

STATE OF NEW MEXICO

**VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

**Independent Accountants' Report on
Applying Tier 4 Agreed-Upon Procedures**

**For the Year Ended
December 31, 2015**

James L. Hartogenesis, CPA LLC

Certified Public Accountant

**STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

December 31, 2015

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**STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
OFFICIAL ROSTER
December 31, 2015**

Board of Directors

<u>Name</u>	<u>Title</u>
Rodney R. Sanchez	President
Geraldine Sanchez	Vice-President
Cruzita Romero	Secretary
Patrick Baker	Member
Louis Sanchez	Member

Administration

Casey Gonzales	Water Operator
Georgiana Valdez	Meter Reader
Ferminio Valdez	Bookkeeper

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

To: Board of Directors
Velarde Mutual Domestic
Water Consumers Association
and
Wayne Johnson
New Mexico State Auditor

I have performed the procedures enumerated below which were agreed to by State of New Mexico Velarde Mutual Domestic Water Consumers Association ("Association") and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its Cash, Capital Assets, Revenues, Expenditures, Journal Entries, and Budget information 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 December 31, 2015. 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 enumerated below either for the purpose for which this report has been requested or for any other purpose.

In accordance with Tier 4 of the Audit Act – Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC, my procedures and associated findings are as follows:

1. REVENUE CALCULATION

Procedure:

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."

Results of Procedure:

The Association's revenue for the year ending December 31, 2015 was \$87,289 which requires tier 4 agreed-upon procedures in accordance with the Audit Rule.

2. 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) 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.
- c) Determine whether the local public body's financial institutions have provided it with 50% pledged collateral on all uninsured deposits as required by Section 6-10 17 NMSA 1978, NM Public Money Act, if applicable.

Results of Procedures:

The Association had 2 checking accounts, a certificate of deposit, and 2 savings accounts. None of the bank accounts were reported to DFA-LGD, see item 2010-006 in the accompanying schedule of findings and responses. Reconciliations were completed timely. 4 of a total of 44 statements were not available for testing. See item 2010-002 in the accompanying schedule of findings and responses. Pledged collateral was not required because all bank accounts were fully insured throughout the fiscal year.

3. CAPITAL ASSETS

Procedures:

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

Results of Procedure:

The Association did not perform a yearly inventory as required by Section 12-6-10 NMSA 1978. See item 2010-003 in the accompanying schedule of findings and responses.

4. REVENUE

Procedures:

Identify the nature and amount of revenue from all 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 revenue equal to at least 30% of the total dollar amount and test the following attributes:

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

c) 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.

Results of Procedures:

Revenues were tested analytically and were reasonable. A sample of 21 cash receipts totaling \$44,666 were tested. All deposits were agreed to billing reports and the general ledger without exception.

5. EXPENDITURES

Procedures:

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

a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled 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 orders, 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).

Results of Procedures:

46 disbursements totaling \$27,676 were tested. Of the 46 disbursements, invoices or other supporting documentation was not available for 24 disbursements totaling \$13,427. There was no evidence of approval for 36 disbursements totaling \$20,104. See item 2010-004 in the accompanying schedule of findings and responses. None of the disbursements tested were subject to state procurement or travel compliance.

6. JOURNAL ENTRIES

Procedures:

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:

- 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.

Results of Procedures:

25 journal entries were tested, which represents 100% of the population of entries during the year. 2 of 25 journal entries tested had no supporting documentation. 25 of 25 journal entries were not approved. See item 2010-005 in the accompanying schedule of findings and responses.

7. BUDGET

Procedures:

Obtain the original fiscal year budget and all budget adjustments made throughout the fiscal year and perform the following test work:

- a) 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.
- b) Determine whether the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, 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, accrual or modified accrual basis) for each individual fund.

Results of Procedures:

The Association did not prepare or approve a budget, see item 2011-001 in the accompanying schedule of findings and responses. The budget was not submitted to DFA-LGD for certification. See item 2010-006 in the accompanying schedule of findings and responses.

8. 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 findings must include the required content detailed in Section 2.2.2.10(L) NMAC.

Results of Procedures:

The Association did not complete an auditor recommendation or submit their annual agreed-upon procedures report to the Office of the State Auditor by the statutory deadline. See item 2010-001 in the accompanying schedule of findings and responses.

No other findings were noted.

