

**STATE OF NEW MEXICO  
NORTH CENTRAL SOLID WASTE AUTHORITY**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2010 and 2009**

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
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 June 30, 2010 and 2009

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**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
Directory of Officials  
June 30, 2010 and 2009

**Board of Directors - June 30, 2010**

<u>Member</u>	<u>Position</u>	<u>Entity Represented</u>
Tomas Campos	Chairman	Rio Arriba County
Bernardino Chavarria	Vice-Chairman	Santa Clara Pueblo
Pedro Valdez	Secretary	City of Española
Charles Lujan	Member	Ohkay Owingeh
Alfred Herrera	Member	Community Member

**Administrative Staff**

Michelle Martinez	Interim Manager
Michelle Martinez	Administrator

**Board of Directors - June 30, 2009**

<u>Member</u>	<u>Position</u>	<u>Entity Represented</u>
Tomas Campos	Chairman	Rio Arriba County
Bernardino Chavarria	Vice-Chairman	Santa Clara Pueblo
Joseph Maestas	Secretary	City of Española
Curtis Aguino	Member	Ohkay Owingeh
Virgil Corta	Member	Ohkay Owingeh

**Administrative Staff**

Joe Lewandowski	Manager
Michelle Martinez	Administrator

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[www.fierrocpa.com](http://www.fierrocpa.com)Independent Auditors' Report

Timothy Keller, State Auditor  
and  
Board of Directors  
North Central Solid Waste Authority  
Española, New Mexico

We have audited the accompanying financial statements of North Central Solid Waste Authority (Authority), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the years ended June 30, 2010 and 2009 presented as supplementary information, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

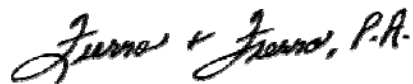
The Authority has presented accounts receivable as \$3,582,923, net of an allowance for doubtful accounts of \$668,016, as of June 30, 2010. The Authority has presented accounts receivable as \$2,339,206, net of an allowance for doubtful accounts of \$668,016, as of June 30, 2009. We have concluded based on our testing of the individual customer information, accounts receivable is overstated, thereby causing net assets to be overstated for each fiscal year. We cannot determine the amount that accounts receivable is overstated. The Authority maintains customer accounts transferred from Rio Arriba County when the Authority was formed and management has not adjusted the allowance for doubtful accounts as needed. Further, the management has not recorded an annual allowance for doubtful accounts based on annual customer revenues as required by general accounting principles generally accepted in the United States of America thereby overstating accounts receivables and understating bad debt expense. Additionally, the Authority recorded penalties and interest charges on customer accounts in the amount of \$379,375 and \$184,660 for the years ended June 30, 2010 and 2009, respectively, the majority of which was assessed on stale and inactive accounts, which overstated revenues and net assets.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Authority as of June 30, 2010 and 2009, or the changes in financial position, cash flows thereof and budgetary comparisons for the years then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basis financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. The additional schedule listed as "*other supplemental financial information*" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements listed above. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.



Fierro & Fierro, P.A.  
Las Cruces, New Mexico

July 26, 2016

## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 4,431	\$ 6,057
Receivables, net of allowances for doubtful accounts:		
Accounts	<u>2,914,907</u>	<u>2,339,206</u>
Total current assets	2,919,338	2,345,263
Non-Current Assets:		
Capital assets being depreciated, net	<u>811,066</u>	<u>1,083,479</u>
Total assets	<u>\$ 3,730,404</u>	<u>\$ 3,428,742</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Bank overdraft	\$ 16,689	\$ 80,460
Accounts payable	520,305	786,784
Accrued salaries	72,089	12,899
Accrued liabilities	990,442	1,155,756
Unearned revenues	346,096	270,897
Current maturities of liabilities:		
Notes payable	12,821	11,529
Compensated absences	<u>92,673</u>	<u>106,100</u>
Total current liabilities	2,051,115	2,424,425
Non-Current Liabilities:		
Compensated absences	<u>66,078</u>	<u>87,445</u>
Total liabilities	2,117,193	2,511,870
<b>NET ASSETS</b>		
Invested in capital assets	811,066	1,083,479
Unrestricted	<u>802,145</u>	<u>(166,607)</u>
Total net assets	<u>1,613,211</u>	<u>916,872</u>
Total liabilities and net assets	<u>\$ 3,730,404</u>	<u>\$ 3,428,742</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>Operating Revenues:</b>		
Charges for services	\$ 4,047,400	\$ 4,009,626
<b>Operating Expenses:</b>		
Personnel services	1,333,649	1,404,060
Tipping and hauling fees	947,622	1,255,623
Employee benefits	302,491	523,257
Depreciation	287,806	298,311
Fuel	273,484	251,612
Insurance	183,221	93,324
Repairs and maintenance	141,666	227,617
Taxes and licenses	126,705	92,683
Payroll taxes	107,934	169,220
Professional services	88,414	200,060
Leases	54,312	33,097
Administration expenses	51,827	79,232
Operational expenses	38,348	30,693
Miscellaneous	35,475	26,162
Small equipment and tools	23,423	102,560
Utilities	13,741	10,894
Office supplies and equipment	11,533	16,001
Printing and advertising	9,648	7,222
Uniforms	2,248	20,276
Mileage and per diem	655	4,179
	<b>4,034,202</b>	<b>4,846,083</b>
Total operating expenses		
Operating income (loss)	13,198	(836,457)
<b>Non-Operating Revenues (Expenses):</b>		
County operating subsidy	730,631	615,000
State operating grant	34,000	-
Lease	-	2,250
Lien/release charges	7,485	7,588
Penalties	(86,444)	-
Interest expense	(2,531)	(3,543)
	<b>683,141</b>	<b>621,295</b>
Total non-operating revenues (expenses)		
Change in net assets	696,339	(215,162)
Net assets, beginning of year	916,872	1,132,034
Net assets, end of year	\$ 1,613,211	\$ 916,872

The accompanying notes are an integral part of these financial statements.



**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 3,273,423	\$ 3,244,246
Cash payments to employees for services	(1,100,330)	(1,608,255)
Cash payments to suppliers for goods and services	(2,843,399)	(2,359,320)
Net cash (used) by operating activities	(670,306)	(723,329)
<b>Cash Flows from Non-Capital and Financing Activities:</b>		
County operating subsidy	730,631	615,000
State operating grant	34,000	-
Note proceeds	52,721	51,303
Lease income	-	2,250
Lien/release charges	7,485	7,588
Principal payments	(51,429)	(52,020)
Interest expense	(2,531)	(3,543)
Net cash provided by non-capital and financing activities	770,877	620,578
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition of capital assets	(38,426)	(17,122)
Net increase (decrease) in cash	62,145	(119,873)
Cash, beginning of year	(74,403)	45,470
Cash, end of year	\$ (12,258)	\$ (74,403)
Displayed as:		
Cash	\$ 4,431	\$ 6,057
Bank overdraft	(16,689)	(80,460)
	\$ (12,258)	\$ (74,403)

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**(CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>Reconciliation of Operating (Loss) to Net Cash</b>		
<b>Used by Operating Activities:</b>		
Operating Income (Loss)	\$ 13,198	\$ (836,457)
Adjustment to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:		
Depreciation	287,806	298,311
Change in Assets and Liabilities:		
(Increase) in accounts receivable	(575,701)	(745,613)
Increase (decrease) in accounts payable	(266,479)	159,256
Increase (decrease) in accrued salaries	59,190	(38,949)
Increase (decrease) in accrued liabilities	(228,725)	348,498
Increase (decrease) in compensated absences	(34,794)	48,485
Increase in unearned revenues	75,199	43,140
Total adjustments	(683,504)	113,128
Net cash (used) by operating activities	\$ (670,306)	\$ (723,329)

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

North Central Solid Waste Authority (Authority) provides solid waste collection services to the City of Española, New Mexico, Rio Arriba County, Santa Clara Pueblo, and Ohkay Owingeh Pueblo for residents and commercial properties. The Authority also operates convenience centers where residents and businesses can dump trash.

The Authority was created via a joint powers agreement between the City of Española, Rio Arriba County, Santa Clara Pueblo, and Ohkay Owingeh Pueblo, which was signed on November 27, 2002. The Authority began operations on October 1, 2004. The agreement is for an indefinite period of time. None of the members have an equity interest in the Authority. The Authority was created under the New Mexico Joint Powers Act, Sections 11-1-1 et seq NMSA 1978. The Authority is an instrumentality of its members operated for public purposes. The Authority is not considered a political subdivision of the state and is not a local public body.

The Authority is governed by a board, which acts as the fiscal agent for the Authority, and is comprised of one member appointed by each participating party. Each board member in good standing has one vote on all matters of business affecting the Authority.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

In evaluating how to define the reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. The most primary standard for including or excluding a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, the Authority has no component units. The determination if the Authority would be considered a component unit of one of its members has not been made by the Authority as that is the responsibility of the members.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation and Accounting**

The Authority's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Authority applies Government Accounting Standards Board (GASB) pronouncements as well as all relevant pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB Pronouncements.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this limitation. The Authority has elected not to follow subsequent private-sector guidance.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues and expenses.

Enterprise funds account for activities: (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs, such as depreciation or debt service. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's ongoing operation. The principal operating revenue is charges for services. Operating expenses include the cost of operations, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating grant revenue is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets such as total assets net of total liabilities, are segregated into three components; invested in capital assets, net of related debt; restricted; and unrestricted components. The Authority's operating statements present increases (revenues) and decreases (expenses) in net total assets.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

C. Budgets

The budget for the one enterprise fund is prepared by management and approved by the board of directors and the New Mexico Department of Finance and Administration. The general manager is responsible for preparing the budget, from requests submitted by department heads. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the board of directors for approval by resolution.

The proposed budget is then submitted by June 1<sup>st</sup> to the New Mexico Department of Finance and Administration (DFA) Local Government Division for approval. DFA certifies a pending budget by July 1<sup>st</sup>, with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. The budget is prepared on the non-GAAP cash basis, excluding encumbrances, and secures appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within expenses, this may be accomplished with only local board approval. If a budget increase is required, approval must be obtained from the Department of Finance and Administration. The Authority's level of budgetary control is at the total fund level.

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as certificates of deposit as applicable. State statutes authorize the government to invest in interest bearing accounts with local financial institutions, direct obligations of the state and the U.S. Treasury or New Mexico political subdivisions, and the State Treasurer's Investment Pool. New Mexico State Statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50% of the uninsured public monies held on deposit. If required, collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Authority. The pledged securities remain in the name of the financial institution.

E. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

F. Prepaid Items

Payments made to vendors for goods or services that will benefit periods beyond year end, are recorded as prepaid items.

G. Capital Assets

Capital assets, which include property, plant, equipment, computer hardware and software, furniture, fixtures, and vehicles are valued and reported at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Prior to June 17, 2005, the Authority defined capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Effective June 17, 2005, in accordance with state statutes, the Authority changed its capitalization threshold to include only assets with a cost of \$5,000 or more. All assets capitalized prior to June 17, 2005 that are property of the Authority remain on the financial and accounting records of the Authority.

