced to the general ledger.
- c) The Association was not aware of the requirement to file a budget, or any related reports with DFA-LGD and no financial information or budget was filed as required by Section 6-6-2 (A) NMSA 1978. The association did internally prepare budgets but there was no reporting to DFA-LGD. [Finding - 10-02]
- d) Bank account balances did not exceed uninsured limits during the year ended December 31, 2012 and therefore, pledged collateral was not required for any bank account.

CAPITAL ASSETS

PROCEDURES:

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

OBSERVATIONS:

Although there are capital assets (one water systems and 2 water tanks) reflected on the balance sheet, the Association does not have movable chattels or equipment and is not subject to the inventory requirements of Section 12-6-10 NMSA 1978.

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 ended December 31, 2012 for each type of revenue source.

Select a sample of revenue - Based on Auditor Judgment - and test using the following attributes;

- b) Amount recorded in the general ledger agrees to 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 review work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

OBSERVATIONS:

- a) The Association provided revenue and expenditures prepared on a cash basis for the year ended December 31, 2012 but the required budget was not generated for or filed with DFA-LGD. This budget was not compared to actual revenue generated during the year and the revenue classifications entered in the bookkeeping process did not follow budget classifications. [Finding - 10-02]
- b) Amounts recorded in the general ledger agreed with the bank statements ; however 2 of 30 revenue transactions selected for testing could not be located. [Finding - 10-04]
- c) The Association provides classifications for different sources of revenue. Metered Income is the main source of revenue and income from those members who use tokens to purchase water that they haul represents the other classification of water sales. Water sales generated from those who haul water is included in Metered Income the only transactions classified as haul income was the first two months of the year of member monthly base fees. All monthly base fees for those who haul water and pay monthly base fees is not separately accounted for after February 2010. [Finding - 10-05]

EXPENDITURES

PROCEDURES

Select a sample of cash disbursements - Based on Auditor Judgment - and test using the following attributes:

- a) Determine that amounts recorded as disbursed agree 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).

OBSERVATIONS:

- a) My test of transactions revealed that various expenditures did not have adequate supporting documentation. [Finding - 10-06]
- b) The payee, date and invoice amount was found to agree with general ledger postings without exception.
- c) All tested transactions were found to be properly authorized and approved in compliance with established policies and procedures. I could not test compliance with the budget because one was not established for 2010. [Finding - 10-02]

OBSERVATIONS: [Continued]

- d) 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). Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC) were not tested because no transactions involving a reimbursement for mileage or periderm was chosen for testing and when the bookkeeper was ask about the support required for these expenditures it was stated that support was not required for reimbursement of mileage or perdiem. [Finding - 10-06]

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.

OBSERVATIONS:

- a) The Association made one journal entry for the period. This entry was provided by their CPA - tax preparer and constitutes the supporting documentation. Journal entries are not normally prepared by the Association.

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 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 exceed the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and final approved budgets an general ledger, prepare a schedule of revenue 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.

OBSERVATIONS:

- a) The Association did not file a budget with DFA-LGD for the fiscal year but management did prepare a budget as part of their internal procedures. A schedule of revenues and expenses - budget and actual was prepared on the cash budgetary basis from Association records and is presented in this report. [Finding - 10-02]

OTHER

PROCEDURES

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section 2.2.2 10(I)(3)© NMAC.

OBSERVATIONS:

- a) No exceptions were found as a result of applying the procedures above indicating any fraud or illegal acts by the Association.

- b) Internal control deficiencies were observed.
 - 1) Board members and the Association Bookkeeper personally pay for various expenses and are reimbursed without providing supporting documentation. [Finding - 10-06]
 - 2) Revenue received from the sale of tokens used to obtain water to be hauled (Hauler Income) is not adequately controlled nor is it deposited timely. [Finding - 10-08]
 - 3) Checks received from members of the Association are often held for long periods of time before being deposited. [Finding - 10-08]
 - 4) The water operator provides a monthly report of water use. The "Unaccounted for water used" appears to be unquestioned and uncontrolled. [Finding - 10-07]
 - 5) Returned checks are recorded as bad debts or at other times charged to bank service charges. If the checks are subsequently paid the expense as well as well as revenue will be misstated. [Finding - 10-06]

- b) Additional noncompliance deficiencies observed.
 - 1) The Association contracts with various individuals for services. Required 1099 forms are not filed with the Internal Revenue Service. [Finding - 10-09]

I was not engaged to, and did not conduct an audit, the objectives of which would be the expression of an opinion on the accounting records. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have to be reported to you.

