

STATE OF NEW MEXICO

**SANTA CRUZ WATER
ASSOCIATION**

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES REPORT**

YEAR ENDED December 31, 2014

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STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
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STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION

Official Roster

December 31, 2014

Name

Title

Board of Directors

Johnny I. Marquez

President

Ernest N. Lujan

Vice-President

Margaret Trujillo

Secretary

Paul Apodaca

Treasurer

Eloy Jacquez

Member at Large

Staff

Dennis Trujillo

Contract
Administrator/Operator

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES

Johnny Marquez, President
Santa Cruz Water Association
and
Honorable Tim Keller
New Mexico State Auditor

We have performed the procedures enumerated below for the Santa Cruz Water Association (Association) for the year ended December 31, 2014. The Association was determined to be a Tier 4 entity under the Audit Act Section 12-6-3 (B) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The Santa Cruz Water Association management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the America Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

Our procedures and findings are as follows:

1. Cash

Procedures

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reporting submitted to DFA-Local Government Division.

- c) Determine whether the local public body's financial institution have provided it with 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA1978, NM Public Money Act, if applicable.

Findings

- a) The Association has two checking accounts and utilizes (Quick Books) software to record cash transaction. The two accounts were reconciled on a monthly basis. All bank statements and reconciliations were complete and on hand for the entire fiscal year.
- b) We test the bank reconciliations for the months of June 2014 and December of 2014 for accuracy. No exceptions were noted. No reports were filed with the DFA Local Government Division. The Association did not prepare and submit a proposed budget for approval to DFA Local Government Division. No other reports were filed with the DFA Local Government Division. (See finding 2013-001)
- c) The two accounts had FDIC coverage of \$250,000. Bank accounts never exceeded uninsured limits and, therefore, pledged collateral was not required on any of the bank accounts at any time during the year.

2. Capital Assets

Procedures

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

Findings

The Association performed a yearly inventory as required by State Statute. No exceptions noted.

3. Revenues

Procedures

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules and underlying documentation.

- a) Perform an analytical review, test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues based on auditor judgment and test using the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c) Proper recording of classification, amounts, 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.

Findings:

- a) We were provided a profit and loss statement for the year ended December 31, 2014 showing three categories of revenues which were membership dues, program income and direct public loan for the fiscal year. The Association did not prepare a budget for the year ended December 31, 2014. We were unable to perform an analytical review and tested actual revenues compared to budgeted revenues for the year. (See finding 2013-001)
- b) Amounts recorded in QuickBooks general ledger agreed to the supporting documentation (deposit slip and detail of receipts) and the bank statements. No exceptions noted.
- c) Amounts were recorded on a cash basis to the revenue account on a monthly basis. We tested approximately all twelve months of deposit slip amount by totaling the amounts per deposit slips to the total posted on the bank statements which was 100% of the total revenues. No exceptions noted.

4. Expenditures

Procedures

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

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- c) Determine that the bid process (or request for proposal process if applicable, purchase order, contracts and agreements were processed in accordance with the New Mexico Procurement Code Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings

- a) Our test of transactions revealed that amounts recorded as disbursed agreed to the supporting documentation. The documentation agrees as to amount, payee, date and description agreed with the vendor's invoice. Some of the payments lacked adequate supporting documentation. (See finding 2014-002 and finding 2014-003)
- b) Association disbursements were disbursements necessary for the operations of the association and approved in compliance with legal requirements and established policies and procedures. We could not test compliance with the budget since one was not established. (See finding 2013-001)
- c) Association did not maintain documentation to demonstrate compliance with the bid process (request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (section 13-1-28 through 13-1-99 NMSA 1978) and State purchase regulations.(See finding 2013-002)

5. Journal Entries

Procedures

If non-routine journal entries, such as adjustment or reclassification, are posted to the general ledger, test significant items for the following attribute:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Findings

The Association utilizes QuickBooks to record cash transactions only and did not prepare formal journal entries for the year ended June 30, 2014.

6. Budget

Procedures

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

- a) Verify, through a review of minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so report a compliance finding.
- c) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, actual or modified accrual basis) for each individual fund.

