

Accounting & Auditing Services, LLC

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Ojo Caliente Mutual Domestic Water Consumers Association

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending June 30, 2017

Ojo Caliente Mutual Domestic Water Consumers Association
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Fiscal Year Ending June 30, 2017

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**Ojo Caliente Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending June 30, 2017**

Board of Directors

Ben Montoya, President

Frank Gallegos, Vice President

Glenn Lovato, Secretary/Treasurer

Patrick Vigil, Board Member

David Post, Board Member

Administrative Staff

None

Independent Accountant's Report on Applying Agreed-Upon Procedures

Ben Montoya, President

Ojo Caliente Mutual Domestic Water Consumers Association
and

Tim Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Ojo Caliente Mutual Domestic Water Consumer Association (Association) for the year ended June 30, 2017, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 5 entity per Section 12-6-3 B (5) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. This agreed upon procedures engagement was conducted in accordance with 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. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

According to the Association's general ledger, total revenues for the fiscal year ending June 30, 2017 were \$178,398 excluding capital outlay appropriations from the NM Department of Environment and federal grant revenues. Based on this information, the Association was properly determined to be a Tier 5 entity for FY17 since their revenues were between \$50,000 and \$250,000 and they expended a capital outlay appropriation during FY17.

2. Cash

- 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.

The Association has two checking accounts, one savings account and three Certificates of Deposit at Century Bank in Espanola, New Mexico. The bank account reconciliations were performed on a monthly basis in a timely manner. All bank and investment statements for the fiscal year were complete and on hand.

- b. Test at least 30% of the bank reconciliations for accuracy 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 DFA-Local Government Division.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the general ledger and supporting documentation. The ending balances could not be traced to the financial reports submitted to DFA-LGD since the quarterly reports only contained revenue and expenditure amounts and a final quarterly report for the fiscal year was not submitted to DFA-LGD. See Finding 2017-001 on p. 8.

- c. Determine whether the local public body's financial institutions have provided it with 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

The checking and savings account balances of the Association during the fiscal year exceeded \$250,000 and were not fully insured by the FDIC. Century Bank did not provide the Association with the required pledged collateral for the uninsured bank account balances. See Finding 2017-002 on p. 9.

3. Capital Assets

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

The Association is performing a yearly capital asset inventory which was approved by the Board of Directors. The Association does not have any movable chattels and equipment that cost more than \$5,000 and none were noted during the agreed-upon procedures.

4. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The revenue sources of the Association consist of monthly water dues, interest income, new membership fees, capital outlay appropriations and grants.

Actual revenue compared to the prior fiscal year revealed no significant or unusual fluctuations and the variance were adequately explained by the Association's Treasurer. However, actual revenue compared to budgeted revenue for FY17 could

not be analyzed since the Association did not prepare an annual budget for the fiscal year ending June 30, 2017. See Finding 2017-001 on p. 8.

b. Select a sample of revenue equal to at least 30% of the total dollar amount and test the following attributes:

i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts were judgmentally selected and tested which amounted to 62% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

ii. 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.

The cash receipts tested were properly classified and recorded in the general ledger.

5. Expenditures

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

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

A sample of cash disbursements were tested which amounted to 77% of total expenditures. The amounts recorded as 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 Association does not use purchase order forms.

ii. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

The cash disbursements tested were properly authorized and approved in compliance with the budget and legal requirements.

- iii. 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 13-1-199 NMSA 1978), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Except for the capital outlay project expenditures, none of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code, State Purchasing Regulations and the Per Diem and Mileage Act, as applicable.

6. Journal Entries

- a. Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:
 - i. Journal entries appear reasonable and have supporting documentation.

According to the Association's Treasurer, no non-routine journal entries were posted to the general ledger in FY17 and none were noted during the agreed-upon procedures.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association has procedures in place to ensure that non-routine journal entries posted by the Secretary/Treasurer are reviewed and approved by another member of the governing body. The Association's Treasurer provides financial reports and the accounting ledger to the Board of Directors for their review during the board meetings.