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 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 State of New Mexico Velarde 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
January 16, 2018

STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

Current Year Findings

2010-001 – Late Audit Report and Recommendation (Significant Deficiency, Noncompliance)

Condition: The Association did not submit their 2015 agreed-upon procedures report to the Office of the State Auditor by May 31, 2016, the due date of the report. In addition, the auditor recommendation for 2015 was not submitted to the State Auditor until October 2017. The 2014 finding and related recommendation were reported in 2018, therefore management has not made any progress toward correcting this finding as of December 31, 2015.

Criteria: 2.2.2 NMAC (State Audit Rule) requires submission of auditor recommendations at least 30 days prior to year-end, or by December 1, 2015. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or May 31, 2016.

Cause: The Association did not recommend and contract with an audit firm until October 2017.

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 prepare the annual auditor recommendation by December 1 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 within five months after year-end.

Agency's Response: The Association has adopted a policy for recommending and completing our annual audit by the statutory deadlines. The Board President is responsible for implementing the policy. Compliance with the Audit Rule is expected to be completed by submitting our 2017 audit to the Office of the State Auditor prior to the deadline. The Association will further submit the auditor recommendation to the Office of the State Auditor annually, no later than December 1.

STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2010-002 - Bank Reconciliations and Statements Missing (Significant Deficiency)

Condition: Statements were not available for one month for one of the savings accounts and 3 quarterly CD renewal statements were not available to test. The 2014 finding and related recommendation were reported in 2018, therefore management has not made any progress toward correcting this finding as of December 31, 2015.

Criteria: Internal control and proper stewardship requires retention of all financial documents, in order to complete timely and accurate bank reconciliations.

Cause: The Association did not retain all bank and CD statements.

Effect: If cash is not reconciled accurately and reported in a timely manner, it may be difficult to properly safeguard the Association's assets. Errors may be undetected until it is too late to correct.

Recommendation: I recommend the Association implement policies and procedures that require timely and accurate completion of the bank reconciliation each month. The procedures should provide for proper review and approval of the reconciliation by a person independent of the accounting function. All records relating to banking should be retained for a minimum of 5 years.

Agency's Response: All bank reconciliations are completed by the Association's bookkeeper. Effective immediately, these will be reviewed by the Board at each meeting.

STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2010-003 - Capital Asset Inventory Not Completed (Significant Deficiency, Noncompliance)

Condition: The Association did not perform an inventory of capital assets for the year ended December 31, 2015. The 2014 finding and related recommendation were reported in 2018, therefore management has not made any progress toward correcting this finding as of December 31, 2015.

Criteria: Section 12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory.

Cause: The Association was not aware of this statutory requirement.

Effect: Lack of an annual inventory of capital assets may prevent the Association from properly safeguarding their assets. Timely replacement of unusable or obsolete assets may be prevented, which could affect the overall operation of the water delivery system.

Recommendation: The Association should complete an inventory of their capital assets annually, on or near year-end. The inventory should include all intangible assets, equipment and infrastructure owned by the Association, and it should be certified by management in accordance with state statute.

Agency's Response: The Board President is responsible for implementing this policy/process. This corrective action plan will correct this deficiency by completing and certifying all capital assets on an annual basis.

STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2010-004 Lack of Supporting Documents and Approvals for Operating Disbursements (Significant Deficiency)

Condition: 36 out of 46 operating disbursements tested, totaling \$20,104, had no documented approval. 24 of 46 operating disbursements, totaling \$13,427 had no invoice or other supporting documentation retained by the Association. The 2014 finding and related recommendation were reported in 2018, therefore management has not made any progress toward correcting this finding as of December 31, 2015.

Criteria: Proper internal controls dictate that a disbursement should only be made once the invoice is received and applicable authorizations are complete. These steps should be documented and the paperwork retained.

Cause: The Association did not retain documentation of invoices and approvals for disbursements for operating expenses.

Effect: Disbursements may be made that are not properly approved. The Association may be subject to fraud waste or abuse by not properly authorizing and retaining documentation for every transaction.

Recommendation: The Association should adopt a policy that outlines procedures for the authorization, documentation and retention of all disbursements, whether made by an outside entity or by the Association.

Agency's Response: The Association has adopted a policy to ensure checks and balances are maintained. All expenditures will be reviewed and documented by a board member to ensure the integrity and accuracy of the expenditure. The Board President is responsible for implementing this policy/process which is already in effect.

STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2010-005 – No Documentation or Approval of Journal Entries (Significant Deficiency)

Condition: Journal entries are prepared and posted to the general ledger by the Association’s accountant without review and approval from a board member. Out of 25 entries tested, 25 had no approval, and 2 had no supporting documentation. The 2014 finding and related recommendation were reported in 2018, therefore management has not made any progress toward correcting this finding as of December 31, 2015.