Findings

- a) The Association did not prepare and submitted an approved budget by the Association for approval to DFA-LGD for the year ended June 30, 2014. (See finding 2013-001)
- b) Unable to determine that total actual expenditures did not exceed the final budget at the legal level of budgetary control since a budget was not prepared and submitted for approval.
- c) A schedule of revenues and expenses was prepared from the Association's records on a cash budgetary basis. This schedule is included herein as Exhibit A. The Association did not submit a budget report for approval and quarterly reports for the year ended June 30, 2014 to DFA-LGD. (See finding 2013-001)

Other

Procedures

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 finding must include the required contents per Section 2.2.2.1-(1) (3) (C) NMAC.

Findings

No exceptions or information were noted as a result of applying the procedures described above (regardless of materiality) indicating fraud or illegal acts. However, see the Schedule of Findings and Responses related to budget, procurement code compliance, and late submission of IPA recommendation form, segregation of duties on the approval of all disbursements and review of receipts, and lack of adequate supporting documentation for all disbursements.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. 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 Santa Cruz Water Users Association, the New Mexico State Auditor's Office, and the DFA-Local Government Division and New Mexico Legislature and is not intended to be and should not be used by anyone other than those specified parties.


Joseph M. Salazar, CPA
May 29, 2015

STATE OF NEW MEXICO Exhibit A
SANTA CRUZ WATER ASSOCIATION
SCHEDULE REVENUE AND EXPENSES- BUDGET AND ACTUAL (CASH BASIS)
FOR YEAR ENDED DECEMBER 31,2014

	Budget Amounts		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Direct public loan	-	-	\$ 7,447	-
Membership dues	-	-	1,500	-
Program income	-	-	54,269	-
Total revenues	<u>-</u>	<u>-</u>	<u>\$ 63,216</u>	<u>-</u>
Expenses				
Business registration fees	-	-	\$ 20	-
Outside contract services	-	-	48,202	-
Contract services-Gov. Loan other	-	-	7,447	-
Facilities and equipment	-	-	6,203	-
Postage	-	-	560	-
Printing and copying	-	-	795	-
Operations	-	-	10,627	-
Insurance	-	-	126	-
Membership and dues	-	-	130	-
Miscellaneous	-	-	303	-
Other types of expenses	-	-	908	-
Travel and meetings	-	-	1,715	-
Total expenses	<u>-</u>	<u>-</u>	<u>\$ 77,036</u>	<u>-</u>
Revenue over (under) expenses	<u>-</u>	<u>-</u>	<u>\$ (13,820)</u>	<u>-</u>

**STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

Current Year Findings

**2013-001 (2013-1) Budget Submissions/Approved and Quarterly Financial Reports to
DFA-LGD**

Criteria

Section 6-6-2 (A) NMSA 1978 requires each local public body to furnish and file with the DFA-LGD on or before May 1, of each year, a proposed budget for the next fiscal year. Upon receipt of budget approval by DFA-LGD, the local public body shall cause such budget to be made part of the minutes of the such body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-2 NMSA, 1978 states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

Santa Cruz Water Association (Association) did not prepare or submit a budget for the DFA-LGD approval nor did they submit required quarterly financial and budget reports to the DFA-LGD at any time during the year or at year end.

Cause

The Association was not aware of the DFA-LGD requirements.

Effect

The Association has not complied with Section 6-6-2 and Section 6-6-3 NMSA 1978.

Recommendation

We recommend that the Association submit their proposed budget to DFA-LGD for approval and quarterly financial reports as required to DFA-LGD.

Entity Response

The Management of the Association was not aware of the requirement of budget submission to DFA-LGD for approval and periodic financial reports. The Association will comply in the future.

**STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2013-002 (2013-1) Procurement Code Compliance

Criteria

All local public bodies in the State of New Mexico are required to comply with the New Mexico Procurement Code.

Condition

The Association did not maintain documentation to demonstrate compliance with the bid process (request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State purchasing regulations.

Cause

The Association was not aware of the requirements of complying with the procurement code.

Effect

The Association did not comply with the procurement code.

