

**Alto de Las Flores Mutual Domestic  
Water Consumers Association**

**Independent Auditors' Report  
On Applying Agreed-Upon Procedures  
for the Year Ended December 31, 2010**

**STATE OF NEW MEXICO  
ALTO DE LAS FLORES MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

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**STATE OF NEW MEXICO  
ALTO DE LAS FLORES MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**OFFICIAL ROSTER  
DECEMBER 31, 2010**

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**Board of Directors**

Antonio Chavez	President
Ofelia Luna	Vice President
Liliana Rivera	Secretary/Treasurer
Faustino Favela	Board Member
Yvonne Hernandez	Board Member

## **INDEPENDENT AUDITORS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

Hector H. Balderas, State Auditor  
and the Board of Directors of the  
Alto de Las Flores Mutual Domestic Water Consumers Association  
San Miguel, New Mexico

We have performed the procedures enumerated below, which were agreed to by Alto de Las Flores Mutual Domestic Water Consumers Association, (the Association), for the year ended December 31, 2010. The Association was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) 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. Alto de Las Flores Mutual Domestic Water Consumers Association's management is responsible for the Association'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 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. 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 reports submitted to DFA-Local Government Division.
- 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.

## **Findings**

- a) For the entire year, there were no records of any bank reconciliations being performed. We were unable to determine if bank reconciliations were being performed in a timely manner. See finding 2010-01.
- b) Bank reconciliations were not provided. We were unable to test bank reconciliations for accuracy. In addition, there is no evidence required quarterly financial reports were submitted to DFA-LGD at any time during the year. See finding 2010-01 and 2010-07.
- c) Bank statements were not provided. We were unable to determine if the average running balance was below \$250,000 to determine if the association was properly collateralized. Additional procedures were unable to be 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.

### **Finding**

Alto de Las Flores Mutual Domestic Water Consumers Association has not been completing an annual physical inventory of capital assets. See finding 2010-02.

## **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.

Test 50% of the total amount of revenues for the following attributes:

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

## **Findings**

- a) The Association provided a profit and loss statement for the year ended December 31, 2010 showing one revenue source. However, the Association neither sought or was granted budget approval from DFA-LGD for the fiscal year December 31, 2010. See finding 2010-06.
- b) The Association did not provide supporting documentation and bank statements that agreed to the general ledger. See finding 2010-03.
- c) Supporting documentation was not provided so we were unable to determine the accuracy of the accounting basis. See finding 2010-03.

## **4. Expenditures**

### **Procedures**

Select a sample of cash disbursements and test at least 25 transactions and 50% of the total amount of expenditures for the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 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 provide a check register to select samples or provide supporting documentation. We were unable to determine if the appropriate expenditure procedures were performed. See finding 2010-04.
- b) We were unable to determine that all disbursements were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures. See finding 2010-04.
- c) The Association did not provide the appropriate records or evidence supporting a bid process or request for proposal process. We were unable to determine the bid process (or request for proposal process, if applicable), purchase orders, contracts and agreements whether or not they 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 ). See finding 2010-04.

## **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.

### **Findings**

- a) The Association did not provide a journal entry report or appropriate documentation to select samples and perform the procedures. See finding 2010-05.
- b) Alto de Las Flores Mutual Domestic Water Consumers Association has no evidence of a review process for journal entries. See finding 2010-05.

## **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.
- b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

### **Findings**

- a) Board minutes were not provided and there was no indication that the budget was approved by the Board and the DFA-LGD. See finding 2010-06 and finding 2010-08.
- b) Total actual expenditures exceeded the final budget by \$102,335 at the total fund level, the legal level of budgetary control. See finding 2010-09.
- c) The Association prepares but did not submit the budget report for the year ended December 31, 2010 to DFA-LGD. A schedule of revenues and expenses – budget and actual was prepared from the Association records on the cash budgetary basis.

## 7. Other

### Procedures

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

### Findings

- a) The submission of the Agreed Upon Procedures Report due five months after the fiscal year end December 31, 2010, was not submitted. See finding 2010-10.

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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 Alto de Las Flores Mutual Domestic Water Consumers Association, the New Mexico State Auditor's Office, the DFA-LGD, and the New Mexico State Legislature. This report is not intended to be and should not be used by anyone other than those specified parties.

