

OFFICE OF THE STATE AUDITOR

Timothy M Keller



Hanover Mutual Domestic Water Consumers Association
Independent Accountant's Report on Applying Agreed-Upon
Procedures For the Year Ended December 31, 2010

Hanover Mutual Domestic Water Consumers Association

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Hanover Mutual Domestic Water Consumers Association

Official Roster

Fiscal Year Ending December 31, 2010

Board of Directors

Eddie Evatt, President

Erminio Sandoval, Vice President

John Lathrop, Secretary Treasurer

Melissa Arciero, Board Member

Rudy Apodaca, Board Member



State of New Mexico
OFFICE OF THE STATE AUDITOR

Independent Accountant's Report on Applying Agreed-Upon Procedures

Members of the Board
Hanover Mutual Domestic Water Consumers Association
P.O. Box 38
Hanover, New Mexico 88041

We have performed the procedures enumerated below for the Hanover Mutual Domestic Water Consumer Association (Association) for the year ended December 31, 2010, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 5 entity per Section 12-6-3(B)(5) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. This agreed upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

1. Cash

Procedures

- 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.
- 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.
- 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.

Findings

Bank reconciliations were not performed for any of the accounts in 2010. The Association did not have any uninsured deposits. See the Schedule of Findings and Responses 2010-001 for items noted.

2. Capital Assets

Procedures

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

Findings

The Association did not perform an annual physical inventory during calendar year 2010. See the Schedule of Findings and Responses 2010-002 for items noted.

3. 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 for each type of revenue.

Test 50% of the total amount of revenues for the following attributes:

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

Findings

We noted the activity documented within the general ledger appeared incomplete and did not capture all activity in 2010. Additionally, we noted the Association did not have any supporting documentation for the revenues received in 2010. See the Schedule of Findings and Responses 2010-003 for items noted.

4. Expenditures

Procedures

Select a sample of cash disbursements and test at least 25 transactions and 50% of the total amount of expenditures for 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.
- 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 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings

We noted the activity documented within the general ledger appeared incomplete and did not capture all activity in 2010. Therefore, we were unable to select a sample and test for compliance with Section 12-6-3 B (5) NMSA 1978.

Furthermore, we noted the Association did not have any supporting documentation such as invoices or receipts for expenditures in 2010 totaling approximately \$347,995 based on review of the bank statements.

Additionally, per review of the copies of cancelled checks included within the bank statements, we noted a total of 25 checks written in 2010 totaling approximately \$26,247 that the check signer was also the payee or a close relative of the payee. See the Schedule of Findings and Responses 2010-004 for items noted.

5. Journal Entries

Procedures

- 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.

Findings

The Association did not record non-routine journal entries.

6. Budget

Procedures

- 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.
- b. Determine if the total actual expenditures exceeded 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 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.

Findings

We were unable to locate any documentation that a budget was submitted to the Department of Finance and Administration – Local Government Division for 2010.

Additionally, during testwork we noted the activity documented within the general ledger appeared incomplete and did not capture all activity. Therefore, we were unable to determine if total actual expenditures exceeded the final budget at the legal level of budgetary control. Furthermore, we were unable to prepare a schedule of revenues and expenditures – budget activity for 2010. See the Schedule of Findings and Responses 2010-005 for items noted.

7. Capital Outlay Appropriations

Procedures

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b. Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Findings

We noted the Association did not maintain adequate records of cash receipts and disbursements to account for the financial transactions of the capital outlay awards and related projects. In addition, the Association's general ledger is incomplete and does not fully document all cash receipts and disbursements. Furthermore, we were unable to obtain the grant agreements in order to complete the schedule of capital outlay awards as required by Section 12-6-3 B (5) NMSA 1978. See the Schedule of Findings and Responses 2010-007 for items noted.

8. Other

Procedures

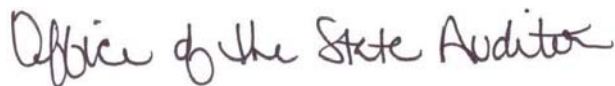
- a. If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.

Findings

The Association was required to obtain the services of an independent public accountant to perform procedures under Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC for 2012. Reports were not submitted to the State Auditor's Office by the due date. See the Schedule of Findings and Responses 2010-006 for items noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Tier 5 agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Association, the NM Office of the State Auditor, the NM Office of the State Engineer, the NM Department of Finance and Administration – Local Government Division, and the NM State Legislature and is not intended to be and should not be used by anyone other than these specified parties.