Recommendation

We recommend that the Association comply with the New Mexico procurement code.

Entity Response

The Management of the Association was not aware of the requirement of the procurement code. The Association will comply with the procurement code in the future.

**STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2014-001 Late Submission of IPA Recommendation Form

Criteria

New Mexico State Auditor Rule Section 2.2.2.16 (d) (6) requires that Local Public Bodies submit the required IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor are due one day after the fiscal year (January 1).

Condition

The IPA Recommendation Form for Tiered Systems of Local Public Bodies and agreed upon procedures contract was not submitted to the State Auditor prior to the due date of January 1.

Cause

The Association was unable to submit its IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor on a timely basis.

Effect

The lateness of submitting the IPA Recommendation Form for Tiered System of Local Public Bodies and the agreed upon procedures contract creates noncompliance with the State Auditor Rule requirements of completing and submitting the IPA recommendation Form for the Tiered System of Local Public Bodies and the agreed upon procedures contract by the due date.

Recommendation

Recommend that the Santa Cruz Mutual Domestic Water Users Association comply with the State Auditor Rule requirement of completing and submitting the IPA Recommendation Form and the completed agreed upon procedures contract by the due date.

Entity Response

The IPA recommendation form and completed agreed upon procedures contract will be submitted on a timely basis for future engagements.

**STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2014-002 Segregation of Duties on the Approval of all Disbursements and Review of Receipts

Criteria

Good internal control requires the segregation of duties in the recording, approval and reconciliation of receipts and disbursements transactions.

Condition

All Association expenditures and receipts are prepared, posted and approved by the President of the Association for the El Llano bank account and the Secretary of the Association for the Santa Cruz bank account. The President and the Secretary of the Association have complete control over the receipting and disbursement cycle of each of the bank accounts.

Cause

Association is a small association and depends on the President and Secretary of the Association to perform all the accounting functions for each of the bank accounts

Effect

The lack of review and approval by the Board could create the possibility for errors or irregularity on the financial statements of the Association.

Recommendation

Recommend that the Association's Board on a monthly basis be presented a list of disbursements and receipts for the month for review and approval.

Entity Response

Santa Cruz Water Association's Board of Directors will meet on a monthly basis to go over financial reports.

**STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2014-003 Adequate Supporting Documentation for Disbursement (Expenditures)

Criteria

Good accounting practice requires that the Association maintain adequate supporting documentation of all disbursements.

Condition

Association did not maintain adequate supporting documentation for some of its disbursements. The Association records were limited in some cases as to the quantity of items, hours and description of the goods or services provide for the payments made.

Cause

Association is a small organization with the Association's President performing all the accounting functions for the El Llano area of the water system and Association Secretary performing all the accounting functions for the Santa Cruz area of the water system.

Effect

Association lack of adequate supporting documentation creates an environment for the possibility of errors and irregularities.

Recommendation

Recommend that the Association maintain adequate supporting documentation of all disbursements such as detailed vendor invoices that provide detail information to determine that the goods or services rendered are necessary expenditures for the operation of the association and that the payment amount is accurate.

Entity Response

In the future Santa Cruz Water Association will maintain adequate supporting documentation of all payments.

**STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
Status of Prior Year Findings
YEAR ENDED DECEMBER 31, 2014**

**2013-001 (2012-1) Budget Submissions/Approved and Quarterly Financial Reports to
DFA-LGD-Repeated**

2013-002 (2013-2) Procurement Code Compliance- Repeated

2013-003 (2013-3) Late Agreed Upon Procedures Report- Resolved

2013-004 (2013-4) Physical Inventory of Capital Assets- Resolved

STATE OF NEW MEXICO
SANTA CRUZ WATER ASSOCIATION
Exit Conference
YEAR ENDED DECEMBER 31, 2014

Exit Conference

The report contents were discussed at an exit conference held May 29, 2015 with the following in attendance:

Santa Cruz Water Association

Ernest Lujan, Vice President

Margaret Trujillo, Secretary

Dennis Trujillo, Contract Administrator/Operator

Accounting Firm

Joseph M. Salazar, CPA

