

**STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION**

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

**For the Year Ended
December 31, 2014**

James L. Hartogenesis, CPA LLC

Certified Public Accountant

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
DECEMBER 31, 2014
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**STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2014**

Board of Directors

<u>Name</u>	<u>Title</u>
James Chessum	President
Kay Oakes	Vice-President
Mary T. Griffith	Treasurer
Shannon Zetich	Secretary
Anne Bommarito	Assistant Secretary

Administration

Mary T. Griffith	Office Manager
Anne Bommarito	Assistant Office Manager

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

Board of Directors
Quemado Lake Water Association
and
Honorable Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

I have performed the procedures enumerated below which were agreed to by the Quemado Lake Water Association (the "Association") and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting and compliance 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, 2014. The Association is responsible for its financial reporting 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 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 DETERMINATION

Procedures

Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tier System Reporting Main Page".

Results of Procedures

The Association's revenue calculation and tier determination was agreed to the trial balance without exception. Total revenue was \$55,177 which requires Tier 4 agreed-upon procedures.

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. For purposes of performing my procedures "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the Association.

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 Department of Finance & Administration - Local Government Division (DFA-LGD). For purposes of performing my procedures "accuracy" means that reconciling items agree to deposit slips and subsequent bank or investment statements, and the reconciliations are mathematically correct.

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.

Results of Procedures

Bank accounts were complete and reconciled timely. Reconciliations were tested for accuracy and traced to the general ledger without exception. Financial reports were not submitted to DFA, therefore cash was not reported during the year, see finding 2014-002 in the accompanying schedule of findings and responses. Pledged collateral was not required.

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 Procedures

The Association performed their annual capital asset inventory without exception.

4. REVENUE

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 accountant's 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, 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

Revenue was analytically tested and met expectations without exception. 20 receipts were tested and were determined to be properly recorded as to amount, classification and period.

5. EXPENDITURES

Procedures

Select a sample of cash disbursements based on accountant's 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 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 13-1-99 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

10 payroll disbursements and 55 non-payroll disbursements were tested. 2 of 10 payroll disbursements, totaling \$1,078, had no timesheet approval. Of the 55 non-payroll disbursements tested, 12 mileage reimbursements totaling \$650 were noncompliant with the Per Diem and Mileage Act. 1 of 55 non-payroll disbursements in the amount of \$40 was not approved. 1 of 55 non-payroll disbursements totaling \$179 had no support. See finding 2014-003 in the accompanying schedule of findings and responses. The Association did not have any expenditures that were subject to state procurement code compliance.

6. JOURNAL ENTRIES

Procedures

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.
- 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

100% of the general journal entries posted during the year were tested. The 7 entries tested were reasonable. None had adequate support, and the Association has no process for reviewing and approving journal entries. See finding 2014-004 in the accompanying schedule of findings and responses.

7. 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 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 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, accrual or modified accrual basis) for each individual fund.

Results of Procedures

A budget was not prepared by the Association, see finding 2014-005 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 per Section 2.2.2.10 (I) (3) (C) NMAC.

Results of Procedures

The Association submitted their 2014 IPA recommendation after the required due date. The 2014 agreed-upon procedures report also was not filed by the required due date. 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 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 Quemado Lake Water 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
July 25, 2017

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

Current Year Findings

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

Criteria: 2.2.2 NMAC (State Audit Rule) requires submission of auditor recommendations for agencies with a fiscal year-end other than June 30 at least 30 days prior to year-end, or by December 1, 2014. 2.2.2 NMAC also requires submission of audit reports within five months after year-end, or May 31, 2015.

Condition: The Association did not submit their 2014 agreed-upon procedures report to the Office of the State Auditor by May 31, 2015, the due date of the report. In addition, the auditor recommendation for 2014 was not submitted to the State Auditor until June 2017.

Cause: The Association did not recommend and contract with an audit firm until June 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 determine the level of audit services required and prepare and submit the annual auditor recommendation by December 1 of each year. The Association should also institute policies and procedures that will enable it to complete their annual audit within five months after year-end.

Agency Response: The Board adopted a policy on October 4, 2016 to ensure that year-end financial review, tier determination and IPA selection are finalized by March 31 each year and that procedural review and finalized reports will be submitted to DFA and state agencies in compliance with the NMAC by May 31 each year. The Office Manager will prepare the annual auditor recommendation which will be reviewed by the Board and implemented by December 1 of each year.

