

**STATE OF NEW MEXICO**

**AGUA SANA MUTUAL DOMESTIC WATER USERS  
ASSOCIATION**

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

**YEAR ENDED December 31, 2011**

**JOSEPH M. SALAZAR CPA  
P.O. BOX 1744  
ESPANOLA, NEW MEXICO 87532  
PHONE/FAX 505-747-2775**

**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**  
**TABLE OF CONTENTS**  
**December 31, 2011**

Title page	i
Table of Contents	ii
Official Roster	iii
Independent Accountants Report on Applying Agreed Upon Procedures	1-6
Schedule of Revenues and Expenditures-Budget and Actual (Cash Basis)	7
Schedule of Findings and Responses	8-17
Status of Prior Year Findings	18
Exit Conference	19

STATE OF NEW MEXICO

AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION

Official Roster

December 31, 2011

Name

Title

Board of Directors

Joddie Valdez	President
Mike Vigil	Secretary
Alberto Martinez	Treasurer
Margaret Montoya	Member
Patrico Garcia	Member

Staff

Johnny Trujillo	Water System Maintenance
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**JOSEPH M. SALAZAR**  
**CERTIFIED PUBLIC ACCOUNTANT**  
P.O. BOX 1744  
Española, New Mexico 87532  
Phone/Fax 505-747-2775

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

Joddie Valdez, President  
Agua Sana Mutual Domestic Water Users Association  
and  
Honorable Hector H. Balderas  
New Mexico State Auditor

We have performed the procedures enumerated below for the Agua Sana Mutual Domestic Water Users Association (Association) for the year ended December 31, 2011. The Association was determined to be a Tier 4 entity under the Audit Act Section 12-6-3 (B) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The Agua Sana Mutual Domestic Water Users Association management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

Our procedures and findings are as follows:

**1. Cash**

**Procedures**

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reporting submitted to DFA-Local Government Division.

- c) Determine whether the local public body's financial institution have provided it with 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA1978, NM Public Money Act, if applicable.

### **Findings**

- a) The Association has two checking accounts and utilizes (Easy Bill) software to post transactions to its billing system and does not maintain a system of its financial transaction to prepare financial statements to summary its revenue and expenses on a monthly basis. Bank statements were available for the two bank accounts. Association did not maintain supporting documentation of its accounts being reconciled on a monthly basis. (See finding 2010-5)
- b) We were unable to perform a random test of bank reconciliations and trace to the financial records. Due to the lack of a monthly cash reconciliation and detail financial records. Association does not maintain a detail general ledger. The Association did not prepare and submit a proposed budget for approval to DFA local government division. No other reports were filed with the DFA local government division. (See finding 2010-1 and 2010-5)
- c) The two accounts had FDIC coverage of \$250,000. Bank accounts never exceeded uninsured limits and, therefore, pledged collateral was not required on any of the bank accounts at any time during the year.

## **2. Capital Assets**

### **Procedures**

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

### **Findings**

The Association did not perform a yearly inventory as required by State Statute. The Association did not have a complete listing of its capital assets as of December 31, 2011. (See finding 2010-7)

## **3. Revenues**

### **Procedures**

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules and underlying documentation.

- a) Perform an analytical review, test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues based on auditor judgment and test using the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statements.
- c) Proper recording of classification, amounts, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

### **Findings:**

- a) We were provided an excel worksheet for the year ended December 31, 2011 showing only deposits for the fiscal year. The Association did not prepare a budget for the year than ended December 31, 2011. We were unable to perform an analytical review and test actual revenues compared to budgeted revenues for the year.
- b) The Association does not maintain a general ledger. The Association financial records for revenues are deposit slips and monthly bank statements. We traced deposit slip amounts to the bank statements. No exceptions noted
- c) Amounts were recorded on a cash basis to the revenue account on a monthly basis. We tested approximately six months of deposit slip amount by totaling the amounts per deposit slips to the total posted on the bank statements which exceeded 50% of the total revenues. No exceptions noted.