Major outlay for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, equipment, and vehicles are depreciated using the straight-line method over the estimated useful lives as follows:

Convenience stations	10 years
Containers	10 years
Equipment, computer hardware and software, furniture, and fixtures	5 years
Vehicles	5 years

H. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources is reflected as a liability of the Authority. In accordance with the provisions of the Governmental Accounting Standards Board, Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Annual leave is earned according to the following schedule:

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

H. Compensated Absences (continued)

<u>Length of Employment</u>	<u>Full-Time Employee</u>
1st year	3.69 hrs/pay period
2nd to 5th year	4.62 hrs/pay period
6th to 15th year	5.54 hrs/pay period
16th+	6.15 hrs/pay period

Annual leave for all employees can be carried over from year to year. There is no limit as to the total number of annual leave hours an employee can retain. Upon termination, any unused annual leave shall be paid.

Authority employees with five or less years of service accumulate sick leave at a rate of 4.00 hours per pay period. Employees with six or more years of service accumulate sick leave at a rate of 5.54 hours per pay period. Sick leave for all employees can be carried over from year to year. The maximum accrual on sick leave shall be one hundred sixty (160) hours at the end of the calendar year. Employees who have accrued two hundred forty hours of vacation pay and one hundred sixty hours of sick leave may convert up to forty (40) hours sick leave each year to 40 hours annual leave each year on a one to one basis.

Upon termination, providing the employee is not terminated from employment and leaves in good standing, the employee will be paid one-half the cash equivalent of up to one hundred sixty (160) hours of accumulated sick leave. Retiring employees are to be paid the cash equivalent of up to 160 hours of accumulated sick leave.

I. Unearned Revenues

The Authority reports unearned revenue on its statement of net assets, when applicable. Unearned revenues may also arise when the Authority receives resources before it has a claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net assets and revenue is recognized.

J. Short-Term Obligations

In the statement of net assets, short-term debt and other short-term obligations are reported as liabilities.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

K. Long-Term Obligations

In the statement of net assets, long-term debt and other long-term obligations are reported as liabilities.

L. Net Assets

Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

**Invested in Capital Assets, Net of Related Debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes on other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant, unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the same net assets component as the unspent proceeds.

**Restricted** – This component of net assets consists of constraints imposed by creditors, such as through debt covenants; grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

M. Presentation

Certain reclassifications of prior year information has been made to conform to current year presentation.

N. Cash Flows

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments, including restricted cash with maturity of three months or less when purchased, to be cash equivalents.

O. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**2. CASH**

Cash

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited With Financial Institutions

The Authority maintains cash within financial institutions located in Española, New Mexico. The Authority's deposits are carried at cost.

At year end, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

<b>2010</b>	Per Institution	Reconciling Items	Per Financial Statements
Valley National Bank	\$ 6,866	\$ (5,688)	\$ 1,178
Community Bank	3,253	-	3,253
Century Bank	57,602	(74,291)	(16,689)
Total cash deposits	\$ 67,721	\$ (79,979)	\$ (12,258)
<b>2009</b>			
Valley National Bank	\$ 35,103	\$ (115,563)	\$ (80,460)
Community Bank	5,514	43	5,557
Century Bank	500	-	500
Total cash deposits	\$ 41,117	\$ (115,520)	\$ (74,403)

The amounts reported as cash for the Authority within the financial statement is displayed as:

	2010	2009
Statement of Net Assets:		
Cash	\$ 4,431	\$ 6,057
Bank overdraft	(16,689)	(80,460)
	\$ (12,258)	\$ (74,403)

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**2. CASH (continued)**

*Cash Deposited with Financial Institutions (continued)*

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Authority. None of the deposits were collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Authority carrying value of the demand deposits. Such collateral, as permitted by the state statutes would have been held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	Valley National	Community Bank	Century Bank
<b>2010</b>			
Checking accounts	\$ 6,866	\$ 3,253	\$ 57,602
Less: FDIC coverage	(6,866)	(3,253)	(57,602)
Total uninsured public funds	\$ -	\$ -	\$ -
<b>2009</b>			
Checking accounts	\$ 35,103	\$ 5,514	\$ 500
Less: FDIC coverage	(35,103)	(5,514)	(500)
Total uninsured public funds	\$ -	\$ -	\$ -

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2010 and 2009, none of the Authority's bank balances were exposed to custodial credit risk.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following:

	2010	2009
Charges for services	\$ 3,582,923	\$ 3,007,222
Allowance for doubtful accounts	(668,016)	(668,016)
	\$ 2,914,907	\$ 2,339,206

The Authority's policy is to provide for uncollectible based upon expected defaults.

**STATE OF NEW MEXICO  
NORTH CENTRAL SOLID WASTE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**4. CAPITAL ASSETS**

Capital assets for the fiscal year ended June 30, 2010:

	Balance 06/30/09	Increases	Decreases	Balance 06/30/10
Business-Type Activities:				
Capital assets, being depreciated:				
Convenience stations	\$ 104,631	\$ -	\$ -	\$ 104,631
Equipment	1,838,973	-	-	1,838,973
Containers	115,601	15,393	-	130,994
Vehicles	59,561	-	-	59,561
Office furniture and equipment	32,073	-	-	32,073
Total other capital assets being depreciated	2,150,839	15,393	-	2,166,232
Less accumulated depreciation:				
Convenience stations	(21,151)	(10,463)	-	(31,614)
Equipment	(915,570)	(255,066)	-	(1,170,636)
Containers	(52,021)	(12,202)	-	(64,223)
Vehicles	(51,748)	(4,872)	-	(56,620)
Office furniture and equipment	(26,870)	(5,203)	-	(32,073)
Total accumulated depreciation	(1,067,360)	(287,806)	-	(1,355,166)
Total capital assets, net	<u>\$ 1,083,479</u>	<u>\$ (272,413)</u>	<u>\$ -</u>	<u>\$ 811,066</u>

Capital assets for the fiscal year ended June 30, 2009:

	Balance 06/30/08	Increases	Decreases	Balance 06/30/09
Business-Type Activities:				
Capital assets, being depreciated:				
Convenience stations	\$ 104,631	\$ -	\$ -	\$ 104,631
Equipment	1,806,851	32,122	-	1,838,973
Containers	115,601	-	-	115,601
Vehicles	59,561	-	-	59,561
Office furniture and equipment	32,073	-	-	32,073
Total other capital assets being depreciated	2,118,717	32,122	-	2,150,839
Less accumulated depreciation:				
Convenience stations	(10,688)	(10,463)	-	(21,151)
Equipment	(662,977)	(252,593)	-	(915,570)
Containers	(40,460)	(11,561)	-	(52,021)
Vehicles	(38,460)	(13,288)	-	(51,748)
Office furniture and equipment	(16,464)	(10,406)	-	(26,870)
Total accumulated depreciation	(769,049)	(298,311)	-	(1,067,360)
Total capital assets, net	<u>\$ 1,349,668</u>	<u>\$ (266,189)</u>	<u>\$ -</u>	<u>\$ 1,083,479</u>

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**5. ACCRUED LIABILITIES**

Accrued liabilities consisted of the following:

	<u>2010</u>	<u>2009</u>
Health insurance premiums	\$ 484,441	\$ 676,549
Federal payroll tax	356,074	439,313
Governmental sales tax	139,169	-
Retirement contributions and withholdings	-	19,241
State payroll tax	8,580	1,107
Miscellaneous employee withholding	2,178	19,546
	<u>\$ 990,442</u>	<u>\$ 1,155,756</u>

**6. SHORT-TERM OBLIGATIONS**

Changes in short-term debt during the year ended June 30, 2010, were as follows:

	<u>Balance 06/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/10</u>	<u>Amounts Due Within One Year</u>
Short-term notes	<u>\$ 11,529</u>	<u>\$ 52,721</u>	<u>\$ (51,429)</u>	<u>\$ 12,821</u>	<u>\$ 12,821</u>

Changes in short-term debt during the year ended June 30, 2009, were as follows:

	<u>Balance 06/30/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/09</u>	<u>Amounts Due Within One Year</u>
Short-term notes	<u>\$ 12,246</u>	<u>\$ 51,303</u>	<u>\$ (52,020)</u>	<u>\$ 11,529</u>	<u>\$ 11,529</u>

The Authority borrowed cash from Western Commerce Bank, located in Carlsbad, New Mexico, to finance insurance premiums. Details regarding the notes are described as follows:

**2010**

- On July 1, 2009, the Authority borrowed \$15,280 from Western Commerce Bank. The note accrued interest at a rate of 7.45 percent per annum. The proceeds were used to purchase insurance for the collection of solid waste. The loan was paid in full on March 31, 2010.
- On December 5, 2009, the Authority borrowed \$37,441 from Western Commerce Bank. The note accrued interest at a rate of 6.50 percent per annum. The proceeds were used to purchase general liability insurance. As of June 30, 2010, the outstanding balance of the loan was \$12,821. The note was paid in full on September 7, 2010.

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JUNE 30, 2010 AND 2009**

**6. SHORT-TERM OBLIGATIONS (continued)**

**2009**

- On July 1, 2008, the Authority borrowed \$17,455 from Western Commerce Bank. The note accrued interest at a rate of 8.25 percent per annum. The proceeds were used to purchase insurance for the collection of solid waste. The loan was paid in full on April 20, 2009.
- On December 5, 2008, the Authority borrowed \$33,848 from Western Commerce Bank. The note accrued interest at a rate of 6.50 percent per annum. The proceeds were used to purchase general liability insurance. As of June 30, 2009, the outstanding balance of the loan was \$11,529. The note was paid in full on September 23, 2009.

**7. LONG-TERM OBLIGATIONS**

Changes in long-term debt during the year ended June 30, 2010, were as follows:

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10	Amounts Due Within One Year
Compensated absences	\$ 193,545	\$ 115,253	\$ (150,047)	\$ 158,751	\$ 92,673

Changes in long-term debt during the year ended June 30, 2009, were as follows:

	Balance 06/30/08	Additions	Deletions	Balance 06/30/09	Amounts Due Within One Year
Compensated absences	\$ 145,060	\$ 154,585	\$ (106,100)	\$ 193,545	\$ 106,100

**8. SPECIAL FINANCE AGREEMENT**

On February 9, 2007, the Authority and Rio Arriba County entered into a loan agreement with the New Mexico Finance Authority (NMFA) to borrow one million dollars. The proceeds of the loan were used to finance equipment purchased for the Authority. The loan accrues interest at a blended rate of 3.621 percent per annum and matures on May 1, 2014, however, it was paid off on February 28, 2013. Rio Arriba County pledged County Local Option Environmental Gross Receipts Tax to service the debt.

The debt obligation was not recorded on the Authority's general ledger as the obligation is serviced with sales taxes assessed and pledged by Rio Arriba County. The obligation is reflected in the financial statements of the Rio Arriba County.

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**9. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

*Plan Description*

All of the full-time employees of the Authority participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*Funding Policy*

Plan members are required to contribute 9.15% (ranges from 4.78% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police, and adult correctional officers, municipal detention officer) of the gross salaries.

Upon inception of the Authority, employees from the City of Española and Rio Arriba County transferred to the Authority. The PERA municipal employees were guaranteed a matching one-percent contribution from the Authority that equaled the percentage that was established under their municipal plan.

