

**STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

**Independent Accountants' Report on
Applying Agreed-Upon Procedures**

**For the Year Ended
June 30, 2016**

James L. Hartogenesis, CPA LLC

Certified Public Accountant

STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
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**STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
OFFICIAL ROSTER
June 30, 2016**

Board of Directors

<u>Name</u>	<u>Title</u>
Felix Padilla	President
Pam Harris	Vice-President
Roger Padilla	Treasurer
Sarah Turner	Secretary
Manuel Ortiz	Director

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

Board of Directors
Upper Arroyo Hondo Mutual Domestic
Water Consumers Association
and
Honorable Timothy M. Keller
New Mexico State Auditor

I have performed the procedures enumerated below which were agreed to by Upper Arroyo Hondo Mutual Domestic Water Consumers Association (the "Association") and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its capital outlay award and its compliance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended June 30, 2016. The Association is responsible for its financial reporting and compliance as described above. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I 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.

In accordance with Tier 3 of the Audit Act – Section 12-6-3 B (3) NMSA 1978 and Section 2.2.2.16 NMAC, my procedures and associated findings are as follows:

Procedure:

Verify the local public body's revenue calculation and tier determination.

Results of Procedure:

The Association had operating revenues of \$33,103 and state capital outlay expenditures of \$208,409. Therefore, Tier 3 agreed-upon procedures are required.

Procedures:

1. Test all state-funded capital outlay expenditures:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b) Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e) Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.

Results of Procedures:

100% of capital outlay disbursements were tested. For all disbursements that were tested, the amount recorded as disbursed agreed to adequate supporting documentation, and the amount, payee, date and description agreed to the purchase order, contract, vendor's invoice and canceled check, where applicable. The construction contract was awarded in accordance with the New Mexico Procurement Code and State Purchasing Regulations. No exceptions were noted.

Procedure:

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

Results of Procedure:

The project was not funded in advance, therefore this procedure is not applicable.

Procedure:

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

Results of Procedure:

The project was not funded in advance, therefore this procedure is not applicable.

Procedure:

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

Results of Procedure:

The capital outlay award did not require a separate bank account, therefore this procedure is not applicable.

Procedure:

5. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results of Procedure:

100% of the reimbursement requests were tested and were properly supported by costs incurred by the Association, and all costs were incurred by the Association prior to the request for each reimbursement. 2 of 7 disbursements were completed after receipt of funds. Check number 1630 for \$2,584.05 and check number 1631 for \$3,509.05 were both paid on 11/2/15. The funds were received from the state on 9/10/15 and 10/8/15. One drawdown, received on 1/26/16 for \$16,592 was not disbursed to the vendor until 8/12/16. See finding 2016-001 in the accompanying schedule of findings and responses.

Procedure:

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

Results of Procedure:

The Association did not submit their IPA recommendation or audit report by the deadlines established in NMAC 2.2.2. See finding 2014-001 in the accompanying schedule of findings and responses.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was 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 Association's financial reporting and compliance as described above. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of Upper Arroyo Hondo Mutual Domestic Water Consumers Association, New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico
June 19, 2017

**SCHEDULE OF
CAPITAL PROJECTS**

STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF CAPITAL PROJECTS
 Year Ended June 30, 2016

<u>Project Number</u>	<u>Project Name</u>	<u>Amount Awarded</u>	<u>Amount Received</u>	<u>Amount Expended</u>	<u>Remaining Balance</u>	<u>Legislation/ Effective Dates</u>
14-1740	Water Treatment System Improvements	<u>\$ 225,000</u>	<u>\$ 225,000</u>	<u>\$ 208,409</u>	<u>\$ 16,591</u>	Laws of 2014, Ch. 66/Sec. 16/ Par. 149 7/1/2014 - 6/30/2018

STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Current Year Findings

2014-001 – Late Audit Report and Recommendation (Significant Deficiency, Noncompliance)

Condition: The Association did not submit their 2016 agreed-upon procedures report to the Office of the State Auditor by the required due date of December 15, 2016. In addition, the auditor recommendation for 2016 was not submitted to the State Auditor until December 2016. The agency has not made any progress towards correcting the 2014 finding.

