

**STATE OF NEW MEXICO**

**ALCALDE MUTUAL DOMESTIC WATER USERS  
ASSOCIATION**

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

**YEAR ENDED December 31, 2013**

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**STATE OF NEW MEXICO**

**ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION**

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**December 31, 2013**

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STATE OF NEW MEXICO

ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION

Official Roster

December 31, 2013

Name

Title

Board of Directors

|                   |           |
|-------------------|-----------|
| Alfredo Montoya   | President |
| David Archuleta   | Secretary |
| David Honaberger  | Treasurer |
| Rosiland Martinez | Member    |
| Matthew Valdez    | Member    |

Staff

|                |                          |
|----------------|--------------------------|
| Matthew Valdez | Water System<br>Operator |
|----------------|--------------------------|

**JOSEPH M. SALAZAR**  
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**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED UPON PROCEDURES**

Alfredo Montoya, President  
Alcalde Mutual Domestic Water Users Association  
and  
Honorable Hector H. Balderas  
New Mexico State Auditor

We have performed the procedures enumerated below for the Alcalde Mutual Domestic Water Users Association (Association) for the year ended December 31, 2013. The Association was determined to be a Tier 5 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 Alcalde 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:

**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 a checking accounts and a certificate of deposit account. Bank statements were available for the checking account. The bank only provides statements for the certificate of deposit only when the certificate of deposit becomes due annually and end of calendar year. The checking account was reconciled on a monthly basis. All bank statements and reconciliations were complete and on-hand for the entire year.
- b) We tested the bank reconciliations for the months of December and June of 2013 and traced to the general ledger. No exceptions were noted. The Association did not prepare and submit financial reports to DFA local government division. (see finding 2010-1)
- c) The two bank accounts had FDIC coverage of \$250,000. The 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 performed a yearly inventory as required by State Statute. No exceptions noted.

## **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 financial statements (balance sheet and income statement for the year ended December 31, 2013). The income statement had seven revenue accounts which were water revenue, parts sales, interest income, Reconnect fees income, installation and hook-up fees, grants-project 2014 and other income. We performed an analytical review, tested actual revenue compared to budgeted revenue for the year for each type of revenue account. No exceptions were noted.
- b) Amounts recorded in the general ledger agreed to supporting documentation (deposit slips and bank statements). No exceptions noted.
- c) Amounts were recorded on a cash basis to the seven revenue accounts on a monthly basis. We tested \$136,571 of total revenue of \$141,858 of deposit slip amounts and amounts per deposit slips on the bank statements to the amounts posted to the general ledger which was approximately 96% 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) Our test of 36 transactions for approximately 74% of the total expenditure amount for the fiscal year revealed that amounts recorded as disbursed agreed to the supporting documentation. The documentation agrees as to amount, payee, date and description agree to the vendor's invoice. No exceptions noted. Association did not use purchase orders or contracts. Unable to determine compliance with the procurement code. (See finding 2010-2)
- b) Association disbursements were authorized disbursements for the operations of the association and approved in compliance with budget, legal requirements and established policies and procedures. No exceptions noted.
- 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's fee accountant on a monthly basis prepares routine journal entries to record interest income earned for the month, reclassifying gross receipt tax from water revenue and to record returned checks.

Reviewed the monthly listing of journal entries for reasonableness and supporting documentation for the entire 2013 fiscal year. No exceptions were noted. The Association does not have procedures that require the review of journal entries. (See finding 2010-4)

## **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 prepared and submitted an approved budget by the Board for approval to DFA-LGD for the year ended December 31, 2013.
- b) We determine that total actual expenditures exceed the final budget at the legal level of budgetary control. (See finding 2013-1)
- 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 quarterly reports for the year ended December 31, 2013 to DFA-LGD. (See finding 2010-1)



## 7. **Capital Outlay Appropriations**

### **Procedures**

Request and review all state-funded capital outlay awards, joint power agreements, correspondence and other relevant documentation for any capital outlay award funds expended by recipient during the fiscal year.

Test all capital outlay expenditures during the fiscal year to:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor invoice and cancelled check, as appropriate.
- b) Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposals process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.4 NMAC).
- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e) Verify that status reports were submitted to the state agency per terms of agreement and amounts in status report agree with the general ledger and other supporting documentation.
- f) If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g) If the project is complete, determine if there is an unexpended balance and whether it was reverted per state statute and agreement with the grantor.
- h) Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i) Determine whether reimbursements requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

## **Findings**

- a) We determined that amounts recorded as disbursed agreed to adequate supporting documentation and we verified that amounts, payees, dates and descriptions agreed to the vendors invoice. No exceptions noted.
- b) We determined that disbursement were properly authorized and approved in accordance with, legal requirements and established policies and procedures.
- c) We determined that the Association maintained 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.
- d) We determined that physical observation was not feasible since the work is for plan and design work as of December 31,2013.
- e) According to the Association management no status reports were submitted to the New Mexico Environment Department. Also, no status reports were noted during our review of the grant file supporting documentation.
- f) The project was not intended to be funded in advance but on a cost reimbursement basis.
- g) The project for the appropriation amount of \$180,648 is not complete and determined that there is unexpended balance of \$165,972 as of December 31, 2013. The project is not complete as of December 31, 2013. The project is on a cost reimbursement basis therefore no monies need to revert.
- h) Since the project was approved on a cost reimbursement basis, no separate fund or bank account was required.
- i) We determine that reimbursements requests were properly supported by costs incurred by the Association. We determine that the costs were incurred by the Association prior to the request for reimbursement.