Criteria: Because journal entries are a way to override the accounting system, organizations should always implement strong internal controls to mitigate the risk of material misstatements from journal entries. Section 12-6-3 B(6) NMSA 1978 requires the independent public accountant to determine whether the local public body has procedures in place that requires journal entries to be reviewed, and that evidence of the review is documented.

Cause: The Association does not have a policy or procedure in place that requires document retention, and board review and approval of journal entries prior to posting to the Association’s books.

Effect: Without a policy for retaining, reviewing and approving journal entries, there is an increased risk that a material misstatement in the Association’s financial statements will not be prevented, detected or corrected.

Recommendation: I recommend the Association adopt a policy for documenting, reviewing and approving journal entries prior to recording them in the general ledger. I also recommend the Association review other existing accounting policies and procedures to ensure all transactions that are recorded in the financial statements are properly authorized and documented.

Agency’s Response: The Association has adopted a policy to ensure journal entries reviewed and appropriately dispositioned. All journal entries will be subject to review and documentation by the Board and Accountant for documentation and archival purposes. Further review in the Monthly or Special meeting minutes will occur as well. The Board President is responsible for implementing this policy/process.

STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2010-006 – Budgetary Reporting (Noncompliance)

Condition: The Association did submit a budget to the New Mexico Department of Finance & Administration (DFA) – Local Government Division for certification. As a local public body, the Association is also required to transmit operating results quarterly to DFA, which were not submitted. The 2014 finding and related recommendation were reported in 2018, therefore management has not made any progress toward correcting this finding as of December 31, 2015.

Criteria: Section 6-6-2 NMSA 1978 requires all local public bodies to submit their operating budget annually to DFA Local Government Division for certification. DFA also requires quarterly reporting by all agencies on prescribed forms.

Cause: The Association was not aware of the reporting requirements imposed by statute and DFA. Board minutes documenting budgetary approval were not retained.

Effect: DFA – Local Government Division lacked the necessary information to perform their oversight duties required by state statute.

Recommendation: I recommend the Association establish contact with their DFA budget analyst to determine what reports are required and whether retroactive reporting will be required. The Association should also institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

Agency's Response: The Association has adopted a policy/process for submitting the quarterly financial reports and annual budget by the statutory deadlines. The Association's accountant in coordination with a DFA-LGD Budget Analyst, will develop a reporting mechanism that ensures reporting requirements are timely, accurate and supported with supporting documentation. The Board President is responsible for implementing this policy/process which is already in effect. The timeline for adherence is immediate.

STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2011-001 – Budgetary Noncompliance (Noncompliance)

Condition: The Association did not prepare a budget for the current year. The 2014 finding and related recommendation were reported in 2018, therefore management has not made any progress toward correcting this finding as of December 31, 2015.

Criteria: Section 6-6-2 NMSA 1978 requires all local public bodies to prepare, approve and submit their operating budget annually to DFA for certification.

Cause: The Association did not have a policy in place to prepare a budget, therefore a budget was not submitted to DFA for certification.

Effect: By not authorizing and obtaining DFA certification for their annual budget, unauthorized expenditures may occur and not be detected.

Recommendation: The Association should implement a policy for budget preparation that includes the timeframe for preparing, approving and submitting the budget to DFA, and the person(s) responsible for preparing the budget. The policy should include ongoing review of budget to actual expenses to control expenses and determine whether budget amendments are required.

Agency Response: The Association has adopted a policy to prepare, approve and submit an annual budget for certification by DFA. The Board President is responsible for implementing this policy which is expected to be completed beginning with the 2018 budget.

**STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2015**

Prior Year Findings

Current Status

2010-001 Late Audit Report and Recommendation	Repeated and modified
2010-002 Bank Reconciliations Missing and Not Accurate	Repeated and modified
2010-003 Capital Asset Inventory Not Completed	Repeated and modified
2010-004 Lack of Supporting Documents and Approvals For Operating Disbursements	Repeated and modified
2010-005 No Documentation or Approval of Journal Entries	Repeated and modified
2010-006 Budgetary Reporting	Repeated and modified
2011-001 Budgetary Noncompliance	Repeated and modified

**STATE OF NEW MEXICO
VELARDE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2015**

The report contents were discussed at an exit conference held on January 22, 2018 with the following in attendance:

Velarde Mutual Domestic Water Consumers Association

Rodney Sanchez President

James L. Hartogenesis, CPA LLC

James Hartogenesis, CPA, CGFM Principal