## **4. Expenditures**

### **Procedures**

Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- c) Determine that the bid process (or request for proposal process if applicable, purchase order, contracts and agreements were processed in accordance with the New Mexico Procurement Code Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

### **Findings**

- a) The Association did not maintain supporting documentation as cancelled checks, vendor's invoices, purchase orders and contracts. The Association had only bank statements and a check stub register with the name of payee and purpose of payment. Association did not use purchase orders or contracts. Unable to determine compliance with the procurement code. (See finding 2010-8 and 2010-2)
- b) Association disbursements were disbursements necessary for the operations of the association based on reviewing the check stub register and bank statements for the entire fiscal year. (See findings 2010-1, 2010-4 and 2010-8 )
- c) Association did not maintain documentation to demonstrate compliance with the bid process (request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (section 13-1-28 through 13-1-99 NMSA 1978) and State purchase regulations.(See finding 2010-2)

## **5. Journal Entries**

### **Procedures**

If non-routine journal entries, such as adjustment or reclassification, are posted to the general ledger, test significant items for the following attribute:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

### **Findings**

The Association did not maintain a complete set of financial records recording all its financial transactions. Therefore journal entries were not prepared for the year ended December 31, 2011.

## 6. Budget

### Procedures

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a) Verify, through a review of minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so report a compliance finding.
- c) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, actual or modified accrual basis) for each individual fund.

### Findings

- a) The Association did not prepare and submitted an approved budget by the Board for approval to DFA-LGD for the year ended December 31, 2011. (See finding 2010-1)
- b) Unable to determine that total actual expenditures did not exceed the final budget at the legal level of budgetary control since a budget was not prepared and submitted for approval.
- c) A schedule of revenues and expenses was prepared from the Association's records on a cash budgetary basis. This schedule is included herein as Exhibit A. The Association did not submit a budget report for approval and no quarterly reports for the year ended December 31, 2011 to DFA-LGD.



## **Other**

### **Procedures**

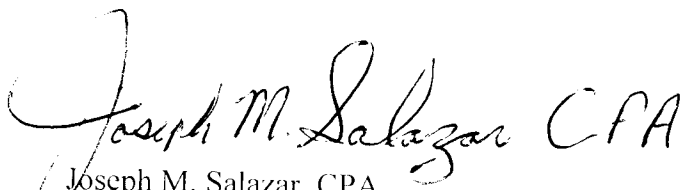
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The finding must include the required contents per Section 2.2.2.1-(1) (3) (C) NMAC.

### **Findings**

No exceptions or information were noted as a result of applying the procedures described above (regardless of materiality) indicating fraud or illegal acts. However, see the Schedule of Findings and Responses related to budget, procurement code compliance, segregation of duties, cash reconciliation, financial statements, physical inventory of capital assets, adequate supporting documentation, late agreed upon procedures report, late submission of IPA recommendation form and gross receipt taxes.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Agua Sana Mutual Domestic Water Users Association, the New Mexico State Auditor's Office and the DFA-Local Government Division and is not intended to be and should not be used by anyone other than those specified parties.

  
Joseph M. Salazar, CPA  
July 10, 2014

STATE OF NEW MEXICO  
 AGUA SANA WATER USERS ASSOCIATION  
 SCHEDULE REVENUE AND EXPENSES- BUDGET AND ACTUAL (CASH BASIS)  
 FOR YEAR ENDED DECEMBER 31,2011

Exhibit A

	Budget Amounts		Actual Amounts	Variance with Final Budget
	<u>Orginal</u>	<u>Final</u>		
REVENUES				
Deposits	-	-	\$ 172,218	-
Total revenues	-	-	\$ 172,218	-
Expenses				
Billing	-	-	\$ 7,200	-
Attorney payments	-	-	4,000	-
Supplies	-	-	3,944	-
Operations and maintenance	-	-	31,679	-
Utilities	-	-	24,188	-
Meter reading	-	-	5,147	-
Postage and freight	-	-	1,632	-
Operator	-	-	2,750	-
Miscellaneous repairs	-	-	1,917	-
Dues	-	-	1,193	-
Ditch cleaning	-	-	240	-
Water conservation fees	-	-	477	-
Loan payment	-	-	79,663	-
Labor	-	-	4,522	-
Reimbursement	-	-	6,380	-
Total expenses	-	-	\$ 174,932	-
Revenue over (under) expenses	-	-	\$ (2,714)	-