7. Budgets

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following testwork:
 - i. 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.

The Association did not prepare a budget for the fiscal year ending June 30, 2017. See Finding 2017-001 on p. 8.

- ii. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.

This procedure could not be performed since the Association did not prepare a budget for the fiscal year ending June 30, 2017. See Finding 2017-001 on p. 8.

- iii. 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.

See Exhibit 1 on p. 11.

- 8. Requested and reviewed all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet the Tier 5 criteria. Perform the following tests on all state-funded capital outlay expenditures:

- 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 outlay 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 checks. The Association does not use purchase order forms.

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

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

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

The Association advertised and issued an invitation for bids for the construction project in accordance with the State Procurement Code.

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

The completed project work was observed on November 22, 2017. The work done agreed with the project description and contractor's invoices.

- e. Verify that status reports were submitted to the state agency charged with oversight per the terms of the agreement and verify that the amounts in the status report agree with the general ledger and other supporting documentation.

The Association provided evidence showing that the status reports were submitted to the New Mexico Environment Department (NMED). The status reports agreed with the general ledger and supporting documentation.

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

The project was not funded in advance. The Association was required to submit request for reimbursement forms to the NMED along with the contractor's invoices and other supporting documentation.

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

The project work has not been completed. As of June 30, 2017, the unexpended balance of grant agreement #14-1735 was \$58,809.31; the Association has until June 30, 2018 to expend the remaining balance of this grant. Grant agreement #14-1710 was fully expended during the fiscal year ending June 30, 2017. See the Schedule of Capital Outlay Awards on p. 12.

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

The Association opened a non-interest bearing checking account at Century Bank to account for the grant receipts from NMED and the check disbursements to the contractors for the project expenditures.

- 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.

For grant #14-1735, the Association submitted five Disbursement Reimbursement forms to the NMED totaling \$71,190.67 to pay the invoices for the design and engineering work done on the project. The reimbursement requests were supported by five invoices dated 2/15/15 – 11/18/16 from the contractor totaling \$71,190.67. The Association paid for the invoices after the grant checks were received from the NMED. See the Schedule of Capital Outlay Awards on p. 12.

For grant #14-1710, the Association submitted one Disbursement Reimbursement form dated 11/23/16 to the NMED for \$50,000 to pay for the construction work done on the project. The reimbursement request was supported by one invoice (partial pay estimate #1) dated 11/4/16 from the contractor totaling \$101,748.06. The Association paid the contractor \$50,000 toward the invoice after the grant check was received from the NMED. The New Mexico Finance Authority paid the contractor \$51,748 for the balance of this invoice from a loan/grant (25%/75%) to the Association. See the Schedule of Capital Outlay Awards on p. 12.

9. Other

- a. 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 all required content detailed in Section 2.2.2.10 (L) NMAC.

No other findings were noted during the performance of the agreed-upon procedures.

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

This report is intended solely for the information and use of management and others with the Association, the NM State Auditor, the NM Department of Environment, 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
November 29, 2017

**Ojo Caliente Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017**

Status of Prior Year Findings

None.

Current Year Findings

Finding 2017-001. No Budget and Final Quarterly Report for Fiscal Year 2017

Condition

The Association did not prepare an annual budget for the fiscal year ending June 30, 2017 and submit it to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for approval by the required due date. Also, the Association did not submit a final quarterly report to DFA-LGD with cash balances, loan balances and cumulative revenue and expenditure totals for the fiscal year ending June 30, 2017.

Criteria

Pursuant to Section 6-6-2.A NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year.

As required by Section 6-6-2.F NMSA 1978, the Association should submit quarterly financial reports to DFA-LGD.

Effect

The Association was operating without an approved budget for the fiscal year ending June 30, 2017.

DFA-LGD is unable to perform its oversight function of the Association without a final quarterly report for the fiscal year. Also, the quarterly reports are inaccurate and misleading to its users if they do not contain the required financial information.