*White & Samaniego + Campbell, LLP*

El Paso, Texas  
July 23, 2014



**STATE OF NEW MEXICO  
ALTO DE LAS FLORES MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF REVENUES AND EXPENSES  
BUDGET AND ACTUAL (CASH BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
Operating Income				
Water usage fees	\$ -	\$ -	\$ 109,276	\$ 109,276
Total operating income	-	-	109,276	109,276
Operating Expenses				
Insurance	-	-	2,408	(2,408)
Professional Services	-	-	5,841	(5,841)
Contracted Services	-	-	33,419	(33,419)
Operating Expenses	-	-	7,927	(7,927)
Taxes	-	-	30,083	(30,083)
Utilities	-	-	15,757	(15,757)
Miscellaneous	-	-	6,900	(6,900)
Total operating expenses	-	-	102,335	(102,335)
Excess of revenues over expenditures	-	-	6,941	6,941
Revenues over expenses	\$ -	\$ -	\$ 6,941	\$ 6,941

**STATE OF NEW MEXICO  
ALTO DE LAS FLORES MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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**2010-01 Cash (Material Weakness)**

<b>CONDITION</b>	The Association was unable to provide any bank reconciliations.
<b>CRITERIA</b>	According to NMAC 6.20.2.14, "Every local public body shall establish and maintain cash management programs to safeguard cash and provide prompt and accurate reporting that adheres to cash management requirements of the office of management and budget (OMB) Circular A-102, and applicable state and federal laws and regulations."
<b>EFFECT</b>	A determination could not be made as to the existence, let alone timeliness, of the preparation of the reconciliations.
<b>CAUSE</b>	The Association did not have a proper control in place to verify reconciliations were being performed in a timely manner.
<b>RECOMMENDATION</b>	The Association must prepare bank reconciliations in a timely manner with the appropriate date stamped on them.
<b>RESPONSE</b>	Management has implemented procedures in 2013 to ensure that the Association is in compliance with rules and regulations.

**2010-02 Capital Assets (Compliance Finding)**

<b>CONDITION</b>	The Association did not complete an annual physical inventory of capital assets.
<b>CRITERIA</b>	According to Section 12-6-10, NMSA 1978, "The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority."
<b>EFFECT</b>	Capital asset amounts were not provided, and therefore unable to be determined.
<b>CAUSE</b>	The Association was unaware of the compliance requirements and is not in compliance with Section 12-6-10, NMSA 1978.
<b>RECOMMENDATION</b>	The Association should develop a capital asset listing that agrees with the year-end trial balance and perform a yearly inventory as required by Section 12-6-10 NMSA 1978.
<b>RESPONSE</b>	Management has implemented procedures in 2014 to ensure that the Association is in compliance with rules and regulations.

**2010-03 Revenue (Material Weakness)**

<b>CONDITION</b>	The Association did not provide a deposit register, general ledger, or bank statements to verify proper recording of classification and amount that agrees to the general ledger.
<b>CRITERIA</b>	According to Tier 4 of the Audit Act proper documentation and statements must be made available to perform the proper procedures.
<b>EFFECT</b>	The samples for the procedures were unable to be selected and performed properly since no records were provided.
<b>CAUSE</b>	The Association was unaware of this requirement.
<b>RECOMMENDATION</b>	The Association must keep records and provide proper documentation when requested.
<b>RESPONSE</b>	Management has implemented procedures in 2013 to ensure that the Association is in compliance with rules and regulations.

**2010-04 Expenditures (Material Weakness)**

<b>CONDITION</b>	The Association did not provide a check register to select samples along with adequate and approved supporting documentation including the amounts, payee, date, and the cancelled check.
<b>CRITERIA</b>	State Purchasing Regulations (1.4.1 NMAC) states that, "the purposes of the Procurement Code are to provide for the fair and equal 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 objective of this rule is to have the force and effect of law to implement, interpret or make statute specific as it applies to the Procurement Code, Sections 13-1-28 through 13-1-199 NMSA 1978 and the purposes stated therein."
<b>EFFECT</b>	The procedures were unable to be performed properly since no supporting documentation was provided.
<b>CAUSE</b>	The Association lacked proper internal controls to record this information and we were unable to determine if expenses were paid with approval.
<b>RECOMMENDATION</b>	The Association must place proper internal controls to keep records and provide proper documentation when requested.
<b>RESPONSE</b>	Management has implemented procedures in 2013 to ensure that the Association is in compliance with rules and regulations.

**2010-05 Journal Entries (Material Weakness)**

<b>CONDITION</b>	The Association did not provide a journal entry report for samples to be selected, along with supporting documentation or evidence that journal entries are being reviewed.
<b>CRITERIA</b>	According to Tier 4 of the Audit Act, journal entries must appear reasonable and have supporting documentation and the local public body must have procedures that require journal entries to be reviewed and have evidence the reviews are being performed.
<b>EFFECT</b>	Journal entries lack supporting documentation and are posted without review and approval.
<b>CAUSE</b>	The Association has no procedures in place requiring journal entries to be reviewed and approved.
<b>RECOMMENDATION</b>	The Association must ensure procedures are put in place to post entries and review them accordingly in order to provide adequate supporting documentation.
<b>RESPONSE</b>	Management has implemented procedures in 2013 to ensure that the Association is in compliance with rules and regulations.