**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**  
**Schedule of Findings and Reponses**  
**YEAR ENDED DECEMBER 31, 2011**

**Current Year Findings**

**2010-1 Budget Submissions/Approved and Quarterly Financial Reports to DFA-LGD**

**Criteria**

Section 6-6-2 (A) NMSA 1978 requires each local public body to furnish and file with the DFA-LGD on or before May 1, of each year, a proposed budget for the next fiscal year. Upon receipt of budget approval by DFA-LGD, the local public body shall cause such budget to be made part of the minutes of the such body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-2 NMSA, 1978 states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

**Condition**

Agua Sana Water Users Association (Association) did not prepare or submit a budget for the DFA-LGD approval nor did they submit required quarterly financial and budget reports to the DFA-LGD at any time during the year or at year end.

**Cause**

The Association was not aware of the DFA-LGD requirements.

**Effect**

The Association has not complied with Section 6-6-2 and Section 6-6-3 NMSA 1978.

**Recommendation**

We recommend that the Association submit their proposed budget to DFA-LGD for approval and quarterly financial reports as required to DFA-LGD.

**Entity Response**

In the future Agua Sana WUA will submit budget and financial reports as required by DFA-LGD.

**STATE OF NEW MEXICO  
AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**2010-2            Procurement Code Compliance**

**Criteria**

All local public bodies in the State of New Mexico are required to comply with the New Mexico Procurement Code.

**Condition**

Association did not maintain documentation to demonstrate compliance with the bid process (request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State purchasing regulations.

**Cause**

The Association was not aware of the requirements of complying with the procurement code.

**Effect**

The Association did not comply with the procurement code.

**Recommendation**

We recommend that the Association comply with the New Mexico procurement code.

**Entity Response**

Agua Sana will follow the Procurement Code as required by the New Mexico State Procurement Code and Regulations in the future.

**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**  
**Schedule of Findings and Reponses**  
**YEAR ENDED DECEMBER 31, 2011**

**2010-3      Late Agreed Upon Procedures Report**

**Criteria**

New Mexico State Auditor Rule Section 2.2.2.9 A (g) and the audit contract require that the Association's agreed upon procedures report be submitted to the State Auditor's Office no later than December 1, 2011 deadline.

**Condition**

The agreed upon procedures report for the fiscal year 2011 was not submitted to the State Auditor's office by the deadline. The report was submitted and received by the State Auditor's Office on December 5, 2013.

**Cause**

Agua Sana Water Users Association was not aware of the requirement.

**Effect**

The lateness of the agreed upon procedures report creates noncompliance with the State Auditor Rule requirements of completing and submitting the agreed upon procedures report by the due date.

**Recommendation**

Recommend that the Agua Sana Water Users Association comply with the State Auditor Rule requirement of completing and submitting the audit report by the due date.

**Entity Response**

Agua Sana has obtained services to submit agreed upon procedures for 2012 and 2013 as soon as the agreed upon procedures for 2011 are approved. Agua Sana WUA will strive to be in compliance.

**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**  
**Schedule of Findings and Reponses**  
**YEAR ENDED DECEMBER 31, 2011**

**2010-4            Segregation of Duties on the Approval of all Disbursements and Review of Receipts**

**Criteria**

Good internal control requires the segregation of duties in the recording, approval and reconciliation of receipts and disbursements transactions.

**Condition**

All Association expenditures are prepared, posted and approved by the President. The President has complete control over the receipting and disbursement cycle.

**Cause**

Association is a small association and depends on the President to perform all accounting functions.