This report is intended solely for the information and use of the El Vadito de los Cerrillos Association, the New Mexico Office of the State Auditor and the DFA-LGD and is not intended to be, and should not be used by anyone other than those specified parties.



Charles L. Henry
Certified Public Accountant
August 17, 2013

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Statement of Revenues, Expenditures
For the Year Ended December 31, 2012

Exhibit - A

	Internal Budget	Actual Cash Basis	Variance Favorable (Unfavorable)
Revenues			
<i>Meter Income</i>	\$ 88,400	\$ 69,326	\$ (19,074)
<i>Hauler Income</i>	1,000	-	(1,000)
<i>Membership Fees</i>	-	-	-
<i>Transfer Fee</i>	-	-	-
<i>Token Income</i>	-	-	-
<i>Miscellaneous Income</i>	100	-	(100)
	89,500	69,326	(20,174)
Expenditures			
Contracted Services:			
<i>Bookkeeper</i>	7,500	7,200	300
<i>Operator</i>	16,000	12,758	3,242
<i>Meter Reader</i>	5,200	5,129	71
<i>Contract Labor</i>	700	-	700
Operating Costs			
<i>Equipment</i>	2,500	584	1,916
<i>Equipment Repair</i>	200	-	200
<i>Other Maintenance</i>	1,500	1,386	114
<i>Water Sampling</i>	700	519	181
<i>Cost of Oeration</i>	500	-	500
<i>Electricity</i>	500	770	(270)
<i>Miscellaneous Operating Costs</i>	500	-	500
Administrative Costs			
<i>Advertising</i>	-	-	-
<i>Office Expense</i>	400	253	147
<i>Rent</i>	400	-	400
<i>Bank Charges</i>	300	1,009	(709)
<i>Insurance</i>	4,500	4,824	(324)
<i>Postage</i>	1,300	1,122	178
<i>Dues & Subscriptions</i>	250	218	32
<i>Water Conservation Fees</i>	300	177	123
<i>Other Taxes</i>	250	50	200
<i>Bad Debt</i>	500	320	180
<i>Charitable Contributions</i>	1,000	-	1,000
<i>Miscellaneous Administrative Costs</i>	250	254	(4)
Professional Services			
<i>Legal Fees</i>	1,000	-	1,000
<i>37 Accounting Fees</i>	1,500	637	863
	47,750	37,210	10,540
Excess (Deficiency) of Revenues over Expenditures	41,750	32,116	(30,714)
Principal Payment on Association Loans	15,555	9,596	5,959
Excess (Deficiency) of Receipts over Disbursments	26,195	22,520	(36,673)
Cash balance beginning of Year		57,993	
Cash balance End of Year		\$ 80,513	

Unaudited - see Independent Accountant's Report on Applying Agreed-Upon Procedures

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2012

STATUS OF PRIOR YEAR FINDINGS

- 10-01 - Failure to File Tier 4 Engagement Report by the Required Due Date -- Repeated
- 10-02. Failure to File Annually a Proposed Budget with DFA - LGD -- Repeated
- 10-03. Bank Reconciliations Not Prepared on a Timely Basis -- Repeated
- 10-04. Selected Revenue Transactions not Located for Testing -- Improved
- 10-05. Misclassification of Revenue Transactions -- Repeated
- 10-06. Expenditures Not Properly Classified and/or Lacking Supporting Documents -- Repeated
- 10-07. Lack of Oversight of Unaccounted Water Use -- Repeated
- 10-08. Poor Controls Over Receipts from Water Sales -- Repeated
- 10-09. Failure to File Informaton with the Internal Revenue Service -- Repeated

CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-01 - Failure to File Tier 4 Engagement Report by the Required Due Date - Compliance

Condition:

The Association did not filed a financial report with Office of the State Auditor as required by section 12-6-3 NMSA 1978.

Criteria:

Section 12-6-3 NMSA 1978 charges the Office of the State Auditor with the responsibility of examining every local public body annually according to its annual public revenue and in accordance with generally accepted accounting standards and rules issued by the State Auditor. The due date for filing this required report is no later than five months after the end of the fiscal year. Audit Rule 2.2.2 16 (H)

Effect:

The Association has violated state statutes by not filing required financial reports by the statutory due date.