Office of the State Auditor
Santa Fe, New Mexico
June 1, 2015

**STATE OF NEW MEXICO
HANOVER MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010**

STATUS OF PROIR YEAR FINDINGS

Not applicable.

CURRENT YEAR FINDINGS

2010-001 Controls over Cash

Condition:

During our testwork over bank reconciliations we noted that none of the three Association bank accounts were being reconciled in any form throughout calendar year 2010.

Criteria:

Per Section 6-10-2 NMSA 1978, it is the duty of 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 of public money on hand at the close of each day's business.

Effect:

The Association is not maintaining adequate controls over cash to safeguard cash and provide prompt and accurate reporting. In addition, unreconciled bank accounts could increase the risk of fraud going undetected and cash balances could be misstated which could lead to expenditures in excess of the budget.

Cause:

The Association was unaware of this requirement.

Recommendation:

The Association should ensure they are performing monthly reconciliations on each individual bank account.

Agency Response:

The Association has taken every precaution to ensure the current two bank accounts are reconciled every month.

The Association has implemented procedures to ensure cash and check payments are applied accordingly with all supporting documents.

**STATE OF NEW MEXICO
HANOVER MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010**

2010-002 Capital Assets Inventory

Condition:

The Association did not perform an annual physical inventory for calendar year 2010.

Criteria:

Section 12-6-10 NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year.

Effect:

The lack of an annual inventory count increases the risk of theft being perpetrated and going undetected. Additionally, capital asset balances could be materially misstated.

Cause:

The Association was unaware of this requirement.

Recommendation:

The Association should ensure a complete physical inventory of all assets is performed annually.

Agency Response:

The Association has performed a physical inventory for calendar year 2015.

**STATE OF NEW MEXICO
HANOVER MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010**

2010-003 Controls over Revenue

Condition:

During testwork performed over revenues, we noted the activity documented within the general ledger appeared incomplete and did not capture all activity. Additionally, we noted the Association did not have any supporting documentation for the revenues received in calendar year 2010.

Criteria:

Section 6-10-2 NMSA 1978, states “It is the duty of 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 of public money on hand at the close of each day's business.”

Effect:

Failing to properly preserve the audit trail related to revenues could lead to misstatements and misappropriations going unnoticed by the Association's management.

Cause:

The Association experienced turnover in 2014 and was unable to obtain all of the supporting documents related to calendar year 2010.

Recommendation:

We recommend the Association implement a process to create and maintain adequate accounting records.

Agency Response:

The Association has accounted for the annual budget effective for 2015 and can ensure supporting documents for all revenue and expenditures for 2015. Each deposit will have the date of deposit, customer name, and method of payment (cash, money order, or check). Each check written will have the date of the check, name, and line item used.

**STATE OF NEW MEXICO
HANOVER MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
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2010-004 Controls over Expenditures

Condition:

During testwork performed over expenditures, we noted the activity documented within the general ledger appeared incomplete and did not capture all activity. Therefore, we were unable to select a sample and test for compliance with Section 12-6-3 B (5) NMSA 1978.

Furthermore, we noted the Association did not have any supporting documentation such as invoices or receipts for expenditures in calendar year 2010 totaling approximately \$347,995 based on review of the bank statements.

Additionally, per review of the copies of cancelled checks include within the bank statements, we noted a total of 25 checks written in calendar year 2010 totaling approximately \$26,247 that the check signer was also the payee or a close relative of the payee.

Criteria:

Per section 6-5-8 NMSA 1978, all purchase vouchers for goods and services, other than personnel, shall be accompanied by supporting invoices and documentation required by the division.

Also, good internal controls require that those signing checks are not going to personally benefit from the check bearing their signature.

Effect:

Failing to properly track expenditures and practice segregation of duties could lead to unauthorized disbursements increasing the risk of theft or expenditures in excess of the budget. Also, when sufficient controls over expenditures are not designed, implemented and operating effectively, it increases the risk of financial statement misstatements going undetected.

Cause:

The Association did not have any segregation of duties controls implemented. Additionally, the Association experienced turnover in 2014 and was unable to obtain all of the supporting documents related to calendar year 2010.

Recommendation:

We recommend the Association implement a process to create and maintain adequate accounting control and records, which includes proper segregation of duties.

Agency Response:

The Association has implemented as of October 15, 2014, a two signature requirement for check signing.

The Association has also implemented resolution 2015-5 to ensure the following:

- Any documents being submitted by other agencies must have five board member signatures for prior approval.
- Board members will review and approve/deny tasks of operations associated with the Association.
- The Association secretary/treasurer will review bank statements to ensure accountability.