**Effect**

The lack of review and approval by the Board could create the possibility for errors or irregularity on the financial statements of Association.

**Recommendation**

Recommend that the Association's Board on a monthly basis be presented a list of disbursements and documentation of receipts and disbursement for the month for review and approval.

**Entity Response**

Agua Sana WUA Board of Directors will meet on a monthly basis to go over financial reports.

**STATE OF NEW MEXICO  
AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**2010-5      Monthly Cash Reconciliations**

**Criteria**

Good internal control requires that cash accounts be reconciled on a monthly basis.

**Condition**

Association did not maintain supporting documentation on a monthly basis of bank reconciliations performed according to the President.

**Cause**

According to the President monthly cash reconciliations were performed but did not keep documentation of the reconciliations performed.

**Effect**

The lack of bank reconciliations of the Associations bank accounts could allow for errors or irregularities that would not be detected on a timely manner on its financial statements.

**Recommendation**

Recommend that Association perform monthly reconciliations of its bank accounts and maintain documentation documenting the reconciliation of its bank accounts to its financial records.

**Entity Response**

Quickbooks software will help Agua Sana WUA get on track with better accounting procedures for reconciliations, financial reporting and preparing budgets.

**STATE OF NEW MEXICO  
AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**2010-6      Financial Statements**

**Criteria**

Generally accepted accounting principles requires that an organization maintain financial records that summarize all its financial transaction of the organization.

**Condition**

Association does not prepare and maintain a set of financial records. Association does not maintain financial statements that contain all of the organization's transactions on one complete set of books to include all transactions such as a general ledger, statement of financial position, statement of activities and statement of cash flow.

**Cause**

Association is a small organization and unaware of the need for a general ledger or records which show cash, fixed assets, depreciation, accounts receivable, accounts payable, loan payable, etc in one financial statement

**Effect**

Association does not have one complete form of financial statements where all of its financial information is summarized and available to prepare financial statement such as a statement of financial position, statement of activities and changes in net assets and statement of cash flow.

**Recommendation**

Recommend that Association purchase accounting software to record all transactions to enable the Association to have a complete set of financial records.

**Entity Response**

Quickbooks software is being purchased to help Agua Sana WUA record bank transactions, reconciliations and keep accurate accounting records for future compliance.



**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**  
**Schedule of Findings and Reponses**  
**YEAR ENDED DECEMBER 31, 2011**

**2010-7            Physical Inventory of Capital Assets**

**Criteria**

Good accounting practice requires that the Association maintain a complete and complete listing of its capital assets. Also, New Mexico State Statute Section 12-6-10 NMSA 1978 requires that a local public body perform a yearly physical inventory of its capital assets.

**Condition**

Association did not prepare and maintain a complete and accurate list of its capital assets. Therefore, a yearly physical inventory was not conducted as required by State Statute

**Cause**

Association was unaware of the requirement to conduct a yearly inventory of its capital assets as required by State Statute.

**Effect**

Association is not complying with State Statute and good accounting practice of maintaining a complete, accurate and detail list of its capital assets.

**Recommendation**

Recommend that the Association prepare and maintain a complete detail listing of its capital assets and conduct a physical inventory as required by State Statutes.

**Entity Response**

Souder Miller and Associates is conducting a physical inventory of Agua Sana WUA's capital assets at this time. Once this is completed Agua Sana WUA will be in compliance for the future.

**STATE OF NEW MEXICO  
AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**2010-8      Adequate Supporting Documentation for Disbursement (Expenditures)**

**Criteria**

Good accounting practice requires that the Association maintain adequate supporting documentation of all disbursements.

**Condition**

Association did not maintain adequate supporting documentation of all its disbursements.

**Cause**

Association is a small organization with one employee to read meters and maintain the water system. The President of Board performs limited accounting task in the disbursements process.

**Effect**

Association lack of adequate supporting documentation creates an environment for the possibility of errors and irregularities.

