



MACIAS, GUTIERREZ & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
ESPANOLA, NEW MEXICO
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STATE OF NEW MEXICO

**LA CIENEGA MUTUAL DOMESTIC
WATER ASSOCIATION**

Independent Accountants' Report on Applying
Agreed-Upon Procedures (Tier 5)

Year Ended December 31, 2010

STATE OF NEW MEXICO

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**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

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**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Official Roster
at December 31, 2010**

<u>Name</u>		<u>Title</u>
<u>Board of Directors</u>		
Reynaldo Romero		President
Oliver C de Baca		Vice-President
Archie Perea		Treasurer
Robert Romero		Secretary
Teresa Trujillo		Member
<u>Staff</u>		
Ana M. Berry		Accounts Manager
Reynaldo Romero		Water Operator
Robert Romero		Meter Reader
Teresa Trujillo		Transcriber



Macias, Gutierrez
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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES (TIER5)

To: Reynaldo Romero, President
La Cienega Mutual Domestic Water Association
and
Honorable Timothy Keller
New Mexico State Auditor

We have performed the procedures enumerated below for La Cienega Mutual Domestic Water Association (LCMDWA), for the year ended December 31, 2010. LCMDWA was determined to be a Tier 5 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978, as set forth in the accompanying Exhibits A, B and C. The procedures were agreed to by the LCMDWA through the Office of the New Mexico State Auditor. La Cienega Mutual Domestic Water Association's management 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, 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 Department of Finance and Administration-Local Government Division (DFA-LGD).
- 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.

Results of Procedures

- a) LCMDWA has one checking account and utilizes Quickbooks to record cash transactions. All bank reconciliations are performed on a timely basis and all bank statements were complete and on-hand for the entire year.

- b) Random tests of bank reconciliations revealed no exceptions. The reconciliations were accurate and agreed with supporting documentation. However, since required quarterly financial reports were not submitted to DFA-LGD at any time during the year or at year-end, we could not trace ending balances to those reports (Finding 2010-1).
- c) Bank account balances never exceeded uninsured limits and, therefore, pledged collateral was not required on uninsured balances at any time during the year.

2. Capital Assets

Procedures

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

Results of Procedures

Although there are capital assets shown on the balance sheet, LCMDWA did not maintain a capital assets inventory listing and, therefore, did not perform a yearly inventory as required by Section 12-6-10 NMSA 1978 (Finding 2010-2).

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) 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.

Results of Procedures

- a) Analytical review and test of actual revenue compared to budgeted revenue for the year for each revenue type could not be performed since a budget was not prepared for FY 2010 (Finding 2010-1).
- b) We requested supporting documentation for fifteen (15) deposits (80% of total revenue) from a total of 53 deposits for the year. For the sample selected, amounts recorded on Quickbooks general ledger agreed with deposit tickets, other supporting documentation provided and the bank statements, without exception.
- c) Amounts were properly recorded on a cash basis as to classification, amount and period per review of supporting documentation.

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 check clearing amount (cancelled checks not returned), 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).

Results of Procedures

- a) We requested supporting documentation for twenty-seven (27) disbursements (78% of total expenditures) from a total of 185 for the year. For the sample selected, our tests of transactions revealed that amounts recorded as disbursed agreed to supporting documentation, with six exceptions where either no supporting documentation was provided or the supporting documentation did not demonstrate adequate details regarding the hourly rate, the hours worked or materials provided (Finding 2010-4). For the other disbursements sampled, amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and check clearing amount, as appropriate.
- b) Documents provided did not demonstrate that disbursements were properly authorized, as described below, and approved in compliance with the legal requirements and established policies and procedures. Individual invoices did not show approval before payment was made nor do board minutes reflect blanket approval of monthly expenses (Finding 2010-4). Also, payments to Board members for services are employee wages but were not treated as such. These payments are subject to payroll tax withholding and employer match (Finding 2010-5).
- 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) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

5. 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.

