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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, 2011

**STATE OF NEW MEXICO**

**LA CIENEGA MUTUAL DOMESTIC  
WATER ASSOCIATION**

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

**Year Ended December 31, 2011**

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

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December 31, 2011**

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

**Official Roster  
at December 31, 2011**

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



Macias, Gutierrez  
& Co., P.C.

*Certified Public Accountants  
Member AICPA, NMSCPA*

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## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES (TIER 5)**

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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, 2011. 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 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.

Select a sample of revenues based on auditor judgment and test using 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) An analytical review of prior-year to current-year revenue revealed no unexplained or unusual variations. LCMDWA did not submit a 2011 budget to DFA-LGD for approval but developed a budget for internal use only (Finding 2010-1). The test of actual revenue compared to budgeted revenue for the year for each revenue type revealed no exceptions.
- b) We requested supporting documentation for eleven (11) deposits (80% of total revenue) from a total of 37 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 based on auditor judgment and test using 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-nine (29) disbursements (73% of total expenditures) from a total of 181 for the year. For the sample selected, our tests of transactions revealed that amounts recorded as disbursed agreed to supporting documentation, with ten 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 each month 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) The Board developed a 2011 budget for internal use but this budget was not submitted to DFA-LGD for approval (Finding 2010-1). The budget was prepared for internal use only and LCMDWA made no subsequent 2011 budget adjustments.
- b) Since the Board did not submit a 2011 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. However, for the internal use only budget, total actual expenses did not exceed the final budget at the total fund level.
- c) A schedule of revenues and expenses – budget (internal use only) 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 four (4) disbursement requests were submitted during the year. 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 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 several years' old and included engineering and some underground construction, 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 and both had activity during 2011. The projects were not intended to be funded in advance but on a reimbursement basis.
- g) Both projects are complete at December 31, 2011.
- 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 2010-2), Expenditures (Finding 2010-4) and Budget 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, 2011**

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
Billings	\$ 68,448	\$ 68,448	\$ 74,014	\$ 5,566
Membership Fees	900	900	450	(450)
Legislative Funds	-	-	164,504	164,504
Refund	-	-	-	-
Rental - Verizon	6,348	6,348	5,290	(1,058)
Total revenues	<u>75,696</u>	<u>75,696</u>	<u>244,258</u>	<u>168,562</u>
Cash balance budgeted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and cash balance budgeted	<u>75,696</u>	<u>75,696</u>	<u>244,258</u>	<u>168,562</u>
<b>Expenses:</b>				
Accountant	500	500	649	(149)
Backhoe Services	600	600	-	600
Line Locates	264	264	74	190
Materials Purchased	4,200	4,200	3,963	237
Meter Readings	7,458	7,458	7,458	-
PRC Report	10	10	10	-
System Maintenance	6,000	6,000	21,991	(15,991)
Water Operator	4,800	4,800	4,800	-
Water Testing	276	276	294	(18)
Emergency Reserve Funds	3,600	3,600	-	3,600
Dishonesty Bond	179	179	818	(639)
NMED Loan - RIP 91-05	6,246	6,246	-	6,246
NMED Loan - WSC 83-29	11,662	11,662	-	11,662
Mileage	348	348	-	348
Annual Billing Software Updates	526	526	526	-
Bookkeeping	10,315	10,315	10,021	294
Dues and Subs	175	175	257	(82)
Land Lease	1,250	1,250	1,250	-
Interest Paid	-	-	677	(677)
Meetings Attended	-	-	80	(80)
Minutes Taking	2,400	2,400	1,977	423
P.O. Box Rental	60	60	209	(149)
Postage	528	528	484	44
Supplies	720	720	747	(27)
Training	600	600	-	600

STATE OF NEW MEXICO  
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION  
 Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)  
 Year Ended December 31, 2011

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	Budgeted Amounts		Actuals	Variance Favorable (Unfavorable)
	Original	Final		
<b>Expenses (cont'd):</b>				
Printing and Reproduction	\$ 60	\$ 60	\$ -	\$ 60
Conservation Tax	240	240	311	(71)
Gross Receipts Tax	3,600	3,600	3,728	(128)
Bank charges	-	-	12	(12)
Utilities	1,488	1,488	1,797	(309)
	<u>68,105</u>	<u>68,105</u>	<u>62,133</u>	<u>5,972</u>
<b>Total expenses</b>				
	<u>68,105</u>	<u>68,105</u>	<u>62,133</u>	<u>5,972</u>
<b>Excess revenues over (under) expenses</b>	<u>\$ 7,591</u>	<u>\$ 7,591</u>	<u>\$ 182,125</u>	<u>\$ 174,534</u>