The former municipal employees contributed 8.15 percent (8.15%) of their gross salary to the plan. Other employees contribute 9.15 percent (9.15%) of their gross salary to the plan. The Authority would normally be required to contribute 9.15% (ranges from 7.0% to 25.72%, depending upon the plan); however, the Authority contributes 10.15 percent (10.15%) for the former municipal employees and 9.15 percent (9.15%) for all other employees. The contribution requirements of plan members, and the Authority, are established in state statutes under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's contributions to PERA for the fiscal years ending June 30, 2010, 2009, and 2008 were \$110,171, \$120,449, and \$115,141, respectively, which equal the amount of the required contributions for each year.

**10. POST-EMPLOYMENT BENEFITS**

*Plan Description*

The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance, and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978).

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**10. POST-EMPLOYMENT BENEFITS (continued)**

*Plan Description (continued)*

The Board is responsible for establishing and amending benefit provisions of the healthcare plan, and is also authorized to designate optional, and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. That report, and further information, can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding Policy*

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims, and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Authority's contributions to the RHCA for the years ended June 30, 2010, 2009, and 2008 were \$15,370, \$16,804, and \$16,054, respectively, which equaled the required contributions each year.

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JUNE 30, 2010 AND 2009

**11. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased insurance from commercial vendors and pays an annual premium for its general insurance coverage, as such all risk of loss is transferred.

**12. SUBSEQUENT EVENT**

The Authority hired a permanent manager in June 2011. In September 2011, upon the request of the Authority's governing board and management, the Authority turned over source (accounting and other) documents to the City of Española Police Department, who then turned the documents over to the New Mexico State Police to investigate alleged criminal acts concerning the financial activity of the Authority. The case was eventually turned over to the New Mexico Attorney General. It is the understanding of the Authority that, as of July 26, 2016, the investigation has not been completed. The impact of the results of the investigation, if any, have not been reflected in the financial statements as presented for the years ended June 30, 2010 and 2009.

On July 6, 2015, the Rio Arriba County Board of Commissioners took formal action, by unanimous and affirmative vote, to give notice to withdraw from the Joint Powers Agreement creating the North Central Solid Waste Authority. As per Section 13 of the Joint Powers Agreement, *Any party may voluntarily withdraw from the Agreement after giving one (1) year's notice of its decision to withdraw.* On July 20, 2015, the Rio Arriba County Board of Commissioners adopted Resolution 2016-002, *Withdrawal from the Joint Powers Agreement Created the North Central Solid Waste Authority.* On June 16, 2016, the Authority wrote a letter to Rio Arriba County, providing an update to the various concerns brought forth by Rio Arriba County. Further, the letter requests that Rio Arriba County remain an active affiliate of the Joint Powers Agreement, and to continue to remain on the Authority's Board of Directors. As of July 26, 2016, Rio Arriba County has not informed the Authority of their intention to either remain, or completely withdraw from the Authority.



## **SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE**  
**BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS**  
**WITH RECONCILIATION TO GAAP**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
<b>Operating Revenues:</b>						
Charges for services	\$ 5,453,912	\$ 5,453,912	\$ 3,273,423	\$ 773,977	\$ 4,047,400	\$ (2,180,489)
<b>Operating Expenses:</b>						
Personnel services	1,624,956	1,624,956	1,349,887	(16,238)	1,333,649	275,069
Employee benefits	1,283,279	1,283,279	437,645	(135,154)	302,491	845,634
Payroll taxes	392,552	392,552	223,170	(115,236)	107,934	169,382
Tipping and hauling fees	1,218,000	1,218,000	1,038,020	(90,398)	947,622	179,980
Professional services	71,700	71,700	86,425	1,989	88,414	(14,725)
Fuel	240,000	240,000	228,840	44,644	273,484	11,160
Insurance	94,500	94,500	162,595	20,626	183,221	(68,095)
Operational expenses	23,900	23,900	34,954	3,394	38,348	(11,054)
Repairs and maintenance	239,000	239,000	149,855	(8,189)	141,666	89,145
Small equipment and tools	3,800	3,800	1,425	21,998	23,423	2,375
Taxes and licenses	304,000	304,000	79,764	46,941	126,705	224,236
Printing and advertising	8,000	8,000	8,705	943	9,648	(705)
Leases	45,660	45,660	53,932	380	54,312	(8,272)
Miscellaneous	4,000	4,000	3,515	31,960	35,475	485
Uniforms	15,000	15,000	3,083	(835)	2,248	11,917
Utilities	14,625	14,625	12,289	1,452	13,741	2,336
Mileage and per diem	4,000	4,000	796	(141)	655	3,204
Office supplies and equipment	16,000	16,000	12,307	(774)	11,533	3,693
Administration expenses	45,600	45,600	56,522	(4,695)	51,827	(10,922)
Depreciation	-	-	-	287,806	287,806	-
Total operating expenses	<u>5,648,572</u>	<u>5,648,572</u>	<u>3,943,729</u>	<u>90,473</u>	<u>4,034,202</u>	<u>1,704,843</u>
Operating (loss)	(194,660)	(194,660)	(670,306)	683,504	13,198	(475,646)
<b>Non-Operating Revenues (Expenses):</b>						
County operating subsidy	666,717	666,717	730,631	-	730,631	63,914
State operating grant	34,500	34,500	34,000	-	34,000	(500)
Lien/release charges	-	-	7,485	-	7,485	7,485
Loan proceeds	-	-	52,721	(52,721)	-	52,721
Capital outlay	-	-	(38,426)	38,426	-	(38,426)
Principal payments	-	-	(51,429)	51,429	-	(51,429)
Penalties	-	-	-	(86,444)	(86,444)	-
Interest expense	-	-	(2,531)	-	(2,531)	(2,531)
Total non-operating revenues (expenses)	<u>701,217</u>	<u>701,217</u>	<u>732,451</u>	<u>(49,310)</u>	<u>683,141</u>	<u>31,234</u>
Net change	506,557	506,557	62,145	\$ 634,194	\$ 696,339	(444,412)
Cash (deficit), beginning of year	(74,403)	(74,403)	(74,403)			-
Cash (deficit), end of year	<u>\$ 432,154</u>	<u>\$ 432,154</u>	<u>\$ (12,258)</u>			<u>\$ (444,412)</u>
<b>Explanation of Differences:</b>						
Change in receivables				\$ 575,701		
Change in accounts payable				266,479		
Change in accrued salaries				(59,190)		
Change in accrued liabilities				228,725		
Change in compensated absences				34,794		
Change in unearned revenues				(75,199)		
Note proceeds				(52,721)		
Principal payments				51,429		
Capital outlay purchases				38,426		
Interest expense				(86,444)		
Depreciation				(287,806)		
				<u>\$ 634,194</u>		

**STATE OF NEW MEXICO**  
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**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE**  
**BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS**  
**WITH RECONCILIATION TO GAAP**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis
	Original	Final				Variance With Final Budget Over (Under)
<b>Operating Revenues:</b>						
Charges for services	\$ 5,244,800	\$ 5,244,800	\$ 3,244,246	\$ 765,380	\$ 4,009,626	\$ (2,000,554)
<b>Operating Expenses:</b>						
Personnel services	1,661,168	1,661,168	1,360,104	43,956	1,404,060	301,064
Employee benefits	614,800	614,800	248,151	275,106	523,257	366,649
Payroll taxes	127,752	127,752	-	169,220	169,220	127,752
Tipping and hauling fees	850,000	850,000	1,339,366	(83,743)	1,255,623	(489,366)
Professional services	166,000	166,000	164,443	35,617	200,060	1,557
Fuel	220,000	220,000	274,487	(22,875)	251,612	(54,487)
Insurance	100,500	100,500	82,903	10,421	93,324	17,597
Operational expenses	18,000	18,000	27,177	3,516	30,693	(9,177)
Repairs and maintenance	244,500	244,500	188,171	39,446	227,617	56,329
Small equipment and tools	14,000	14,000	22,270	80,290	102,560	(8,270)
Taxes and licenses	226,000	226,000	103,063	(10,380)	92,683	122,937
Printing and advertising	8,000	8,000	6,147	1,075	7,222	1,853
Leases	39,000	39,000	30,382	2,715	33,097	8,618
Miscellaneous	4,000	4,000	9,070	17,092	26,162	(5,070)
Uniforms	20,000	20,000	21,091	(815)	20,276	(1,091)
Utilities	13,500	13,500	11,345	(451)	10,894	2,155
Mileage and per diem	4,500	4,500	4,038	141	4,179	462
Office supplies and equipment	11,500	11,500	11,775	4,226	16,001	(275)
Administration expenses	49,000	49,000	63,592	15,640	79,232	(14,592)
Depreciation	-	-	-	298,311	298,311	-
Total operating expenses	<u>4,392,220</u>	<u>4,392,220</u>	<u>3,967,575</u>	<u>878,508</u>	<u>4,846,083</u>	<u>424,645</u>
Operating income (loss)	852,580	852,580	(723,329)	(113,128)	(836,457)	(1,575,909)
<b>Non-Operating Revenues (Expenses):</b>						
County operating subsidy	-	-	615,000	-	615,000	615,000
Note proceeds	-	-	51,303	(51,303)	-	51,303
Lease	-	-	2,250	-	2,250	2,250
Lien/release charges	-	-	7,588	-	7,588	7,588
Capital outlay	(71,000)	(71,000)	(17,122)	17,122	-	53,878
Principal payments	-	-	(52,020)	52,020	-	(52,020)
Interest expense	-	-	(3,543)	-	(3,543)	(3,543)
Total non-operating revenues (expenses)	<u>(71,000)</u>	<u>(71,000)</u>	<u>603,456</u>	<u>17,839</u>	<u>621,295</u>	<u>674,456</u>
Net change	781,580	781,580	(119,873)	<u>\$ (95,289)</u>	<u>\$ (215,162)</u>	(901,453)
Cash, beginning of year	<u>45,470</u>	<u>45,470</u>	<u>45,470</u>			<u>-</u>
Cash, (deficit) end of year	<u>\$ 827,050</u>	<u>\$ 827,050</u>	<u>\$ (74,403)</u>			<u>\$ (901,453)</u>
<b>Explanation of Differences:</b>						
Change in receivables				\$ 745,613		
Change in accounts payable				(159,256)		
Change in accrued salaries				38,949		
Change in accrued liabilities				(348,498)		
Change in compensated absences				(48,485)		
Change in unearned revenues				(43,140)		
Note proceeds				(51,303)		
Principal payments				52,020		
Capital outlay purchases				17,122		
Depreciation				(298,311)		
				<u>\$ (95,289)</u>		

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**SCHEDULE OF CASH ACCOUNTS**  
**JUNE 30, 2010 AND 2009**

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
<b>2010</b>				
Valley National Bank 322 N. Riverside Drive Española, NM	Checking	\$ 6,866	\$ (5,688)	\$ 1,178
Community Bank P.O. Box 1290 Española, NM	Checking	\$ 3,253	\$ -	\$ 3,253
Century Bank 460 N. Riverside Drive Española, NM	Checking	\$ 57,602	\$ (74,291)	\$ (16,689)
<b>2009</b>				
Valley National Bank 322 N. Riverside Drive Española, NM	Checking	\$ 35,103	\$ (115,563)	\$ (80,460)
Community Bank P.O. Box 1290 Española, NM	Checking	\$ 5,514	\$ 43	\$ 5,557
Century Bank 460 N. Riverside Drive Española, NM	Checking	\$ 500	\$ -	\$ 500

**ADDITIONAL INDEPENDENT AUDITORS' REPORT**

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www.fierrocpa.com

Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards*

Timothy Keller, State Auditor  
and  
Board of Directors  
North Central Solid Waste Authority  
Española, New Mexico

We have audited the statement of net assets of North Central Solid Waste Authority (Authority), as of and for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows, and the budgetary comparison for the years then ended, and have issued our report thereon dated July 26, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report expresses an adverse opinion on such statements because accounts receivable is overstated, revenues are overstated, bad debt expense is understated, and net assets are overstated.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the North Central Solid Waste Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Central Solid Waste Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Central Solid Waste Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2005-001, 2005-002, 2005-004, 2005-005, 2005-006, 2007-001, 2007-002, 2007-004, 2007-010 and 2010-003 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-003 and 2010-001 to be significant deficiencies.

