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San Luis-Cabazon Mutual Domestic Water Association

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending June 30, 2017

San Luis-Cabazon Mutual Domestic Water Association
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Fiscal Year Ending June 30, 2017

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**San Luis-Cabazon Mutual Domestic Water Association
Official Roster
Fiscal Year Ending June 30, 2017**

Board of Directors

Joey Dominguez, President

Michael Tachias, Vice President

Dolores Montoya, Treasurer

Dolores Montoya, Secretary

David Dominguez, Board Member

Mae Powell, Board Member

Paul Madrid, Board Member

Arnold Tachias, Board Member

Independent Accountant's Report on Applying Agreed-Upon Procedures

Members of the Board of Directors
San Luis-Cabazon Mutual Domestic Water Association
Bernalillo, New Mexico
and
Brian S. Colón, New Mexico State Auditor
Santa Fe, New Mexico

I have performed the procedures enumerated below for the San Luis-Cabazon Mutual Domestic Water 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 4 entity per Section 12-6-3.B (4) 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."

Based on the Association's bank statements, total revenues (bank deposits) for the fiscal year ending June 30, 2017 were approximately \$55,765. Based on this information, the Association was properly determined to be a Tier 4 entity since their revenues were between \$50,000 and \$250,000 and they did not receive or expend a capital outlay appropriation during the fiscal year ending June 30, 2017.

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 one checking account and one savings account at Wells Fargo Bank. The bank account statements for the fiscal year were complete and on hand. However, the Association did not perform or document any bank account reconciliations for the fiscal year. See Finding 2014-001 on p. 7.

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- b. Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

These procedures could not be performed since the Association did not perform the monthly bank account reconciliations, did not maintain a general ledger, and did not submit quarterly financial reports to DFA-LGD for the periods ending September 30, 2016 and December 31, 2016. See Finding 2014-001 on p. 7, 2014-003 on p. 9 and Finding 2014-006 on p. 14. Also, the cash balances in the quarterly reports to DFA-LGD for the periods ending March 31, 2017 and June 30, 2017 did not agree with the bank statements. See Finding 2017-001 on p. 19.

- 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 were fully insured by the FDIC during the fiscal year. Therefore, pledged collateral from Wells Fargo Bank was not required.

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 did not perform a yearly capital asset inventory for the fiscal year ending June 30, 2017. See Finding 2014-002 on p. 8.

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 water usage fees and payments from the Cabezon Cattle Association for access fees and a shared electric bill.

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Only limited analytical review procedures could be performed since the Association did not maintain a general ledger to record, classify and report its revenue transactions for the fiscal year ending June 30, 2016 and 2017. See Finding 2014-003 on p. 9. Actual water sales revenues for FY17 were \$11,888 more than budgeted revenues. The current President of the Association stated that water sales revenue is projected based on a flat rate of \$36 per month on metered accounts; when members use more water, actual revenues go up.

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 revenues (bank deposits) totaling \$19,871.61 was selected and tested which amounted to approximately 36% of total revenues during the fiscal year. For the items tested, the Association did not classify and record its revenue transactions in a general ledger. See Finding 2014-003 on p. 9. Also, the Association was unable to provide supporting documentation for deposits totaling \$4,731.95 including 3 months of water meter reading reports and the payment and deposit summary reports. See Finding 2014-004 on p. 11.

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.

This procedure could not be performed since the Association did not classify and record its revenue transactions in a general ledger. See Finding 2014-003 on p. 9.

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.

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A sample of 30 cash disbursements (bank withdrawals) totaling \$20,038.68 were selected and tested which amounted to approximately 33% of total cash disbursements during the fiscal year of approximately \$59,874. For 19 cash disbursements tested, the amounts recorded as disbursed agreed with the supporting documentation, and the amount, payee, date and description of the purchase agreed with the vendor's invoice and canceled check. The Association does not use purchase order forms. However, for 11 cash disbursements totaling \$5,567.35, the Association could not provide an invoice or other documentation to support the cash disbursements. Also, the Association did not classify and record its cash disbursements and expenditures in a general ledger. See Finding 2014-003 on p. 9 and Finding 2014-005 on p. 12.

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

It could not be determined if the cash disbursements tested were properly authorized and approved since the Association did not have any written procurement policies and procedures. See Finding 2014-007 on p. 15. Also, the Association did not comply with its approved budget since their actual expenditures in fiscal year 2017 exceeded budgeted expenditures by \$20,481. See Finding 2017-002 on p. 21, and the Schedule of Revenues and Expenditures – Budget and Actual on p. 23.

