



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, 2014

STATE OF NEW MEXICO

**LA CIENEGA MUTUAL DOMESTIC
WATER ASSOCIATION**

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Year Ended December 31, 2014

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

**Table of Contents
December 31, 2014**

		<u>Page</u>
Title Page		i
Table of Contents		ii
Official Roster		iii
Independent Accountants' Report on Applying Agreed-Upon Procedures		iv-ix
	<u>Exhibit</u>	
Schedule of Revenues and Expenses – Budget and Actual (Cash Basis)	A	1-2
Project Schedule - Summary	B	3
Project Schedule - Detail	C	4
Copy of year-end Balance Sheet submitted to DFA-LGD	D	5
Copy of fourth-quarter only profit and loss report submitted to DFA-LGD	E	6-7
Copy of year-to-date profit and loss report submitted to DFA-LGD	F	8-9
Schedule of Findings and Responses		10-16
Exit Conference		17

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

**Official Roster
at December 31, 2014**

<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
& Co., P.C.

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

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, 2014. 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 through F. 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, one savings account and one money market 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. We traced the December 31, 2014 cash balances to the year-end balance sheet submitted to DFA-LGD (Exhibit D), without exception.
- c) Cumulative, single-institution 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. 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 fifteen (15) deposits (36% of total revenue) from a total of 68 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 thirty (30) disbursements (26% of total expenditures) from a total of 165 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). These payments were to Board members for services and were properly paid as wages. However, we also noted that for those six exceptions, payment amounts were greater than the invoice amount (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, we noted one instance where a payment to Board member for services are employee wages but were not treated as such. This payment is 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) A review of Board minutes revealed that an original (interim) and final budget was approved by LCMDWA and the DFA-LGD. There were no subsequent budget adjustments.
- b) Total actual expenditures did not exceed the final budget at the total fund lever, the legal level of budgetary control.
- 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. However, the Profit and Loss quarterly reports submitted during the year and at year-end (Exhibit F) did not include a budget to actual revenue and expenses comparison.

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 two (2) disbursements were made 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 approved disbursements were for water system replacement parts only, 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 was one project authorized for 2014. The project was not intended to be funded in advance but on a reimbursement basis.
- g) The project was not complete at December 31, 2014.
- h) Since the project was approved on a reimbursement basis, no separate fund or bank account was required.
- i) There was one reimbursement request submitted during the year. We determined that reimbursement request was 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 Capital Assets (Finding 2010-2) and Expenditures (Finding 2010-4) 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 through F. 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, 2014

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Water Bills	\$ 59,600	\$ 59,600	\$ 58,910	\$ (690)
Membership Fees	450	450	900	450
New Service Installation Fees	-	-	-	-
Legislative Funds	50,000	50,000	14,780	(35,220)
Interest Earned	108	108	64	(44)
Water Sold	-	-	800	800
Refunds	-	-	-	-
Rental - Verizon	6,348	6,348	6,057	(291)
	<u>116,506</u>	<u>116,506</u>	<u>81,511</u>	<u>(34,995)</u>
Total revenues	116,506	116,506	81,511	(34,995)
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	<u>116,506</u>	<u>116,506</u>	<u>81,511</u>	<u>(34,995)</u>
Expenses:				
Accountant	-	-	649	(649)
Line Locates	340	340	303	37
Materials Purchased	6,000	6,000	500	5,500
Meter Readings	-	-	693	(693)
PRC Report	10	10	40	(30)
System Maintenance	10,800	10,800	2,400	8,400
Water Operator	-	-	500	(500)
Audit	5,000	5,000	-	5,000
Capital Outlay Funds	50,000	50,000	3,296	46,704
NM RIP Loan 2011-01	3,860	3,860	3,860	-
Payroll Expenses	15,996	15,996	39,745	(23,749)
Reimbursement for Training	-	-	372	(372)
Annual Billing Software Updates	527	527	527	-
Bookkeeping	10,252	10,252	11,196	(944)
CCR Preparation	200	200	200	-
Dues and Subs	210	210	180	30
Land Lease	1,250	1,250	-	1,250
Backhoe Services	320	320	-	320
Water Testing	-	-	421	(421)
Minutes Taking	-	-	100	(100)
P.O. Box Rental	96	96	78	18
Postage	552	552	1,225	(673)
Supplies	900	900	699	201
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, 2014

