

Accounting & Auditing Services, LLC

Financial Audits + Agreed Upon Procedures + Tax + Consulting

Sangre de Cristo Regional Mutual Domestic Water Consumers & Mutual Sewage Works

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ended December 31, 2011

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
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Fiscal Year Ended December 31, 2011**

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**Sangre de Cristo Regional Mutual Domestic Regional Water Consumers
& Mutual Sewage Works
Official Roster
Fiscal Year Ending December 31, 2011**

Board of Directors

Gilbert Gallegos, President

Luis Sanchez, Vice-President

Celia Marquez, Secretary

Elaine Montano, Treasurer

Margarito Cordova, Board Member

Florencio Baca, Board Member

Joe Perea, Board Member

Administrative Staff

None

Independent Accountant's Report on Applying Agreed-Upon Procedures

Hilario Aragon, President

Sangre de Cristo Regional Mutual Domestic Water Consumers & Mutual Sewage Works
and

Timothy Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Sangre de Cristo Regional Mutual Domestic Water Consumers & Mutual Sewage Works (Association) for the year ended December 31, 2011, 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. 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 could not provide evidence that monthly bank reconciliations were performed in a timely manner. The Association has one checking account and one savings account at the 1st Community Bank in Las Vegas, NM. The bank statements for the fiscal year were complete and on hand.

- b. Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

This procedure could not be performed since the Association did not provide any bank reconciliations or submit any financial reports to DFA-LGD for 2011. See Finding No. 2010-001 and 2010-002 in the Schedule of Findings and Responses on p. 6-7 of this report.

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

The bank account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank balances were well below \$250,000 during the fiscal year.

2. 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 performed an inventory but did not have any movable chattels and equipment costing more than \$5,000. No capital asset purchases during the fiscal year were noted during the agreed-upon procedures.

3. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and 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 and sewer fees, new memberships and other miscellaneous receipts like interest income and reimbursements.

An analytical review to compare the variances between the actual 2010 revenue and the 2011 revenue could not be performed since the Association did not have revenue data for 2010. See Finding No. 2010-003 on p. 8.

Tests of the actual revenue compared to budgeted revenue could not be performed since the Association did not prepare an official budget for 2011. See Finding No. 2010-001 on p. 6.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
 - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of revenues was selected. However, the Association could not provide adequate supporting documentation for the deposits selected for

testing. The Association did not maintain a general ledger or adequate supporting documentation to record the amounts deposited in its bank accounts. See Finding 2010-003 on p. 8.

- 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 was not performed since the Association did not maintain a general ledger showing how the amounts deposited were classified, recorded and accounted for. See Finding 2010-003 on p. 8.

4. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- i. Determine that 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 selected and tested which amounted to 40% of total expenditures. Some of 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. However, the Association was unable to provide supporting documentation for 23 cash disbursements totaling \$22,404.52. See Finding No. 2010-004 on p. 10.

- 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 were authorized and approved in compliance with the budget, legal requirements and established policies and procedures since the Association did not adopt a formal budget for 2011 and does not have a written procurement policy. See Finding No. 2010-004 on p. 10.

- 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 sealed bids or requests for proposals, and no expenses for per diem and mileage were noted.

5. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- i. Journal entries appear reasonable and have supporting documentation.

This procedure could not be performed since the Association did not maintain a general ledger for 2011.

- 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 did not post any non-routine journal entries since it has not maintained a general ledger. However, the Association's Board of Directors will review any future non-routine journal entries during its board meetings.

6. Budgets

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

- 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.

This procedure could not be performed since the Association did not prepare an official budget for 2011. See Finding 2010-001 on p. 6.

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

This procedure could not be performed since the Association did not prepare an official budget for 2011. See Finding 2010-001 on p. 6.

- 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.