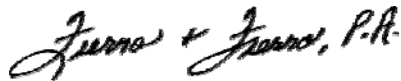
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Central Solid Waste Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2005-002, 2005-004, 2005-005, 2007-002, 2007-003, 2007-004, 2007-005, 2007-010, 2010-001, 2010-002, 2010-003, and 2010-004.

We also noted other matters that are required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items 2007-006 and 2007-009.

The North Central Solid Waste Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the North Central Solid Waste Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the North Central Solid Waste Authority's Board of Directors, management, others within the Authority, the New Mexico State Auditor, the New Mexico State Legislature, and is not intended to be and should not be used by anyone other than these specified parties.



Fierro & Fierro, P.A.  
Las Cruces, New Mexico

July 26, 2016



**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
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*Item 2005-001 – Material Weakness - Segregation  
of Duties and Documentation of Payroll Expenditures*

**Statement of Condition** – During our evaluation of internal controls related to payroll, we noted that one employee was responsible for the entire payroll function. Her duties included entering data into the computer system for new hires, updating and maintaining employee records, preparation of payroll calculations and checks. Her duties also included the preparation and submission of the various payroll reports to the appropriate government agencies.

During our audit tests of payroll documentation, we discovered certain information missing. We tested twenty-seven individual payroll transactions. Our tests revealed the following matters:

- One instance where the employee's personnel file, in its entirety, was missing from the files.
- One instance where retirement withholding was incorrect. The employee's under withheld retirement amount was \$18.
- One instance where an employee placed on short-term disability continued to accrue vacation and sick leave. The employee was paid \$1,839 for vacation accrual, and \$1,657 for sick leave accrual. In addition, the employee was paid \$1,570 for holidays that occurred during his absence.

**Criteria** – Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants provides examples of deficiencies in the design of internal controls. One such example provided in the standards is absent or inadequate segregation of duties within a significant account or process.

Personnel files act as the one place where all important documents relating to each employee are maintained. They serve as the source to review when it's time to make decisions on promotions and layoffs, to file returns to taxing authorities, or to comply with government audits. In the worst-case scenario, a personnel file may turn into evidence in a lawsuit brought by a disgruntled former employee.

**Effect** – No segregation of duties within in the payroll function could allow unintentional errors or intentional misappropriation of assets to occur and not be detected within a timely manner.

Noncompliance with the federal government's requirement regarding documentation of an employee's eligibility could subject officials and employees to penalties. Incorrect calculation of hours subject to retirement contributions affects an employee's subsequent retirement pay.

If you have to fire a problem employee, lack of documentation that would normally be maintained in a personnel file, would expose the Authority to legal danger.

**Cause** – The reason for lack of internal controls within the payroll function cannot be determined as, at this time, all employees during the fiscal year ended June 30, 2010 are no longer employed by the Authority.

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*Item 2005-001 – Material Weakness - Segregation of Duties and Documentation of Payroll Expenditures (continued)*

**Cause (continued)** – The Authority’s Human Resources Department made erroneous decisions in the preparation of payroll. Failing to provide a review process within the payroll function allowed errors to be made in the payroll calculations.

**Recommendation** – We recommend current management review their segregation of duties practices in place during 2016 to verify that the Authority had established adequate segregation of duties given the limited staff and resources.

**Views of Responsible Officials and Planned Corrective Actions** – NCSWA has hired a creditable Human Resources (HR) supervisor who is currently in the process of auditing the HR functions, and identifying areas that require improvement. Once payroll has been run and submitted, HR will receive the financial reports from the finance department and reconcile against the payroll and benefit reports. The separation of duties for this process is: HR will enter all benefit deductions into the HR software; the chief financial officer (CFO) will audit the benefit deductions and appropriate rate allowances in coordination with plan services through the pay code reports; HR will enter payroll in the payroll system, review and audit, and once completed, will forward to the finance department for review and audit. This will allow for the separation of duties, and allow for reconciliation and audit. All edits and corrections to payroll issues will be completed and filed within the pay period reflected.

*Item 2005-002 – Material Weakness and Compliance - Bank Reconciliations*

**Statement of Condition** – The total cash balance, per the general ledger of the Authority as of June 30, 2010, was a deficit \$717,457. During our tests of the year end bank reconciliation, we noted the Authority reflected outstanding checks in the amount of \$809,180 as of June 30, 2010. Upon further examination, we determined the valid amount of outstanding checks totaled \$93,551.

Checks totaling \$361,411 were payable to the Internal Revenue Service, and checks in the amount of \$209,433 were payable to New Mexico Risk Management. Those liabilities were subsequently paid by Rio Arriba County by end of fiscal year 2012. There were thirty checks, in the amount of \$69,517 that appear to be stale. The bank on which these thirty checks were drawn upon, closed its operations in 2012.

Due to cash flow issues, group of checks to the same vendor were presented to the bank in groups on or near the same date indicating they were released to vendors in a group at a later date. Many checks were held and not released to the appropriate vendor. Rather than preparing checks, and distorting the cash balance, the employees should have maintained the liabilities within the accounts payable subsidiary ledger. Audit entries have been made to properly reclassify said amounts as liabilities, rather than cash overdrawn.

Subsequent to year end, the Authority engaged the accounting software vendor to assist in the reconciliations.

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*Item 2005-002 – Material Weakness and Compliance - Bank Reconciliations (continued)*

**Statement of Condition (continued)** – Upon further examination, we discovered numerous entries to the miscellaneous expense account that force the general ledger to tie to the bank reconciliation, as the preparer used that account rather than researching the proper disposition of the activity. The amount of deposit reconciliations, and missing checks posted to the miscellaneous expense account at June 30, 2010, created a credit balance of \$5,030.

Stale checks have not been managed under the New Mexico escheat laws.

**Criteria** – Section 6-6-3(A) NMSA 1978 requires every local public body to “*keep all the books, records and accounts in their respective offices in the form prescribed by the local government division*” of the New Mexico Department of Finance and Administration. Although the Authority is not considered a local public body, it is as an instrumentality of the members and as such the Authority is required to maintain accounting records in such a manner as to allow the preparation of financial statements and accurate reports for other governmental agencies. The general ledger must be able to substantiate accurate detail as to the financial activity of the Authority.

Pursuant to the provisions of the Public Monies Act, Section 6-30-10 NMSA 1978, the cash record shall be balanced daily as to show the balance of public money on hand at the close of each day’s business.

Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants, provides examples of deficiencies in the design of internal controls. One such item is “*Inadequate design of control over a significant account or process.*” The improper forcing of unidentified amounts within the general ledger is an override of the controls established for the proper recording of transactions.

Chapter 7 Article 8A NMSA 1978 referred to as the, “*The Uniform Unclaimed Property Act*” sets forth the processes and requirements of a holder of property (Authority) to report to the administrator, annually by November 1<sup>st</sup> for the prior period ending July 1<sup>st</sup> of that year of any stale checks or unclaimed property. It also specifies the notification requirements to the property owner.

**Effect** – The Authority is in noncompliance with New Mexico State Statutes and sound accounting procedures. The Authority failed to proper account for liabilities by increasing cash balances for items that were not going to be paid in a timely manner. The Authority failed to void stale checks and return the money to the owner of the funds or the state of New Mexico. Noncompliance with New Mexico State Statutes subjects the governing board and management to penalties and punishment defined by State statute. Additionally, the Authority had the obligation to research the amounts needed to reconcile the cash balance reflected on the general ledger and the reconciliation and record such amounts in the proper account.

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*Item 2005-002 – Material Weakness and Compliance - Bank Reconciliations (concluded)*

**Cause** – We are unable to ascertain the exact reason for the delay in preparing the reconciliations and the need to seek contractual services. The Manager, during this time period, bears the ultimate responsibility for not hiring competent employees to handle the accounting functions and developing proper accounting procedures to provide reliable accounting information.

**Recommendation** – We recommend the Authority staff investigate all outstanding checks to determine if the outstanding checks are valid. If they are valid checks, the owners of the checks should be located. If the owners can't be located, the money should be forwarded to the state as required by the Unclaimed Property Act.

**Views of Responsible Officials and Planned Corrective Actions** – In September 2011, the North Central Solid Waste Authority (NCSWA) turned over all documentation to the city of Española Police Department, who then turned the case over to the New Mexico State Police to investigate the alleged embezzlement. The case has since been turned over to the New Mexico Attorney General's office. NCSWA staff performed an internal audit on all outstanding checks; they have been located and disbursed to the proper vendors and, in 2014, the accounting system was upgraded to Caselle Clarity to assist NCSWA in controlling all general ledger activities. New policies and procedures have been implemented and all cash, checks and credit card transactions are deposited on a daily basis, and reconciled to the accounting system and bank.

*Item 2005-004 – Material Weakness and Compliance - Submission of Audit Report*

**Statement of Condition** – The audit report for the fiscal year ended June 30, 2010, was due to the New Mexico State Auditor's office by December 1, 2010. The audit report was submitted on August 22, 2016.

**Criteria** – Section 12-6-12 1978 NMSA requires the state auditor promulgate reasonable regulations necessary to carry out the duties of the office. New Mexico Administrative Code Title 2, Chapter 2, Part 2, *Audits of Governmental Entities Requirements for Contracting and Conducting Audits of Agencies* requires the Authority to submit its audit report by the first working day of December following the end of each fiscal year at June 30<sup>th</sup>.

**Effect** – Delays in submission of the audit report affect the reporting of independently verified financial information to the governing board, other state agencies and local governments. As reflected in the official minutes of the governing board, they were misled by management as to the financial distress of the Authority, as the governing board was assured that for the most part financial obligations were being met which was not the case. The timely performance of audit reports would have revealed the details as to the financial difficulties the entity was experiencing.

**Cause** – The current manager hired in June 2011, inherited an organization that was in effect insolvent and dealing with personnel issues and community dissatisfaction regarding services provided was forced to deal with more pressing issues.

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*Item 2005-004 – Material Weakness and Compliance - Submission of Audit Report (continued)*

**Cause (continued)** – The current manager, shortly after his hire, engaged a certified public accounting firm located in Santa Fe, New Mexico to provide accounting assistance to the Authority. While an effort was made to correct as many of the accounting problems as possible, the fee accountant efforts were placed on dealing with the Internal Revenue Service and New Mexico Taxation and Revenue Department in regards to delinquent and current payroll and governmental sales tax liabilities along with other vendors and state agencies such as Risk Management and New Mexico Public Employee Retirement Board.