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
Expenses (cont'd):				
Bank Charges	\$ -	\$ -	\$ 4	\$ (4)
Community Center Rental	-	-	25	(25)
Miscellaneous	-	-	150	(150)
Attorney	500	500	-	500
Liability Insurance	3,627	3,627	3,127	500
Conservation Tax	204	204	262	(58)
Gross Receipts Tax	2,556	2,556	2,666	(110)
Payroll Tax	-	-	339	(339)
Well Repairs	1,200	1,200	-	1,200
Utilities	858	858	2,561	(1,703)
	<u>115,858</u>	<u>115,858</u>	<u>76,118</u>	<u>39,740</u>
Total expenses				
	<u>\$ 648</u>	<u>\$ 648</u>	<u>\$ 5,393</u>	<u>\$ 4,745</u>
Excess revenues over (under) expenses				

STATE OF NEW MEXICO
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION
 Projects Schedule - Summary
 Year Ended December 31, 2014

Exhibit B

Grant No.	Pay Request	Amount Awarded	2014 Grant Amount Received	2012, 2013 and 2014 Grant Amount Expended	2014 Grant Remaining Balance	Actual Legislation	Effective Dates
12-1371-STB		\$ 50,000.00				Laws of 2012, Chapter 64, Section 11 Subsection 11, to the department of environment to plan, design and construct water system improvements, including water lines, for La Cienega mutual domestic water consumers and mutual sewer works association in Santa Fe county.	Through 6/30/2016
Total Project		<u>\$ 50,000.00</u>	<u>\$ 14,780.28</u>	<u>\$ 18,076.33</u>	<u>\$ 31,923.67</u>		

STATE OF NEW MEXICO
 LA CIENEGA MUTUAL DOMESTIC WATER ASSOCIATION
 Projects Schedule - Detail
 Year Ended December 31, 2014

Exhibit C

Grant No.	Pay Request	Request Date	Grant Amount Awarded	Grant Amount Received	Date Received	Check Date	Check Number	Grant Amount Expended	Vendor Paid
12-1371-STB			\$ 50,000.00						
						2/9/2012	1010	\$ 2,254.05	Baker Utiltiy
						4/12/2012	1044	1,412.60	Baker Utiltiy
						11/8/2012	1121	150.89	Baker Utiltiy
						12/13/2012	1132	1,128.27	Baker Utiltiy
						1/10/2013	1143	1,020.89	Baker Utiltiy
						2/6/2013	1158	351.78	Baker Utiltiy
						3/7/2013	1174	1,851.80	Baker Utiltiy
						5/8/2013	1197	392.59	Baker Utiltiy
						8/7/2013	1231	1,321.95	Baker Utiltiy
						10/10/2013	1254	2,715.76	Baker Utiltiy
						11/14/2013	1267	213.29	Baker Utiltiy
						12/6/2013	1278	1,471.17	Baker Utiltiy
	1	6/12/2014		\$ 14,780.28	8/28/2014	12/9/2013	1287	495.24	Baker Utiltiy
							Subtotal	14,780.28	
						9/11/2014	1380	1,046.78	Baker Utiltiy
						12/5/2014	1421	2,249.27	Baker Utiltiy
Total Project			<u>\$ 50,000.00</u>	<u>\$ 14,780.28</u>				<u>\$ 18,076.33</u>	