## **Other**

### **Procedures**

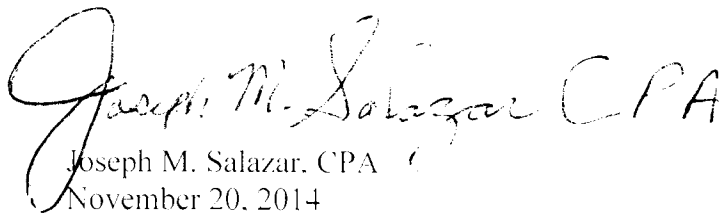
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The finding must include the required contents per Section 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 overexpended, procurement code compliance, segregation of duties, late agreed upon procedures report, and late submission of IPA recommendation form.

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 Alcalde Mutual Domestic Water Users Association, the New Mexico State Auditor's Office, DFA-Local Government Division and New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

  
Joseph M. Salazar, CPA  
November 20, 2014

**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
AGREED UPON PROCEDURES  
SCHEDULE OF CAPITAL OUTLAY AWARD  
DECEMBER 31, 2013**

|                |                  | Amount                 | Amount                 |                 |
|----------------|------------------|------------------------|------------------------|-----------------|
|                |                  | Requested/<br>Recieved | Requested/<br>Recieved | Total           |
| Capital        | Award            | in Prior               | in Current             | Amount          |
| Appropriations | Amount           | Fiscal Years           | Fiscal Year            | Expended        |
| Project No.    |                  |                        |                        |                 |
| 12-1622 STB    | <u>\$180,648</u> | <u>-</u>               | <u>\$ 14,675</u>       | <u>\$14,675</u> |

Note:

1. The Alcalde Water Association through the New Mexico Department of Environment was appropriated \$180,648 in the Laws of 2012, Chapter 63, Section 69, paragraph 28 to plan, design and construct a community water system, including water transmission and distribution lines in Alcalde in Rio Arriba County.
  
2. The award was on a cost reimbursement basis from the Environment Department. Any unexpended funds shall revert as of June 30, 2014.

**STATE OF NEW MEXICO** **Exhibit A**  
**ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION**  
**SCHEDULE REVENUE AND EXPENSES- BUDGET AND ACTUAL (CASH BASIS)**  
**FOR YEAR ENDED DECEMBER 31,2013**

|                               | Budget Amounts    |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|-------------------------------|-------------------|-------------------|-------------------|-------------------------------|
|                               | <u>Original</u>   | <u>Final</u>      |                   |                               |
| <b>REVENUES</b>               |                   |                   |                   |                               |
| Water revenue                 | \$ 93.000         | \$ 93.000         | \$ 112,709        | 19,709                        |
| Interest income               | 600               | 600               | 167               | 433                           |
| Installation and hook-up fee  | 5.000             | 5.000             | 200               | 4.800                         |
| Penalties and fees            | 500               | 500               | -                 | (500)                         |
| Re-connect fees income        | -                 | -                 | 25                | 25                            |
| Grants-projects 2014          | -                 | -                 | 14,676            | 14,676                        |
| Other income                  | 3.000             | 3.000             | 14,051            | 14,051                        |
| Total revenues                | <u>\$ 102.100</u> | <u>\$ 102.100</u> | <u>\$ 141,828</u> | <u>\$ 53,194</u>              |
| <b>Expenses</b>               |                   |                   |                   |                               |
| Wages                         | \$ 15.000         | \$ 15.000         | \$ 16,400         | \$ (1,400)                    |
| Contract labor                | -                 | -                 | 120               | \$ (120)                      |
| Payroll taxes                 | 1.500             | 1.500             | 1,329             | 171                           |
| Water conservation fee        | 600               | 600               | 493               | 107                           |
| Accounting                    | 13.000            | 13.000            | 13,582            | (582)                         |
| Bad debt                      | -                 | -                 | 490               | (490)                         |
| Dues                          | -                 | -                 | 337               | (337)                         |
| Interest expense              | 900               | 900               | 849               | 51                            |
| insurance                     | 4.000             | 4,000             | -                 | 4,000                         |
| Loan payment                  | 1.600             | 1,600             | -                 | 1,600                         |
| Miscellaneous expenses        | 5.000             | 5,000             | 325               | 4,675                         |
| Office expense                | -                 | -                 | 498               | (498)                         |
| Office supplies               | 450               | 450               | -                 | 450                           |
| Postage                       | 1.600             | 1,600             | 1,516             | 84                            |
| Reconnect fees                | 200               | 200               | -                 | 200                           |
| Repairs-well                  | -                 | -                 | 3,452             | (3,452)                       |
| Maintenance                   | 16.000            | 16,000            | 13,567            | 2,433                         |
| Parts and materials           | -                 | -                 | 4,580             | (4,580)                       |
| Testing                       | -                 | -                 | 27                | (27)                          |
| Tools                         | -                 | -                 | 488               | (488)                         |
| Supplies                      | -                 | -                 | 13,975            | (13,975)                      |
| Water rights                  | -                 | -                 | 14,051            | (14,051)                      |
| Electrical service            | 20.000            | 20,000            | 20,049            | (49)                          |
| Total expenses                | <u>\$ 79.850</u>  | <u>\$ 79.850</u>  | <u>106,128</u>    | <u>(26,278)</u>               |
| Revenue over (under) expenses | <u>\$ 22,250</u>  | <u>\$ 22,250</u>  | <u>\$ 35,700</u>  | <u>\$ 26,916</u>              |