- 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).

None of the cash disbursements tested exceeded the amounts requiring an invitation for bids or requests for proposals. No cash disbursements for per diem and mileage were noted. The rest of this procedure could not be performed since the Association does not have any procurement policies and procedures. See Finding 2014-007 on p. 15.

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.

The Association's Office Administrator stated that she was unaware of any non-routine journal entries, adjustments or reclassifications that were posted to the Association's accounting system (Quickbooks) in fiscal year 2017.

- 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 does not have a procedure in place for management to review and approve journal entries. See Finding 2014-008 on p. 16.

7. Budgets

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

- 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's Board of Directors adopted and approved its budget for fiscal year 2017 during a board meeting on May 19, 2016. However, the Association did not provide a letter showing that the budget was approved by DFA-LGD. See Finding 2014-006 on p. 14.

- 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.

According to the Association's fiscal year-end quarterly report to DFA-LGD, actual expenditures exceeded the final approved budget by \$20,481 at the total fund level. See Finding 2017-002 on p. 21, the Schedule of Revenues and Expenditures – Budget and Actual on p. 23, and the year-end financial report submitted to DFA-LGD on p. 24.

- 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.

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The Association did not maintain a general ledger to record, classify and report its revenue and expenditure transactions for the fiscal year. Therefore, the Association's quarterly report for the fiscal year ending June 30, 2017 was used to prepare the Schedule of Revenue and Expenditures – Budget and Actual. See p. 23-24. However, the total revenue and expenditure amounts that the Association reported to DFA-LGD do not agree with the total cash receipts (deposits) and cash disbursements reported on the bank statements. See Finding 2017-001 on p. 19.

8. 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.

The Association did not hire a CPA to perform these agreed-upon procedures and submit this report to the New Mexico Office of the State Auditor by the required due dates. See Finding 2014-009 on p. 17.

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 New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration – Local Government Division, and the New Mexico 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

April 22, 2020

**San Luis-Cabezon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017**

Status of Prior Year Findings

Finding 2014-001. No Bank Account Reconciliations – Repeated.

Finding 2014-002 – No Capital Asset Inventory at Fiscal Year-End – Repeated.

Finding 2014-003. No General Ledger to Record Financial Transactions and Account Balances – Repeated.

Finding 2014-004. Missing Revenue Records – Revised and Repeated.

Finding 2014-005. Missing Expense Records – Revised and Repeated.

Finding 2014-006. No Approved Budget or Quarterly Reports to DFA-LGD – Revised and Repeated.

Finding 2014-007. No Written Procurement Policies and Procedures – Repeated.

Finding 2014-008. No Review Procedure for Journal Entries – Repeated.

Finding 2014-009. Late Agreed-Upon Procedures Contract and Report – Repeated.

Current Year Findings

Finding 2014-001. No Bank Account Reconciliations

Condition

Management of the Association did not perform any bank account reconciliations during the fiscal year ending June 30, 2017.

During the fiscal year, management did not make any progress to correct this prior year-finding.

Criteria

It is a prudent business practice to perform monthly bank accounts reconciliations to verify that all monetary transactions are accurately recorded and accounted for by the bank and the Association.

San Luis-Cabezon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017

Effect

Without bank account reconciliations, recording errors and fraud schemes could have gone undetected and uncorrected.

Cause

The current Board President stated that because of a lack of training and an accounting background, the Office Administrator did not fully utilize the Association's accounting system (Quickbooks) to perform and document the monthly bank account reconciliations.

Recommendation

The Association's Board of Directors should provide training to its Office Administrator or hire a qualified independent contractor to utilize its Quickbooks accounting system to perform and document the monthly bank account reconciliation shortly after the bank statements are received, but no later than the end of the following month.

Management's Response

The Association will consult with an Accounting Professional to train the Office Administrator to perform monthly bank reconciliations. The board will establish a policy and procedure for the Office Administrator outlining a timeline of 10 working days to perform the bank reconciliation after the statement is received. The policy will be developed and adopted by the board of directors in June 2020, which will go into effect beginning with the bank statements for June 2020.

Finding 2014-002 – No Capital Asset Inventory at Fiscal Year-End

Condition

For the fiscal year ending June 30, 2017, the Association did not perform and document a physical inventory of its capital assets and have the results of the physical inventory certified by its Board of Directors.

During the fiscal year, management did not make any progress to correct this prior year-finding.

Criteria

Section 12-6-10.A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels

San Luis-Cabezon Mutual Domestic Water Association
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Fiscal Year Ending June 30, 2017

and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness.”

