

Accounting & Auditing Services, LLC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

North-Side Acequia Madre de Villanueva

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ended December 31, 2012

**North-Side Acequia Madre de Villanueva
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Independent Accountant's Report on Applying Agreed-Upon Procedures

Manuel Villanueva, Chairman
North-side Acequia Madre de Villanueva
and
Honorable Hector H. Balderas
New Mexico State Auditor

I have performed the procedures enumerated below for the North-side Acequia Madre de Villanueva (Acequia) for the year ended December 31, 2012, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 3 entity per Section 12-6-3 B (3) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Acequia through the New Mexico Office of the State Auditor. The Acequia's management is responsible for its accounting records and the subject matter. 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 the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows

1. Test all state-funded capital outlay expenditures:

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.

All of the cash disbursements for the capital award projects were tested. The amounts disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The Acequia does not use purchase order forms. However, the Acequia did not record the disbursements in a general ledger. See Finding 2012-1 on p. 6 of this report.

- b. Determine that cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.

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The cash disbursements tested were properly authorized and approved in accordance with the project budget, legal requirements and the Acequia's procurement policies and procedures.

- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

For the work done on the dam and ditch repair projects, the Acequia advertised, obtained bids and quotes where necessary, and entered into contracts and purchase agreements in accordance with its procurement policies and applicable state laws and regulations.

- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.

The repair work was physically observed during a tour of the Villanueva Dam and the North-side Acequia on July 9, 2013.

- 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.

Status reports were not required by the terms of the agreements with the NM Office of the State Engineer/Interstate Stream Commission (OSE/ISC). The Acequia submitted the required budgets and reimbursement forms for the projects to the OSE/ISC.

2. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.

The projects were not funded in advance. The Acequia was required to submit reimbursement forms to the OSE/ISC upon completion of work on the project. See the results of procedure #5.

3. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.

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The \$50,477 appropriation to the Acequia for the repair of a ditch breach under an 80/20 Capital Appropriation Agreement with the New Mexico Interstate Stream Commission (NMISC) was fully expended by the Acequia on the ditch repair project.

4. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.

The checks received from the OSE/ISC were deposited in the Acequia's checking account at Wells Fargo Bank. The capital outlay award agreement did not require a separate fund or separate non-interest bearing bank account to deposit the amounts received.

5. 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.

For the ditch repair project, the Acequia filed Request for Reimbursement Forms with the OSE/ISC. The requests were supported by invoices submitted to the Acequia for work done on the repair projects. The costs were not paid by the Acequia prior to the request for reimbursement because the Acequia did not have the necessary funds. The Acequia paid for its project expenditures after the checks were received from the OSE/ISC. A finding was not considered necessary since the Acequia complied with the OSE/ISC's reimbursement procedures.

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

See Findings 2012-1 through 2012-3 on p. 6-10 of this report.

7. The report shall include the capital outlay amount awarded, amount received, amount expended, the remaining balance, and the actual legislation and effective dates for each capital outlay appropriation that meets the Tier 3 criteria.

See Exhibit 1 – Schedule of Capital Outlay Awards to Acequia on p. 5 of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 3 agreed upon procedures. Accordingly, we do not express

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such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

July 24, 2013

Exhibit 1 - Schedule of Capital Outlay Awards to Acequia

	<u>1</u>
Amount Awarded for Project	\$ 52,187.00
Amount Received by Acequia	50,477.40
Amount Expended by Acequia	<u>(50,477.40)</u>
Remaining Balance	<u>\$ -</u>

Agreement Provisions

1 - 80/20 Acequia Capital Appropriation Project Agreement between the NM Interstate Stream Commission (NMISC) and the Northside Acequia Madre de Villanueva Ditch Association

Legislative Authority: NM Laws of 2011, Chapter 6, Section 1.5-17, page 112 (appropriated \$1.9 million for acequia projects)

Date of Agreement with NMISC: May 2, 2012

Project Description: Emergency repairs for a major ditch breach.