Criteria: 2.2.2.8 NMAC (2015 Audit Rule) requires submission of auditor recommendations by July 1, 2015. 2.2.2.9 NMAC also requires submission of audit reports by December 15, 2016.

Cause: The Association did not recommend and contract with an audit firm until December 2016.

Effect: The Association was not in compliance with the State Audit Rule, which could impact its ability to receive grants from federal and state sources.

Recommendation: The Association should designate a board member to prepare the annual auditor recommendation by July 1st of each year and submit it to the Office of the State Auditor. The Association should also institute policies and procedures that will enable it to complete their annual audit by the required due date.

Agency Response: The UAHMDWCA accepts full responsibility for the lateness of the audit report. There was a change in the makeup of the board and some items with crucial due dates slipped through the cracks. The board hopes to have this rectified by creating an electronic calendar with due dates and reminders for the Board by the next audit cycle.

STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Year Ended June 30, 2016

2016-001 Capital Outlay Funds Not Disbursed Timely (Significant Deficiency, Noncompliance)

Condition: The Association received \$2,584 from the State on September 10, 2015 and \$3,509 on October 8, 2015 for costs incurred under capital outlay award 14-1740 STB. The checks were disbursed to the vendor on November 2, 2015, after the reimbursements were received. Another reimbursement for \$16,592 was received on January 26, 2016 and not disbursed to the vendor until August 12, 2016.

Criteria: Tier 3 procedures under Section 2.2.2.16 NMAC require verification that state capital outlay costs of local public bodies are paid prior to requesting reimbursement from the applicable state agency. Internal control related to payables should include procedures to ensure timely payment of vendor invoices.

Cause: The project was just beginning in 2015 and the Association did not yet have all of the necessary procedures in place relating to reimbursements and vendor payments.

Effect: The Association could jeopardize funding for future state capital outlay projects.

Recommendation: The Association should establish and implement procedures and policies for receipts and disbursements. The policies and procedures should also address compliance with laws and regulations.

Agency Response: The UAHMDWCA is a small public entity that was under a consent decree to remove uranium from our drinking water and to install new water meters. The board had never done a project of this magnitude nor had to use multiple sources of funding before. Most of the board is not computer literate and therefore tracking of the project was done by hand and communication was done by word of mouth.

There was a breakdown in communication between the Vice President handling the project disbursement requests and the Treasurer. In addition, the Treasurer wanted to make sure that the capital outlay funds had been electronically transferred to the UAHMDWCA's bank account before writing any checks. For that reason, he waited until he had received the checking account statement from the bank instead of relying on notification from the state that the funds had been electronically transferred to the account. In future, all notifications of EBTs from the state will be considered deposited in the account.

STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Year Ended June 30, 2016

2016-001 Capital Outlay Funds Not Disbursed Timely (Significant Deficiency, Noncompliance) – continued

Agency Response – continued: The Vice President turned over the responsibility for the projects and disbursements to the Secretary in late April 2016. It is at this point she discovered the \$16,592 had not be paid to the engineering firm. The money had been deposited in our account just 2 days before the bulk of the capital outlay had been deposited. In paying those invoices the \$16,952 fell the cracks. The Secretary then set about accounting for all money paid out for the projects. The invoices from the engineering firm were neither detailed nor easy to read. The engineer from the NM Dept. of the Environment overseeing the projects and disbursements contacted her to determine if there had been any duplicate payments to the engineering firm. She was instructed not to pay the money owed while their office looked into certain payments. The Secretary met with the engineer from the state multiple times to go over the payments as several sources of funding were involved. In addition, she was able to finally secure a detailed accounting of the work billed from the engineering firm. After a joint meeting with the engineer from the state and the project engineer it was determined that all capital outlay monies had been properly accounted for and the Secretary authorized the payment.

While this may be considered a deficiency the Secretary believes that she was doing her due diligence in looking at the payment and others in question. In fact, she was able to determine some overcharges for services that were billed to a different funding source not covered by this audit.

The state of New Mexico should require that all invoices for work funded through capital outlay money be accompanied by detailed descriptions of the work done. This would make it easier for the entities receiving the capital outlay money to see exactly what is being paid out and why.

**STATE OF NEW MEXICO
UPPER ARROYO HONDO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
Year Ended June 30, 2016**

Prior Year Findings

2014-001 – Late Report

Repeated and modified