Effect

The Association is not accounting for its capital assets which could be subject to loss or misuse.

Cause

The Board of Directors has neglected to comply with the state law.

Recommendation

At the end of each fiscal year, the Association should perform and document a physical inventory of its capital assets in accordance with Section 12-6-10.A NMSA 1978. For each capital asset, the description of the asset, date acquired, cost, location, useful life, and ending balance of its capital assets should be recorded on a capital asset listing. The results of the inventory shall be recorded in a written inventory report, certified as to correctness and approved by the Association’s Board of Directors.

Management’s Response

The Association will develop a policy that outlines the year-end capital asset inventory procedure which will be performed by the Field Operations Specialist during the last two weeks of June 2020. We will develop an excel spread sheet and document the physical inventory of the capital assets in accordance with Section 12-6-10.A NMSA 1978. We will include the following on the inventory report: description of the asset, date acquired, cost, location, and useful life, and ending balance. The annual inventory report will be certified and approved by the Board of Director’s after the end of each fiscal year in July 2020.

Finding 2014-003. No General Ledger to Record Financial Transactions and Account Balances

Condition

For the fiscal year ending June 30, 2017, the Association did not record all of its financial transactions (cash receipts/revenues, cash disbursements/expenditures, assets, liabilities, fund equity, etc.) in an accounting system or general ledger.

San Luis-Cabezon Mutual Domestic Water Association
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Fiscal Year Ending June 30, 2017

During the fiscal year, management did not make any progress to correct this prior year-finding.

Criteria

The Board of Directors is responsible for adopting sound accounting policies and procedures. The Board of Directors is responsible for the Association's financial statements. In accordance with generally accepted accounting principles issued by the Governmental Accounting Standards Board, all financial transactions and account balances should be accurately recorded and accounted for.

Effect

The Association was unable to provide any financial reports that detailed, summarized and totaled its revenue and expenditure transactions and account balances, or its assets, liabilities and fund equity account balances. Reporting errors (intentional or unintentional), misuse of public funds, and fraud schemes could occur and not be detected if all the financial transactions during the fiscal year are not accurately recorded and accounted for.

Cause

The current Board President stated that because of a lack of training and an accounting background, the Office Administrator did not fully utilize the Association's accounting system (Quickbooks) to process and record all of the Association's financial transactions and account balances.

Recommendation

The Association's Board of Directors should provide training to its Office Administrator or hire a qualified independent contractor to accurately classify, record, summarize and report all of its revenue and expenditure transactions and account balances (assets, liabilities and fund equity) in their accounting system (Quickbooks) in accordance with generally accepted accounting principles.

Management's Response

The Association's Board of Directors will provide training for the Office Administrator and consult with an Accounting Professional during the next two months (May and June 2020) to ensure the Association establishes a complete general ledger effective July 1, 2020. We will ensure the Office Administrator has more training in Quickbooks to accurately classify, record, summarize and report all of its revenue and expenditure transactions and account balances (assets, liabilities and fund equity) in our accounting system.

San Luis-Cabezon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017

Finding 2014-004. Missing Revenue Records

Condition

For the fiscal year ending June 30, 2017, cash receipts (bank deposits) totaling \$19,871.61 were selected and tested. For the items tested, the Association was unable to provide supporting documentation (3 months of water meter readings, and the payment and deposit summary reports) for deposits totaling \$4,731.95.

During the fiscal year, management made progress to correct this prior year-finding since more revenue records were on file to support the bank deposits.

Criteria

In accordance with the State Audit Rule, Section 2.2.210.D(2) NMAC, the Association shall maintain adequate accounting records. It is a prudent business practice to maintain complete accounting records for all revenue transactions.

Effect

The Association does not have documentation showing that they sent monthly water billings to all of its members and collected the amounts owed. The payments received from its members and other sources may not have been accounted for. Without a complete set of records for all revenue transactions, fraud schemes could occur and go undetected.

Cause

The Association's Board of Directors has not implemented adequate internal controls to file, maintain and safeguard its revenue records.

Recommendation

The Association's Board of Directors should improve its record keeping system for all revenue transactions, cash receipts and deposits. Supporting documentation for all revenue transactions (meter reading reports, monthly water billings for each member, detailed payment and deposit reports, and a complete accounts receivable ledger for each water customer and revenue source) should be generated, filed, and safeguarded for at least 5 years after the end of the fiscal year in which the revenue transaction occurred.