Results of Procedures

LCMDWA utilizes Quickbooks to record cash transactions but the fee accountant prepares formal journal entries at the end of the year to record minor adjustments and reclassifications. The results of our tests are as follows:

- a) Journal entries are reasonable and have supporting documentation.
- b) LCMDWA does not have procedures that require journal entries to be reviewed and there is no evidence the reviews are being performed (Finding 2010-4).

6. 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 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.

Results of Procedures

- a) For FY 2010, LCMDWA did not prepare or submit a budget to DFA-LGD for approval (Finding 2010-1).
- b) Since LCMDWA did not prepare or submit a 2010 budget for DFA-LGD approval, the comparison of actual expenditures to budget for the purposes of determining whether actual expenditures exceeded the final budget does not apply.
- c) A schedule of revenues and expenses – budget and actual was prepared from LCMDWA records on the cash budgetary basis. This schedule is included herein as Exhibit A.

Capital Outlay Appropriations

The Contractor shall 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 year.

The Contractor shall test all capital outlay expenditures during the fiscal year to:

- 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 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).
- 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, the Contractor shall 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, the Contactor shall determine if there is 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 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.

Results of Procedures

- a) We determined that a total of seven (7) disbursements requests were submitted during the year. The initial four (4) disbursements, totaling \$14,648.89, were made directly from the State of New Mexico, Environment Department, to the engineering contractor. For the remaining three disbursement requests, we determined that amounts recorded as disbursed agreed to adequate supporting documentation and we verified that amounts, payees, dates and descriptions agreed to the vendor's invoices, purchase orders, contracts and cancelled checks, as appropriate.
- b) We determined that disbursements were properly authorized and approved in compliance with the capital outlay appropriation budget, legal requirements and established policies and procedures.
- c) We determined 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).
- d) Since the projects are many years' old and included engineering and some underground construction for FY 2010, we were unable to determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e) We verified 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) There were two projects authorized but only one had activity for FY 2010. The projects were not intended to be funded in advance but on a reimbursement basis.
- g) Both projects were not yet complete at December 31, 2010.
- h) Since the projects were approved on a reimbursement basis, no separate fund or bank account was required.
- i) We determined that reimbursement requests were properly supported by costs incurred by the recipient and that the costs were paid by the local public body prior to the request for reimbursement.

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, 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 (I) (3) (C) NMAC.

Results of Procedures

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud or illegal acts. However, see the Schedule of Findings and Responses for noncompliance and internal control issues related to the procedures for Cash (Finding 2010-1), Capital Assets (Finding 2010-3), Expenditures (Finding 2010-4) and Budget (Finding 2010-1) findings described above and this Late Report submission (Finding 2010-3).

* * * * *

We were not engaged to, and did not conduct an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or any part thereof, including the accompanying Exhibits A, B and C. 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 La Cienega Mutual Domestic Water Association, the New Mexico State Auditor's Office and the Department of Finance and Administration, Local Government Division and the NM Legislature and is not intended to be and should not be used by anyone other than those specified parties.

Macias, Gutierrez & Co., CPAs, P. C.

Macias, Gutierrez & Co., CPAs, P. C.
Española, New Mexico
June 16, 2015

STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION
Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)
Year Ended December 31, 2010

