

STATE OF NEW MEXICO

ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Independent Accountants' Report on Applying Agreed-Upon Procedures

**For the Six Months Ended
June 30, 2010**

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
TABLE OF CONTENTS
June 30, 2010

	<u>Page</u>
Table of Contents.....	i
Official Roster.....	1
Independent Accountant’s Report on Applying Agreed-Upon Procedures	2-7
Schedule of Revenues and Expenditures- (Accrual Basis).....	8
Schedule of Findings and Responses	9-11
Exit Conference	12

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
OFFICIAL ROSTER
June 30, 2010

BOARD OF DIRECTORS-2010

Gilbert Miera	President
Jim Blurton	Vice-President
Delbert Fulfer	Secretary-Treasurer
Luis Terrazas	Board Member
Terry Trujillo	Board Member

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

To: Gilbert Miera, President
Arenas Valley Water Development Association
and
Honorable Hector H. Balderas
New Mexico State Auditor

We have performed the procedures enumerated below for the Arenas Valley Water Development Association (AVWDA), for the six months period ended June 30, 2010. The AVWDA 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 AVWDA through the Office of the New Mexico State Auditor. The Arenas Valley Water Development Association's 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 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. Our procedures and findings are as follows:

Cash

Procedures

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the six month period 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 (DFA-LGD).
- 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) The AVWDA has a checking account, 7 certificates of deposit and a cash money market account. The Organization utilizes the Peachtree Software Accounting system to record their financial transactions and accounting information. All bank reconciliations are performed on a timely basis and all were completed and on-hand and agree to the general ledger accounting system.
- b) Random tests of bank reconciliations revealed no exceptions for accuracy. The reconciliations were accurate and agreed with supporting documentation. However, quarterly financial reports were not submitted to DFA-LGD at any time during this six month period.
- c) Bank account balances in certain situations exceeded uninsured limits, although at all times pledged collateral and FDIC insurance coverage exceeds requirements.

Capital Assets

Procedures

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

Findings

- a) The Organization performs a yearly inventory as required by Section 12-6-10 NMSA 1978 and maintains a capital asset listing.

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 six-month period for each type of revenue.

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

- a) Amount recorded in the general ledger agrees to the supporting documentation and the bank statements.
- b) 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. The basis for the organization is the accrual basis.

Findings

- a) Analytical review and test of actual revenue compared to budgeted revenue for the year for each type of revenue revealed that the agency does not implement a budgetary system. We choose to compare actual revenues with prior year's similar month revenues. This analytical procedure revealed similar comparisons for the period. The organization will need to implement a budgetary system into their accounting procedures.
- b) Amounts recorded into the Peachtree Software Accounting system does agreed with supporting documentation and the bank statements on a consistent basis.
- c) Amounts were properly recorded using the accrual basis of accounting. The Peachtree Software Accounting system is reflecting classification, amount and period per review in relationship to the supporting documentation of the organization.

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 13-1-99 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) Amounts recorded as disbursed agreed to supporting documentation. Amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and cancelled check, as appropriate.

- b) Disbursements were properly authorized and approved in compliance with legal requirements and the established policies and procedures of the agency. There were no budgetary comparisons, as the agency did not establish a budgetary system.
- c) The bid process (or request for proposal, 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).

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

The AVWDA utilizes Peachtree Software Accounting system to record the accounting activity of the organization. Limited reoccurring journal entries, included interest income and bank charges, are being prepared as necessary, with proper approval.

Budget

Procedures

Obtain the original fiscal year budget and all budget amendments made through 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) The Organization did not realize the statutory requirements of their budget responsibilities and related reporting to the local public body of the DFA-LGD. Therefore the 2010 budget was not submitted to the DFA-LGD for approval. Thus, the organization made no subsequent 2010 budget adjustments.
- b) Total actual expenditures were not reported in a budgetary comparison format.
- c) The AVWDA did not submit a budget report for the year ended June 30, 2010 to DFA-LGD. A schedule of revenues and expenditures – budget and actual was not prepared; rather a schedule of revenues and expenditures without budgetary comparison is presented. It is anticipated that, the organization’s Board of Directors will approve a budget, submit it to the DFA-LGD, and prepare a schedule of revenues and expenditures - budget and actual for the year ended June 30, 2011.

Other

Procedures

- a) 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.

Findings

- a) No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts, or any internal control deficiencies. However, see the Schedule of Findings and Responses for noncompliance issues related to the Cash and Budget findings above.
-

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 Arenas Valley Water Development Association, the New Mexico State Auditor's Office and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "C. Foy, CPA". The signature is stylized and cursive.

