

**ALGODONES MUTUAL DOMESTIC
WATER ASSOCIATION
INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE YEAR ENDED DECEMBER 31, 2013**

**ALGONDONES MUTUAL DOMESTIC WATER ASSOCIATION
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DECEMBER 31, 2013**

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**ALGONDONES MUTUAL DOMESTIC WATER ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2013**

Board of Directors

Elias Archibeque, Acting President

John Arango, Treasurer

Marvin Mendelow, Secretary

Mike Archibeque, Member

Principal Employees (On Contract)

Adrian Archibeque, Meter Reader

Lori Dominguez, Billing Assistant

Jacob Maes, System Operator

Kubiak & Melton, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountants' Report for Applying Agreed-Upon Procedures

To: Elias Archibeque, Acting President
Algodones Mutual Domestic Water Association
and
Honorable Hector H. Balderas
New Mexico State Auditor

We have performed the procedures enumerated below, which were agreed to by the Algodones Mutual Domestic Water Association (AMDWA), and the New Mexico State Auditor's Office, solely to assist in determining if AMDWA is in compliance with New Mexico State Audit Rule, Tier 4, as of December 31, 2013. AMDWA is the responsible party and the subject matter is the responsibility of AMDWA. 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 the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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.

Results:

Bank reconciliations are included as part of the monthly board meetings. We reviewed to ensure they were included in the directors' packets. No exceptions were noted. The reconciliations reviewed were all within 10 calendar days of the subsequent month. Reconciliations are completed timely.

b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division (DFA-LGD).

We selected four months to test: April, 2013, May, 2013, October, 2013, and December, 2013.

Results:

Reconciliations for three months were complete and tied to the general ledger. The reconciliation for the month of December did not tie to the general ledger, which was off by \$1,506.

See finding 2012-01.

c) Determine whether the local public body’s financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results:

It was determined that the average balance in all accounts is below \$250,000 in all accounts; therefore, additional procedures were not performed.

2. Capital Assets

Procedures

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

Results:

The procedures performed showed that the annual physical inventory was taken.

3. Revenue

Procedures

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

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

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Water User Fees	\$ 52,638	\$ 56,000	\$ (3,362)
Interest and Dividends	1	4	(3)
Grants	42,945	43,200	(255)
Capital Appropriations	-	25,000	(25,000)
Total	<u>\$ 95,584</u>	<u>\$ 124,204</u>	<u>\$ (28,620)</u>

Results:

All revenues are considered reasonable.

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

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

2) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Results:

We tested 16 revenue transactions for the year ended December 31, 2013. Two exceptions were noted in testing the attributes shown above, relating to lack of supporting documentation. See finding FS 2013-01.

4. Expenditures

Procedures

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

a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled checks, as appropriate.

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

c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results:

We selected a sample of 26 expenditure transactions for the year ended December 31, 2013. There were ten instances where the supporting documentation was unavailable. See Finding FS 2011-05, on supporting documentation for expenditure transactions.

5. Journal Entries

Procedures

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

a) Journal entries appear reasonable and have supporting documentation.

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

Results:

Our performance of the agreed upon procedures showed no non-routine journal entries for the year ended December 31, 2013; therefore additional procedures were not performed.

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 the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.

Results:

We reviewed the final version of the budget for the year ended December 31, 2013. It was determined, through communication with the Board, that the budget was never formally approved by the Board. It was also determined that the budget was never submitted to the Department of Finance and Administration – Local Government Division, for approval. See finding FS 2011-01, Budget not formally approved.

In the course of performing our agreed upon procedures, we found that the Board had not submitted the DFA Quarterly reports as required. See finding FS 2011-03.

- b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

Results:

Our review of the budgeted expenditures compared to the actual expenditures at the level of budgetary control showed no instances of actual expenditures exceeding budgeted expenditures.

- c) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Results:

See attached Statement of Revenues and Expenditures – Budget and Actual.

Other Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section, 12- 6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 (I) (3) (C) NMAC.

Results:

As reported in finding 2011-04, late submission of report, this report was not submitted to the Office of the State Auditor within six months of the end of the fiscal year, as required.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 Agreed Upon Procedures. 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 management and others within AMDWA, the State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Kubiak & Melton, LLC

Kubiak & Melton, LLC

Albuquerque, New Mexico
July 11, 2014

**STATE OF NEW MEXICO
 ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
 SCHEDULE OF REVENUES AND EXPENSES –
 BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS)
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budget Basis</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues:				
Water User Fees	\$ 56,000	\$ 56,000	\$ 52,638	\$ (3,362)
Interest and Dividends	4	4	1	(3)
Grants	43,200	43,200	42,945	(255)
Capital Appropriations	25,000	25,000	-	(25,000)
Total Revenues	<u>124,204</u>	<u>124,204</u>	<u>95,584</u>	<u>(28,620)</u>
Expenditures:				
Current:				
System Operation and Maintenance	75,456	75,456	71,875	3,581
Management	30,300	30,300	5,806	24,494
Board Expenses	410	410	314	96
Total Expenditures	<u>106,166</u>	<u>106,166</u>	<u>77,995</u>	<u>28,171</u>
Excess of Revenues Over Expenditures	<u>\$ 18,038</u>	<u>\$ 18,038</u>	<u>\$ 17,589</u>	<u>\$ (56,791)</u>

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

FS 2011-01 – The 2013 Budget not formally approved by the Board nor DFA – Local Government Division.