Cause:

The Association was not clear on the requirements of the Office of the State Auditor and the minutes reflect a desire to explore all options before expending the funds for the agreed upon procedures engagement.

Recommendation:

The Association take all steps necessary to become current with the filing requirements and engage the services of an acceptable Independent Public Accountant to maintain compliance with state statutes.

Management Response:

The Association is aware of the reporting requirements at this time and has engaged an acceptable public accountant to bring them into compliance with state statutes.

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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-02. Failure to File Annually a Proposed Budget with DFA - LGD - Compliance

Condition:

The Association did not submit their 2012 budget to DFA-LGD for approval as required by state statute.

Criteria:

Section 6-6-2 (A) NMSA 1978 requires each local public body to furnish and file with the division, on or before June 1 of each year, a proposed budget for the next fiscal year.

Effect:

The Association has not complied with the filing requirement and the benefit of filing such budgetary information for review and approval has not occurred.

Cause:

The Association was not aware of the requirement to file budgets with DFA - LGD even though annual budgets were prepared as a matter of internal procedure.

Recommendation:

The Association become familiar with the filing requirements of DFA - LGD and put procedures in place to meet them.

Management Response:

The budgetary requirements will be met once the Association becomes current.

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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-03. Bank Reconciliations Not Prepared on a Timely Basis - Material Weakness & Compliance

Condition:

The Association did not prepare monthly bank reconciliations on a timely basis. As prescribed by the agreed upon procedures I selected five bank statements for review to determine if bank reconciliations were being performed on a timely basis. Of the five statements one was reconciled 180 days after the statement date and the others were 119, 102, 75 and 42 days after statement date.

Criteria:

Section 6-10-2 NMSA 1978 states every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance on hand at the close of each day's business.

Effect:

The balance in the Association bank account is not provided on a regular basis to those charged with governance and proper management of Association assets. The lack of timely reconciliations and the lack of reporting over cash is also a internal control issue that could create an opportunity for error or misuse of funds or fraud that would not be detected during the normal course of business.

Cause:

The procedures used by the Association for reporting monthly financial position was directly from bank statements. The reconciled balance was not provided monthly and there was no pressure by those charged with governance to prepare or update financial reports from a reconciled information.

Recommendation:

The Directors require that complete bank reconciliations be provided with each bank statement used in generating the Association monthly financial reports.

Management Response:

The Association was not aware of the reconciliation requirements. Bank statements will be reconciled by the 20th of each month.

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El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-04. Selected Revenue Transactions not Located for Testing - Significant Deficiency

Condition:

As part of the prescribed procedures I selected 30 transactions to test for agreement with general ledger posting and supporting documentation. Of the selected transactions 2 were not able to be located.

Criteria:

Maintenance and safeguarding accounting records is required by good accounting practices. Section 6-6-2 (J) NMSA 1978 gives the Local Government Division the power and duty to prescribe the form for all budgets, books, records and accounts for local public bodies. Section 6-6-3 (A) NMSA 1978 defines local public bodies and duties to be to keep all books and records in the offices and in a form prescribed by DFA - LGD.

Effect:

There are records that are not available to support questions or assist those charged with governance in their duties. Not being able to locate transactions is a weakness in internal control and creates the possibility of error, misuse or fraud.

Cause:

The Association is a small and the bookkeeper provides services on a part-time basis. There is no Association office and all financial records are maintained in a single file box. Because the engagement is for 2012 it is possible that these records were misplaced or even overlooked.

Recommendation:

The Association should separate the filing of the books and records by calendar year. Having all records and supporting documents in a single box makes location of records as well as the filing an maintenance of records more difficult.

Management Response:

Records maintained by the Association bookkeeper will be filed by categories and/or months and held for the current year then transferred to an Association file cabinet held by the treasurer an filed by year.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-05. Misclassification of Revenue Transactions - Significant Deficiency

Condition:

The Association provides classifications for different sources of revenue. Metered Income is the main source of revenue but income from those members who use tokens to purchase water that they haul represents the other classification of water sales. Water sales generated from those who haul water is included in Metered Income and not separately accounted for.

Criteria:

Classification of revenue is a key element of financial management and budgeting. Section 6- 6-2 NMSA (1978) provides for the requirement of each public body to furnish and file with the division a proposed budget and Section 6-6-3 NMSA (1978) provides that every public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

Effect:

The Association is not able to determine the amount of revenue from different sources and makes the ability to generate useful information difficult. Without proper classification addressing required budgetary requirements is impaired.

