

**STATE OF NEW MEXICO
GREATER CHIMAYO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

**Independent Accountant's Report on
Applying Agreed-Upon Procedures (TIER 4)**

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

ASSURANCE TAX ACCOUNTING PC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

Office: (505) 620-8526 Fax: (866) 800-6970; PO Box 27213 Albuquerque, NM 87125; johnnymangu@msn.com

**STATE OF NEW MEXICO
GREATER CHIMAYO MDWCA**

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Fiscal Year Ended June 30, 2016

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**STATE OF NEW MEXICO
GREATER CHIMAYO MDWCA
OFFICIAL ROSTER
Fiscal Year Ending June 30, 2016**

President
Treasurer
Member at Large
Legal Council
Office Manager

Paul Martinez
Charlie Vigil
Jimmy S. Martinez
Ted Trujillo
Marcella Coriz

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES (TIER 4)**

Paul J. Martinez, President
Greater Chimayo MDWCA
and
Honorable Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below which were agreed to by Greater Chimayo MDWCA and the New Mexico State Auditor (the specified parties), solely to assist users 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 as of and for the year ended June 30, 2016. The Association's management is responsible for its accounting records and financial reporting. 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 those parties specified in the 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. Before beginning the procedures below, the IPA must verify the local public body's revenue calculation and tier determination using the form provided at www.osanm.org under "Financial Audits" and "What IPA Services are Required."

We verified Greater Chimayo MDWCA revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tier System Reporting Main Page" and it was determined that the Association falls under the Tier 4 procedures. General revenues were \$178,564. No capital outlay funds were expended during the year ended June 30, 2016.

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.

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We determined that all bank reconciliations were performed and that all bank statements were complete and on hand without exception. The bank reconciliations were performed in a timely manner. All monthly bank reconciliations for the operating account were examined without exception.

- 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.

We performed a test of bank reconciliations for accuracy and traced the ending balances to the general ledger. We determined that the bank reconciliations were accurate. The Association submitted the quarterly financial reports to DFA-LGD.

- 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.

We determined that the balance of the operating account at no time exceeded the insured limits provided by the FDIC of \$250,000. Therefore, pledged collateral by the financial institution was not required.

3. Capital Assets

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

We inquired as to whether or not the Association is performing a yearly inventory as required by section 12-6-10 NMSA 1978. The Association did not perform the capital asset inventory for FY 2016. See finding 2015-001.

4. Revenue

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.

We performed an analytical review of the revenue. We noted no exceptions.

Select a sample of revenue based on auditor judgment using the following attributes:

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

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We randomly selected a sample of 25 receipts and we traced the amounts recorded in the supporting documentation including deposit books to the general ledger and to the bank statements. No exceptions were noted.

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.

We randomly selected a sample of 25 receipts and we traced the amounts recorded in the general ledger and comparing to the supporting documentation for proper coding and distribution. No exceptions were noted.

5. Expenditures

Select a sample of cash disbursements based on auditor judgment 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.

We selected a sample of 30 disbursements and determined that the Association had inadequate documentation for disbursements. Of the 30 disbursements selected, the Association was unable to produce supporting documentation for 22 checks amounting to \$18,646.45. In the testwork we checked that the amount recorded as disbursed agrees to adequate supporting documentation and that the amount, payee, date and description agreed to the purchase order, contract, vendor's invoice and canceled check as appropriate. Except for the above mentioned items, the amounts agreed and we noted no other exceptions. See finding 2010-003.

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

We selected a sample of 30 disbursements and determined that the Association had inadequate documentation for disbursements. Of the 30 items selected for testing review and approval for 6 disbursements could not be located. See finding 2010-003.

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

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State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Note: The sample must be representative of the population.

No major projects requiring bidding were started or completed during this accounting period. None of the selected items for testing had travel and per diem reimbursement.

6. Journal Entries

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

a) Journal entries appear reasonable and have supporting documentation.

