

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, 2015

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
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December 31, 2015

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STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Official Roster
December 31, 2015

Official Roster

Board Members

Position

Allen Fowler

President

Ann Murry

Vice President

Carol O'Keefe

Secretary

Margret Cushing

Treasurer

Todd Brown

Director

Charles L. Henry

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

**Todd Brown, Current President
and Members of the Board
El Vadito de los Cerrillos Mutual Domestic Water Association
and
Honorable Timothy 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, 2015. 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) 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 (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 were found to be on hand but were not completed timely. (Finding - 2015-001)
- 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) The Association contacted the DFA-LGD and filed their budget as required. The final budget was reviewed and accepted by DFA-LGD September 22, 2015. A copy of the acceptance letter is included in this statement.
- d) Bank account balances did not exceed uninsured limits during the year ended December 31, 2015 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, 2015 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, 2015 that were compared to the budget as provided to DFA-LGD. It was found that the budget contained no classification for Hauler Income while the minutes discussed this revenue classification each month and the books recorded amounts to this revenue item. The amount of the Hauler income reported for the year was \$1,192 and was all traced to cash receipts. This exception is considered as immaterial and does not rise to the level of a significant deficiency or material weakness but does warrant the attention of those charged with governance and has been communicated as such with assurances of correction by the Association.
- b) Cash balances recorded in the general ledger agreed with the bank reconciliations.
- c) Review of proper classification of revenue found that Sales Tax Expense and Returned Checks were recorded improperly resulting in a overstatement of generated revenue by the Association. (Finding - 2010-006)

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 generally adequately supported by Association documentation; however, all amounts selected for January and one transaction in October could not be located. (Finding - 2010-006)
- b) The payee, date and invoice amount was found to agree with general ledger postings except as noted above.
- c) 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 and 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 filed a budget with DFA-LGD for the fiscal year and the minutes reflected approval of the final budget by DFA-LGD.
- b) A review of the budget as well as the expenditures found that the actual expenditures did not exceed budgeted expenditures.

OTHER

PROCEDURES

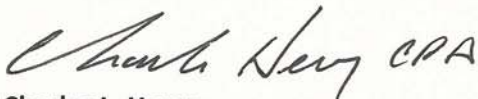
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section 2.2.2 10(I)(3) NMAC.

OBSERVATIONS:

No exceptions were found as a result of applying the procedures above indicating any fraud or illegal acts by the Association. One internal control finding was noted with respect to applying policies and procedures applied to unaccounted for water differences reflected by water reports provided by the Association Meter Reader. (Finding - 2015-002)

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
March 28, 2016

El Vadito de los Cerrillos Mutual Domestic Water Association

Statement of Revenues, Expenditures - Budget and

Actual (Non-GAAP Budgetary Basis)

For the Year Ended December 31, 2015

	<u>Budget</u>	<u>Actual Cash Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Meter Income	\$ 73,500	\$ 64,196	\$ (9,304)
Hauler Income	-	1,192	1,192
Membership Fees	1,000	-	(1,000)
Miscellaneous Income	200	34	(166)
	<hr/>	<hr/>	<hr/>
Total Revenues	74,700	65,422	(9,278)
Expenditures			
Contracted Services:			
Bookkeeper	7,800	7,699	101
Operator	13,000	12,330	670
Meter Reader	5,000	4,843	157
Audit Services	2,800	2,698	102
Contract Labor	1,300	1,085	215
Operating Costs			
Equipment	2,000	-	2,000
Equipment Repair	500	-	500
Other Maintenance	1,500	5	1,495
Water Sampling	700	438	262
Cost of Operation	500	-	500
Electricity	1,800	339	1,461
Mileage	3,000	2,735	265
Miscellaneous	500	-	500
Administrative Costs			
Office Expense	500	450	50
Rent	600	-	600
Bank Charges	200	92	108
Insurance	5,000	5,134	(134)
Postage	1,000	971	29
Dues & Subscriptions	250	235	15
Water Conservation Fees	300	-	300
Other Taxes	150	408	(258)
Bad Debt	500	-	500
Charitable Contributions	1,000	-	1,000
Miscellaneous Administrative Costs	500	195	305
Professional Services			
Legal Fees	500	-	500
Accounting Fees	700	591	109
Other Professional Fees	500	-	500
	<hr/>	<hr/>	<hr/>
Total Expenditures	52,100	40,249	11,851
Excess (Deficiency) of Revenues over Expenditures	22,600	25,173	(21,129)
	<hr/>	<hr/>	<hr/>
Principal Payment on Association Loans	2,000	1,958	42
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Receipts over Disbursements	20,600	23,215	(21,171)
Cash balance beginning of Year	<hr/>	123,811	<hr/>
Cash balance End of Year		\$ 147,027	

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

**El Vadito de los Cerrillos Water Association
2015 Budget**

Revenue	
Income (water distribution)	73,500
Membership Fees	1,000
Misc Income	200
Total Revenue	74,700

Expenditures	
Personnel Costs	
Bookkeeper	7,800
Operator	13,000
Meter Reader	5,000
Contract Labor	1,300
Operating Costs	
Equipment (Parts and Supplies)	2,000
Equipment Repair	500
Other Maintenance	1,500
Water Sampling	700
Cost of Operation	500
Electricity	1,800
Mileage (operator & meter reader)	3,000
Misc	500
Administrative Costs	
Office Supplies	500
Rent	600
Bank Charge	200
Insurance	5,000
Postage	1,000
Dues & Subscriptions	250
Water Conservation Fees	300
Other Taxes	150
Bad Debt	500
Charitable Contributions	1,000
Misc	500
Professional Services	
Legal Fees	500
Accounting Services	700
Audit Services	2,800
Engineering Services	500
Other Professional Services	500
Debt Service	
Loan # 2	2,000
Total Expenses	54,100