Estimated Project Cost: \$52,187

State Grant Amount (80% of Estimated Project Cost): \$41,749.60

Acequia's Cost Share (20% of Estimated Project Cost) and Amount Loaned to Acequia: \$10,437.40

Agreement termination/reversion date: June 30, 2012

**North-Side Acequia Madre de Villanueva
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012**

Status of Prior Year Findings

Not applicable. The agreed-upon procedures for the fiscal year ending December 31, 2010 were performed during the same week as the agreed-upon procedures for the fiscal year ending December 31, 2012. The findings were the same for both fiscal years, but the finding numbers used were based on the fiscal year of the agreed-upon procedures.

Current Year Findings

Finding 2012-1. No General Ledger to Record Financial Transactions

Condition

The Acequia does not have a general ledger or a cash receipts and disbursements journal to record the financial transactions of the capital outlay awards and related projects. Also, the Acequia's check register for its bank account at Wells Fargo is incomplete and does not fully document the details of all cash receipts and disbursements of the Acequia.

Criteria

It is a generally accepted accounting practice to maintain a general ledger, transaction journals and check registers to record the financial transactions of an entity. According to Article 2, Section 2a of the By-Laws of the Acequia, "the Secretary is responsible for keeping complete and accurate records..." According to Article 2, Section 2c of the By-Laws, "the Treasurer shall be responsible for management of the finances of the Acequia..."

Effect

Financial reporting errors and fraud could occur if complete and accurate ledgers and check registers are not maintained by the Acequia. Officers, other members of the Acequia, and governmental awarding agencies could question the financial transactions of the Acequia if general ledgers or journals are not maintained.

Cause

The Acequia's Treasurer was very ill and in the hospital for an extended period of time and was unable to fully record the Acequia's transactions during this time period. Also, the Acequia does not have the funds to pay a bookkeeper to fully record the transactions of the Acequia on a monthly basis.

**North-Side Acequia Madre de Villanueva
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012**

Recommendation

The Acequia should maintain a general ledger to record its assets, liabilities, revenues and expenditures. The Acequia should maintain a cash receipts and disbursements journal to record the purpose and details for all cash received and disbursed by the Acequia. The Acequia should also maintain its check register and perform a monthly bank reconciliation to accurately record its cash balance after every transaction. If the Treasurer is unable to perform these duties during an illness, the Acequia's Commission should take the necessary action to ensure that someone else performs these duties during the Treasurer's absence.

Management's Response

The Treasurer had never received any training in proper accounting procedures and was not aware that a separate general ledger should be kept. This was incorporated into our behavior once we became aware of the CPA's need for this kind of documentation. We have incorporated 3 additional sheets into our record for our bank statements. They include a Deposit Record, a General Ledger and a Receipts & Disbursement record.

Finding 2012-2. Unorganized Records

Condition

Some records (cost share agreement, loan agreement, reimbursement request, invoice) for the capital outlay awards were not readily available for inspection by the Independent Public Accountant that performed the agreed-upon procedures. The Treasurer of the Acequia had to visit the Office of the State Engineer (OSE) to obtain copies of these records for the completion of the agreed-upon procedures. Also, the Acequia does not maintain a ledger to keep track of the amount appropriated, borrowed, received, and expended for each capital outlay award and project.

Criteria

It is a prudent business practice to maintain copies of all agreements, contracts, reimbursement requests, invoices, ledgers and other supporting documentation in organized files. According to Article 2, Section 2a of the By-Laws of the Acequia, "the Secretary is responsible for keeping complete and accurate records..."

**North-Side Acequia Madre de Villanueva
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012**

Effect

Without the assistance of the Office of the State Engineer, the Acequia would not have been able to provide complete documentation for its capital outlay awards and project expenditures. Officers, other members of the Acequia, and governmental awarding agencies could question the financial transactions of the Acequia if certain documentation is incomplete or unorganized.

Cause

Some records are maintained by the Secretary and others are maintained by the Treasurer. The Treasurer was ill and in the hospital for an extended period of time and was unable to maintain certain records during this time period.

Recommendation

The Acequia should develop and implement a better records management system for its capital outlay awards, agreements and project expenditure records. Separate files should be maintained for each capital project agreement, cost share agreement, and loan agreement with a local, state or federal agency. The Acequia should also maintain a ledger for each award agreement to keep track of the amount appropriated, borrowed, received, expended and the remaining balance.

