

Charles L. Henry

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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, 2014

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
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December 31, 2014

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STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Official Roster
December 31, 2014

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 Timmothy Keller
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, 2014. 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. All bank reconciliations were reviewed and found to be performed on a timely basis, complete and on hand.
- b) All bank reconciliations were reviewed for the year and found to be accurately prepared and balances reflected in the reconciliations were traced to the general ledger.
- c) As of December 31, 2014 the Association had not met 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 - 2010-002)
- d) Bank account balances did not exceed uninsured limits during the year ended December 31, 2014 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, 2014 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, 2014 but the required budget was not generated for or filed with DFA-LGD. An internally prepared budget for the year was provided and this budget was compared to actual revenue generated and classified during the year although it was determined that revenue classifications entered in the bookkeeping process did not follow budget classifications. (Finding - 2010-002)
- b) Amounts recorded in the general ledger agreed with the bank statements.
- 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 were not consistently classified separately from Metered Income. (Finding - 2010-005)

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 expenditures were adequately supported by Association documentation; however, the recording of sales taxes paid to the taxing authority as well as accounting policies related to returned checks were not properly recorded. (Finding - 2010-006)
- 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 2014. (Finding - 2010-002)

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 found to be compliant.

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 no journal entries for the period and it is noted that 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 - 2010-002)

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. One internal control deficiency was noted with respect to accounting for hauler revenue. (Finding - 2010-005)

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 for the information and use of the El Vadito de los Cerrillos Association, the New Mexico Office of the State Auditor, New Mexico State Legislature 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
April 21, 2015

El Vadito de los Cerrillos Mutual Domestic Water Association

Statement of Revenues and Expenditures

For the Year Ended December 31, 2014

	Budget	Actual Cash Basis	Variance Favorable (Unfavorable)
Revenues			
Meter Income	\$ 75,000	\$ 67,205	\$ (7,795)
Hauler Income	3,000	1,241	(1,759)
Membership Fees	1,000	-	(1,000)
Miscellaneous Income	100	142	42
Total Revenues	<u>79,100</u>	<u>68,588</u>	<u>(10,512)</u>
Expenditures			
Contracted Services:			
Bookkeeper	7,500	7,730	(230)
Operator	16,000	11,113	4,887
Meter Reader	5,200	4,843	357
Audit Services	3,100	2,698	402
Contract Labor	1,300	-	1,300
Operating Costs			
Equipment	2,500	1,006	1,494
Equipment Repair	500	-	500
Other Maintenance	1,500	1,218	282
Water Sampling	700	544	156
Cost of Oeration	500	-	500
Electricity	1,800	480	1,320
Mileage	-	3,223	(3,223)
Miscellaneous	500	-	500
Administrative Costs			
Office Expense	1,500	299	1,201
Rent	1,200	-	1,200
Bank Charges	600	124	476
Insurance	5,000	4,462	538
Postage	1,800	887	913
Dues & Subscriptions	500	180	320
Water Conservation Fees	300	135	165
Other Taxes	250	50	200
Bad Debt	500	-	500
Charitable Contributions	1,000	-	1,000
Miscellaneous Administrative Costs	250	647	(397)
Professional Services			
Legal Fees	1,000	-	1,000
Accounting Fees	1,000	541	459
Other Professional Fees	1,500	-	1,500
Total Expenditures	<u>57,500</u>	<u>40,182</u>	<u>17,318</u>
Excess (Deficiency) of Revenues over Expenditures	<u>21,600</u>	<u>28,406</u>	<u>(27,830)</u>
Principal Payment on Association Loans	<u>2,000</u>	<u>1,958</u>	<u>42</u>
Excess (Deficiency) of Receipts over Disbursments	<u>19,600</u>	<u>26,448</u>	<u>(27,873)</u>
Cash balance beginning of Year		<u>97,363</u>	
Cash balance End of Year		<u>\$ 123,811</u>	