We selected all journal entries entered during FY 2016 for testing. All journal entries appear reasonable based on the memorandum explanation for each entry.

b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

We selected all journal entries entered during FY 2016 for testing. The Association was unable to provide written supporting documentation to show that the journal entries are being reviewed and approved for the items selected. See finding 2010-005.

7. Budget

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 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.

We verified through review of minutes the original budget approved by the Association 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.

We determined through comparing the Original/Final Budget to the Actual Expenditures that the Association is in compliance with statutes by not over-expending at the fund level, which is the legal level of budgetary control.

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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.

See Attached Statement of Revenues and Expenses – Actual Cash.

8. Other

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.

No information came to our attention indicating any fraud or illegal acts. Instances of noncompliance and internal control deficiencies are disclosed in the findings 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 Association's accounting records and financial reporting. 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 the board of directors and management of the Greater Chimayo Mutual Domestic Water Consumers 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 those specified parties.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C.
Albuquerque, New Mexico
December 12, 2016

STATE OF NEW MEXICO
 GREATER CHIMAYO MUTUAL DOMESTIC
 WATER CONSUMERS ASSOCIATION
 SCHEDULE OF REVENUES AND EXPENSES
 BUDGET AND ACTUAL (Cash Basis)
 For the year ended June 30, 2016

| | Budgeted Amounts | | Actual Cash Basis | Variance Favorable (Unfavorable) |
|--------------------------------|------------------|----------------|----------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Water Sales | 94,500 | 94,500 | 176,977 | 82,477 |
| Grants and Contracts | 629,372 | 629,372 | - | (629,372) |
| Other Income | 21,625 | 21,625 | 1,587 | (20,038) |
| Total revenues | 745,497 | 745,497 | 178,564 | (566,933) |
| Expenditures | | | | |
| Personnel services | 195,459 | 195,459 | 96,208 | 99,251 |
| Operating expenses | 6,950 | 6,950 | 52,756 | (45,806) |
| Construction | 502,070 | 502,070 | - | 502,070 |
| System maintenance / utilities | 7,300 | 7,300 | 18,015 | (10,715) |
| Utilities | 12,900 | 12,900 | 16,321 | (3,421) |
| Debt Service | 17,818 | 17,818 | 604 | 17,214 |
| Insurance | 3,000 | 3,000 | 15,208 | (12,208) |
| Total expenses | 745,497 | 745,497 | 199,112 | 546,385 |

GREATER CHIMAYO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016

Prior Year Findings:

| | |
|--|----------|
| 2009-002 (2008-01) – Late Audit Report and Recommendation | Resolved |
| 2009-006 – DFA Reporting | Resolved |
| 2010-003 – Lack of Supporting Documentation and Approvals for Operating Disbursements | Repeated |
| 2010-005 – No Documentation or Approval of Journal Entries | Repeated |
| 2011-003 - Uninsured Bank Balance | Resolved |
| 2015-001 – Capital Asset Inventory Not Completed | Repeated |

Current Year Findings

Finding 2015-001 – Capital Asset Inventory Not Completed

Finding 2010-003 - Lack of Documentation for Disbursements

2010-005 – No Documentation or Approval of Journal Entries

GREATER CHIMAYO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2016

Finding 2015-001 - Capital Asset Inventory Not Completed (Significant Deficiency, Noncompliance)

Condition:

For the fiscal year ending June 30, 2016 the Association did not perform and document a physical inventory of its capital assets. Also, the governing body of the Association did not certify the correctness of the capital asset. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Section 12-6-10A 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 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." Section 2.20.1 NMAC requires an annual inventory and establishes standards to properly record, control and account for capital assets acquired by agencies.

Cause:

The Association was not aware of the annual capital asset inventory laws and regulations.

Effect:

The Association does not have a complete listing and an established carrying amount for the value of its capital assets as of June 30, 2016 which is useful for the Association to properly control, account for, and manage its capital assets.