Management's Response

This was our first audit. I (Treasurer) apologize for the inconvenience my record keeping system caused. However, my primary job is to keep records that are easily accessible to myself, my co-commissioners and our *parcientes*. I have arranged a meeting with our acequia secretary to jointly go over our records and agree on a method that will make audits easier. I will also ensure that all files are located and identified prior to the next audit.

Finding 2012-3. Late Agreed-Upon Procedures Report

Condition

This agreed-upon procedures report for FY12 was not submitted to the NM Office of the State Auditor (OSA) by the due date of May 31, 2013. The report was submitted to the OSA on August 8, 2013.

**North-Side Acequia Madre de Villanueva
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012**

Criteria

According to State Audit Rule, Section 2.2.2.16 (H) NMAC, "Local public bodies with a fiscal year-end other than June 30 must submit the agreed-upon procedures report no later than 5 months after the fiscal year-end."

Effect

If the report is late, users of the report are not receiving timely information about the results of the agreed-upon procedures.

Cause

According to State Audit Rule, Section 2.2.2.16.B NMAC, "Annually, the State Auditor shall provide local public bodies written authorization to proceed with obtaining services to conduct a financial audit or other procedures." The Treasurer of the Acequia stated that she never received the written authorization to proceed from the State Auditor.

The Treasurer was out of state from June-December 2012 to provide care for her son who was receiving cancer treatments. In May of 2013, the NM Interstate Stream Commission notified the Treasurer that future project funding would be withheld until they received a copy of the agreed-upon procedures report. On May 29, 2013, the Acequia entered into a contract with Accounting & Auditing Services, LLC to perform the agreed-upon procedures for FY12.

Recommendation

The officers of the Acequia should read Section 2.2.2.16 NMAC of the State Audit Rule to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, if the Acequia's annual revenue is less than \$50,000 and the Acequia expended at least 50% of, or the remainder of, a single capital outlay award, then the Acequia shall procure services of an IPA for the performance of a Tier 3 Agreed Upon Procedures engagement (Section 2.2.2.16.B(3) NMAC). If the annual revenues of the Acequia exceed \$50,000, review Section 2.2.2.16 NMAC for the applicable requirements; if you have any questions about the State Audit Rule, call the OSA at (505) 476-3800. If agreed-upon procedures are required for future fiscal years, take the necessary steps to ensure that the agreed-upon procedures report is submitted to the OSA by May 31.

**North-Side Acequia Madre de Villanueva
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2012**

Management's Response

I (Treasurer) was in Seattle, Washington from June 1, 2012 to January 4, 2013. I did not receive any communication from the NM Office of the State Auditor (OSA) about the need for an audit for the year 2012. On May 23, 2013, I was in the office of the NM Interstate Stream Commission turning in some forms and invoices when I was told that our acequia was on a list of acequia's that required auditors for 2010 and that until the audit was performed we would not receive any additional capital outlay awards. I immediately tried to contact the OSA on both the 23rd and 24th of May. On May 28th, I called the OSA again and eventually spoke to someone. During the 5 days that the OSA staff was on vacation I reviewed material on the OSA website. It was there that I discovered that in addition to needing an audit for 2010, we would also need audits for 2012 and 2013. Before I ever spoke with a living person at the OSA, I contacted several auditors and found one who was willing to do the audits for both 2010 and 2012.

Needless to say, the entire auditing process has been a lesson in Murphy's Law. I hope I have learned from the experience although I think someone should know how broken the system is. The only reason I don't resign is because our acequia badly needs repairs and I'm the only one that can get us through the process. When agreed-upon procedures are required in the future, I will hire a CPA firm to perform the procedures and submit the report to the OSA by May 31st of that year.

**North-Side Acequia Madre de Villanueva
Exit Conference
Fiscal Year Ended December 31, 2012**

On July 24, 2012, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

North-Side Acequia Madre de Villanueva

Eileen Mulvihill, Treasurer

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, General Manager