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, 2014

STATUS OF PRIOR YEAR FINDINGS

- 2010-002 - Failure to File Annually a Proposed Budget with DFA-LGD -- Repeated
- 2010-003 - Bank Reconciliations Not Prepared on a Timely Basis -- Corrected
- 2010-005 - Misclassification of Revenue Transactions -- Repeated
- 2010-006 - Expenditures Not Properly Classified -- Repeated
- 2010-007 - Lack of Oversight of Unaccounted Water Use -- Corrected
- 2010-008 - Poor Controls Over Receipts from Water Sales -- Corrected
- 2010-009 - Failure to File Informaton with the Internal Revenue Service -- Corrected

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-002 - Failure to File Annually a Proposed Budget with DFA-LGD - Compliance

Condition:

The Association did not submit their 2014 budget to DFA-LGD for approval as required by state statute. A internally prepared budget was provided and used for presentation purposes only.

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 state legal requirements and could be subject to penalties as a result. DFA oversight and any related benefits from their review and participation in the budgetary process is not available.

Cause:

The Association is aware of the requirement to prepare a budget and did, in fact, prepare a budget as a matter of internal procedure. The actual filing requirements and budgetary process was not understood and the Association believed they simply needed to provide a copy of their budget to DFA to be in compliance.

Recommendation:

The Association should contact DFA as soon as possible and begin the process of preparing and filing the required budget information as required by state statute.

Management Response:

The Association will contact DFA at once and begin the process of becoming compliant with the budgetary requirements in order to be in compliance by year end December 31, 2015.

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Schedule of Findings and Responses
December 31, 2014

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-005 - 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 who use tokens to purchase water represents the other classification. Water sales generated from those who haul water is not adequately reported by Association. Association minutes and operator reports reflect that hauled water accounts for 4% of all water sold. The percentage applied to total water sales reflects that the hauled water revenue should be approximately \$ 3,200 and the actual hauled water revenue per the Association records was \$ 1,240. Analysis of revenue from water sales concludes that hauled water sales are understated by approximately \$ 2,000.

Criteria:

Classification of revenue and adequate protection of Association 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. Section 6-5-2 (C) NMSA 1978 provides that state agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect:

The Association hauler revenue is not adequately controlled or reported. Classification of revenue sources when compared to the budget is not accurate and there is also the possibility of misuse or fraud.

Cause:

The Association collection of revenue from the sale of water tokens is generally small in amount and usually the tokens are purchased with cash. Those selling tokens do not have easy access to a bank for prompt deposit. Policies and procedures for the sale of tokens does not provide guidance. The sale of tokens and related deposit of funds is primarily based on trust of those involved.

Recommendation:

The Association generate policies and procedures to give guidance to the sale, collection and deposit of funds involved. The bookkeeper should be instructed to clearly reflect all hauler funds deposited and insure that not hauler funds are combined with metered revenue.

Management Response:

The Association will establish policies and procedures for the sale, collection and reporting of hauler revenue. The bookkeeper will separate all hauled water revenue from metered water income and record each in the books and records to properly reflect the different classifications.

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Schedule of Findings and Responses
December 31, 2014

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-006 - Expenditures Not Properly Classified - Significant Deficiency

Condition:

The Association maintains its books using the cash basis of accounting but payments to the State of New Mexico for required Gross Receipts Taxes are charged to a liability account for these expenditures.

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 recording expenditures to a liability account the expense is not properly recorded. The statement of Revenues and Expenditures is understated.

Cause:

The bookkeeper is not familiar with the process of recording transactions using the cash basis of accounting and the chart of accounts reflecting "Sales Taxes Payable" was utilized for the expense transaction.

Recommendation:

The Association record payments to the State of New Mexico for payment of sales taxes should either be charged to a contra-revenue account to reflect the amounts of taxes paid.

Management Response:

The procedure of recording payment of sales taxes amounts to Sales Taxes Payable will be changed to record such payments properly.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Exit Conference
December 31, 2014

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 April 21, 2015 an exit conference was held in the residence of Allen Fowler - President for the Association as well as Charles Henry CPA.