Management's Response

By July 1, 2020, the Association's Board of Directors will establish a written policy for the Office Administrator and the Field Operations Specialist to improve its records keeping

San Luis-Cabezon Mutual Domestic Water Association
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system for all revenue transactions, cash receipts, and deposits. Effective May 1, 2020, supporting documentation for all revenue transactions (meter reading reports, monthly water billings for each member, detailed payment and deposit reports, and a complete accounts receivable ledger for each customer and revenue source) will be filed and safeguarded.

Finding 2014-005. Missing Expense Records

Condition

For the fiscal year ending June 30, 2017, 30 cash disbursements totaling \$20,038.68 were selected and tested. Out of the items tested, the Association was unable to provide invoices or expense receipts for 11 cash disbursements totaling \$5,567.35. The Association does not have documentation showing that the goods or services were received.

During the fiscal year, management did not make any progress to correct this prior year-finding.

Criteria

In accordance with the State Audit Rule, Section 2.2.210.D(2) NMAC, the Association shall maintain adequate accounting records. It is a prudent business practice to establish a sound procurement policy and maintain complete documentation for all expenditures and cash disbursements.

Section 13-1-158 NMSA of the State Procurement Code states: No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction, or items of tangible personal property unless the using agency certifies that the services, construction or items of tangible personal property have been received.

Effect

Recording errors and fraud schemes could occur and go undetected if invoices and receiving reports aren't obtained, filed and safeguarded. Fraud schemes and the misuse of public funds could occur if the usage of debit cards to purchase goods and services is not controlled and accounted for.

Cause

The Board of Directors has not developed and implemented adequate internal controls to collect, maintain and safeguard its records for all expenditures and cash disbursements.

San Luis-Cabezon Mutual Domestic Water Association
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Also, the Board of Directors did not implement adequate internal controls over the usage of its debit card.

Recommendation

To prevent missing invoices in the future, the Association's Board of Directors and Office Administrator should improve their filing system. The Association should file and safeguard the supporting documentation for all cash disbursements and expenditures for at least 5 years after the end of the fiscal year in which the expenditure transaction occurred.

The Office Administrator should not process an invoice for payment until an employee or board member certifies that the goods or services have been received. The Office Administrator should ensure that a receiving report is adequately documented and attached to each invoice.

After an invoice is processed for payment, the Office Administrator should record the date paid, amount paid, and check number on every invoice and expense receipt. If a debit card is used to make the purchase, the debit card charge receipt should also be attached to the related invoices and expense receipts.

To prevent unauthorized debit card charges, the Association's Board of Directors should develop and implement written policies and procedures to control the usage of debit cards for the purchase of certain goods and services. The Office Administrator should accurately classify and record all debit card expenditures in the general ledger.

Management's Response

Effective May 1, 2020, the Association's Board of Directors will establish a policy for the Office Administrator and the Field Operations Specialist to improve its records keeping system. The Association will incorporate a digital archiving mechanism to ensure copies are archived for 5 years. Invoices will not be paid until a certification form is completed acknowledging the receipt of goods or services. Receiving reports will be attached to all invoices. Each invoice and expense receipt will have the following content recorded: date, amount paid, and check number. If a debit card is used to make a purchase, the charge receipt will be attached to the related invoice and expense receipt. The board will develop policy and procedures to control the usage of debit cards for the purchase of certain goods and services. Effective July 1, 2020, the Office Administrator will accurately classify and record all debit card expenditures in the general ledger.

San Luis-Cabezon Mutual Domestic Water Association
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Finding 2014-006. No Approved Budget and Missing Quarterly Reports to DFA-LGD

Condition

The Association's Board of Directors did not provide a letter from DFA-LGD showing that their budget for the fiscal year ending June 30, 2017 was approved by DFA-LGD. Also, the Association did not submit quarterly financial reports to DFA-LGD for the period ending September 30, 2016 and December 31, 2016.

During the fiscal year, the Association made progress to resolve this prior-year finding since the Board of Directors adopted a budget for the fiscal year ending June 30, 2017 and submitted quarterly reports to DFA-LGD for the last two quarters of the fiscal year.

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 if they are determined to be a Tier 4 agency or higher.

Pursuant to Section 6-6-2.F NMSA 1978, the Association is required to submit quarterly financial reports to DFA-LGD if they are determined to be a Tier 4 agency or higher.

Effect

The Association was operating without an approved budget for the fiscal year ending June 30, 2017. Overspending and financial difficulties could occur if an operating budget is not adopted, approved and periodically monitored. DFA-LGD was unable to perform its oversight function of the Association without the quarterly financial reports.