Carney Foy, CPA
Silver City, New Mexico
March 31, 2011

STATE OF NEW MEXICO
 ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Revenues and Expenditures- (Accrual Basis)
 June 30, 2010

	June 30, 2010
Revenues:	
Water Sales	\$ 151,734
Other Revenue Service	2,120
Late Charges	2,760
New Connections	7,880
Interest Income	6,012
Other Fees	183
	170,689
Total Revenues	170,689
Expenses	
Cost of Water	80,579
Personnel Expense	29,363
Depreciation Expense	25,611
Office Building Expenses	1,094
Maintenance-Water System	3,487
Insurance	5,304
Travel	2,190
Professional Fees	4,729
General Office Expenses	8,284
	160,641
Total Expenses	160,641
Excess of Revenues over Expenses	\$ 10,048

STATE OF NEW MEXICO
 ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
 Six Months ending in June 30, 2010

	<u>Type of Finding*</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	N/A	2010-1
Audit Report Submission	D	N/A	2010-2
Follow-up on Prior Year Findings:			
None	N/A	N/A	N/A

*** Legend for Findings:**

- A. Fraud
- B. Illegal Act(s)
- C. Internal Control Deficiency
- D. Noncompliance

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Six Months ending in June 30, 2010

2010-1

Budget Submission/ Approval and Quarterly Financial Reports

Criteria

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD, on or before June 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. 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.

Condition

The Arenas Valley Water Development Association did not submit their 2010 budget for DFA-LGD approval nor have a record of approval in their minutes. Periodic financial reports were not submitted, as required, to the DFA-LGD at any time during the six month period. The budgetary process was not used by the agency in any fashion.

Cause

The AVWDA was not aware of the DFA-LGD requirements and has never implemented a budgetary process for the Organization.

Effect

The AVWDA has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978.

Recommendation

We recommend that the AVWDA submit their proposed budget to DFA-LGD for approval, on or before June 1 of each year and that upon receipt of the approved budget cause such budget to be made a part of the minutes. We further recommend that the AVWDA submit periodic financial reports as required to the DFA-LGD.

It is further recommended to implement this budgetary process for the fiscal year ended June 30, 2011 as soon as possible. This would include board approval, submission to DFA-LGD for approval, and implementing the budgetary process into the Peachtree Software Accounting system for financial reporting for the period ended June 30, 2011.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Six Months ending in June 30, 2010

Entity Response

Arenas Valley Water Development Association will open discussions with DFA-LGD to submit the June 30, 2011 budget. The board will review and approve a budget for the year end June 30, 2011. Financial reporting of this process will be implemented into the Peachtree Software Accounting system for required comparisons. Furthermore, by June 1, 2011 a board of director approved budget for the year ended June 30, 2012 will be prepared and submitted to the DFA-LGD. This too will be implemented into the Peachtree Software Accounting system. Quarterly financial reports to the DFA-LGD will be prepared and submitted starting with the June 30, 2011 reporting period.

2010-02

Audit Report Submission Date

Criteria

The agreed upon procedures report is due to the Office of the State Auditor on or before December 1, 2010, as required by Sections 2.2.2.9(A) and Section 2.2.2.16 (H) NMAC.

Condition

The audit report was submitted to the Office of the State Auditor on March 31, 2011.

Cause

This was the first year that the agency was required to obtain Tier 4 agreed upon procedures services. This caused a delay in the entire process. Notification from the State Auditor of acceptance to engage the IPA was not received by the agency until December 23, 2010. The contract date for completion of this report was March 31, 2011.

Effect

Delays in submission of the agreed upon procedures report affect the reporting of financial information to other state agencies and local governments. The agency is not in compliance with section 2.2.2.9(A) and section 2.2.2.16(h) NMAC.

Recommendation

We recommend that the AVWDA submit their recommended IPA to the State Auditor for the agreed upon procedures service in ample time whereas the contract can be preformed and the report can be issued by the December 1 deadline.

Entity Response

Arenas Valley Water Development Association will review the process and timeline of obtaining an IPA. We will make every effect not to be late with this report in future years.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Six Months ending in June 30, 2010

EXIT CONFERENCE

The report contents were discussed at an exit conference held March 31, 2011 with the following in attendance:

Arenas Valley Water Development Association

Gilbert Miera	Board President
Delbert Fulfer	Board Secretary-Treasurer
Julie Dubiskas	Office Manager

Accounting Firm

Carney Foy, CPA