The Association did not maintain or provide a general ledger for 2011. The Schedule of Revenues and Expenses on p. 13 was prepared from a schedule of cash receipts and disbursements provided by the Association based on the deposits and withdrawals recorded in the bank statements. The original and final budget amounts are not presented on this schedule since the Association did not prepare an official budget for 2011. Also, the year-end financial report submitted to DFA-LGD was not presented in this report since the Association did not submit any financial reports to DFA-LGD. See Finding 2010-001 on p. 6 and 2010-003 on p. 8.

7. 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 the required content per Section 2.2.2.10 (I)(3)(C) NMAC.

See the Schedule of Findings and Responses on p. 6-12 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 4 agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and others with the Association, the New Mexico State Auditor, the 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

May 16, 2016

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2011**

Status of Prior Year Findings

Finding 2010-001. Non-compliance with Budget Laws and Regulations - Repeated.

Finding 2010-002. No Bank Account Reconciliations - Repeated.

Finding 2010-003. Lack of a General Ledger - Repeated.

Finding 2010-004. Missing Expense Records and No Procurement Policy – Modified and Repeated.

Finding 2010-005. Late Submission of Firm Recommendation Form, Contract and Agreed-Upon Procedures Report – Repeated.

Current Year Findings

Finding 2010-001. Non-compliance with Budget Laws and Regulations

Condition

The Association did not prepare and submit its 2011 annual budget to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for review and approval by December 1, 2010. Also, the Association did not submit its 2011 quarterly financial reports to DFA-LGD as required.

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. Since the Association's fiscal year end December 31, the Association is required to submit its proposed budget to DFA-LGD by December 1 of each year. Also, each local public body is required to submit quarterly financial reports and budget adjustments to DFA-LGD per Section 6-6-2.F and 6.6.2.G NMSA 1978, respectively. Furthermore, per 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.

Effect

There is a lack of oversight and internal control over expenditures since the Association was not in compliance with the State's budget laws and regulations.

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2011**

Cause

The Association stated that they were not aware of the State's budget laws and reporting requirements for local governments which include Mutual Domestic Water & Sewer Associations.

Recommendation

The Association should adopt, approve and submit its annual budget for the next fiscal year to DFA-LGD by December 1 of each fiscal year. 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. The Association should submit its budget adjustments and quarterly financial reports to DFA-LGD as required. The Association should develop and implement written policies and procedures to ensure that the budget laws and regulations are fully complied with in the future.

Management's Response

The Board of Directors will direct our contractor to submit all future budgets, budget adjustments and quarterly financial reports to DFA-LGD as required. The Sangre de Cristo Regional MDWC&MSW has adopted and submitted our annual budget to DFA-LGD for calendar year FY 2016. We have also submitted our first quarter FY 2016 financial report. Upon securing DFA-LGD's approval for the FY16 budget and 1st quarter financial report, we will place their approval of the budget in our meeting agenda with the purpose of obtaining board approval.

During the board meeting in November 2016, we will present our 2017 interim budget to the Board of Directors. On or before December 31, 2016, we will submit our interim budget to DFA-LGD for review. On or before January 31, 2017, we will submit our 2017 board approved budget to DFA-LGD for review and approval.

Finding 2010-002. No Bank Account Reconciliations

Condition

The Association did not perform monthly bank account reconciliations.

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.

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2011**

Effect

Without monthly bank account reconciliations, recording errors or irregularities could have gone undetected.

Cause

The Association's Board of Directors neglected to ensure that monthly bank account reconciliations were being performed.

Recommendation

The Board of Directors should implement a policy requiring the Treasurer or another official to perform and document a monthly bank account reconciliation of all bank accounts shortly after the bank statements are received.

Management's Response

The Sangre de Cristo Regional MDWC&MSW will direct our contractor to prepare for Board adoption a policy which requires staff to perform and document a monthly bank account reconciliation of all bank accounts upon receiving the monthly bank statements. The policy will be prepared and presented to the Board of Directors on May 26, 2016. Upon adoption of this policy on May 26, 2016, the monthly bank account reconciliation will be presented to the Board for approval during the regularly scheduled monthly Board meetings.