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Billings	\$ -	\$ -	\$ 68,218	\$ 68,218
Membership Fees	-	-	1,350	1,350
Legislative Funds	-	-	160,847	160,847
Refund	-	-	296	296
Rental - Verizon	-	-	5,819	5,819
Total revenues	-	-	236,530	236,530
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	-	-	236,530	236,530
Expenses:				
Accountant	-	-	433	(433)
Line Locates	-	-	267	(267)
Materials Purchased	-	-	266	(266)
Meter Readings	-	-	5,741	(5,741)
PRC Report	-	-	10	(10)
System Maintenance	-	-	11,255	(11,255)
Water Operator	-	-	2,400	(2,400)
Water Testing	-	-	274	(274)
Legislative Project Funding Expenses	-	-	160,847	(160,847)
NMED Loan - RIP 91-05	-	-	6,446	(6,446)
NMED Loan - WSC 83-29	-	-	11,934	(11,934)
Mileage	-	-	350	(350)
Annual Billing Software Updates	-	-	526	(526)
Bookkeeping	-	-	7,673	(7,673)
CCR Preparation	-	-	120	(120)
Dues and Subs	-	-	334	(334)
Land Lease	-	-	1,250	(1,250)
Loan Paperwork	-	-	50	(50)
Meetings Attended	-	-	100	(100)
Minutes Taking	-	-	1,638	(1,638)
P.O. Box Rental	-	-	60	(60)
Postage	-	-	528	(528)
Supplies	-	-	714	(714)
Training	-	-	620	(620)

STATE OF NEW MEXICO
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION
 Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)
 Year Ended December 31, 2010

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
Expenses (cont'd):				
Printing and Reproduction	\$ -	\$ -	\$ 53	\$ (53)
Conservation Tax	-	-	234	(234)
Gross Receipts Tax	-	-	3,571	(3,571)
Utilities	-	-	1,483	(1,483)
	<u>-</u>	<u>-</u>	<u>219,177</u>	<u>(219,177)</u>
Excess revenues over (under) expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,353</u>	<u>\$ 17,353</u>

STATE OF NEW MEXICO
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION
 Projects Schedule - Summary
 Year Ended December 31, 2010

Exhibit B

Grant No.	Pay Request	Amount Awarded	2010 Grant Amount Received	2010 Grant Amount Expended	2010 Grant Remaining Balance	Actual Legislation	Effective Dates
09-3815-STB		\$ 110,000.00	\$ -	\$ -	\$ 110,000.00	Laws of 2009, Chapter 7, Section 3 Subsection 77, to the department of environment to plan, design and improve the water system for La Cienega mutual domestic water consumers and mutual sewer works in Santa Fe county.	Through 6/30/2013
09-3816-STB	1-4	\$ 230,000.00	-	14,648.89	215,351.11	Laws of 2009, Chapter 7, Section 3 Subsection 78, to the department of environment to plan, design and construct water system improvements for La Cienega mutual domestic water consumers and mutual sewer works, including purchasing and installing water lines, tanks, valves, fire hydrants and meters, in La Cienega in Santa Fe county.	Through 6/30/2013
	5		16,425.31	16,425.31	198,925.80		
	6		61,543.09	61,543.09	137,382.71		
	7		82,878.28	82,878.28	54,504.43		
			<u>160,846.68</u>	<u>175,495.57</u>	<u>54,504.43</u>		
Total Projects		<u>\$ 340,000.00</u>	<u>\$ 160,846.68</u>	<u>\$ 175,495.57</u>	<u>\$ 164,504.43</u>		

STATE OF NEW MEXICO
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION
 Projects Schedule - Detail
 Year Ended December 31, 2010

Exhibit C

Grant No.	Pay Request	Request Date	Grant Amount Awarded	Grant Amount Received	Date Received	Warrant/ Check Date	Warrant/ Check Number	Grant Amount Expended	Vendor Paid
09-3815-STB			\$ 110,000.00	\$ -				\$ -	
09-3816-STB			\$ 230,000.00						
	1	12/3/2009		Environment	N/A	4/30/2010	B1001982077	1,560.59	Gannett Fleming West, Inc
	2	1/13/2010		Department	N/A	4/30/2010	B1001982077	4,369.58	Gannett Fleming West, Inc
	3	2/9/2010		Paid Vendor	N/A	4/30/2010	B1001982077	3,051.55	Gannett Fleming West, Inc
	4	4/30/2010		Directly	N/A	5/20/2010	B1002023267	5,667.17	Gannett Fleming West, Inc
	5	8/2/2010		16,425.31	8/11/2010	10/6/2010	4625	16,425.31	Gannett Fleming West, Inc
	6	8/13/2010		61,543.09	8/19/2010	10/6/2010 10/6/2010	4625 4626	18,008.10 43,534.99	Gannett Fleming West, Inc Advantage Asphalt and Seal Coating, LLC
	7	11/12/2010		82,878.28	12/2/2010	12/9/2010 12/9/2010	4659 4660	39,913.74 42,964.54	Gannett Fleming West, Inc Advantage Asphalt and Seal Coating, LLC
				<u>160,846.68</u>				<u>175,495.57</u>	
Total Projects			<u>\$ 340,000.00</u>	<u>\$ 160,846.68</u>				<u>\$ 175,495.57</u>	