STATE OF NEW MEXICO  
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION  
 Projects Schedule - Summary  
 Year Ended December 31, 2011

Exhibit B

Grant No.	Pay Request	Grant Amount Awarded	2010/2011 Grant Amount Received	2010/2011 Grant Amount Expended	2011 Grant Remaining Balance	Actual Legislation	Effective Dates
09-3815-STB		\$ 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
	1		\$ 18,084.91	\$ 18,084.91	\$ 91,915.09		
	2		59,801.10	59,801.10	32,113.99		
	3		32,113.99	32,113.99	-		
			<u>110,000.00</u>	<u>110,000.00</u>	<u>-</u>		
09-3816-STB		\$ 230,000.00				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
	1-4		-	14,648.89	215,351.11		
	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		
	8		54,504.43	54,504.43	-		
			<u>215,351.11</u>	<u>230,000.00</u>	<u>-</u>		
Total Projects		<u>\$ 340,000.00</u>	<u>\$ 325,351.11</u>	<u>\$ 340,000.00</u>	<u>\$ -</u>		

STATE OF NEW MEXICO  
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION  
 Projects Schedule - Detail  
 Year Ended December 31, 2011

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						
	1	2/10/2011		\$ 18,084.91	2/17/2011	3/10/2011 3/10/2011	4715 4716	\$ 10,061.93 8,022.98	Advantage Asphalt and Seal Coating, LLC Gannett Fleming West, Inc
	2	3/16/2011		59,801.10	3/25/2011	4/14/2011 4/14/2011	4731 4732	4,947.87 54,853.23	Gannett Fleming West, Inc Advantage Asphalt and Seal Coating, LLC
	3	11/21/2011		32,113.99	11/29/2011	11/30/2011 11/30/2011	4833 4835	11,582.66 20,531.33	Advantage Asphalt and Seal Coating, LLC Gannett Fleming West, Inc
				<u>110,000.00</u>				<u>110,000.00</u>	
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
	8	2/10/2011		54,504.43	2/17/2011	3/10/2011	4715	54,504.43	Advantage Asphalt and Seal Coating, LLC
				<u>215,351.11</u>				<u>230,000.00</u>	
Total Projects			<u>\$ 340,000.00</u>	<u>\$ 325,351.11</u>				<u>\$ 340,000.00</u>	

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

**Schedule of Findings and Responses  
Year Ended December 31, 2011**

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	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
<b>Current Year Findings:</b>			
Budget Submission/Approval and Quarterly Financial Reports	D	2010-1	2010-1
Capital Assets Inventory	D	2010-2	2010-2
Late Report	D	2010-3	2010-3
Supporting Documentation Unavailable/Inadequate and Lack of Approvals	C	2010-4	2010-4
Payments to Board Members	D	2010-5	2010-5
<b>Follow-up on Prior Year Findings:</b>			
Budget Submission/Approval and Quarterly Financial Reports	D	2010-1	Repeated
Capital Assets Inventory	D	2010-2	Repeated
Late Report	D	2010-3	Repeated
Supporting Documentation Unavailable/Inadequate and Lack of Approvals	C	2010-4	Repeated
Payments to Board Members	D	2010-5	Repeated

**\* 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, 2011**

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**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 2011 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 1<sup>st</sup>. 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, 2011**

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**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, 2011**

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**2010-3**

**Late Report**

**Criteria**

Office of the State Auditor, Rule 2011, 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 2011, 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 1<sup>st</sup> of the following year and the agreed upon procedures are conducted and submitted to OSA by June 1<sup>st</sup>."

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

**Schedule of Findings and Responses  
Year Ended December 31, 2011**

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**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-nine (29) disbursements (73% of total expenditures) from a total of 181 for the year. For the sample selected, our tests of transactions revealed that amounts recorded as disbursed agreed to supporting documentation, with ten 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, 2011**

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**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, 2011**

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**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