Cause

The current Board President stated that it was a lack of understanding of DFA-LGD's reporting requirements, and once they learned about it, they worked with their budget analyst at DFA-LGD to come into compliance.

Recommendation

The Association's Board of Directors should adopt an operating budget for each fiscal year and document the board approval and resolution in the minutes of its meetings. The adopted budget for the next fiscal year should be submitted to DFA-LGD by June 1st of each year.

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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 Board of Directors should make record of the approval in the minutes of its meetings. Furthermore, by the last day of the month following the end of each quarter, the Association should submit quarterly financial reports to DFA-LGD that report the cash balance, loan balance and cumulative totals for revenues and expenditures in the manner prescribed by DFA-LGD.

Management's Response

The Association's Board of Directors will adopt an operating budget for each fiscal year and document the board approval and resolution in the minutes of its meetings. The adopted budget for the next fiscal year will be submitted to DFA-LGD by June 1st of each year. As required by Section 6-6-5 NMSA 1978, upon receipt of any budget approved by DFA-LGD, the Board of Directors shall cause such budget to be made a part of the minutes of its meetings. After the Association receives the budget certification letter from DFA-LGD, the Board of Directors will make a record of the approval in the minutes of its meetings. Furthermore, by the last day of the month following the end of each quarter, the Office Administrator will submit quarterly financial reports to DFA-LGD that report the cash balance, loan balance and cumulative totals for revenues and expenditures in the manner prescribed by DFA-LGD.

Finding 2014-007. No Written Procurement Policies and Procedures

Condition

The Association does not have any written procurement policies and procedures to control and account for the purchase of goods and services.

During the fiscal year, management did not make any progress to correct this prior year-finding.

Criteria

Adequate procurement policies and procedures provide for the fair and equal treatment of all persons involved in public procurement, maximize the purchasing value of public funds and provide safeguards for maintaining a procurement system of quality and integrity.

Effect

Without any written procurement policies and procedures, there is a lack of internal control over purchases and cash disbursements. Therefore, the Association is at risk of fraud and

San Luis-Cabezon Mutual Domestic Water Association
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misuse of its cash balance. Also, the Association may not be obtaining the best price for its goods and services.

Cause

The Association's Board of Directors has neglected to establish written procurement policies and procedures.

Recommendation

The Board of Directors should establish and implement written procurement policies and procedures to initiate, authorize, process, approve, record and report the purchase and payment for goods and services. The procurement policy should include a record retention policy whereas all procurement documentation shall be filed, retained and safeguarded for at least five years after the end of the fiscal year in which the procurement occurred.

Management's Response

The Board of Directors will establish and implement written procurement policies and procedures to initiate, authorize, process, record, and report the purchase and payment for goods and services. The procurement policy will include record retention policy whereas all procurement documentation will be filed by the Office Administrator, retained, and safeguarded for at least five years after the end of the fiscal year in which the procurement occurred. The board will adopt this policy in June 2020 and implemented effective July 1, 2020.

Finding 2014-008. No Review Procedure for Journal Entries

Condition

The Association does not have a procedure in place requiring management to review and approve all non-routine journal entries posted to the general ledger.

During the fiscal year, management did not make any progress to correct this prior year-finding.

Criteria

For proper internal control over the account balances and financial statements, written documentation and evidence of review and approval should be maintained for all non-standard journal entries to the general ledger.

San Luis-Cabezon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017

Effect

Inaccurate or unauthorized adjustments to the general ledger could go undetected by management. A fraud or embezzlement scheme could occur without the review and approval of non-standard journal entries to the general ledger.

Cause

Management of the Association stated they were unaware of the need to establish a procedure to review and approve all non-routine journal entries posted to their accounting system.

Recommendation

The Association's Board of Directors should develop and implement a procedure requiring its Office Administrator to maintain written documentation and explanations to support all non-routine journal entries, adjusting journal entries, and reclassifications that are posted and recorded in the Association's accounting system. The Board of Directors should also develop a procedure for management to review and approve all non-routine journal entries, adjusting journal entries, and reclassifications that are posted to the accounting system.

Management's Response

The Association's Board of Directors will develop and implement a procedure for its Office Administrator to maintain written documentation and explanations to support all non-routine journal entries, adjusting journal entries and reclassification that are posted and recorded in the Association's accounting system. The Board of Directors will also develop a procedure for management to review and approve all non-routine journal entries, adjusting journal entries and reclassifications that are posted to the accounting system. The board will adopt this policy by the end of June 2020 and implement it effective July 1, 2020.