After considerable time and financial resources were expended, the current manager informed the Board of Directors, at the May 28, 2014 meeting, that he and the fee accountant had reached the conclusion to move forward with the audit with the accounting records as they were prepared. The current auditing firm contract was signed and approved by the NM State Auditor on April 27, 2016, with a required submission date of October 31, 2016.

**Recommendation** – With the submission of the 2010 audit report, the Authority is five years behind in its submittal of annual audits. We recommend the Authority submit the delinquent reports as soon as possible, as with each fiscal year that ends another delinquent report is added to the total. The audits must be performed in the number sequence of years as that provides a logical historical record of the financial affairs of the entity.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) has projected costs in contractual services designed for the remaining audits for fiscal years 2013, 2014, and 2015. NCSWA is expected to be in compliance with the New Mexico State Audit Act by the end of fiscal year 2017.

*Item 2005-005 – Material Weakness and Compliance*  
*– Records Management and Accounting Data*

**Statement of Condition** – The Authority did not maintain sufficient accounting records and reports as required by the state of New Mexico and sound accounting practices and procedures. The general ledger contains entries and amounts that could not be substantiated with supporting documents. The Authority failed to provide substantiation for the non-recording of certain required information. The items discovered are detailed below:

- The allowance for doubtful accounts has been recorded at \$668,016. No accounting entries have been posted by the Authority to record a percentage of sales that should be added to the allowance account. The Authority failed to identify worthless accounts, and continues to accrue penalty and interest on all accounts rather than moving said accounts to an inactive status.
- When preparing the bank reconciliations, the Authority forced balancing entries to the miscellaneous expense account. Both debit and credit amounts were recorded in the account. No accounting data exists to support entries posted. The ending balance of the account at June 30, 2010 is stated as \$5,030.

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*Item 2005-005 – Material Weakness and Compliance*  
*– Records Management and Accounting Data (continued)*

**Statement of Condition (continued) –**

- The reconciled cash balance at June 30, 2010, as reflected on the Authority's general ledger, is an overdrawn balance of \$717,457. Upon further examination, the Authority did not distribute the checks when prepared, rather when funds were available. The outstanding checks not distributed should be reflected as liabilities and the restated cash balance should be reported as cash overdrawn in the amount of \$16,248.
- The accounts payable subsidiary ledger reflected a balance of \$1,238,090 at June 30, 2010. After the removal of voided payables and the addition of unrecorded liabilities paid in the subsequent fiscal year, the payable amount should be reported as \$520,305. Prior to any audit entries the Authority's general ledger reflects a balance of \$830,673.
- The depreciation schedule as prepared by the Authority failed to include all capital assets and proper amount of depreciation expense. Assets totaling \$802,095 and the associated current year depreciation expense of \$111,284 were omitted from the depreciation schedule. The Authority purchased five 30 cubic yard roll-offs that were added to the depreciation schedule; however, the individual cost of each item was less than \$5,000.
- During our audit tests of the procurement code, we could not locate the vendor invoice whose total was \$42,533.46.
- During our testing of expenditures we selected twenty-five transactions to review. From the selected items the Authority did not maintain copies of the invoices to substantiate the purchases. The total of the invoices was \$9,326.
- There is no evidence that senior management was approving journal entries.
- The Authority did not post the adjusting entries proposed from previous audits to its general ledger. This compounds the misstatements in the Authority's accounting data going forward and makes it almost impossible to prepare and present current financial statements to those in charge of governance. Without reliable financial information, decisions or the lack thereof, makes management of the organization difficult at best.
- The Authority could not locate billing records for the period July 1, 2009 through December 31, 2009. This inhibited our ability to test compliance of correct usage of billing rates for that period of time. It is the responsibility of the Authority to have proper procedures in place to ensure public records are safeguarded against improper use, loss, or misplacement.

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*Item 2005-005 – Material Weakness and Compliance*  
*– Records Management and Accounting Data (continued)*

**Criteria** – Section 6-6-3(A) NMSA 1978 requires every local public body to “keep all the books, records and accounts in their respective offices in the form prescribed by the local government division” of the New Mexico Department of Finance and Administration. Although the Authority is not considered a local public body it is as an instrumentality of the members and as such the Authority is required to maintain accounting records in such a manner as to allow the preparation of financial statements and accurate reports for other governmental agencies. The general ledger must be able to substantiate accurate detail as to the financial activity of the Authority.

Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants provides examples of deficiencies in the design of internal controls. Examples of circumstances that apply to the problems identified above are: (1) inadequate design of controls over a significant account or process, and (2) employees or management who lack the qualifications and training to fulfill their assigned functions. Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit*, also discusses examples of circumstances that may be deficiencies, significant deficiencies, or material weaknesses related to the operation of control as a failure to perform reconciliations of significant accounts such as reconciling accounts receivable, accounts payables and capital assets subsidiary ledgers to the general ledger on a timely or accurate manner.

**Effect** – The Authority is in noncompliance with State statutes and sound accounting practices and procedures. Penalties for noncompliance with State statutes are defined within the statutes. The inability to maintain proper accounting records inhibits the auditor to perform necessary test of the accounting records in order to express an opinion on the financial statements. Flawed financial information, due to poor record keeping, prohibits management and the governing board to make prudent financial decisions. Poorly maintained accounting records could allow unintentional and intentional errors to occur and not to be detected in a timely manner.

**Cause** – The manager failed to employ qualified individuals to maintain the general ledger and all the subsidiary ledgers.

**Recommendation** – We recommend current management evaluate the problems noted within the accounting system and ensure that the current records do not reflect similar problems.

**Views of Responsible Officials and Planned Corrective Actions** – In 2007, North Central Solid Waste Authority (NCSWA) changed accounting software from QuickBooks to utility based software, Caselle Classic. During the conversion, account information failed to merge into the new system, resulting in a loss of all historical data. The interim manager failed to follow proper records retention and storage procedures, and paper files were destroyed. NCSWA currently retains all accounting records on hand, and in-house; backups are performed on electronic files on a weekly basis. In July 2016, NCSWA hired a chief financial officer (CFO) to audit and establish policies and procedures for all accounts past due, and to ensure the allowance for doubtful accounts is a true and correct amount.

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*Item 2005-005 – Material Weakness and Compliance*  
*– Records Management and Accounting Data (continued)*

**Views of Responsible Officials and Planned Corrective Actions (continued)** – The CFO is training all accounting staff on the Department of Finance and Administration’s accounting procedures, and the New Mexico Procurement Code, avoiding the forcing of expenses into the miscellaneous account code. NCSWA implemented accounts payable procedures that include processing all payments to vendors weekly, ensuring payment is made in a timely manner. All checks issued are verified against the invoices, accounting software, and bank statements.

*Item 2005-006 – Material Weakness - Financial Statements and Disclosures*

**Statement of Condition** – The Authority relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). During the audit period, the Authority staff and management lacked the knowledge to prepare such statements, as well as the ability to detect accuracy and completeness of all required notes that explain financial activity contained in the financial statements.

During July 2011, the Authority engaged a certified public accounting firm to assist with the accounting and preparation of the financial statements. Due to poor condition of the records and economic restraints, the accounting firm was unable to make necessary GAAP entries to the fiscal 2009 accounting records.

**Criteria** – Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants, provides examples of deficiencies in the design of internal controls. Two examples that apply are, (1) *“Inadequate design of controls over the preparation of the financial statements being audited”* and (2) *“Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements with general accepted auditing principles (GAAP), the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the entity’s financial transactions or preparing its financial statements.”*

Appropriate internal control procedures over financial reporting include the ability to prepare financial statements in accordance with GAAP or at a minimum; management should have the ability to comprehend the requirements for financial reporting. Financial statements prepared in accordance with GAAP include all required statements of financial position, statements of changes in financial position, changes in cash flows and notes.

Ineffective oversight of the Authority’s financial reporting and internal control by those charged with governance is an indication of a material weakness in internal control.

**Effect** – Since the Authority personnel lacks the ability to prepare, and did not prepare, the financial statements, there is an increased risk that a misstatement of the Authority’s financial statements, that is more than inconsequential, will not be prevented or detected. Further, since the Authority accounting staff lacks the proper knowledge or training regarding the requirements of GAAP financial reporting, there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected.



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*Item 2005-006 – Material Weakness - Financial Statements and Disclosures (continued)*

**Cause** – The accounting staff employed during the 2009 fiscal year were not qualified to understand the financial statements prepared in accordance with GAAP. While understanding governmental financial statements, the fee accountant was limited as much of the time has been expended in dealing with more pressing issues, such as delinquent payroll and sales taxes and other payroll related matters. Additionally, the fee accountant's time was consumed with preparing budgets, and reporting financial information to the governing board.

**Recommendation** – We recommend the Authority place an emphasis on becoming compliant with the filing of audit reports so the fee accountant can spend time on current matters and prepare the necessary entries for GAAP financial reporting.

**Views of Responsible Officials and Planned Corrective Actions** – In July 2016, North Central Solid Waste Authority (NCSWA) hired a chief financial officer (CFO) to oversee the accounting practices within the office. The CFO will provide oversight, reports, and projections on all accounts receivable, and payable, to avoid future errors.

*Item 2007-001 – Material Weakness - Organizational Formation and Oversight*

**Statement of Condition** – North Central Solid Waste Authority was established, to operate and manage a solid waste management system, on November 27, 2002, pursuant to a joint powers agreement (JPA) between its members. The JPA states; *“the agreement is made under the authority of the “Joint Powers Agreement Act” Sections 11-1-1 et seq NMSA 1978 and the Solid Waste Act, Section 74-9-1 et seq NMSA 1978.”*

The JPA details the powers and duties of the Authority necessary to carry out the operations of a regional landfill which would include, but not limited to, administrative and operational requirements such as management of the organization; personnel rules and regulations; proper development, management, distribution and accounting of funds; financial requirements related to debt and procurement; preparation and submission of an annual budget to the New Mexico Department of Finance and Administration.

The JPA, as written, has conflicting language within the document. For example, the JPA begins by stating the agreement is made under the authority of Sections 11-1-1 et seq NMSA 1978 (Joint Powers Act) and Section 74-9-1 et seq NMSA 1978 (Solid Waste Authority Act); however, it later states the parties desire to establish an authority, which is not a political subdivision of the state, such as would be established under Section 74-10-1 et al, NMSA 1978.

Further, the JPA states that all budget and financial reports must be approved by DFA; however, DFA determined they have no authority to review the items as the Authority has been established under the Joint Powers Act.

**Criteria** – Internal Revenue Service Publication 963 defines Local Political Subdivisions as, *“Local governments are generally political subdivisions of states. They differ from state and federal governments in that their authority is not based on a constitution. Each state constitution governs the procedure for the establishment of local governments. In most cases, the state legislature must approve the creation or incorporation of a local government.”*

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*Item 2007-001 – Material Weakness - Organizational Formation and Oversight (continued)*

**Criteria (continued)** – The publication goes on further to explain Instrumentalities as, “An instrumentality is an organization separate from, but affiliated with, a state or local government. It may or may not be created by or pursuant to state statute, but it is operated for public purposes. Generally, an instrumentality performs governmental functions, but does not have the full powers of a government, such as police authority, taxation, and eminent domain (sovereign powers).” Further, the Internal Revenue Service Revenue Ruling 57-128 established various relevant factors to determine if the instrumentality would be considered a “government” for the purposes of taxation.