Recommendation:

At the end of each fiscal year, the Association should perform and document a complete physical inventory of its capital assets. 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 in a written inventory report, certified as to correctness and signed by the governing authority of the Association. The Association should develop and implement written policies and procedures to perform the capital asset inventory on an annual basis, record and account for its capital assets in accordance with state laws and regulations.

Management's Response:

Effective immediately, the Office Manager will perform a complete physical inventory of its capital assets which will include the required data. After the inventory is performed, the inventory listing will be certified as to correctness and signed by the governing body at the end of the fiscal year.

GREATER CHIMAYO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2016

Finding 2010-003 - Lack of Documentation for Disbursements (Significant Deficiency)

Condition:

We selected a sample of 30 disbursements and determined that the Association had inadequate documentation for disbursements. Of the 30 disbursements selected, the Association was unable to produce supporting documentation for 22 checks amounting to \$18,646.45 and approval for 6 disbursements could not be located amounting to \$12,698.79. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Proper internal controls require supporting documentation for all transactions that occur. The supporting documentation should be retained along with the copy of the check disbursement.

Cause:

The Association does not have a process for retaining the proper documentation for disbursements.

Effect:

Lack of supporting documentation for financial transactions can cause misstatements that may go undetected.

Recommendation:

The Association should adopt a policy of retaining supporting documentation for every disbursement, to help determine that disbursements recorded are complete, accurate and timely.

Management's Response:

The Board President will ensure effective immediately that every Board member receive a copy of the financial statements showing all transactions including all disbursements. Along with every disbursement going forward the Board President will ensure that there will be supporting documentation for the transactions.

GREATER CHIMAYO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2016

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

Condition:

Supporting documentation of journal entries was not provided by the Association. The Association does not have procedures to prepare and retain supporting written documentation, and that require journal entries to be reviewed and there is no evidence the reviews were being performed. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Proper internal controls that prevent management override include requiring that journal entries must have supporting documentation and appear reasonable, and have evidence that the entries are being reviewed and approved.

Cause:

The Association was not aware that supporting documentation of the Journal Entries should be retained and Journal Entries should be reviewed and approved.

Effect:

If journal entries are not reviewed and approved, fraud waste and abuse could take place without being detected, and the financial statements could be manipulated or misstated.

Recommendation:

The Association should prepare supporting documentation of journal entries to be reviewed and approved by the Board. The supporting documentation should provide support that the journal entries are being reviewed and approved prior to their entry in the system.

Management's Response:

The Association will prepare and retain the supporting documentation of the journal entries effective immediately. The Board President will provide the supporting documentation with the explanation of the journal entry to the Board for review and approval prior to entry in the system. The Board President is responsible for meeting the deadline as required.

GREATER CHIMAYO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
Fiscal Year Ended June 30, 2016

| <u>Prior Year Number</u> | <u>Prior Year Finding</u> | <u>Current Status</u> |
|--------------------------|---|-----------------------|
| 2009-002 (2008-01) | Late Audit Report and Recommendation | Resolved |
| 2009-006 | DFA Reporting | Resolved |
| 2010-003 | Lack of Documentation for Disbursements | Repeated and modified |
| 2010-005 | No Documentation or Approval of Journal Entries | Repeated and modified |
| 2011-003 | Uninsured Bank Balance | Resolved |
| 2015-001 | Capital Asset Inventory Not Completed | Repeated and modified |

GREATER CHIMAYO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
EXIT CONFERENCE
Fiscal Year Ended June 30, 2016

The report contents were discussed at an exit conference held on December 12, 2016 with the following in attendance:

GREATER CHIMAYO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

| | |
|----------------|----------------|
| Paul Martinez | President |
| Benny Vigil | Vice-President |
| Marcella Coriz | Office Manager |

Assurance Tax Accounting PC

| | |
|------------------------------------|-----------|
| Johnny Mangu, MBA, CPA, CGFM, CGMA | Principal |
|------------------------------------|-----------|