

State of New Mexico

Hanover Mutual Domestic Water Consumers
Association

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES**

For The Year Ended December 31, 2016

Hanover Mutual Domestic Water Consumers Association
TABLE OF CONTENTS
December 31, 2016

	<u>PAGE</u>
INTRODUCTORY SECTION:	
Directory of officials	1
FINANCIAL SECTION:	
INDEPENDENT ACCOUNTANTS REPORT ON APPLYING AGREED UPON PROCEDURES	2-6
Schedule of Capital Outlay	7
Schedule of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual (NON-GAAP Budgetary Basis):	
General Fund	8
Year-end Financial Report Submitted to DFA	9-10
Schedule of Findings and Responses	11-12

State of New Mexico
Hanover Mutual Domestic Water Consumers Association
OFFICIAL ROSTER
December 31, 2016

ELECTED OFFICIALS

Joe T. Soto III	President
Charles Scheer	Vice-President
Millie Hinojosa	Secretary
Laura Breed	Member
Pauline Dempster	Member

ADMINISTRATIVE STAFF

Millie Hinajosa Soto	Office Manager
Carney Foy, CPA	Independent Accountant

MIKE STONE, C.P.A.
LINDA STONE MCGEE, C.P.A.
KAY STONE, C.P.A.
KELLEY WYATT, C.P.A.

RYAN MONTOYA, C.P.A.

1311 N. GRANT ST.
P.O. BOX 2828
SILVER CITY, NEW MEXICO 88062
TELEPHONE (575) 388-1777
(575) 538-3795
FAX (575) 388-5040
E-MAIL: admin@stone-mcgee.com

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Wayne Johnson, State Auditor
And
Members of the Board
Hanover Mutual Domestic Water Consumer Association
Hanover, New Mexico

We have performed the procedures enumerated below for the Hanover Mutual Domestic Water Consumer Association (Association) for the year ended December 31, 2016, solely to assist users in determining compliance with the provisions of the Audit Act for a Tier 5 entity per Section 12-6-3(B)(4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Hanover Mutual Domestic Water Consumer 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 representations 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. Classification

Procedures

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

Findings

The Association's revenue calculation and tier selection were correct.

2. 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. Test at least 30% of bank reconciliations for accuracy. Also trace ending balances to the general ledger, supporting documentation, and the financial report 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 accounts were reconciled monthly in a timely manner, and all bank and investment statements were complete and on hand. We reviewed all 12 bank reconciliation for accuracy without exception. Reconciled cash balances were traced to the general ledger and supporting documentation without exception. At December 31, 2016, the cash balances were in agreement with the financial report submitted to DFA-Local Government Division. The Association's deposits were properly collateralized in accordance with Section 6-10-17 NMSA 1978, the NM Public Money Act.

3. Capital Assets

Procedures

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

Findings

The Association conducted an inventory of its capital assets.

4. Revenue

Procedures

Identify the nature and amount of revenue from all 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. Select a sample equal to at least 30% of the total dollar amount and test the following attributes:
 1. Amount recorded in the general ledger agrees to supporting documentation and the bank statements.
 2. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform the 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

The analytical review yielded no exceptions, and met expectations. In a test of 33 receipts, totaling 66% of the total dollar amount, we noted that the amount recorded in the general ledger agreed to supporting documentation and the bank statements. In each case, the recording of classification, amounts, and periods was correct.

5. Expenditures

Procedures

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

- a. Determine that amounts 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 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 Mileage and Per Diem Act (2.42.2 NMAC).

Findings

In a test of 49 transactions, totaling 75% of the total dollar amount and representative of the population, we noted that amounts disbursed were supported by adequate supporting documentation; that the disbursements were properly authorized and approved; and if required, the bid or proposal process was in agreement with state statutes and regulations.

6. Journal Entries

Procedures

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:

- a. Journal entries must appear reasonable and have supporting documentation.
- b. The local public body has procedures that require entries to be reviewed and there is evidence the reviews are being performed.

Findings

Although we noted no non-routine journal entries, we tested the monthly journal entries made during the year, and noted that each was properly posted to the general ledger, and was either generated or approved by the Board at their periodic meetings, when financial statements were reviewed.

7. Budget

Procedures

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

- a. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b. Determine if the actual total expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, 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 for each individual fund.

Findings

The original and final budget, including all budget amendments received the proper approval. Actual total expenditures did not exceed the final budget for any funds at the legal level of control. Budgetary comparison statement for all funds are reported elsewhere in this report.