Cause

In 2016, the Association changed its fiscal year end date from December 31 to June 30 to coincide with the State's fiscal year end date. However, for the fiscal year ending June 30, 2017, the Association forgot to adopt a budget that coincided with its new fiscal year end date and submit a final quarterly report for FY17. The Association's Secretary/Treasurer was unaware of DFA-LGD's requirement to include its cash and loan balances on its quarterly reports.

Ojo Caliente Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017

Recommendation

The Association should adopt and submit its annual budget for the next fiscal year to DFA-LGD by June 1. As required by Section 6-6-5 NMSA 1978, upon receipt of any budget approved by DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. After the Association receives the budget certification letter from DFA-LGD, the Association's Board of Directors should make record of the approval in the minutes of its meetings.

Furthermore, the Association should submit quarterly and final year-end financial reports to DFA-LGD that report the cash and investment account balances, loan balances and cumulative totals for revenues and expenditures in the manner prescribed by DFA-LGD.

Management's Response

The Association's Secretary/Treasurer has been reporting to DFA-LGD on the calendar year basis. DFA-LGD approved the budget for the fiscal year ending December 31, 2017 on December 12, 2016 and has been submitting quarterly reports to DFA-LGD.

The Association has taken action to be in compliance for the change of its fiscal year-end date to June 30. The Treasurer of the Association contacted its budget analyst at DFA-LGD, Tom Dixon, to explain the fiscal year end change. The Association's Board of Directors adopted the budget and signed the budget resolution for the fiscal year ending June 30, 2018 during its quarterly meeting on October 19, 2017. The Secretary/Treasurer submitted the Association's proposed budget for the fiscal year ending June 30, 2018 to DFA-LGD on November 22, 2017. The Treasurer of the Association will submit its final FY17 financial report to DFA-LGD by December 15, 2017 that contains all the required financial information.

Finding 2017-002. No Pledged Collateral for Uninsured Bank Deposits

Condition

Throughout the fiscal year ending June 30, 2017, the Association's demand deposit balances (checking and savings accounts) at Century Bank ranged from \$288,227 on July 1, 2016 to \$283,194 on June 30, 2017. However, the Federal Deposit Insurance Corporation (FDIC) only provides \$250,000 of insurance for demand deposits. Therefore, the Associations demand deposit bank balances in excess of \$250,000 were uninsured during

**Ojo Caliente Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017**

the fiscal year. The Association did not receive any pledged collateral from Century Bank for the uninsured deposits.

Criteria

State law, Section 6-10-17 NMSA (Amount of Security to be Deposited), states: Any bank or savings and loan association designated as a depository of public money shall deliver securities of the kind specified in Section 6-10-16 NMSA 1978 to a custodial bank described in Section 6-10-21 NMSA 1978 and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received in accordance with Subsection B of Section 6-10-16 NMSA 1978. However, any such bank or savings and loan association may deliver a depository bond executed by a surety company as provided in Section 6-10-15 NMSA as security for any portion of a deposit of public money.

Effect

The Association's uninsured bank balances are at risk of loss if Century Bank goes bankrupt.

Cause

The Association thought that each bank account balance at Century Bank was insured up to \$250,000.

Recommendation

The Association's Board of Directors should read and become familiar with the state laws regulating the deposit of public funds. As soon as possible, the Treasurer of the Association should contact its account manager at Century Bank to obtain the required amount of pledged collateral for its uninsured deposits. The Treasurer should also monitor its account balances on a monthly basis to ensure that it continually receives the correct amount of pledged collateral from Century Bank.

Management's Response

The Ojo Caliente MDWCA (Glenn Lovato, Secretary/Treasurer) contacted a Century Bank Manager on November 17, 2017 to get the required pledged collateral from Century Bank. Beginning immediately, the Secretary/Treasurer will monitor its bank balances on a monthly basis to ensure that Century Bank and other financial institutions provide the required amount of pledged collateral to the Association in the future.