Finding 2010-003. Lack of a General Ledger

Condition

The Association did not maintain a general ledger that recorded its financial transactions during 2011. To provide information for the agreed-upon procedures, the Association had to reconstruct a schedule of cash receipts and disbursements from its bank statements. Also, the Association could not provide a subsidiary ledger showing the beginning accounts receivable balance, monthly amounts billed to customers, payments made by customers, and an ending accounts receivable balance for all customers.

Criteria

It is a prudent business practice to maintain a general ledger to record and account for every financial transaction.

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2011**

Effect

There is no original record documenting the financial transactions and account balances of the Association for 2011. The cash receipts and disbursements journal compiled from the bank statements could contain recording errors including revenue and expenditure misclassifications and unrecorded transactions.

Cause

The Association stated that they prepared a general ledger. However, the records were kept on an old computer located at a former employee's personal residence and the Association was unable to retrieve the data.

Recommendation

The Association should purchase an accounting software package and accurately record and account for all of its financial transactions in the general ledger including:

- Cash Receipts and Disbursements
- Revenues and Accounts Receivable
- Expenditures and Accounts Payable
- Debt
- Capital Assets

The Association should hire an experienced bookkeeper to perform these duties.

Management's Response

During the latter part of May 2016, June 2016 and July 2016, the Sangre de Cristo Regional MDWC&MSW will work with the El Valle Water Alliance to populate Sangre de Cristo Regional membership information into shared Quickbooks and Quickwater software for the purpose of establishing standardized bookkeeping, water billing and financial tracking. The Board of Directors will work with our contractor to implement Quickbooks and Quickwater by August 2016. In the meantime, we will establish a general ledger to track cash receipts, disbursements, revenue, accounts receivable, expenditures, accounts payable, debt and capital assets.

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2011**

Finding 2010-004. Missing Expense Records and No Procurement Policy

Condition

During the performance of the agreed-upon procedures for expenditures in 2011, 32 cash disbursements totaling \$30,920.42 were selected for testing. Out of the items tested, the Association was unable to provide invoices or other supporting documentation for 23 cash disbursements totaling \$22,404.52.

Criteria

It is a prudent business practice to establish a procurement policy and maintain supporting documentation for the disbursement of public funds. 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

There is a lack of internal control over cash disbursements. Since the records for the cash disbursements are missing, there are no records certifying that the goods or services were actually received by the Association.

Cause

The Association stated that due to board member turnover, the supporting documentation for the transactions was not maintained in a proper manner. The Board of Directors and staff managing the water system were not aware of the regulatory requirements.

Recommendation

The Board of Directors of the Association should establish and implement written procurement policies and procedures to control and document the purchase, receipt and payment for goods and services in accordance with the State Procurement Code and State Purchasing Regulations.

The Board of Directors should also establish and implement a record retention policy. Adequate supporting documentation for all cash receipts and disbursements should be filed, retained and safeguarded by the Association for at least 5 years after the end of the fiscal year.

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2011**

Management's Response

The Sangre de Cristo Regional MDWC&MSW during its meeting scheduled on May 26, 2016 will adopt a procurement policy with a goal to control and document the purchase, receipt and payment of goods and services in accordance with the State Procurement Code and State Purchasing Regulations. The proposed policy will include a record retention policy to include adequate supporting documentation of all cash receipts and disbursements to be filed, retained and safeguarded for at least five years after the end of our fiscal year.

Finding 2010-005. Late Submission of Firm Recommendation Form, Contract and Agreed-Upon Procedures Report

Condition

For 2011, the Association did not submit the Recommendation Form for Tiered System Local Public Bodies and the signed agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until May 5, 2015.

Also, the agreed-upon procedures report for 2011 was not submitted to the OSA by the due date of June 1, 2012.

Criteria

According to State Audit Rule, Section 2.2.2.16.D (6) NMAC, the Association should have submitted the completed Recommendation Form for Tiered System Local Public Bodies and the completed and signed agreed-upon procedures contract to the State Auditor by January 1, 2012.