8. Capital Outlay Appropriations

Procedures

The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital outlay appropriations or the New Mexico Legislature that meet Tier 5 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet the Tier 5 criteria. Perform the following tests on all state-funded capital outlay expenditures during the fiscal year:

- 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 the status reports were submitted to the state agency charged with oversight per terms of the agreement and verify that the 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 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

Our review of capital outlay transactions indicate that the disbursements were evidenced by adequate supporting documentation; cash disbursements were properly authorized and approved; the bid process, if required, was in accordance with state statute; the amounts paid were properly evidenced by goods or services which were observed; status reports were appropriately filed; cash received and disbursed is accounted for separately; and reimbursement requests were properly supported by costs incurred, and in instances where the contactor was paid by the Association, the disbursement was made before or simultaneously with the request for reimbursement.

9. Other

Procedures

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(L) NMAC.

Findings

The agreed-upon procedures report was not submitted timely to the New Mexico State Auditor as detailed in finding 2016-001 in the schedule of findings and responses.

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

This report is intended solely for the information and use of management of the Hanover Mutual Domestic Water Consumer Association, the New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration-Local Government Division, and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Stone, McGee & Co., CPAs

Silver City, New Mexico
December 19, 2017

Stone, McGee & Co.
Certified Public Accountants

Hanover Mutual Domestic Water Consumers Association
 SCHEDULE OF GRANT ACTIVITY
 December 31, 2016

	Water Trust Board	Colonias Grant	Colonias Grant	Legislative Allocation	Water Trust Board	Colonias Grant	Colonias Grant
	WTB0114	CI-2803	14-1630-STB	WTB284	CI-2971	WTB284	CI-2971
	\$ 580,500	\$ 50,000	\$ 100,000	\$ 167,391	\$ 157,685	\$ 167,391	\$ 157,685
Grant award							
Amount expended	\$ 567,707	\$ 49,995	-	\$ 17,636	-	\$ 17,636	-
Amount received	\$ 567,707	\$ 49,995	-	\$ 17,636	-	\$ 17,636	-
Amount reverted	\$ 12,793	\$ 5	-	-	-	-	-
Remaining balance	\$ -	\$ -	\$ 100,000	\$ 149,755	\$ 157,685	\$ 149,755	\$ 157,685
Date of agreement	1/22/2010	4/26/2013	7/1/2014	3/14/2014	3/14/2014	3/14/2014	3/14/2014
Expiration date	1/22/2013*	6/30/2016*	6/30/2018	3/14/2017*	3/14/2017*	3/14/2017*	3/14/2017*

*The Colonias grants are authorized by the Colonias Infrastructure Act, Sections 6-30-1 through 6-30-8 NMSA 1978.

Expiration of the grant is 3 years from the date of the grant or end of the useful life of the project, not exceeding 30 years.

The Legislative Allocation is authorized by the Laws of 2014, Chapter 66.

The Water Trust Board grants are authorized, for WTB0114 by House Bill 308, and for WTB284, by Senate Bill 228 of the 2013 Session.

Hanover Mutual Domestic Water Consumers Association
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Charges for services	\$ 74,975	\$ 74,975	\$ 68,980	\$ (5,995)
Total revenues	\$ 74,975	\$ 74,975	\$ 68,980	\$ (5,995)
Expenditures:				
Personnel	\$ 13,035	\$ 13,035	\$ 13,141	\$ (106)
Operating	52,229	52,229	41,625	10,604
Total expenditures	\$ 65,264	\$ 65,264	\$ 54,766	\$ 10,498
Other revenues (expenditures):				
Loan payments	\$ (9,698)	\$ (9,698)	\$ (9,698)	\$ -
Grant revenue			14,812	14,812
Grant expenditures			(14,812)	(14,812)
Net other revenues (expenditures)	\$ (9,698)	\$ (9,698)	\$ (9,698)	\$ -
Revenues over (under) expenditures	\$ 13	\$ 13	\$ 4,516	\$ 4,503
Net change in fund balance	\$ 13	\$ 13	\$ 4,516	\$ 4,503
Fund balance, January 1, 2016	5,370	5,370	5,370	-
Fund balance, December 31, 2016	\$ 5,383	\$ 5,383	\$ 9,886	\$ 4,503

Hanover Mutual Domestic Water Consumers Association
Department of Finance and Administration Report Submission
December 31, 2016

The Hanover Mutual Domestic Water Consumer Association's DFA submission is presented on page 10 of this report.

The report is not in the standard DFA format, but has been accepted by DFA for the Association. No other reports have been submitted to the Department of Finance and Administration.

HANOVER MUTUAL DOMESTICE WATER C.A.