APPROVED PURSUANT TO
SECTION 6-6-2 NMSA 1978
LOCAL GOVERNMENT DIVISION

DATE 9/21/15
BY Suzanne M. Johnson
DEPARTMENT OF FINANCE AND ADMINISTRATION

Reserves - Annual	
Debt Service Reserve	2,000
Operating Reserve	600
Emergency Reserve	2,000
Capital Improvement Reserve	16,000
Total Annual Reserves	20,600
Total Projected Income	74,700
Total Anticipated Expenses	54,100
Total Anticipated Reserves	20,600
Total Expenses and Reserves	74,700

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2015

STATUS OF PRIOR YEAR FINDINGS

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

2010-006 - Revenue and Expenditures Transactions Not Properly Classified -- Repeated

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-006 - Revenue and Expenditures Transactions 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 and returned checks from water customers are charged to asset accounts. The elements of this finding were unchanged from the prior year.

Criteria:

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

Effect:

The Association overstated income determined using the cash basis of accounting by recording amounts paid to the State of New Mexico for gross receipts tax and amounts associated with returned customer checks in the balance sheet. The total misstatement from gross receipts transactions was \$3,475.42 and the amount from returned customer checks was \$361.52.

Cause:

The bookkeeper did not completely understand the process of recording transactions using the cash basis of accounting.

Recommendation:

The Association record payments to the State of New Mexico for payment of sales taxes and customer returned checks to a contra-revenue accounts or directly to the revenue account based on a policy established by the Agency.

Management Response:

The Association Treasurer will be responsible to insure that the recording of payments of sales taxes amounts and customer returned checks will be properly recorded according to a procedure to be established by the Board by the Association. The bookkeeper was at the exit interview and stated she understood the problem. All cash disbursements will be recorded properly by December 31, 2016.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2015

CURRENT YEAR FINDINGS:

2015-001 - Bank Reconciliations not performed timely - Material Weakness

Condition:

I reviewed each bank reconciliation of the Association and found that 10 of 12 months had common reconciliation dates and by definition were not being reconciled timely.

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:

A key element of internal control over cash is bank reconciliations. They are essential to maintain control over various transactions generated through approved activity that provide direct access to bank accounts without requiring being generated by the owner of the bank account. Timely and properly prepared bank reconciliations provide protection to detect common errors and intentional misuse.

Cause:

The previous Association Treasurer resigned and was replaced by a well meaning individual who was not prepared for the requirements of the position. Information necessary for the preparation of the reconciliations was not provided to the bookkeeper which accounts for the common date of reconciliation preparation.

Recommendation:

The Association have a written policy that outlines the requirements of proper controls over cash and reporting to the Directors. The Treasurer be required to acknowledge and agree to the policies as part of the responsibilities of the position.

Management Response:

The Association now has a knowledgeable and responsible Treasurer who has corrected the problem at this time. Consideration by the directors will be made to review the above recommendation to determine if it is possible to put into place given the availability of individuals to participate in the management of the Association. The process of this activity will be noted in the minutes of the Association.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2015

CURRENT YEAR FINDINGS:

2015-002 - Lack of Procedures to Deal With Unaccounted For Water Differences - Material Weakness

Condition:

The Association Meter Reader provided water usage reports for every regular meeting. These reports reflected a total of 4,668,990 gallons of water were sold while 3,989,840 were actually accounted for through the master meter. A total of 679,150 gallons of water was unaccounted for. In reading the minutes of the Association the difference did not draw any unusual attention and was often approved without comment.

Criteria:

Section 3-12-3(A)-3 NMSA 1978 provides the powers and duties of the governing body to manage and control the finances and all property, real and personal, belonging to the Association.

Effect:

The main purpose of the Association is to manage and control water entrusted to the association. Water usage reports provided to the Board clearly reflected "water unaccounted for". In reviewing the reports it was found that this amount was accurately computed based upon the meter readings. Differences determined for four months were especially obvious.

	<i>Gallons Produced</i>	<i>Gallons Sold</i>	<i>Unaccounted Gallons</i>
March	188,300	302,030	113,730
April	247,470	489,350	241,880
May	229,990	380,520	150,530
June	314,830	467,760	152,930

A review of the minutes of the meetings for these months reflect that there was no question, concern, or comment regarding the unaccounted gallons of water use by the board. Without concern or policy addressing the differences there is no action to address them there is no internal control in place to protect against error, fraud or misuse of the Associations primary asset and responsibility

Cause:

A conversation with the Meter Reader disclosed that the master valve was not functioning correctly. The cost of this valve was a concern to the President combined with the trust of all involved with the Association led to complacency resulting in a loss of reliable accountability and internal control.

Recommendation:

The Association put in place written policy decisions requiring proper maintenance of equipment and set limits on the amount of unaccountable water before requiring complete analysis of the differences determined.

Management Response:

The Association President was preoccupied with personal concerns and made the decision to resign. A new President is now in place and will personally take on the obligation of identifying causes of water differences and establishing policy to deal with them to insure proper control. These measures will be in place by the end of the current year.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Exit Conference
December 31, 2015

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 March 28, 2016 an exit conference was held in the residence of Todd Brown, the current President of the Association. In attendance was Association current Treasurer Patricia Brown, Association Bookkeeper Ruth Center as well as Charles Henry CPA.