**STATE OF NEW MEXICO
HANOVER MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010**

2010-005 Controls over Budget

Condition:

We were unable to locate any documentation that a budget was submitted to the Department of Finance and Administration – Local Government Division for calendar year 2010.

Additionally, during testwork we noted the activity documented within the general ledger appeared incomplete and did not capture all activity. Therefore, we were unable to determine if total actual expenditures exceeded the final budget at the legal level of budgetary control. Furthermore, we were unable to prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the Association as we did not have all of the actual activity for calendar year 2010.

Criteria:

Pursuant to Section 6-6-2 NMSA 1978 all Association funds, with the exception of agency funds, are to be budgeted by the local governing body and submitted to the State of New Mexico Department of Finance and Administration – Local Government Division for approval. Once adopted, any claims or warrants in excess of budget are a violation of Section 6-6-6 NMSA 1978, as the fund level has been established as the legal level of budgetary control.

Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 requires, “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.”

Effect:

Failing to properly preserve the audit trail related to revenues and expenditures could lead to misstatements and misappropriation going unnoticed by Association management.

The Association is unable to comply with state statute as they do not have the documentation to complete the required schedule of revenues and expenditures – budget and actual.

Cause:

The Association experienced turnover in 2014 and was unable to obtain all of the supporting documents related to calendar year 2010.

Recommendation:

We recommend the Association implement a process to create and maintain adequate accounting records.

Agency Response:

The Association hired a part time secretary to reorganize the structure of the Association. The Secretary, with the exception of agency funds, has the responsibility of advising the Association president and its board of funds available, and to stay within budget. The Association Secretary has structured a filing system to account for all expenditures/invoices/reimbursements to ensure each check written is accounted for accordingly.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
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2010-006 – Failure to File Agreed Upon Procedures Report by the Required Due Date

Condition:

The Association was required to obtain the services of an independent public accountant to perform procedures under Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC for calendar year 2010. Reports were not submitted to the State Auditor’s Office by the due date.

Criteria:

Per Section 2.2.2.16(H)(1) NMAC, local public bodies with a fiscal year end other than June 30 must submit the agreed upon procedures report no later than five months after the fiscal year-end.

Effect:

The Association was not in compliance with State of New Mexico requirements and could potentially jeopardize future state and federal funding.

Cause:

The Association incorrectly calculated revenues for calendar year 2010 and therefore believed they were a Tier 2.

Recommendation:

The Association should ensure revenue is properly calculated and ensure the proper Tier Agreed Upon Procedure engagements and reports are completed submitted to the Office of the State Auditor no later than five months after year-end.

Agency Response:

The Association will ensure the procedures report will be filed accordingly and when applicable.

**STATE OF NEW MEXICO
HANOVER MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
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2010-007 No Documentation of Financial Transactions Related to Capital Outlay Awards

Condition:

The Association did not maintain adequate records of cash receipts and disbursements to account for the financial transactions of the capital outlay awards and related projects. In addition, the Association's general ledger is incomplete and does not fully document all cash receipts and disbursements. Furthermore, we were unable to obtain the grant agreements in order to complete the schedule of capital outlay awards as required by Section 12-6-3 B (5) NMSA 1978.

Criteria:

The Association must maintain records of financial affairs in order to comply with the Audit Act (Section 12-6-3 NMSA 1978) and the provisions of the capital outlay agreements.

Effect:

Failing to properly preserve the audit trail related to revenues and expenditures could lead to misstatements and misappropriation going unnoticed by Association management.

The Association is unable to comply with state statute as they do not have the documentation to complete the required schedule of capital outlay awards.

Cause:

The Association experienced turnover in 2014 and was unable to obtain all of the supporting documents related to calendar year 2010.

Recommendation:

We recommend the Association implement a process to create and maintain adequate accounting records.

Agency Response:

The Association was not aware of the capital outlay monies awarded during this period. On May 29, 2015, it was found that the Association had to pay three loans by June 1, 2015, in which two of the loans were unexpected.

The Association has not requested any funding of capital outlay monies, Colonias Infrastructure and or federal/state monies until the Board can understand how to operate with the current monies available.

Furthermore, the Association has made a resolution (2015-5) in which all five signatures from its Board Members must be on any or all documents including requisition of funds.

**STATE OF NEW MEXICO
HANOVER MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
EXIT CONFERENCE
DECEMBER 31, 2010**

On June 1, 2015 an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Hanover Mutual Domestic Water Consumers Association

Jim Cook, President
Millie Soto, Secretary

Office of the State Auditor

Miranda Mascarenas, Audit Supervisor