Ojo Caliente Mutual Domestic Water Consumers Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Interest income	\$ -	\$ -	\$ 634	\$ 634
Water Sales	-	-	80,281	80,281
New Membership Fees	-	-	1,200	1,200
Water Policy Violation Fees	-	-	700	700
State Capital Outlay Appropriations	-	-	63,446	63,446
State Grant - NMFA	-	-	92,818	92,818
Federal Grant - NMFA	-	-	373,764	373,764
Miscellaneous	-	-	2,766	2,766
	<u>-</u>	<u>-</u>	<u>2,766</u>	<u>2,766</u>
Total Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 615,608</u>	<u>\$ 615,608</u>
Expenditures				
Current:				
Contractual Services	\$ -	\$ -	\$ 15,000	\$ (15,000)
Audit Services	-	-	381	(381)
Property/Bond Insurance	-	-	883	(883)
Training/Meeting Per Diem	-	-	1,035	(1,035)
Utilities - Electricity	-	-	4,153	(4,153)
Maintenance & Repairs	-	-	6,628	(6,628)
Office Supplies & Post Office Box	-	-	610	(610)
Postage and Envelopes	-	-	758	(758)
NMRWA Annual Dues	-	-	225	(225)
Labor Work/Backhoe	-	-	2,420	(2,420)
Returned Check Service Charges	-	-	672	(672)
NM Water Conservation Fee	-	-	175	(175)
NM CRS Taxes	-	-	3,822	(3,822)
Tax Return Fee	-	-	340	(340)
Miscellaneous	-	-	2,888	(2,888)
Secretary of State Annual Fee	-	-	20	(20)
Capital Outlay Project	-	-	530,027	(530,027)
	<u>-</u>	<u>-</u>	<u>530,027</u>	<u>(530,027)</u>
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,037</u>	<u>\$ (570,037)</u>

**Ojo Caliente Mutual Domestic Water Consumers Association
Schedule of Capital Outlay Awards
For the Fiscal Year Ending June 30, 2017**

	1	2
Amount Awarded for Project	\$ 130,000.00	\$ 50,000.00
Amount Received and Expended in FY15-16	(57,745.09)	-
Amount Received and Expended in FY17	(13,445.60)	(50,000.00)
Remaining Balance	\$ 58,809.31	\$ -

Agreement Provisions

**1 - Grant Agreement Between the New Mexico Department of Environment and the
Ojo Caliente Mutual Domestic Water Consumers Association - Fund 89200 Capital Outlay
Appropriation Project #14-1735-STB**

Legislative Authority: NM Laws of 2014, Chapter 66, Section 16, Paragraph 144

Date of Agreement: April 27, 2015

Project Description: To plan, design and construct water system improvements, including water supply wells and a treatment facility for the Ojo Caliente Mutual Domestic Water Consumers Association in Rio Arriba and Taos counties.

Estimated Project Cost: \$744,000

State Grant Amount: \$130,000

Agreement termination/reversion date: June 30, 2018

**2 - Grant Agreement Between the New Mexico Department of Environment and the
Ojo Caliente Mutual Domestic Water Consumers Association
Fund 89200 Capital Appropriation Project #14-1710-STB**

Legislative Authority: NM Laws of 2014, Chapter 66, Section 16, Paragraph 119

Date of Agreement: March 27, 2015

Project Description: To design and construct a uranium treatment facility for the Ojo Caliente Mutual Domestic Water Consumers Association in Taos County.

Estimated Project Cost: \$744,000

State Grant Amount: \$50,000

Agreement termination/reversion date: June 30, 2018

**Ojo Caliente Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ended June 30, 2017**

On November 22, 2017, the following officials held an exit conference to discuss the results of the agreed upon procedures and the contents of this report:

Ojo Caliente MDWCA

Glenn Lovato, Secretary/Treasurer

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, General Manager