**Recommendation**

Recommend that the Association maintain adequate supporting documentation of all disbursements such as vendor invoices, cancelled checks, purchase order, etc. Amounts per check agree as to payee, amount and goods or services purchased are necessary expenditures for the operation of the association.

**Entity Response**

In the future Agua Sana WUA will maintain adequate supporting documentation of payables and receivables.

**STATE OF NEW MEXICO  
AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**2010-9      Late Submission of IPA Recommendation Form**

**Criteria**

New Mexico State Auditor Rule Section 2.2.2.8 A (G) (6) (c) requires that Local Public Bodies submit the required IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor by July 1.

**Condition**

The IPA Recommendation Form for Tiered Systems of Local Public Bodies and agreed upon procedures contract was not submitted to the State Auditor prior to the due date of July 1, 2013.

**Cause**

Agua Sana Mutual Domestic Water Users Association was unable to submit its IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor on a timely basis.

**Effect**

The lateness of submitting the IPA Recommendation Form for Tiered System of Local Public Bodies and the agreed upon procedures contract creates noncompliance with the State Auditor Rule requirements of completing and submitting the IPA recommendation Form for the Tiered System of Local Public Bodies and the agreed upon procedures contract by the due date.

**Recommendation**

Recommend that the Agua Sana Mutual Domestic Water Users Association comply with the State Auditor Rule requirement of completing and submitting the IPA Recommendation Form and the completed agreed upon procedures contract by the due date.

**Entity Response**

Agua Sana WUA will comply with the State Auditor Rule. IPA recommendation form and the agreed upon procedures. Agua Sana WUA will strive to submit the required information as needed by the due date.

**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**  
**Schedule of Findings and Reponses**  
**YEAR ENDED DECEMBER 31, 2011**

**2011-1            Gross Receipts Taxes**

**Criteria**

The Association is subject to the New Mexico governmental gross receipts tax from selling water as defined by Section 7-9-3.2 (5) NMSA 1978 and New Mexico Taxation and Revenue Ruling 410-92-1. The Association should remit its governmental gross receipt taxes to the New Mexico Taxation and Revenue Department on a timely basis as required by state statute.

**Condition**

We noted during our agreed upon procedures engagement that the Association is not remitting New Mexico governmental gross receipts tax on amounts billed to consumers.

**Cause**

Agua Sana Mutual Domestic Water Users Association management claimed that the Association is exempt from paying governmental gross receipts taxes.

**Effect**

The Association is not in compliance with New Mexico State Statute

**Recommendation**

Recommend that the Agua Sana Mutual Domestic Water Users Association comply with the New Mexico Taxation and Revenue Department requirement of collecting and remitting payments of gross receipt taxes on water sales.

**Entity Response**

Agua Sana WUA will comply with the New Mexico Taxation and Revenue Department as per Section 7-9-3.2(5) NMSA 1978 and New Mexico Taxation and Revenue Ruling 410-92-1 in remitting gross receipt payments in the future.

**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**

**Status of Prior Year Findings**

**YEAR ENDED DECEMBER 31, 2011**

2010-1	Budget Submission/Approval and Quarterly Financial Reports	Repeated
2010-2	Procurement Code Compliance	Repeated
2010-3	Late Agreed Upon Procedures Report	Repeated
2010-4	Segregation of Duties on the Approval of all Disbursements and Review of Receipts	Repeated
2010-5	Monthly Cash Reconciliation	Repeated
2010-6	Financial Statements	Repeated
2010-7	Physical Inventory of Capital Assets	Repeated
2010-8	Adequate Supporting Documentation of Disbursements (Expenditures)	Repeated
2010-9	Late Submission of IPA Recommendation Form	Repeated

**STATE OF NEW MEXICO**  
**AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION**

**Exit Conference**

**YEAR ENDED DECEMBER 31, 2011**

**Exit Conference**

The report contents were discussed at an exit conference held July 10, 2014 with the following in attendance:

Agua Sana Water Users Association

Joddie Valdez, President

Miguel Vigil, Secretary/Treasurer

Accounting Firm

Joseph M. Salazar, CPA