Cause:

The Association was not aware of the filing and reporting requirements of DFA - LGD and the records were being kept for the needs of preparing forms requested by the Internal Revenue Service.

Recommendation:

The Association classify financial transactions in accordance with classifications used to prepare Association budgets.

Management Response:

A revised chart of accounts will agree with the budget categories an hereafter all transactions will be recorded properly to those categories.

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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-06. Expenditures Not Properly Classified and/or Lacking Supporting Documents - Significant Deficiency

Condition:

First:

Three Checks were issued to the bookkeeper and all included reimbursements for unsupported expenditures. Office supplies of \$ 52.96, and \$ 54.96, and another \$ 54.96 as well as postage of \$ 90.00 paid included in each check. One check issued to the water operator including unsupported reimbursements of \$ 591.58 and \$ 49.23 for miscellaneous items.

Second:

Transactions reflecting reimbursement for mileage or per diem were not chosen for testing but in discussing the Association policy for reimbursement of such expenses it was stated that support for such expenditures was not required.

Criteria:

Classification of expenditures is a key element of financial management and budgeting. Section 6- 6-2 NMSA (1978) provides for the requirement of each public body to furnish and file with the division a proposed budget and Section 6-6-3 NMSA (1978) provides that every public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

Effect:

By not requiring supporting documents to be provided before reimbursement is made a important element of internal control is removed. The possibility for a distribution to be erroneous, a misuse or funds or fraudulent is high and the probability of detection is low.

Regulating 2.42.2 provides directives for computation of reimbursement of per diem and mileage. Without supporting documentation of reimbursements it is possible that these directives have not been met.

Cause:

The Association is small and all involved have known each other for many years. This familiarity has developed a level of trust that violates the principles of internal control and provides opportunity for error, misuse or fraud.

Recommendation:

If the Association desires to remain on the cash basis of accounting then when checks are returned the appropriate revenue account that gave rise to the initial deposit should be charged. The Association should adopt a policy that requires supporting documents be provided for all reimbursements or payments.

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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-06. Expenditures Not Properly Classified and/or Lacking Supporting Documents - Significant Deficiency
[Continued]

Management Response:

1. The Association is currently upgrading the water billing program and the accounting program so they will be interactive. That should resolve this accounting issue.
2. With the exception of the bookkeeper the water system operator, meter reader, all other occasional contractors and the board members already do provide supporting documents for all purchases. The bookkeeper's purchases are almost exclusively envelopes and stamps and her purchases of these items are routine and reoccurring. We have not in the past required more than a line item on her bill for these items, but in the future she will provide receipts for the stamps and envelopes to comply with state regulations.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-07. Lack of Oversight of Unaccounted Water Use - Material Weakness

Condition:

Each month a report is provided to the Directors of the Association that summarizes water use. A summary of all reports provided for 2010 is presented below:

Gallons Consumed	6,752,600
Gallons Produced	6,325,400
Gallons Sold	5,401,710
Water Unaccounted for Per Report	923,690 - (Produced less Sold)

This leaves an unexplained difference of Consumed less Produced of 427,200 gallons. The percentage of Unaccounted for water per the report is 15% but by using the consumed water an unexplained difference of is generated. The total percent of unexplained and unaccounted for usage is 21%.

Criteria:

The Association is responsible for the protection of public funds and establishing policies and practices that provide for the internal control of Association assets. Defined procedures detailed above require that If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section 2.2.2 10(I)(3) C NMAC.

Effect:

The reports provided to the Association by the Water Operator do not provide an accurate accounting of the water used. Water use information is used by the Directors to make the many critical decisions about future capital needs and charges for water used by Association members. Without reliable information informed decisions are not possible. Additionally it is probable that if, through error, misuse or fraud, misstatement of reports would not be detected.

Cause:

Review of the reports has become routine and with established routine the evaluation process has become flawed and internal control is not exercised.

Recommendation:

A special meeting of the board be called and the information provided in the water reports be evaluated so a report can be provided that will reconcile to previous months and generate relevant information required for Association decisions.

Management Response:

The Board of Directors or the President of the Association will meet with the Water Operator and design an Operator's report for Board approval that can be reconciled to previous month ending information as well as verified by billing information.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-08. Poor Controls Over Receipts from Water Sales - Material Weakness

Condition:

Four bank statements were selected to review for test of cash elements of the agreed upon procedures. In January four deposits were made on the 3rd, three on the 12th and three on the 27th. The May statement reflected single deposits on the 2nd, 9th and 22nd. The July Statement reflected three deposits on the 20th and September reflected two on the 4th, and five on the 26th. The reason for numerous deposits on a single day is that cash is being received and held for various periods of time until being deposited.