Finding 2014-009. Late Agreed-Upon Procedures Contract and Report

Condition

For the fiscal year ending June 30, 2017, the Association did not submit the Tier 4 agreed-upon procedures contract information and this report to the NM Office of the State Auditor by the required due dates.

During the fiscal year, management did not make any progress to correct this prior year-finding.

San Luis-Cabezon Mutual Domestic Water Association
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Criteria

According to State Audit Rule 2017, Section 2.2.2.16.B (4) NMAC, “if a local public body’s annual revenue is greater than \$50,000 but less than \$250,000, then the local public body shall procure the services of an IPA for the performance of a Tier 4 agreed-upon procedures engagement in accordance with the audit contract for a Tier 4 agreed-upon procedures engagement.”

According to State Audit Rule 2017, Section 2.2.2.8.F(8)(e) NMAC, the Association should have hired a CPA firm and submitted the unsigned Tier 4 contract to the New Mexico Office of the State Auditor by July 1, 2017. The contract for these agreed-upon procedures was submitted to the NM Office of the State Auditor on December 12, 2019.

According to State Audit Rule 2017, Section 2.2.2.9.A(1)(g) NMAC, this agreed-upon procedures report should have been submitted to the New Mexico Office of the State Auditor by December 15, 2017.

Effect

Since this agreed-upon procedures report is very late, the users of the agreed-upon procedures report did not receive timely information about the results of the agreed-upon procedures.

Cause

The current Board President stated that it was a lack of understanding of the audit rule. New board members were elected in July 2013 and the Board didn’t know that Tier 4 agreed-upon procedures were required if annual revenues exceeded \$50,000.

Recommendation

For the fiscal year ending June 30, 2020 and future fiscal years, the Association shall determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B NMAC to determine if agreed-upon procedures are required; if so, the Association should submit the contract information to the NM Office of the State Auditor by July 30 as required by State Audit Rule 2020, Section 2.2.2.8.F(8)(e) NMAC, and ensure that the agreed-upon procedures report is submitted to the NM Office of the State Auditor by December 15 of each year as required by State Audit Rule 2020, Section 2.2.2.9.A(1)(g) NMAC.

**San Luis-Cabazon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017**

Management's Response

For the fiscal year ending June 30, 2020 and future fiscal years, the Office Administrator will determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B NMAC to determine if agreed-upon procedures are required. The Association will then hire a CPA firm and submit the contract information to the NM Office of the State auditor by July 30 as required by State Audit Rule 2020, Section 2.2.2.8.F(8)(e) NMAC, and ensure that the agreed-upon procedures report is submitted to the Office of the State Auditor by December 15.

Finding 2017-001. Inaccurate Quarterly Reports to DFA-LGD

Condition

For the fiscal year ending June 30, 2017, the cash balances reported on the Association's bank statements did not agree with the quarterly financial reports submitted to the New Mexico Department of Finance & Administration, Local Government Division (DFA-LGD) as follows:

Quarterly report for period ending 9/30/16:	
Bank balance per bank statements	\$ 50,117
Cash balance per quarterly report to DFA-LGD	<u>8,357</u>
Difference	<u>\$ 41,760</u>
Quarterly report for period ending 12/31/16:	
Bank balance per bank statements	\$ 42,516
Cash balance per quarterly report to DFA-LGD	<u>1,861</u>
Difference	<u>\$ 40,655</u>
Quarterly report for period ending 3/31/17:	
Bank balance per bank statements	\$ 42,352
Cash balance per quarterly report to DFA-LGD	<u>5,915</u>
Difference	<u>\$ 36,437</u>
Quarterly report for period ending 6/30/17:	
Bank balance per bank statements	\$ 43,324
Cash balance per quarterly report to DFA-LGD	<u>6,201</u>
Difference	<u>\$ 37,123</u>

Also, the total revenue (bank deposits) and expenditure (cash disbursements) amounts reported on the Association's bank statements did not agree with the year-end quarterly report submitted to DFA-LGD as follows:

**San Luis-Cabezon Mutual Domestic Water Association
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Total revenues per year-end report to DFA-LGD	\$ 57,865
Total deposits per bank statements	<u>55,765</u>
Difference	<u>\$ 2,100</u>
Total expenditures per year-end report to DFA-LGD	\$ 57,223
Total cash disbursements per bank statements	<u>59,874</u>
Difference	<u>\$ 2,651</u>

Criteria

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

Effect

The Association is not preparing the quarterly reports in accordance with the requirements of DFA-LGD. Inaccurate financial reports mislead the users of the financial information. Financial reporting errors conceal the true and accurate account balances of the Association. The Association is susceptible to fraud and embezzlement schemes if accurate financial reports are not prepared.