**2010-06 Budget Submission to DFA-LGD and Approval**  
**(Compliance Finding)**

<b>CONDITION</b>	The Association did not file any financial and budgetary reports with the DFA-LGD and did not provide Board of Director minutes amending or approving the budget.
<b>CRITERIA</b>	Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD, on or before December 1 of each year, a proposed budget for the next fiscal year. Upon receipt of any budget approved by the DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. Section 6-6-2 (B) NMSA, 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD.
<b>EFFECT</b>	The Association is not in compliance with state law.
<b>CAUSE</b>	The Association prepared a budget, but did not submit to the DFA-LGD for approval.
<b>RECOMMENDATION</b>	We recommend that the Association submit their proposed budget to DFA-LGD for approval, on or before December 1 of each year, and that upon receipt of the approved budget, cause such budget to be made a part of the minutes..
<b>RESPONSE</b>	Management has implemented procedures in 2014 to ensure that the Association is in compliance with rules and regulations.

**2010-07 Quarterly Financial Reports (Compliance Finding)**

<b>CONDITION</b>	Periodic financial reports were not submitted, as required, to the DFA-LGD at any time during the year.
<b>CRITERIA</b>	Section 6-6-3 NMSA, 1978 Compilation 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.
<b>EFFECT</b>	Association is not in compliance with state law.
<b>CAUSE</b>	The Association was not aware of the DFA-LGD requirements.
<b>RECOMMENDATION</b>	We recommend that the Association submit periodic financial reports, as required.
<b>RESPONSE</b>	Management has implemented procedures in 2014 to ensure that the Association is in compliance with rules and regulations.



**2010-08 Board Minutes (Material Weakness)**

<b>CONDITION</b>	The Association did not provide record of Board of Director's meetings for the entire year ended December 31, 2010.
<b>CRITERIA</b>	Section 10-15-1(G) of the Open Meetings Act (NMSA 1978, Sections 10-15-1 to -4) states "the board, commission or other policymaking body shall keep written minutes of all its meetings."
<b>EFFECT</b>	There is an increase risk of error or fraud when there is no evidence of Board approval or amendments on proposed budgets, rules, regulations, contracts, or expenses.
<b>CAUSE</b>	The Association lacks internal controls, recordkeeping, and management oversight.
<b>RECOMMENDATION</b>	We recommend management implement policies promoting good records of minutes for all meetings.
<b>RESPONSE</b>	Management has implemented procedures in 2011 to ensure that the Association is in compliance with rules and regulations.

**2010-09 Expenses in Excess of Budget (Compliance Finding)**

<b>CONDITION</b>	The Association's actual expenditures exceeded budgeted expenditures by \$102,335 in total.
<b>CRITERIA</b>	Budgets for mutual domestic water consumers and sewage works associations are approved by DFA in accordance with Section 6-6-3 NMSA 1978. Association's expenditures cannot exceed the approved budget according to Section 6-6-6 NMSA 1978 which states: "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."
<b>EFFECT</b>	The Association is not in compliance with state law.
<b>CAUSE</b>	The Association provided a budget, however this budget was never approved by the Board or by the DFA-LGD.
<b>RECOMMENDATION</b>	We recommend the Association adopt budget adjustments in accordance with the Association's plans and operations. Monitor accounts at least quarterly to ensure that actual expenditures do not exceed the approved budget or available fund balance at any time during the fiscal year. If any amendments were made during the year keep record on the approved Board minutes.
<b>RESPONSE</b>	Management has implemented procedures in 2014 to ensure that the Association is in compliance with rules and regulations.

**2010-10 Late Submission of Report (Compliance Finding)**

<b>CONDITION</b>	The Agreed Upon Procedures Report for the fiscal year ended December 31, 2010 was not filed timely by May 31, 2011, as required.
<b>CRITERIA</b>	The Office of the New Mexico State Auditor, Rule 2010, Section 2.2.2.9.H requires that local public bodies with a fiscal year end other than June 30th must submit the Agreed Upon Procedures Report no later than five months after the fiscal year end.
<b>EFFECT</b>	The report was not filed in compliance with the State of New Mexico Audit Act.
<b>CAUSE</b>	The report was not made available on a timely basis for use by the Legislature, the administration, or by other users.
<b>RECOMMENDATION</b>	Future required reports should be filed as timely as possible.
<b>RESPONSE</b>	Management has implemented procedures in 2014 to ensure that the Association is in compliance with rules and regulations.

**STATE OF NEW MEXICO  
ALTO DE LAS FLORES MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**EXIT CONFERENCE  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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The report contents were discussed at an exit conference held on July 25, 2014 with the following individuals in attendance:

Alto de Las Flores Mutual Domestic Water Consumers Association

Antonio Chavez	President
Martin Lopez	Operations Contractor
Liliana Rivera	Secretary/Treasurer
<u>White + Samaniego + Campbell, LLP</u>	
Roxie Samaniego	Partner