Condition

The agreed upon procedures mandate approval of the budget, first by the Board and then by the Department of Finance and Administration (DFA) – Local Government Division.

Criteria

A budget for the year is only valid if approved using the procedure described above.

Cause

The Board did not make the budget approval process a priority during the year ended December 31, 2013.

Effect

Lack of an approved budget calls into question the management oversight of the Board regarding the budget process and also leads to lack of attention to comparison of budget amounts with actual amounts, neutralizing a key planning function of the Board.

Recommendation

The Board should implement a formal budget approval process internally. Following that, the Board should task a Board member with the responsibility of submitting the Board-approved budget to DFA by the deadline.

Management Response

The Board agrees with the recommendation. Formal approval of a budget will take place by the Board. After this, the Budget will be submitted to DFA – Local Government Division for approval.

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

FS 2011-03 – Quarterly reports to DFA were not submitted.

Condition

The quarterly reports of cash balances were not submitted to DFA – Local Government Division.

Criteria

Financial reports are required to be sent quarterly to DFA Local Government Division.

Cause

The Board did not prioritize the submission of these reports.

Effect

The reports were never submitted to DFA, as they should have been.

Recommendation

The Board should prioritize the timely and accurate submission of financial reports to DFA.

Management Response

The Board was unaware of this responsibility and will make sure all reports to DFA are submitted accurately and timely from now on.

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

FS 2011-04 – Late submission of report

Condition

The Tier 4 Agreed Upon Procedures report for the year ended December 31, 2013, was not submitted by the due date of June 1, 2014.

Criteria

Tier 4 reports are required to be submitted to the Office of the State Auditor within five months after the end of the fiscal year.

Cause

The Board did not contract with an IPA to conduct the Agreed Upon Procedures for 2013 until 2014.

Effect

The Agreed Upon Procedures report for the year ended December 31, 2013 is over six months late.

Recommendation

The Board should contract with an IPA on a yearly basis to ensure that the required annual report is submitted timely to the Office of the State Auditor

Management Response

The Board concurs with the finding. Currently, an IPA firm is under contract to complete the reports for 2011, 2012 and 2013.

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

FS 2011-05 – Supporting documentation for expenditures

Condition

Testwork on a sample of expenditures performed under the Agreed Upon Procedures showed 10 instances of lack of supporting documentation.

Criteria

Tier 4 Agreed Upon Procedures mandate that expenditure transactions be properly approved and have adequate documentation supporting the transactions. The Board should retain all supporting documentation for expenditure transactions in alignment with State Records and Archives Guidelines.

Cause

Lack of suitable organization of documents.

Effect

Of the 26 expenditure transactions tested, there were a total of 10 exceptions. The dollar value of these exceptions was \$4,537.

Recommendation

Once a month, when the bank statements are reconciled, the Board should verify the existence of adequate supporting documentation for all receipts and disbursements. For expenditure transactions, documents should be filed by vendor, for easy location.

Management Response

The Board concurs with the finding. The Board will take the necessary steps to ensure that adequate supporting documentation is kept and filed appropriately.

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

FS 2012-01 – Reconciled bank balance does not agree with trial balance

Condition

Our testwork on bank balances and bank reconciliations showed that the balance at year end did not agree to the trial balance. The difference was \$1,506.

Criteria

The reconciled balance per bank should agree to the that of the trial balance. If there are differences, they need to be researched and the proper correcting entry made.

Cause

The bank reconciliations need to be compared to the general ledger to make sure the balances are the same.

Effect

The ending cash balance on the trial balance was incorrect.

Recommendation

Once a month, when the bank statements are reconciled, the Board compare the reconciled balance to that of the trial balance and authorize adjusting entries if needed.

Management Response

The Board concurs with the finding. The Board will take the necessary steps to ensure that reconciled bank balances tie to the general ledger.

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

FS 2013-01 – Revenue transactions with no supporting documentation

Condition

Of the 16 revenue transactions tested, two had no supporting documentation. The dollar value of these items was \$2,503.

Criteria

The criteria for Agreed Upon Procedures, Tier 4, state that the amount of revenue recorded in the general ledger should agree to the supporting documentation and the bank statement.

Cause

Without the proper supporting documentation, it is not possible to be assured that revenues are deposited timely, classified properly and are supported properly.

Effect

Not all revenue transactions are documented properly.

Recommendation

All revenue transactions should have attached the account classification, the date deposited, the amount and the purpose.

Management Response

The Board concurs with the finding. The Board will take the necessary steps to ensure that all revenue transactions are properly supported.

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
STATUS OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2013**

Finding	Status
FS 2011-01 Budget not approved by Board of DFA	Repeated
FS 2011-03 Quarterly reports to DFA not submitted	Repeated
FS 2011-04 Late submission of report	Repeated
FS 2011-05 Supporting documentation for expenditures	Repeated
FS 2012-01 Reconciled bank balance does not agree with trial balance	Repeated

**ALGODONES MUTUAL DOMESTIC WATER ASSOCIATION
EXIT CONFERENCE
DECEMBER 31, 2013**

An exit conference was held on July 11, 2014 to discuss the agreed upon procedures.

Attending were the following:

John Arango, Treasurer, Algodones Mutual Domestic Water Association
Daniel Trujillo, CPA, CFE, Kubiak & Melton, LLC