Finally, on June 3, 2010, the Deputy Secretary of the New Mexico Department of Finance and Administration (DFA) and Director of the Local Government Division (LGD) of DFA, wrote a letter to the governing board members explaining DFA’s position in regards to the Authority. Part of the letter states, “NCSWA was formed pursuant to a joint powers agreement (“JPA”) between its members dated November 27, 2002. NCSWA is a JPA entity formed pursuant the Joint Powers Agreement Act, Sections 11-1-1 etseq. NMSA 1978. NCSWA is not a “solid waste authority” as defined by and formed pursuant the Solid Waste Authority Act; is not a political subdivision of the state; and is not a “local public body” as defined by the Local Government Finance Act, Sections 6-6-1 etseq. NMSA 1978. For these reasons, LGD does not review and approve the budget of NCSWA, or the audits or financial statements of NCSWA, and NCSWA is not directly under the regulatory authority of LGD except as these issues relate to LGD’s regulatory authority over its constituent members, the City and the County.”

Based upon the Internal Revenue Service’s Publication 963, Revenue Ruling 57-128 and DFA’s position, the Authority is a governmental instrumentality of the governing board members (county, municipality and sovereign Indian nations) who established the Authority.

**Effect** – Commencing in 2010, DFA officially ceased reviewing and approving financial statements and the budgets of the Authority. In 2007, 2008 and 2009, DFA failed to investigate the Authority’s deteriorating financial situation. Presently, there is no external oversight of the Authority’s financial operations. The Authority’s financial situation continued to worsen until Rio Arriba County was forced to loan \$1.2 million by the end of July 2011, and continues to make annual cash contributions to subsidize the operations of the Authority.

**Cause** – The Authority began operating the solid waste management system for its members on October 1, 2004. Since the inception, the Authority has struggled financially for various reasons. The two main reasons for the financial difficulties have been the mismanagement of the Authority’s financial and operational activities from the inception until June 2011; and the lack of proper external oversight of the financial affairs of the Authority. Within the official minutes of the governing board, there are repeated requests from board members for the status of the audits of the Authority and the Authority’s financial condition. Management, on numerous occasions, provided assurance to the governing board that the financial situation was under control and the securing of an auditor was underway.

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*Item 2007-001 – Material Weakness - Organizational Formation and Oversight (continued)*

**Recommendation** – While no single event can point to the cause of the financial difficulties of the Authority, one major factor was the lack of external oversight of the financial affairs. Management was aware of the financial problems and the lack of proper accounting and refused to provide all the details to the governing board. The governing board was unable to retrieve vital financial data and there was no oversight by DFA or the New Mexico State Auditor's Office. We recommend the following:

- All the Authority's delinquent audit reports need to be completed and submitted to the New Mexico State Auditor's office. Once all delinquent audits have been completed, the Authority's annual audit should be completed timely. If necessary, the Authority's governing board members (county, municipality, and sovereign Indian nations) should contribute additional cash resources, to the Authority, to pay for the cost of all the delinquent audits.
- The New Mexico Department of Finance and Administration, Local Government Division, needs to have oversight of the Authority. As the Authority is presently structured, DFA will not review the financial affairs of the Authority. The governing board members should consider establishing a Solid Waste Authority under the Solid Waste Authority Act.
- If the Authority is unable to comply with the Solid Waste Authority Act, consideration should be given to dissolve the Authority and operations could be absorbed by the county and or the municipality. If this change takes place, DFA will review the Authority's activity within the funds, or a department, of the respective government.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) was formed as a joint powers agreement under the Joint Powers Act, rather than under the Solid Waste Authority Act, so the two pueblos, Santa Clara and Ohkay Owingeh, would be allowed to participate, as they are sovereign nations. It is understood by NCSWA the two pueblos would be prohibited from a seat on the governing board under the Solid Waste Authority Act. Rio Arriba County is unique when compared to other New Mexico counties, as it is the only county to provide door-to-door service throughout the county. NCSWA was created largely due to the lack of population, and public officials' desire to control costs to the community. By uniting the four entities, the desire is to combine limited resources and provide service to rural Rio Arriba county residents at an affordable cost. Without rural door-to-door services, illegal dumping would increase and taint New Mexico's large watershed, and pollute the Rio Chama and Rio Grande. Although the Department of Finance and Administration (DFA) does not recognize NCSWA as a local public body, and does not provide oversight, NCSWA is moving toward implementing the policies and procedures set by DFA and the Local Government Division.

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*Item 2007-002 – Material Weakness and Compliance - Procurement Code*

**Statement of Condition** – During our review of bid files, it was discovered the Authority requested proposals for open top roll offs and recycle containers. The bid file for this procurement of \$34,043 could not be located for testing compliance with the New Mexico Procurement Act. In addition, there was a disbursement in the amount of \$42,533 from a vendor that could not be located for testing of compliance with the procurement act.

**Criteria** – The purpose of the New Mexico Procurement Code, Chapter 13 NMSA 1978, is to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds and to provide safeguards for maintaining a procurement system of quality and integrity. The New Mexico Administrative Code (NMAC) provides further guidance to assist the state and local governments meet the requirements of the procurement code embodied within state statutes.

The inspection of public records is governed by the Inspection of Public Records Act, Sections 14-2-1 through 14-2-12 NMSA1978. Every person has a right to inspect public records and each public body shall designate at least one custodian of public records who shall have the responsibility to make public records available for inspection. This includes, but is not limited to, having proper procedures in place to ensure public records are safeguarded against improper use, loss or misplacement. Further, as per the New Mexico Administrative Code section 1.4.1.45B, after the award; the bid proposal shall be open to public inspection subject to any continuing prohibition on the disclosure of confidential data.

**Effect** – Noncompliance with State statutes subjects officials and employees to be penalized as specified within the statutes.

**Cause** –The Authority failed to maintain written documentation as required by the Public Records Act.

**Recommendation** – We recommend the Authority staff review the provisions of the procurement code and the public records act and establish procedures to ensure compliance with the code and the act.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) recently hired a chief financial officer (CFO) to oversee the accounting practices within the office. The CFO is currently training procurement staff on the New Mexico Procurement Code, New Mexico Administrative Code, and Department of Finance and Administration’s (DFA) procedures for local public bodies. In-house procedures will be implemented in fiscal year 2017, which will result in the reduction of errors and guide NCSWA to be compliant with the New Mexico State Procurement Act.

*Item 2007-003 – Significant Deficiency and Compliance - Cash Disbursements*

**Statement of Condition** – During our testing of the documentation retained in regards to the purchase of goods and services, we discovered numerous deviations. Our sample size was forty individual disbursements, which were selected throughout the fiscal year, and contained the following deviations:

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*Item 2007-003 – Significant Deficiency and Compliance - Cash Disbursements (continued)*

**Statement of Condition (continued) –**

- Eight instances where the Authority has misplaced the vendor file. The amount of the purchases, where there was no vendor file, totaled \$9,326.
- One instance where a third party vendor invoice for the payment of services in the amount of \$106 was missing.
- Three instances where there were two check numbers printed on the actual check.
- One instance where an employee was overpaid by \$17 for travel.
- One instance where an employee, who quit after one week without proper notice, was paid as professional services instead of payment through payroll.

**Criteria** – Section 6-6-3(A) NMSA 1978 requires every local public body to “*keep all the books, records and accounts in their respective offices in the form prescribed by the local government division*” of the New Mexico Department of Finance and Administration. Although the Authority is not considered a local public body it is as an instrumentality of the members and as such the Authority is required to design accounting records such as properly completed purchase orders, requisitions and vouchers that would enable the accounting staff to record and process accounting data consistent with New Mexico State Statutes.

**Effect** – If the Authority does not prepare a purchase order or requisition, it runs the risk that purchases may be made in excess of the approved budget limitations. By not having receipts, vendor invoices or statements, or misplaced vendor files to support the purchase, the Authority cannot determine whether or not they are paying for items that were for Authority usage.

**Cause** – The Authority staff failed to ensure that all required documentation supporting the expenditure was in place, prior to final disbursement.

**Recommendation** – We recommend the Authority review its policies and procedures concerning cash disbursements. After such review, all necessary changes or adjustments should be instituted as soon as possible.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) has since reviewed and changed the accounts payable and purchasing process. All purchase orders, travel reimbursements, and checks are reviewed by the Authority manager or chief financial officer (CFO) before disbursement.

*Item 2007-004 – Material Weakness and Compliance - Credit Card Transactions*

**Statement of Condition** – During our testing of the documentation regarding the purchase of goods with a credit card, we discovered the Authority failed to properly maintain documentation to support the transactions.

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*Item 2007-004 – Material Weakness and Compliance - Credit Card Transactions (continued)*

**Statement of Condition (continued)** – Our audit sample was twelve credit card statements that reflected charges of \$61,449. We discovered the Authority did not retain any fuel receipts for the charges reflected on the fuel credit card statements. Additionally, we observed several handwritten notes on the fuel statements stating the purchase was unauthorized, as the fuel had been purchased at an unauthorized fueling station, or the odometer reading of the vehicle did not justify refueling based on the previous reading when the vehicle had been refueled. Within our audit testing sample, the Authority staff questioned \$1,528.67 of fuel charges. We did not observe any indication in the accounting records that the Authority was reimbursed for questionable fuel purchases. Aside from the problems recognized with the fuel credit card statements we noted the Lowe’s and Wal-Mart accounts were not remitted timely; therefore, incurring finance and late fee charges totaling \$37.

**Criteria** – Section 6-6-3(A) NMSA 1978 requires every local public body to “*keep all the books, records and accounts in their respective offices in the form prescribed by the local government division*” of the New Mexico Department of Finance and Administration. Although the Authority is not considered as a local public body, it is as an instrumentality of the members and, as such, the Authority is required to maintain accounting records such as cancelled invoices or receipts that provide substantiation for the expenditure of public funds in order to be in compliance with New Mexico State Statutes.

**Effect** – By not having receipts to support the purchase, the Authority cannot determine whether or not they are paying for items that were for Authority usage.

**Cause** – Authority staff assumed the credit card statement would provide sufficient documentation to support the fuel charge, rather than asking for receipts on all credit card transactions. The Authority was struggling financially, causing delays in the remittance of funds for payment of the credit card statements.

**Recommendation** – We recommend the Authority retain all original invoices and receipts paid with a credit card. For vehicle gasoline purchases, we recommend that a description of the vehicle in which the fuel was purchased, and the mileage, be recorded on the purchase invoice or receipt. Further, we recommend the maintenance of separate logs to indicate when gasoline was purchased for each vehicle, along with the odometer reading, thereby allowing management to monitor potential misuse of the fuel purchases.

We recommend the Authority forego the purchase of goods with credit cards, if the statements cannot be paid on a timely manner, thereby avoiding interest and late fee charges.

**Views of Responsible Officials and Planned Corrective Actions** – In September 2011, North Central Solid Waste Authority (NCSWA) closed the MasterCard, American Express, and VISA credit cards. NCSWA currently utilizes a Lowes Home Center credit card that requires prior approval for any purchases made. WEX fleet and fuel cards are currently assigned to specific vehicles, and all transactions and mileage are to be audited by NCSWA managers. All receipts are kept in-house and available for future audit purposes, and any missing receipts will now require an affidavit of lost receipts by the employee.