LA CIENEGA, MDWA
Balance Sheet
As of December 31, 2014

	<u>Dec 31, 14</u>
ASSETS	
Current Assets	
Checking/Savings	
Cash In Bank	-55.92
GCU Checking	11,094.40
GCU Money Market	30,774.66
GCU Savings	100.30
Total Checking/Savings	<u>41,913.44</u>
Total Current Assets	41,913.44
Fixed Assets	
Accumulated depreciation	-220,527.00
Improvements	382,776.42
Water rights	31,388.36
Well System	325,000.00
Total Fixed Assets	<u>518,637.78</u>
TOTAL ASSETS	<u>560,551.22</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Payroll Liabilities	1,560.36
Sales Tax Payable	2.55
Total Other Current Liabilities	<u>1,562.91</u>
Total Current Liabilities	1,562.91
Long Term Liabilities	
NMED/2011-01	55,288.19
Total Long Term Liabilities	<u>55,288.19</u>
Total Liabilities	56,851.10
Equity	
Associations Equity	126,405.38
Retained Earnings	371,821.41
Net Income	5,473.33
Total Equity	<u>503,700.12</u>
TOTAL LIABILITIES & EQUITY	<u>560,551.22</u>

5

LA CIENEGA, MDWA
Profit & Loss
October through December 2014

	<u>Oct - Dec 14</u>
Ordinary Income/Expense	
Income	
Water bills	17,573.64
Total Income	<u>17,573.64</u>
Expense	
Accountant	649.00
Bank charges	3.95
COST OF OPERATIONS	
Payroll Expenses	6,856.61
Water testing kit	340.55
Total COST OF OPERATIONS	<u>7,197.16</u>
Grant Expenses	2,249.27
Loans	
NMED RIP 2011-01 interest	1,658.64
NMED RIP 2011-01 principal	2,201.24
Total Loans	<u>3,859.88</u>
Miscellaneous	150.00
OFFICE EXPENSE	
Bookkeeping	2,798.91
Dues & Subs	180.00
Postage	294.00
Total OFFICE EXPENSE	<u>3,272.91</u>
Reimbursement for training	371.59
TAX EXPENSE	
Conservation Tax	41.68
Gross Receipts	794.33
Payroll Tax	339.46
Total TAX EXPENSE	<u>1,175.47</u>
Utilities	471.35
Total Expense	<u>19,400.58</u>
Net Ordinary Income	-1,826.94

9

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Cash Basis

LA CIENEGA, MDWA
Profit & Loss
October through December 2014

	<u>Oct - Dec 14</u>
Other Income/Expense	
Other Income	
Interest Earned	15.37
Verizon	1,825.05
Total Other Income	<u>1,840.42</u>
Net Other Income	<u>1,840.42</u>
Net Income	<u><u>13.48</u></u>

7

LA CIENEGA, MDWA
Profit & Loss
 January through December 2014

	Jan - Dec 14
Ordinary Income/Expense	
Income	
Membership fees	900.00
Water bills	58,909.85
Total Income	59,809.85
Expense	
Accountant	649.00
Bank charges	3.95
Community Center rental	25.00
COST OF OPERATIONS	
Line locates	302.84
Materials Purchased	500.00
Meter readings	693.07
Meter relocations	0.00
Payroll Expenses	39,745.25
PRC report	40.00
System Maintenance	2,400.00
Water Operator	500.00
Water testing kit	340.55
Total COST OF OPERATIONS	44,521.71
Grant Expenses	3,296.05
INSURANCE EXPENSE	
Liability	3,127.00
Total INSURANCE EXPENSE	3,127.00
Loans	
NMED RIP 2011-01 interest	1,658.64
NMED RIP 2011-01 principal	2,201.24
Total Loans	3,859.88
Miscellaneous	150.00
OFFICE EXPENSE	
Annual billing software updates	527.18
Bookkeeping	11,195.64
CCR preparation	200.00
Dues & Subs	180.00
Minutes taking	100.00
P.O. Box Rental	78.00
Postage	1,225.00
Supplies	699.53
Total OFFICE EXPENSE	14,205.35
Reimbursement for training	371.59
TAX EXPENSE	
Conservation Tax	261.59