STATEMENT OF ACTIVITIES - GAAP BASIS CONVERTED TO NON-GAAP (CASH) BASIS
 COMPARED TO YEAR 2016 BUDGET, WITH CASH RECONCILIATION
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016

	GAAP BASIS 12/31/16	CONVERTED TO CASH	CASH BASIS 12/31/16	DFA BUDGET Year 2016	BUDGET REMAINING + ()	100.00 Percent Used
REVENUES						
4000	Water Revenue	53,664.16	0.00	53,664.16	60,000.00	89.44
4080	Water Late Fees	1,278.62	0.00	1,278.62	1,000.00	127.86
4200	Membership Revenue	761.00	0.00	761.00	500.00	152.20
4250	Installation	265.00	0.00	265.00	0.00	0.00
4280	Deposits	304.00	0.00	304.00	600.00	50.67
4290	Reconnect Fee	590.00	0.00	590.00	0.00	0.00
4300	Assessments 2016	12,116.79	0.00	12,116.79	12,875.00	94.11
	TOTAL REVENUES	68,979.57	0.00	68,979.57	74,975.00	92.00
EXPENSES						
	Cost of Water	14,889.95	0.00	14,889.95	18,500.00	80.49
	Personnel Expenses	13,024.88	116.30	13,141.18	13,035.00	100.82
	Maintenance-Water System	5,252.04	0.00	5,252.04	9,200.00	57.09
	Insurance	2,586.00	0.00	2,586.00	2,931.00	88.23
	Travel	3,394.86	0.00	3,394.86	2,500.00	135.79
	Professional Fees	4,786.50	0.00	4,786.50	7,990.00	59.91
	Advertising	298.78	0.00	298.78	200.00	149.39
	Office Expense	5,222.55	0.00	5,222.55	5,040.00	103.62
	Taxes & Fees	5,194.23	0.00	5,194.23	5,868.00	88.52
	Loan Payment	3,499.26	6,198.00	9,697.26	9,698.00	99.99
	Depreciation Expense	69,902.80	(69,902.80)	0.00	0.00	0.00
	TOTAL EXPENSES	128,051.85	(63,588.50)	64,463.35	74,962.00	86.00
	TOTAL OPERATIVE INCOME (LOSS)	(59,072.28)	63,588.50	4,516.22	13.00	4,503.22
NON OPERATING REVENUE (EXPENSES)						
	Project Revenue	14,812.20		14,812.20	0.00	14,812.20
	Project Expenses	0.00	(14,812.20)	(14,812.20)	0.00	(14,812.20)
	TOTAL NON OPERATING	14,812.20	(14,812.20)	0.00	0.00	0.00
	NET CHANGE	(44,260.08)	48,776.30	4,516.22	13.00	4,503.22
	BEG CASH			5,369.86	5,369.86	
	ENDING CASH			9,886.08	5,382.86	4,503.22
Explanation of Difference-GAAP to Cash						
	Change in Accounts Receivable					
	Change in Accounts Payable					
	Change in Payroll Taxes Payable					
	Depreciation Expense		(116.30)			
	Change in Inventory		69,902.80			
	Fixed Assets Purchase		(14,812.20)			
	Debt Payment		(6,198.00)			
			48,776.30			

Hanover Mutual Domestic Water Consumer Association
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2016

Prior Findings

Current Year Status

2015-001 The report was not submitted by the State Auditor Deadline Repeated

Current Year Findings

2016-001(2015-001) Agreed Upon Procedures Report Late (Other Noncompliance)

Condition – The December 31, 2016 agreed upon procedures report was submitted to the New Mexico State Auditor on December 21, 2017.

The Association had a corrective action in place, however, the contract accountant and the Independent Public Accountant were unable to complete the task in a timely fashion, due to timing issues and staff availability. No progress was made on the corrective action plan for the year ended June 30, 2016.

Criteria – Section 2.2.2.9 of 2.2.2 NMAC, commonly referred to as the Audit Rule, requires submission of the report no later than 5 months after year end.

Effect – Late reporting jeopardizes state funding, and increases the likelihood of financial reporting errors and budget delays. In addition, 2.2.2 NMAC requirements have been violated.

Cause – Because the Association has a calendar year-end, the contract accountant and the Independent Public Accountant were unable to complete the report by the mandated deadline.

Recommendation – We recommend that the Association comply with the requirements of 2.2.2 NMAC.

Agency Response – The Association has enacted a policy, in conjunction with the contract accountant, to complete the December 31, 2017 submission by the mandated deadline. The Board President will be tasked with overseeing the submission, and it is expected that the December 31, 2017 submission will be timely.

Exit Conference

An exit conference was held December 19, 2017. Present at this exit conference were:

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>
Joe Soto III	Board President	Hanover Mutual Domestic Water CA
Carney Foy, CPA	Consultant	Hanover Mutual Domestic Water CA
Mike Stone, CPA	Shareholder	Stone, McGee & Co., CPAS