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*Item 2007-005 – Compliance - Indebtedness*

**Statement of Condition** – During the fiscal year, the Authority borrowed cash from Western Commerce Bank to finance insurance premiums. On July 1, 2009, the Authority borrowed \$15,280, and on December 2, 2009, the Authority borrowed \$37,441 in order to finance premiums for automotive and solid waste work, including trash collection insurance.

**Criteria** – Article IX of the New Mexico Constitution prohibits state agencies, counties and municipalities from borrowing debt unless under certain circumstances. While there is no mention of an instrumentality operating under a joint powers agreement, one would have to take a safe harbor position and conclude the constitution would prohibit the borrowing of cash as described above.

**Effect** – Noncompliance with the state of New Mexico Constitution subjects officials and employees to penalties and provisions established by the constitution.

**Cause** – The Authority did not have the cash on hand to remit the entire premium at one time.

**Recommendation** – We recommend the Authority seek a solution where no funds are being borrowed to finance the insurance premiums.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) continued to purchase insurance using short-term loans to finance the purchase through fiscal year 2015. In fiscal year 2016, NCSWA's finances were stable enough to discontinue the use of short-term loans to finance insurance. In July 2016, NCSWA staff met with the insurance carrier to discuss aligning the premiums' due dates at the end of each calendar year, to ensure the revenue is received and deposited; therefore, eliminating any need for short-term loans to cover the insurance premiums.

*Item 2007-006 – Other Matters - Travel and Per Diem Reimbursements*

**Statement of Condition** – During the course of the audit, we performed tests of travel and per diem expenditures. Our sample size was three transactions, which were selected throughout the fiscal year, and contained the following discrepancies:

- There was one instance, which required actual mileage reimbursement and was calculated incorrectly. In total, the employee was overpaid by \$6.
- There were two instances where the travel request form was not completed. The travel requests totaled \$475.

**Criteria** – The New Mexico Department of Finance and Administration (DFA) has issued regulations in the form of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage Act* of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978.

Section 2.42.2.11(B) of the Travel and Per Diem regulations states, “80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.”

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*Item 2007-006 – Other Matters - Travel and Per Diem Reimbursements (continued)*

**Effect** – Non-compliance with the state of New Mexico Per Diem and Mileage Act subjects officials and employees to penalties as required by state statutes.

**Cause** – The Authority did not understand the need to follow, and apply the Per Diem and Mileage Act and DFA regulations correctly. Travel requests were not reviewed properly prior to payment.

**Recommendation** – We recommend the current staff begin by reviewing the Per Diem and Mileage Act, along with the administrative code. Once a thorough understanding of the Act and regulations are obtained, procedures should be established to ensure compliance with the Act and regulations.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) is currently following Section 2.42.2.9 (3) of the Travel and Per Diem regulations. The mileage rates and overnight per diem have been set by resolution and approval from the NCSWA board members. Although the rates may differ from the Department of Finance and Administration (DFA), the chief financial officer (CFO) is working with staff to ensure the New Mexico Per Diem and Mileage Act is followed. Pre-approval requests from travel must be submitted by employees and approved by the Authority manager, and all mileage and travel reimbursements will be reviewed by the CFO before disbursement to the employee.

*Item 2007-009 – Other Matters - IPA Recommendation Form & Audit Contract*

**Statement of Condition** – The New Mexico State Auditor’s Rule requires the Authority to submit their Independent Public Accountant (IPA) Recommendation Form, and the signed audit contract for the audit for the fiscal year ended June 30, 2010, no later than June 1, 2010. The Authority failed to submit the IPA Recommendation Form by the required due date.

**Criteria** – Section 2.2.2.8(B)(6) of the 2010 New Mexico State Auditor’s Rule states, “*After completing the evaluations for each IPA, and making the IPA selection, each agency shall submit the following information to the State Auditor on or before June 1; ...*” Section 2.2.2.8(G)(6)(c) of the 2015 New Mexico State Auditor’s Rule states, “*The agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the deadlines shown below. If a completed IPA Recommendation Form and audit contract are not delivered to the State Auditor by these deadlines, the auditor must include a finding of noncompliance with Paragraph (6) of Subsection G of Section 2.2.2.8 NMAC in the audit report.*”

The audit contract was issued under the requirements of the 2015 New Mexico State Auditor’s Rule.

**Effect** – This requirement has been instituted by the State Auditor’s office to ensure the timely execution of audit contracts for state and local governmental entities. Noncompliance with established procedures causes delays in the issuance of executed audit contracts.



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*Item 2007-009 – Other Matters - IPA Recommendation Form & Audit Contract (continued)*

**Cause** – As expressed in audit finding 2005-004, there were many reasons the audit report was not performed on a timely basis. Compliance with this particular section of the audit rule was not possible given the other factors involved with submitting the report.

**Recommendation** – We recommend the Authority become current with their submission of audit reports, and this violation of the audit rule should be easily met by the Authority.

**Views of Responsible Officials and Planned Corrective Actions** – With the submission of the 2010, 2011, and 2012 audit reports, North Central Solid Waste Authority (NCSWA) will be four years behind on the audit reports. NCSWA will contract out fiscal years 2013, 2014, and 2015 audits. Those remaining audits are predicted to be completed by the end of fiscal year 2017.

*Item 2007-010 – Material Weakness and Compliance*  
*- Capital Assets – Subsidiary Records and Inventory*

**Statement of Condition** – During our observation of capital assets reflected on the depreciation schedule, we noted discrepancies between the schedule and assets on hand. We were presented a fleet schedule with ninety-two assets of which fifty-eight were actually observed in June 2016. While the fleet schedule may contain important information such as unit numbers, descriptions and vehicle identification numbers, it does not indicate when the item was placed in service, and the value assigned to the asset is a best guessed current value and not the original cost. In addition, the fleet schedule does not reconcile to the fixed asset summary and depreciation schedules prepared by the Authority's fee accountant. The depreciation schedules do not provide sufficient identification information to readily identify assets.

We did not observe any documentation that indicated the Authority conducted a physical inventory of capital assets at the end of the fiscal year ended June 30, 2010. No current employees were employed with the Authority during the audit year to ascertain if the inventory was conducted, nor the location of the documentation of the procedures performed.

**Criteria** – New Mexico State Statutes Section 12-6-10(c) NMSA 1978 directs the general services department to promulgate regulations to state agencies for the accounting and control of capital assets owned by government agencies. The New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, 2.20.1.8, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls* issued by the general services department requires the Authority implement a systematic and well documented system for accounting of capital assets. The information to be recorded and maintained must include, at a minimum, the following:

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*Item 2007-010 – Material Weakness and Compliance*  
*- Capital Assets – Subsidiary Records and Inventory (continued)*

**Criteria (continued) –**

- 1) Agency name or commonly used initials used to identify the agency.
- 2) Capital asset number.
- 3) A description using words meaningful for identification.
- 4) Location, specifically a building and room number.
- 5) Manufacturer's name.
- 6) Model number or model name.
- 7) Serial number, or vehicle identification number.
- 8) Estimated useful life.
- 9) Date acquired.
- 10) Cost.
- 11) Fund and organization that purchased the asset.

The system must be capable of generating lists of capital assets in sequences useful for managing them. It must track all transactions including acquisitions, depreciation, betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

Section 12-6-10(A) NMSA 1978 requires the Authority at the end of each fiscal year to conduct a physical inventory of movable chattels and equipment costing more than \$5,000 that is under the control of the Authority. Additionally, New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, section 15 A (3) requires governments tag all capital assets. Section 2.20.1.16 requires the Authority to conduct a physical inventory of its capital assets at the end of each fiscal year.

**Effect** – The inability to keep detailed information, as described above, allows the opportunity for errors to occur and not be detected on a timely basis. By not tagging all assets, it allows the possibility for errors to occur between actual assets owned and the subsidiary ledger. Finally, not conducting an annual physical inventory could allow assets that are no longer on site for whatever reason, to be included in the subsidiary ledger.

**Cause** – Given the small accounting staff and the difficulties in maintaining other accounting records, the maintenance of the capital assets subsidiary records was not a high priority. We could not determine why the Authority staff would not conduct an annual inventory, as required by state statutes.

**Recommendation** – We recommend the Authority maintain its capital assets subsidiary ledgers as prescribed by the New Mexico State Administrative Code, and institute policies and procedures to conduct an annual inventory of all assets owned by the entity.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) has since performed a review on the existing capital assets.

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*Item 2007-010 – Material Weakness and Compliance*  
*- Capital Assets – Subsidiary Records and Inventory (continued)*

**Views of Responsible Officials and Planned Corrective Actions (continued)** – In June 2016, NCSWA manager, Alex Coriz, performed an audit and recorded all of the capital assets over \$5,000, the audit was then presented to the board of directors for review. Currently, NCSWA keeps records of all capital assets and equipment purchases, and is moving towards tracking the yearly maintenance and replacement costs associated with all capital assets. Paper files on each piece of equipment are kept in-house, and updated on a quarterly basis.

*Item 2010-001 – Significant Deficiency and Compliance - Gross Receipts Reporting*

**Statement of Condition** – The Authority did not compute the governmental gross receipts liability correctly for the periods December 2009 through June 2010. These miscalculations resulted in an overpayment of approximately \$4,700; the Authority filed amended reports for these periods in November 2013. The Authority failed to follow up with the New Mexico Taxation and Revenue Department for the refunds and, as of July 2016, no refunds have been received. Given the amount of time that has passed, it is highly unlikely that any amount of refund from these amended reports will be received. There was no evidence of an independent or second review of the reporting prior to filing the reports.

Further, for the month of November 2009, the Authority reported \$853,541.60 of gross receipts, which appears to be grossly overstated as the average monthly gross receipts for the fiscal year ending June 30, 2010 was \$176,551. The average monthly gross receipt tax liability was \$8,828; the amount of gross receipts tax liability for November 2009 was \$42,677. The gross receipt report for this month was not amended.

**Criteria** – A governmental gross receipts tax of 5% is imposed on the receipts of New Mexico state and local governments from: 1) the sale of tangible personal property, other than water, from facilities open to the general public; 2) the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public; 3) refuse collection, refuse disposal, or both; 4) sewage services; 5) the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the state, and 6) the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tie-down aircraft or dock boats. The Gross Receipts and Compensating Tax Act is compiled as Sections 7-9-1 through 7-9-115 NMSA 1978.

**Effect** – By miscalculating the true gross receipts tax liability, and with no second or independent review, over or under payments could occur and not be detected in a timely manner.

**Cause** – The individual who was computing the gross receipts tax liability failed to deduct penalties, interest, refunds to customers, and the gross receipts tax from the total monthly gross receipts collections.