**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2010**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	N/A	2010-1
Capital Assets Inventory	D	N/A	2010-2
Late Report	D	N/A	2010-3
Supporting Documentation Unavailable/Inadequate and Lack of Approvals	C	N/A	2010-4
Payments to Board Members	D	N/A	2010-5
Follow-up on Prior Year Findings:			
None	N/A	N/A	N/A

FY 2010 was the first year for an agreed-upon procedures engagement; therefore, there were no prior-year findings

*** Legend for Findings:**

- A. Fraud
- B. Illegal Act(s)
- C. Internal Control Deficiency(ies)
- D. Noncompliance

**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2010**

2010-1

Budget Submission/Approval and Quarterly Financial Reports

Criteria

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD, on or before December 1, of each year, a proposed budget for the next fiscal year. Upon receipt of any budget approved by the DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. Section 6-6-2 (B) NMSA, 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-3 NMSA, 1978 Compilation states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

La Cienega Mutual Domestic Water Association (LCMDWA) did not submit a 2010 budget for DFA-LGD approval nor did they submit required quarterly financial cash activity and budget to actual comparison reports to the DFA-LGD at any time during the year or at year end.

Cause

LCMDWA was not aware of the DFA-LGD requirements.

Effect

LCMDWA has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978.

Recommendation

We recommend that LCMDWA submit their proposed budget to DFA-LGD for approval, on or before December 1 of each year and that upon receipt of the approved budget cause such budget to be made a part of the minutes. We further recommend that LCMDWA submit quarterly financial reports, as required, to DFA-LGD.

Entity Response

“All annual budgets will be prepared by the Treasurer with input from the Accounts Manager in October and the budget will be submitted to the Board for approval in November. Budget will be submitted to DFA for initial approval by December 1st. All quarterly financial reports will be submitted as required.”

**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2010**

2010-2

Capital Assets Inventory

Criteria

Section 12-6-10 NMSA, 1978 requires each local public body to, at the end of each fiscal year, conduct a physical inventory of capital assets costing more than five thousand dollars (\$5,000) and under control of the governing authority. The inventory shall list all capital assets and the date and cost of acquisition. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each local public body shall maintain one copy in its files.

Condition

La Cienega Mutual Domestic Water Association (LCMDWA) has not maintained a capital asset listing or performed a yearly inventory as required by Section 12-6-10 NMSA 1978.

Cause

LCMDWA was not aware of the statute requirements.

Effect

LCMDWA has not complied with Section 12-6-10 NMSA 1978.

Recommendation

We recommend that LCMDWA develop a capital asset inventory listing and perform a yearly inventory as required by Section 12-6-10 NMSA 1978.

Entity Response

“An inventory listing will be done by the Board and water operator around the end of 2015 and will be approved by the Board at the following board meeting. The inventory listing will be updated as needed by the Accounts Manager with Board approval.”

**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2010**

2010-3

Late Report

Criteria

Office of the State Auditor, Rule 2010, Section 2.2.2.16.H, requires that local public bodies with a fiscal year end other than June 30 must submit the agreed upon procedures (AUP) report no later than five months after the fiscal year end.

Condition

La Cienega Mutual Domestic Water Association (LCMDWA) has a December 31 year end but the agreed upon procedures report was submitted more than five months after the end of the fiscal year.