Cause

It appears that the Association did not include the cash balances in its savings bank account in the quarterly reports to DFA-LGD which caused most of the differences noted above. Also, the Association does not record all of its financial transactions in their accounting system (Quickbooks). The Board of Directors did not detect the reporting differences when the quarterly financial reports were reviewed during the monthly board meetings. The Board President stated that it was a lack of knowledge of how the reports were supposed to be completed, and a lack of training and complete misunderstanding of what is required of DFA-LGD.

Recommendation

The Association's Office Administrator should obtain sufficient training to prepare and submit accurate quarterly reports to DFA-LGD. The Office Administrator should report all of the bank account balances in the quarterly reports to DFA-LGD, and should not include any interbank account transfers as revenues or expenditures. The Office Administrator should ensure that the quarterly financial reports agree with the Association's general

San Luis-Cabezon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017

ledger, cash receipts and disbursements journal, check registers, bank statements and bank reconciliations. If there are differences, the Office Administrator should investigate and correct the differences, and report all adjusting journal entries to the Board of Directors. Before the Office Administrator submits the quarterly reports to DFA-LGD, the Board of Directors should review the quarterly reports to ensure that the cash, revenue and expenditure amounts in the quarterly reports agree with the general ledger reports, check registers, bank statements and bank reconciliations.

Management's Response

The Association's Office Administrator will obtain training and Technical Assistance from DFA-LGD staff by June 30, 2020. The Office Administrator will report all of the bank account balances in the quarterly reports to DFA-LGD and will include not include interbank account transfers as revenues and expenditures in the quarterly reports. Effective July 1, 2020, the Office Administrator will ensure that the quarterly financial reports agree with the Association's general ledger, cash receipts, and disbursements journal, check registers, bank statements and bank reconciliations. If there are differences, the Office Administrator will investigate and correct the differences, and report all adjusting journal entries to the Board of Directors.

Finding 2017-002 – Actual Expenditures Exceeded the Approved Budget

Condition

For the fiscal year ending June 30, 2017, the Association's actual expenditures exceeded the approved budget by \$20,481.

Criteria

According to state law, Section 6-6-6 NMSA 1978, "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."

San Luis-Cabezon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2017

Effect

Excessive spending can create financial problems for the Association. Claims against the officials of the Association could occur for future non-compliance with Section 6-6-6 NMSA 1978.

Cause

Management of the Association did not adequately monitor its budget during the fiscal year and process a budget adjustment request to ensure that total expenditures did not exceed budgeted expenditures during the fiscal year.

Recommendation

The Board of Directors should implement a monitoring procedure to ensure that total expenditures do not exceed budgeted expenditures during the fiscal year. If it is forecasted that total expenditures will exceed the approved budget, the Office Administrator should prepare and submit a budget adjustment request to the Board of Directors and DFA-LGD for approval before the end of the fiscal year.

Management's Response

The Association was a respondent to a lawsuit and thus the legal fees contributed to the excessive expenditures. Effective May 1, 2020, the Office Administrator will monitor actual expenditures to ensure that total expenditures do not exceed budgeted expenditures during the fiscal year. If it is forecasted that total expenditures will exceed the approved budget, the Office Administrator will prepare and submit a budget adjustment request to the Board of Directors and DFA-LGD for approval before the end of the fiscal year.

San Luis-Cabezon Mutual Domestic Water 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:				
Water Sales	\$ 41,040	\$ 41,040	\$ 52,928	\$ 11,888
Cattle Association Fees	3,000	3,000	3,046	46
Donation	-	-	1,890	1,890
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 44,040</u>	<u>\$ 44,040</u>	<u>\$ 57,865</u>	<u>\$ 13,825</u>
Expenditures:				
Electricity (JMCD)	\$ 3,000	\$ 3,000	\$ 6,819	\$ (3,819)
Postage	475	475	511	(36)
Water Operator	5,100	5,100	5,315	(215)
Equipment and Meters	600	600	3,942	(3,342)
Operations and Maintenance	1,200	1,200	7,235	(6,035)
Insurance	285	285	272	13
Backhoe Maintenance	-	-	62	(62)
Office Supplies	800	800	1,098	(298)
Cell Phone	-	-	534	(534)
Technology Upgrade	600	600	399	201
Fuel/Manager	100	100	1,139	(1,039)
Fuel/Operator	1,200	1,200	1,512	(312)
Bank Fees	50	50	256	(206)
Pump House Internet	-	-	1,421	(1,421)
Training	600	600	300	300
Compliance Consulting	500	500	500	-
Legal Fees	-	-	3,707	(3,707)
NM Secretary of State Fee	-	-	20	(20)
Annual Meeting	200	200	148	52
USDA Loan Payments	22,032	22,032	22,032	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 36,742</u>	<u>\$ 36,742</u>	<u>\$ 57,223</u>	<u>\$ (20,481)</u>