In addition to cash received from billings associated with metered sales an additional element of revenue of the Association is from the sale of tokens. These tokens are used to purchase water that is then hauled by the purchaser. Association members who "Haul" water pay a small base monthly fee then purchase tokens that can be used to obtain water. There is no separation in the accounting of revenue from those who purchase tokens and haul water from those who received their water from the Association water systems and billed by the Association. The collection of revenue for haulers is primarily Cash and more subject to potential error or misuse even if small in amount in comparison to metered sales.

Criteria:

Section 6-10-2 NMSA 1978 states every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance on hand at the close of each day's business.

6-10-36.1 NMSA 1978 States the following: A municipality or village having within its boundaries no suitable banking facility in which to deposit collected receipts of public money shall deposit receipts within a period not to exceed five days from the date of collection, except when inclement weather or natural disaster conditions exist, in which case the period is extended to ten days; provided the municipality or village adopts a reasonable administrative policy approved by the local government division of the department of finance and administration establishing procedures for the safeguarding of the public funds prior to deposit.

Effect:

By holding any revenue from any source before depositing and recording the ability to forecast, budget, or plan for future business decisions is compromised. Holding funds prior to deposit generates a greater possibility for loss of funds, errors, and misuse.

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El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
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CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-08. Poor Controls Over Receipts from Water Sales - Material Weakness - [Continued]

Cause:

The Association is located in a small village in New Mexico and its banks is not visited every day. Regular deposits are not convenient or considered economically practical given the small amounts of money involved.

Recommendation:

Holding funds prior to deposit is not an acceptable option given Section 6-10-2 NMSA. The problem of timely deposits associated with rural communities and state agencies is not unique. Perhaps a meeting with the bank to discuss Association options or board discussions to determine how more timely deposits of funds can be accomplished through assistance from board members.

Management Response:

1. An attempt will be made to deposit receipts on a more regular basis. We are a volunteer organization with a part time bookkeeper that has a full time job and we all are 30 miles from the nearest bank. The costs to the association to make daily deposits would probably exceed the receipt for the day.
2. We have almost no cash transactions with the exception of token purchases that occur in vary small amounts over the course of a month - \$50 to \$200 per month. The board member who sells these tokens maintains a log of all transactions and also provides the buyer and the a Association Treasurer with a copy of a signed and consecutively numbered receipt for each purchase. Monthly at the board meeting all cash and receipts are delivered to the treasurer who makes a monthly report of those transactions and writes a personal check for the total amount of those cash transactions.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2012

CURRENT STATUS OF PRIOR YEAR FINDINGS:

10-09. Failure to File Informaton with the Internal Revenue Service - Significant Deficiency & Compliance

Condition:

The Associaton has various contracted servcles including the water operator, meter reader and bookkeeper and have not filed required form 1099 MISC forms with the Internal Revenue Service.

Criteria:

The Internal Revenue Code require that Form 1099-MISC must be filed for each person who is paid at least \$ 600 for services. This form is required when payments are made in the course of a trade or business and a nonprofit organization is considered to be engaged in a trade or business and is subject to these reporting regulations.

Effect:

Taxable income earned by individuals doing business with the Association is not being reported to the Internal Revenue Service as required by the Internal Revenue Code. Penalties for failure to file the required form 1099 MISC can be imposed.

Cause:

The Association CPA who prepares required tax returns had not informed the Association of the requirement to file the information returns with the Internal Revenue Service.

Recommendation:

The Association take steps to become knowledgeable of the requirements for filing required forms with the Internal Revenue Service. File required forms and maintain copies of all filed forms for future reference.

Management Response:

The Association will prepare 1099's for all of our contractors in the future.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Exit Conference
December 31, 2012

FINANCIAL STATEMENT PREPARATION

The accompanying financial information was prepared by Charles L. Henry CPA. However, the contents remain the responsibility of the Association.

EXIT CONFERENCE

On August 17, 2013 an exit conference was held in the residence of Ren Greene who serves the Association as Treasurer. The conference was also attended by Mrs. Ruth Center - Association Bookkeeper as well as Charles Henry CPA.