2014-002 – DFA Reporting (Material Noncompliance)

Criteria: Section 6-6-2F NMSA 1978 requires periodic financial reports, at least quarterly, of local public bodies to be submitted to the New Mexico Department of Finance & Administration – Local Government Division (DFA). DFA requires quarterly reporting by all agencies on prescribed forms.

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2014

Current Year Findings - continued

2014-002 – DFA Reporting (Noncompliance) - continued

Condition: The Association did not submit quarterly special district reports to DFA during 2014.

Cause: Once the Association became aware of reporting requirements imposed by DFA it was too late to comply.

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

Recommendation: I recommend the Association institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

Agency Response: The Board adopted a policy on October 4, 2016. The Office Manager will ensure by December 31, 2017 that quarterly and annual reporting requirements to DFA and other state agencies will be met.

2014-003 – Controls Over Operating Disbursements, Payroll and Travel Compliance (Significant Deficiency/Other Noncompliance)

Criteria: Proper internal controls require that a disbursement should only be made once the invoice, timesheet, or other supporting documentation is received, the expense is determined to be in compliance with laws and regulations, and applicable authorizations are complete. These steps should be documented and the paperwork retained.

Condition: 10 payroll disbursements and 55 non-payroll disbursements were tested. 2 of 10 payroll disbursements, totaling \$1,078, had no timesheet approval. Of the 55 non-payroll disbursements tested, 12 mileage reimbursements totaling \$650 were noncompliant with the Per Diem and Mileage Act. 1 of 55 non-payroll disbursements in the amount of \$40 was not approved. 1 of 55 non-payroll disbursements totaling \$179 had no support.

Cause: The Association did not consistently require timesheets, mileage reports or approvals to support payments to employees and contractors. The Association did not follow state law for mileage reimbursements.

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2014

Current Year Findings - continued

2014-003 - Controls Over Operating Disbursements, Payroll and Travel Compliance (Significant Deficiency, Noncompliance) - continued

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 requiring proper documentation for every transaction.

Recommendation: The Association should adopt a policy that outlines procedures for the authorization and documentation of all transactions. Documentation should include, as applicable, timesheets, mileage reports, vendor invoices, and any other document that supports the expenditure. Approvals should be documented by signing or initialing the applicable document, or by documenting approvals in the Board minutes. The Association should adopt a travel policy that complies with state law. All of these procedures should be completed prior to making the payment.

Agency Response: The Board adopted a policy on October 4, 2016 on an approval process for invoices and expenditures with the approval process and applicable guidelines outlined therein. The Office Manager has already instituted the policy.

2014-004 – No Review or Approval of Journal Entries (Significant Deficiency)

Criteria: Journal entries are a way to override the accounting system, and 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.

Condition: 100% of the journal entries posted in 2014 were tested. 7 of 7 journal entries tested were prepared and posted to the general ledger by the Association's accountant without review or approval.

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

Effect: Without a policy for 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.

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2014

Current Year Findings - continued

2014-004 – No Review or Approval of Journal Entries (Significant Deficiency) - continued

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 Response: The Board adopted a policy on October 4, 2016 for journal entry approval. The Office Manager has already instituted the policy.

2014-005 – Budget Noncompliance (Significant Deficiency, Material Noncompliance)

Criteria: Section 6-6-2 NMSA 1978 requires all local public bodies to prepare and submit their annual operating budget to DFA – Local Government Division for certification. For local public bodies, the legal level of budgetary control is at the fund level.

Condition: The Association did not prepare, approve or submit their 2014 budget to DFA for certification.

Cause: The budget was not prepared timely, and was not formally approved by the Board. The Association did not monitor and amend the budget when actual expenses exceeded budgeted expenses.

Effect: The Association was unable to control expenses or provide the proper stewardship of Association funds that is required by statute.

Recommendation: I recommend the Association establish policies and procedures to ensure compliance with budgetary requirements imposed by statute. Approval of the annual budget should be documented in the Board minutes. The budget should be continuously monitored and amended by the Board as necessary.

Agency Response: The Board will institute a policy to ensure compliance of DFA and state statutes and requirements regarding annual budget submission and reporting. Approval of finalized operating budgets will be documented in the meeting minutes starting immediately.

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2014

Prior Year Findings

None.

**STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2014**

The report contents were discussed at an exit conference held on August 3, 2017, with the following in attendance:

Quemado Lake Water Association

Mary Griffith Treasurer

James L. Hartogenesis, CPA LLC

James Hartogenesis, CPA, CGFM Principal