**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2013**

**Current Year Findings**

**2010-1 Quarterly Financial Reports to DFA-LGD**

**Criteria**

Section 6-6-2 (A) NMSA 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-3 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**

Alcalde Mutual Water Users Association (Association) did not 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 quarterly financial reports as required to DFA-LGD.

**Entity Response**

We have begun and will continue to submit quarterly reports.

**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2013**

**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**

Now that we are aware of the requirement, we will comply with the New Mexico procurement code.

**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2013**

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

**Criteria**

New Mexico State Auditor Rule Section 2.2.2.16 H (1) requires that the Association's agreed upon procedures report be submitted to the State Auditor's Office no later than five months after the fiscal year (June 1, 2014) deadline.

**Condition**

The agreed upon procedures report for the fiscal year 2013 was not submitted to the State Auditor's office by the deadline of June 1, 2014. The report was submitted and received by the State Auditor's Office on November 20, 2014.

**Cause**

Alcalde MDWUA 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 Alcalde MDWUA comply with the State Auditor Rule requirement of completing and submitting the agreed upon procedures report by the due date.

**Entity Response**

We will complete and submit agreed upon procedures report by the due date.



**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2013**

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

**Criteria**

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

**Condition**

All of the Association's financial transaction are prepared, posted and approved by the fee accountant. The fee accountant has complete control over the receipting and disbursement cycle and journal entries.

**Cause**

Association is a small association and depends on the fee accountant 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 journal entries for the month for review and approval.

**Entity Response**

We will review and approve on a quarterly basis disbursements, receipts and journal entries.

**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2013**

**2010-6           Late Submission of IPA Recommendation Form**

**Criteria**

New Mexico State Auditor Rule Section 2.2.2.16 (d) (6) 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 are due one day after the fiscal year (January 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 January 1.

**Cause**

Alcalde 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 Alcalde 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**

The IPA recommendation form and completed agreed upon procedures contract will be submitted on a timely basis for future engagements.

**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Schedule of Findings and Responses  
YEAR ENDED DECEMBER 31, 2013**

**2013-1      Expense Budget Over Expended at the Fund Level of Budgetary Control**

**Criteria**

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Association can revise its budget with the approval of DFA-LGD.

**Condition**

The Association prepared a budget and obtained approval by DFA-LGD, however the Association did not review and amend its expenditure budget to reflect the changes in operations that incurred during the fiscal year.

**Cause**

The Association failed to submit budget amendments to DFA-LGD for approval.

**Effect**

The Association's expenditure budget was over expended at the total fund level by \$26,278.

**Recommendation**

Recommend that the Association review its approved budget on a periodic basis and submit budget amendments to DFA-LGD as needed.

**Entity Response**

We will periodically review the approved budget and submit budget amendments as needed.

**STATE OF NEW MEXICO  
ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION  
Status of Prior Year Findings  
YEAR ENDED DECEMBER 31, 2013**

|        |   |                   |
|--------|---|-------------------|
| 2010-1 | Quarterly Financial Reports to DFA-LGD  | Modified/Repeated |
| 2010-2 | Procurement Code Compliance   | Repeated          |
| 2010-3 | Late Agreed Upon Procedures Report  | Repeated          |
| 2010-4 | Segregation of Duties on the Review and Approval of all Disbursements, Receipts and Journal Entries | Repeated          |
| 2010-5 | Physical Inventory of Capital Assets  | Resolved          |
| 2010-6 | Late Submission of IPA Recommendation Form  | Repeated          |

**STATE OF NEW MEXICO**  
**ALCALDE MUTUAL DOMESTIC WATER USERS ASSOCIATION**

**Exit Conference**

**YEAR ENDED DECEMBER 31, 2013**

**Exit Conference**

The report contents were discussed at an exit conference held November 20, 2014 with the following in attendance:

Alcalde Mutual Domestic Water Users Association

Alfredo Montoya, President

David Honaberger, Treasurer

Accounting Firm

Joseph M. Salazar, CPA