SAN LUIS-CABEZON MDCWA										
Final Quarter Report of FY16-17										
	Approved Budget	July 1 - Sept 30th	Oct. 1st - Dec. 31st	Jan 1 - Mar 31st	April 1st - June 30th	Year to Date	% of Budget	Amount + Over/ - Under Budget	% + Over/ - Under Budget	
Beginning Cash Balance on July 1st: 5,559.00										
Revenue										
Water Sales	41,040.00	14,953.39	11,982.07	11,534.70	14,457.70	52,927.86	129%	11,888	29%	
Cattle Association Electric Re-embursement (Projection)	3,000.00	-	2,110.50	935.82	-	3,046.32	102%	46	2%	
Donation	-	-	-	-	1,890.38	1,890.38		1,890		
	-	-	-	-	-	-		0		
	-	-	-	-	-	-		0		
	-	-	-	-	-	-		0		
	-	-	-	-	-	-		0		
	-	-	-	-	-	-		0		
Total Revenue	44,040.00	14,953.39	14,092.57	12,470.52	16,348.08	57,864.56	131%	13,825	31%	
						Check	57,864.56	1	13,825	31%
Expenditures										
Operating Expenditures										
Electricity (JMCO)	3,000.00	1,919.23	1,293.87	2,013.88	1,592.25	6,819.23	227%	3,819	127%	
Postage	475.00	217.00	294.00		-	511.00	108%	36	8%	
Operator	5,100.00		1,395.00	1,285.00	2,635.00	5,315.00	104%	215	4%	
Equipment and Meters	600.00	991.19	1,833.35	1,117.54	-	3,942.08	657%	3,342	557%	
Operations and Maintenance	1,200.00	1,163.89	4,682.05		1,388.83	7,234.77	603%	6,035	503%	
Insurance	285.00			271.69	-	271.69	95%	(13)	-5%	
Backhoe Maintenance	-		62.09		-	62.09		62		
Office Supplies	800.00	604.48		493.60	-	1,098.08	137%	298	37%	
Cell Phone	-		212.85	160.59	160.59	534.03		534		
Technology Upgrade	600.00	399.46			-	399.46	67%	(201)	-33%	
Fuel/Manager	100.00	65.35	368.89	532.22	172.60	1,139.06	1139%	1,039	1039%	
Fuel/Operator	1,200.00	821.87	335.73		354.53	1,512.13	126%	312	26%	
Bank Fees	50.00	19.39	233.53		3.25	256.17	512%	206	412%	
Pump House Internet	-	355.35	355.35	355.35	355.35	1,421.40		1,421		
Training	600.00				300.00	300.00	50%	(300)	-50%	
Compliance Consulting	500.00	-	-	-	500.00	500.00	100%	0	0%	
Legal Fees		90.00	1,216.30	356.47	2,044.00	3,706.77		3,707		
NM SOS Corp Fee	-	-	-	20.00	-	20.00		20		
Annual Meeting	200.00	-	-	-	147.98	147.98	74%	(52)	-26%	
	-	-	-	-	-	-		0		
Loans										
USDA Loan	22,032.00	5,508.00	5,508.00	5,508.00	5,508.00	22,032.00	100%	0	0%	
	-					-		0		
Total Expenditures	36,762.00	12,155.21	17,791.01	12,114.34	15,162.38	57,222.94	156%	20,461	56%	
LESS: Operating Reserve						-		0		
Emergency Reserve						-		0		
Capital Improvement Reserve						-		0		
Debt Reserve						-		0		
Estimated Ending Cash Balance	54,424.25	8,357.18	1,860.56	5,915.18	6,744.70	6,200.62	11%	(48,224)	-89%	
Check	12,837.00									

San Luis-Cabezon Mutual Domestic Water Association
Exit Conference
Fiscal Year Ending June 30, 2017

On April 22, 2020, the following officials held an exit conference and discussed the results of the agreed upon procedures and the contents of this report:

San Luis-Cabezon MDWA

Joey Dominguez, President
Diane Montoya, Office Administrator

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Audit Manager