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*Item 2010-001 – Significant Deficiency and Compliance - Gross Receipts Reporting (continued)*

**Recommendation** – We recommend the Authority review the gross receipts rules and regulations, as issued by NM Taxation and Revenues Department. Concurrently, the policies and procedures established by the Authority should be reviewed to ensure compliance with gross receipts rules and regulations. At a minimum, there should be a procedure in place for a second review of the tax liability prior to filing and payment of the gross receipts tax. Any amendments to the original reporting should obtain management approval.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) hired a certified public accounting firm to oversee the accounting practices within the office. The certified public accounting firm has established contacts with the New Mexico Taxation and Revenue Department, and adjusted all incorrect transactions between NCSWA and the New Mexico Taxation and Revenue Department. These duties will be turned over to the chief financial officer (CFO) for oversight to ensure NCSWA is in compliance with the New Mexico gross receipts rules and regulations.

*Item 2010-002 – Compliance - Board Minutes*

**Statement of Condition** – During the review of the Authority's minutes of board meetings, we noted the following:

- Board minutes from meetings held on June 11, 2009, June 12, 2009 and June 22, 2009 were not approved until August 11, 2009 at a special meeting.
- Board minutes from the meeting held on September 29, 2009 were not approved until November 18, 2009.
- Board minutes from the meeting held on October 20, 2009 were not approved until December 30, 2009.
- Board minutes from the meeting held on March 11, 2010 were not approved until May 19, 2010.
- Board minutes from meetings held on April 21, 2010, and May 19, 2010 were not approved until July 21, 2010.
- During the board meetings in July 2009 and August 2009 the board engaged in discussions concerning the status of the financial audit. At the board meeting held on December 30, 2009, the board discussed the rejection of the audit report draft, and how it had to be resubmitted because the *audit findings did not jive with their opinions*. Further, the board minutes stated, *the audit is still unqualified; however, all the paperwork has been submitted to the auditor*. These discussions were held before the audit report became public record. The Authority failed to comply with the administrative code regarding the discussion of the audit in a board of directors' public meeting.

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*Item 2010-002 – Compliance - Board Minutes (continued)*

**Criteria** – Section 10-15-1G NMSA 1978 (Open Meetings Act) requires that draft minutes be prepared within ten working days after the meeting and be approved, amended or disapproved at the next meeting where a quorum is present.

New Mexico Administrative Code Title 2, Chapter 2, Part 2, *Audits of Governmental Entities Requirements for Contracting and Conducting Audits of Agencies* Section 10 J (3) states, 'Neither the IPA nor agency personnel shall release any information to the public relating to the audit at the time of the exit conference or at any other time until the audit report becomes public record.' The report becomes public record upon release by the State Auditor's office, and there can be no public discussion concerning the audit report until that time.

**Effect** – Preliminary discussions of audit related issues that have not been properly reviewed could lead to erroneous conclusions that become public record as a matter of discussion. Authority officials and personnel are subject to penalties and fines as defined in the New Mexico Administrative Code 2.2.2 and the New Mexico State Statutes.

Noncompliance with the New Mexico State Statutes could subject officials and employees to penalties and fines.

**Cause** – Unknown, as no current staff was employed in the fiscal year ended June 30, 2010.

**Recommendation** – We recommend the Authority implement administrative procedures to ensure compliance with New Mexico State Statutes. Furthermore, we recommend the Authority's Board of Directors, and the appropriate level of management, receive training concerning the requirements of the Open Meetings Act and the NM State Auditor Rule.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) has implemented procedures to ensure compliance with Section 10-15-1G NMSA 1978 (Open Meetings Act). Administrative staff is present at all board meetings, and minutes are drafted within five days for review by the Authority manager, and then presented to the board of directors at the next scheduled board meeting.

*Item 2010-003 – Material Weakness and Compliance - Pre-Tax Deductions*

**Statement of Condition** – The Authority did not properly apply pre-tax deductions from gross compensation prior to applying social security (FICA), Medicare taxes, and federal and state income tax withholdings.

**Criteria** – A cafeteria plan is a separate plan maintained by an employer for employees that meets the specific requirements and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis. Employer contributions to the cafeteria plan are usually made pursuant to salary reduction agreements between the employer and employee, in which the employee agrees to contribute to his or her salary on a pre-tax basis for the qualified benefits.

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*Item 2010-003 – Material Weakness and Compliance - Pre-Tax Deductions (continued)*

**Criteria (continued)** – Salary reduction contributions are not actually or constructively received by the participant; therefore, those contributions are not considered wages for federal income tax purposes. In addition, those sums generally are not subject to FICA, FUTA, Medicare tax, or income tax withholding per sections 3121(2) (5) (G) and 3306(b) (5) (G) of the Internal Revenue Code.

**Effect** – Both the employee and employer (Authority) paid excess FICA and Medicare taxes.

**Cause** – The Authority did not have clear understanding of how to properly handle certain tax codes within its computer payroll software program. Further, the Authority did not perform periodic reconciliations to verify that tax codes were properly established.

**Recommendation** – We recommend that the Authority expedite the establishment and maintenance of the appropriate internal controls to provide reasonable assurance of compliance with laws and regulations. Where necessary, payroll reports should be amended to account for the errors.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority (NCSWA) has audited the pre-tax deductions. As identified in the prior audits, these deductions were not being calculated properly. Corrective measures for this proves will be updating and reconciling the software for the employee initial entries. The software entries will be reconciled against the financial reports, benefit deductions, and payroll. The reconciliations will take place in coordination with payroll running Human Resource (HR) software reports for benefits and the payroll software to the payroll report.

*Item 2010-004 – Compliance - Pledged Collateral*

**Statement of Condition** – During the reconciliation of cash balances, we noted that the bank balance of the main operating account had an ending balance of \$404,693 at July 31, 2009. The Authority had not made arrangements with any of the three financial institutions that held deposits of the Authority, to pledge collateral for the deposits of the Authority.

**Criteria** – The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects against the loss of insured deposits, should an FDIC-insured bank or savings association fail. FDIC insurance is backed by the full faith and credit of the United States government. FDIC deposit insurance covers the depositors of a failed FDIC-insured depository institution dollar-for-dollar, principal plus any interest accrued or due to the depositor, through the date of default, up to at least \$250,000.

**Effect** – Failure to have pledged collateral arrangements puts the Authority's deposits in excess of \$250,000 at risk, should the bank fail.

**Cause** – The management staff at the time did not appropriately address this issue, perhaps due to a lack of knowledge.

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*Item 2010-004 – Compliance - Pledged Collateral*

**Recommendation** – We recommend management review the Authority’s deposits, and establish policies and procedures to minimize the risk of loss due to failure of the FDIC-insured bank where Authority deposits are maintained.

**Views of Responsible Officials and Planned Corrective Actions** – North Central Solid Waste Authority, (NCSWA) is currently working with management at Century Bank to establish additional coverage. The additional insurance coverage will ensure NCSWA, and any finances associated with NCSWA over \$250,000, will be secured with Century Bank.

**STATUS OF PRIOR YEAR’S FINDINGS**

*Item 2005-001 – Segregation of Duties and Documentation of Payroll Expenditures* – The prior year’s finding noted a lack of segregation of duties within the payroll function and other items discovered during testing of payroll transactions. The lack of segregation of duties was not resolved during the current fiscal year and discrepancies were noted during the testing of payroll transactions. The audit finding has been modified and repeated.

*Item 2005-002 – Bank Reconciliations* – The prior year’s audit finding noted the Authority had issued checks and not disbursed them on a timely basis, thereby distorting the reconciled cash at year-end. During the current year’s audit, we noted the Authority continued the same practice. The previous year’s audit finding has been modified and repeated.

*Item 2005-004 – Submission of Audit Report* – As in the prior year, the Authority did not submit its audit for the fiscal year ended June 30, 2009 to the Office of the State Auditor on a timely basis. The prior audit finding has been repeated.

*Item 2005-005 – Records Management and Accounting Data* – The prior year’s finding noted deficiencies in the record keeping of accounting data and supporting documents. During the course of our audit work for the current fiscal year, we discovered deficiencies in the record keeping of the accounting documentation. The finding has been modified and repeated.

*Item 2005-06 – Financial Statements and Disclosures* – The prior year’s audit finding noted weaknesses in internal control regarding the preparation of financial statements. The condition for the current year has not changed and the audit finding has been repeated.

*Item 2007-001 – Organizational Formation and Oversight* – The prior year’s audit finding noted there was conflicting language in the joint powers agreement that established the Authority. As a result of the joint powers agreement, the New Mexico Department of Finance and Administration concluded they did not have any responsibility for direct oversight of the Authority’s budgets and financial statements. The condition did not change and the audit finding has been repeated.

*Item 2007-002 – Procurement Code* – The prior year’s audit finding noted the Authority failed to retain purchase documentation required by the procurement code for the purchase of capital assets. The prior year’s finding has been modified and repeated.

**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

**STATUS OF PRIOR YEAR'S FINDINGS (continued)**

Item 2007-003 – Cash Disbursements – The prior year's finding noted discrepancies discovered during the testing of the purchase of goods and services. During the current year, we noted discrepancies regarding the purchase of goods and services. The prior year's audit finding has been modified and repeated.

Item 2007-004 – Credit Card Transactions – The prior year's audit finding disclosed discrepancies noted during the testing of credit card transactions used for the purchase of goods and services. During the current year, we noted similar discrepancies. The finding has been modified and repeated.

Item 2007-005 – Indebtedness – The prior year's audit finding noted the Authority borrowed money from a financial institution in order to pay for insurance premiums which is a violation of the State Constitution. The Authority continued the same practice for the current year. The audit finding has been modified and repeated.

Item 2007-006 – Travel and Per Diem Reimbursements – The prior year's audit finding detailed discrepancies noted during the test of travel and per diem reimbursements. During the current year, we noted similar discrepancies. The audit finding has been modified and repeated.

Item 2007-009 – IPA Recommendation Form and Audit Contract – The prior year's audit finding noted the Authority failed to make a timely selection of an independent public accountant (IPA) for the audit engagement for the fiscal year ended June 30, 2009. The selection for the auditor of the fiscal year ended June 30, 2010 was not made on a timely basis. The audit finding has been modified and repeated.

Item 2007-010 – Capital Assets – Subsidiary Records and Inventory – The prior year's audit finding noted the depreciation schedule does not provide sufficient identification information to readily identify assets. Additionally, the finding noted there was no documentation indicating the Authority complied with the requirement to conduct an annual inventory of capital assets. The conditions did not change therefore the finding has been repeated.

Item 2008-002 – Cash Receipts – The prior year's audit finding noted two instances of numerical receipts issued out of numerical sequence. The Authority changed its cash receipts procedures and added precautions to ensure accurate balances are being deposited in a systematic manner. The finding is considered resolved.



**STATE OF NEW MEXICO**  
**NORTH CENTRAL SOLID WASTE AUTHORITY**  
EXIT CONFERENCE & FINANCIAL STATEMENT PREPARATION  
JUNE 30, 2010 AND 2009

**Exit Conference**

The audit report for the fiscal years ended June 30, 2010 and 2009, was discussed during the exit conference held on August 10, 2016. Present for the Authority was Pedro Valdez, board member; and Gino Romero, manager; Cyndi Montoya, chief financial officer; Phoenix Vigil, Human Resource supervisor. Present for the auditing firm was Rose Fierro, CPA.

**Financial Statement Preparation**

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the audit report that contains the financial statements and notes to the financial statements of the Authority as of and for the year ended June 30, 2010 and 2009. The Authority's upper management has reviewed and approved the financial statements and related notes, and they believe the Authority's books and records adequately support them.