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Cash Basis

LA CIENEGA, MDWA
Profit & Loss
January through December 2014

	<u>Jan - Dec 14</u>
Gross Receipts	2,666.02
Payroll Tax	339.46
Total TAX EXPENSE	3,267.07
Utilities	2,561.41
Void	0.00
Total Expense	76,038.01
Net Ordinary Income	-16,228.16
Other Income/Expense	
Other Income	
Grant Income	14,780.28
Interest Earned	64.16
Verizon	6,057.05
Water sold	800.00
Total Other Income	21,701.49
Net Other Income	21,701.49
Net Income	<u>5,473.33</u>

6

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

**Schedule of Findings and Responses
Year Ended December 31, 2014**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Quarterly Financial Reports	D	2010-1	2010-001
Capital Assets Inventory	D	2010-2	2010-002
Late Report	D	2010-3	2010-003
Supporting Documentation Unavailable/Inadequate and Lack of Approvals	C	2010-4	2010-004
Payment to Board Member	D	2010-5	2010-005
Follow-up on Prior Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	2010-1	Revised
Capital Assets Inventory	D	2010-2	Repeated
Late Report	D	2010-3	Repeated
Supporting Documentation Unavailable/Inadequate and Lack of Approvals	C	2010-4	Revised
Payments to Board Members	D	2010-5	Revised

*** 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, 2014**

2010-001

Quarterly Financial Reports

Criteria

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) submitted quarterly balance sheets and profit and loss reports but did not submit required quarterly budget to actual revenue and expenses 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 Section 6-6-2 NMSA 1978.

Recommendation

We recommend that LCMDWA submit required quarterly budget to actual revenue and expenses comparison reports to the DFA-LGD.

Entity Response

“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, 2014**

2010-002

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, 2014**

2010-003

Late Report

Criteria

Office of the State Auditor, Rule 2014, 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 2014, 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, 2014**

2010-004

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.

Section 6-6-2 NMSA, 1978 Compilation (J) states that the local government division of the department of finance and administration has the power and duty in relation to local public bodies to supervise the disbursement of funds to the end that expenditures will not be made in excess of budgeted items or for items not budgeted and that there will not be illegal expenditures and (L) with the approval of the secretary of finance and administration, make rules relating to budgets, records, reports, handling and disbursement of public funds or in any manner relating to the financial affairs of the local public bodies.

Condition

La Cienega Mutual Domestic Water Association (LCMDWA) was unable to provide certain supporting documentation for expenditures testing procedures. We requested supporting documentation for thirty (30) disbursements (26% of total expenditures) from a total of 165 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. These payments were to Board members for services and were properly paid as wages.

We also noted that for those six exceptions, actual payment amounts were greater than the invoice amount. The net amount paid agreed to the invoice but the wages were grossed up to include FICA/Medicare and, in some instances, federal and state withholding, which is considered additional compensation. Although our test sampled included only six such payments from a total of 38 payroll checks written for the 2014 calendar year, the year-end W-2s indicate additional compensation paid totaling \$4,401.97 from the various withholdings.

We also determined 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. In regard to the payments to Board members for services, the Board discussed and agreed to, but did not take formal

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

**Schedule of Findings and Responses
Year Ended December 31, 2014**

2010-004 (cont'd)

Supporting Documentation Unavailable/Inadequate and Lack of Approvals (cont'd)

Cause (cont'd)

action to approve, the payment amounts remaining at the same level as previously paid to Board members when they were paid as contractors instead of employees.

LCMDWA does 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 Sections 6-6-2 and 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. All employee checks will have gross pay equal to the amount of the invoice. Net amount will be after consideration of payroll taxes."

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

**Schedule of Findings and Responses
Year Ended December 31, 2014**

2010-005

Payment to Board Member

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

We noted one instance where La Cienega Mutual Domestic Water Association (LCMDWA) paid a board member for services but did not treat this payment as employee wages and, therefore, did not withhold, match FICA or Medicare or pay in payroll taxes.

Cause

Until the beginning of FY 2014, 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 all 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, 2014**

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