Cause

Since the recommendation and the AUP contract forms were not submitted on a timely basis, the independent public accountant was unable to begin and complete the work prior to the required deadline.

Effect

LCMDWA has not complied with Office of the State Auditor, Rule 2010, Section 2.2.2.16.H.

Recommendation

We recommend that LCMDWA submit all future agreed-upon procedures reports by the required deadline.

Entity Response

"The Accounts Manager will ensure that the required forms are submitted to OSA by January 1st of the following year and the agreed upon procedures are conducted and submitted to OSA by June 1st."

**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2010**

2010-4

Supporting Documentation Unavailable/Inadequate and Lack of Approvals

Criteria

Proper internal accounting controls and Section 6-6-3 NMSA, 1978 Compilation states that every local public body shall keep the books, records and accounts in their respective offices in the form prescribed by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

La Cienega Mutual Domestic Water Association (LCMDWA) was unable to provide certain supporting documentation for expenditures testing procedures. We requested supporting documentation for twenty-seven (27) disbursements (78% of total expenditures) from a total of 185 for the year. For the sample selected, our tests of transactions revealed that amounts recorded as disbursed agreed to supporting documentation, with six exceptions, where either no supporting documentation was provided or the supporting documentation did not include adequate details regarding the hourly rate, the hours worked or materials provided. We also noted that individual vendor's invoices are not approved nor do the board minutes include blanket approval for the month's expenses. Finally, we determined that non-routine journal entries are not reviewed and approved.

Cause

LCMDWA does not have an internal control system to ensure that prior to payment all supporting documentation is provided, has sufficient detail, and maintained for future reference. They also do not have a system to review and approve individual vendor's invoices and non-routine journal entries.

Effect

LCMDWA has not complied with proper internal accounting controls and Section 6-6-3 NMSA, 1978 Compilation.

Recommendation

We recommend that LCMDWA establish and comply with an internal control system to ensure that, prior to payment, all expenditure supporting documentation is provided with sufficient detail and that proper review and approvals occur for all expenditure and journal entry transactions.

Entity Response

"The Board of Directors will ensure that the Water Operator and Meter Reader will submit monthly invoices to the Association for payment. All invoices will be detailed as to hours worked, rate of pay and materials used.

Approval of all invoices will be made part of the minutes at the board meetings and year-end journal entries will be submitted with the financial reports to the board for approval."

**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2010**

2010-5

Payments to Board Members

Criteria

Internal Revenue Code Section 3401 (c) defines employee to include an “officer, elected official of any political subdivision thereof, or any agency of instrumentality. Case law provides further support in that governmental officials have been delegated sovereign powers of a government to be exercised for the benefit of the public. They render services defined by law and functions established by and for the position held. An official’s actions are controlled by the “position” with the governmental entity. Hence, the employer-employee relationship exists and board members are employees.

Condition

La Cienega Mutual Domestic Water Association (LCMDWA) pays their board members for various services but does not treat these payments as employee wages and, therefore, does not withhold, match FICA or Medicare or pay in payroll taxes.

Cause

LCMDWA was not aware of the requirements of Internal Revenue Code Section 3401 (c).

Effect

LCMDWA has not complied with Internal Revenue Code Section 3401 (c).

Recommendation

We recommend that LCMDWA treat Board member payments as employee wages to comply with Internal Revenue Code Section 3401 (c).

Entity Response

“Beginning in 2015, all payments made to board members will be treated as employee wages.”

**STATE OF NEW MEXICO
LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION**

**Exit Conference
Year Ended December 31, 2010**

EXIT CONFERENCE

The report contents were discussed at an exit conference held on June 19, 2015 with the following in attendance:

La Cienega Mutual Domestic Water Association

Archie Perea, Board Treasurer
Teresa Trujillo, Board Member
Ana Berry, Accounts Manager

Accounting Firm

James R. (Jim) Macias, CPA