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

Since the recommendation form and contract were submitted late, the agreed-upon procedures report was not submitted to the State Auditor by the required due date of June 1, 2012. If the report is late, users of the report are not receiving timely information about the results of the agreed-upon procedures. Future non-compliance with the State Audit Rule could jeopardize grants or capital award funding to the Association.

Cause

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2011**

The Association stated that they were unaware of the State Audit Rule, and therefore, did not comply with the contracting requirements and due dates for agreed-upon procedures.

Recommendation

The Association's Board of Directors should thoroughly read Section 2.2.2.16 NMAC of Audit Rule 2016 to understand the specific requirements and due dates for agreed-upon procedures. For 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 (Determination of Revenues and Services) to determine what agreed-upon procedures or audits are required for the fiscal year.

When required, the Association should take the necessary steps to ensure that future contracts for agreed-upon procedures are submitted to the Office of the State Auditor as follows:

- According to State Audit Rule 2016, Section 2.2.2.8.J (9) NMAC (effective March 15, 2016), "After completing the evaluations for each IPA and making the IPA selection, each agency must enter the appropriate requested information online on the OSA-Connect website (www.osa-app.org).” According to State Audit Rule, Section 2.2.2.8.J (11) NMAC, the Association shall deliver the unsigned contract generated by OSA-Connect to the office 30 days before the end of the fiscal year (December 1).
- According to State Audit Rule, Section 2.2.2.16.G (1) NMAC (effective March 15, 2016), "Local public bodies with a fiscal-year end other than June 30 must submit the agreed-upon procedures report or certification no later than five months after the fiscal year-end (June 1).”

Management's Response

Sangre de Cristo Regional has complied with the State Auditor's agreed-upon procedures requirements for calendar year 2015. For future years, the President of Sangre de Cristo Regional MDWC&MSW will review our total annual revenue to determine what agreed-upon procedures will be required and will take the necessary steps to have the contract forms and the report submitted to the State Auditor by the required due dates.

In November 2016, we will begin to calculate our 2016 total annual revenue and submit an independent auditor's firm recommendation and contract for agreed-upon procedures to the State Auditor by December 1, 2016. An agreed-upon procedures report for the 2016 calendar year will be completed and submitted to the State Auditor's office by May 2017.

**Sangre de Cristo Regional Mutual Domestic
Water Consumers and Mutual Sewage Works
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ended December 31, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Water Sales	\$ -	\$ -	\$ 101,560	\$ 101,560
Other	-	-	-	-
Total Revenues	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 101,560</u></u>	<u><u>\$ 101,560</u></u>
Expenditures:				
Salaries	\$ -	\$ -	\$ 23,081	\$ (23,081)
Stipend	-	-	3,210	(3,210)
Well Lease	-	-	1,800	(1,800)
Electrical Utility	-	-	16,039	(16,039)
Telephone	-	-	1,840	(1,840)
Operations & Maintenance	-	-	13,569	(13,569)
Postage	-	-	1,877	(1,877)
Per Diem	-	-	2,743	(2,743)
Office Supplies	-	-	2,374	(2,374)
NMGRT	-	-	2,934	(2,934)
USDA Loan	-	-	6,576	(6,576)
RIP Loan	-	-	318	(318)
Office Rent	-	-	600	(600)
Ads	-	-	148	(148)
Bank Debit	-	-	585	(585)
Training	-	-	380	(380)
Total Expenditures	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 78,074</u></u>	<u><u>(\$78,074)</u></u>

**Sangre de Cristo Regional Mutual Domestic Water Consumers
& Mutual Sewage Works
Exit Conference
Fiscal Year Ended December 31, 2011**

On May 16, 2016, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Sangre de Cristo Mutual Domestic Water & Mutual Sewage Works

Hilario Aragon, President
Ramon Lucero, Consultant

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager