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STATE OF NEW MEXICO

**CHAMITA MUTUAL DOMESTIC
WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

Independent Accountants' Report on Applying
Agreed-Upon Procedures (Tier 4)

Year Ended December 31, 2016

STATE OF NEW MEXICO

**CHAMITA MUTUAL DOMESTIC
WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

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CHAMITA MUTUAL DOMESTIC WATER CONSUMERS
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**STATE OF NEW MEXICO
CHAMITA MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Official Roster
at December 31, 2016**

<u>Name</u>		<u>Title</u>
<u>Board of Directors</u>		
Gloria Gonzales		President
Alex Sisneros		Vice-President
Anna Flores		Secretary
Lori Baca		Treasurer
Henry Talache		Member
<u>Staff</u>		
Juliet Salazar		Office Manager
Gloria Gonzales		Water Operator/Meter Reader



Macias, Gutierrez
& Co., P.C.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES (TIER 4)

To: Gloria Gonzales, President
Chamita Mutual Domestic Water Consumers and Sewage Works Association #3090
and
Honorable Timothy M. Keller
New Mexico State Auditor

We have performed the procedures enumerated below, which were agreed to by the Chamita Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA) and Office of the State Auditor on the Tier Verification, Cash, Capital Assets, Revenue, Expenditures, Journal Entries, Budget and Other as of and for the year ended December 31, 2016, included in the accompanying information provided to us by management of the CMDWCSWA. The CMDWCSWA is responsible for the Tier Verification, Cash, Capital Assets, Revenue, Expenditures, Journal Entries, Budget and Other of the CMDWCSWA as of and for the year ended December 31, 2016, included in the accompanying information provided to us by management of CMDWCSWA. 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 the associated findings are as follows:

1. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

We verified CMDWCSWA's revenue calculation and tier determination. Chamita Mutual Domestic Water Consumers and Sewage Works Association's cash basis revenue was between the **Tier 4** lower and upper limits.

2. 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 Department of Finance and Administration-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.

Results of Procedures Performed

- a) CMDWCSWA has three checking accounts and three certificates of deposit, all in one financial institution, and utilizes Quickbooks to record cash transactions. Sampled bank reconciliations were performed on a timely basis and all bank statements were complete and on-hand for the entire year.
- b) Random tests of bank reconciliations revealed no exceptions. The reconciliations were accurate and agreed with supporting documentation. We traced the December 31, 2016 Quickbooks general ledger ending balances, without exception, to the final year-end quarterly financial report submitted to DFA-LGD and to the internally generated Cash Flow Report. Currently, there is no DFA-LGD required cash reporting format.
- c) Cumulative, single-institution bank account balances exceeded uninsured limits for only the first month of the fiscal year (January) but the CMDWCSWA's financial institution did not provide it with the 50% of pledged collateral on all Federal Deposit Insurance Corporation (FDIC) uninsured deposits nor did the CMDWCSWA withdraw the excess funds as required by Sections 6-10-17 and 6-10-17.1 NMSA 1978. (See Finding 2015-001 on pages 4-5).

3. Capital Assets

Procedures

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

Results of Procedures Performed

The CMDWCSWA maintains a capital assets inventory listing and performed a yearly inventory as required by Section 12-6-10 NMSA 1978.

4. 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.

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 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.

Results of Procedures Performed

- a) An analytical review of prior-year to current-year revenue revealed no unexplained or unusual variations. The test of actual revenue compared to budgeted revenue for the year for each type of revenue could not be performed since the CMDWCSWA did not submit a detailed line-item revenue budget but only total projected income. The comparison, in total, was reasonable in the circumstances.

- b) We requested supporting documentation for sixteen (16) deposits (34% of total revenue/deposits) from a total of 56 deposits for the year. For the sample selected, amounts recorded on Quickbooks general ledger agreed with deposit tickets, other supporting documentation provided and the bank statements, without exception.
- c) Amounts were properly recorded on a cash basis as to classification, amount and period per review of supporting documentation.

5. 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 check clearing amount (cancelled checks not returned), 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 of Procedures Performed

- a) We requested supporting documentation for twenty-six (26) disbursements (43% of total expenditures/disbursements) from a total of 347 for the year. For the sample selected, amounts recorded as disbursed agreed to supporting documentation. Amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and photocopied cancelled check, as appropriate.
- b) For the sample selected, disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) 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).

6. 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 of Procedures Performed

The CMDWCSWA utilizes Quickbooks to record cash transactions only and does not prepare formal journal entries.

7. 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.

Results of Procedures Performed

- a) A review of minutes and correspondence revealed that the CMDWCSWA submitted a 2016 budget to DFA-LGD for approval. There was one subsequent Board and DFA-LGD approved budget adjustment increasing the revenue and expense budget and revising expense line items.
- b) Total actual expenses did not exceed the final budget at the total fund level, the legal level of budgetary control.
- c) A schedule of revenues and expenses – budget and actual was prepared from CMDWCSWA records on the cash budgetary basis. This schedule is included herein as Exhibit A. The CMDWCSWA submitted a Profit and Loss Budget Performance report for the year ended December 31, 2016 to DFA-LGD, which is presented herein as Exhibit B.

8. 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 of Procedures Performed

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts or internal control deficiencies. However, see the Schedule of Findings and Responses for noncompliance issues related to the procedures for the Cash finding described above (See Finding 2015-001 on pages 4-5).

* * * * *

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Tier Verification, Cash, Capital Assets, Revenue, Expenditures, Journal Entries, Budget and Other of the CMDWCSWA as of and for the year ended December 31, 2016, included in the accompanying information provided to us by management of the CMDWCSWA. Accordingly, we do not express such an opinion or conclusion. 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 the Chamita Mutual Domestic Water Consumers and Sewage Works Association, the New Mexico State Auditor's Office and the Department of Finance and Administration, Local Government Division and the New Mexico Legislature and is not intended to be and should not be used by anyone other than the specified parties.

Macias, Gutierrez & Co., CPAs, P. C.

Macias, Gutierrez & Co., CPAs, P. C.
Española, New Mexico
May 18, 2017

STATE OF NEW MEXICO
CHAMITA MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)
Year Ended December 31, 2016

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Interest Income	\$ -	\$ -	\$ 150	\$ 150
Membership Fee	-	-	146	146
Reconnect Fee	-	-	50	50
Disconnect Fee	-	-	25	25
Reimbursements-Chamita Community Center	-	-	1,503	1,503
Other Reimbursements	-	-	537	537
Refunds	-	-	37	37
Returned Item Replacement	-	-	381	381
Sale of Vehicle	-	-	200	200
Water Service Sales	113,031	113,031	113,911	880
Total revenues	113,031	113,031	116,940	3,909
Cash balance budgeted	60,000	60,000	-	(60,000)
Total revenues and cash balance budgeted	173,031	173,031	116,940	(56,091)
Expenses:				
Advertising	300	300	-	300
Association Meetings	300	300	56	244
Audit (AUP)	5,000	5,000	3,908	1,092
Auto	700	700	20	680
Bank	80	80	60	20
Bank Check Charge	10	10	-	10
Chama Community Center	6,000	6,000	5,887	113
Contract Labor	3,000	3,000	3,836	(836)
Dues	300	300	-	300
Insurance	5,100	5,100	4,294	806
Legal	700	700	699	1
Loan Payment	60,000	64,000	63,263	737
Miscellaneous Stipend	630	630	400	230
Office Supplies	6,000	6,000	7,379	(1,379)
Payroll Expenses	40,000	40,000	39,636	364
Postage	1,500	1,500	1,605	(105)
Registration Fee	800	1,000	900	100
Returned Checks	300	500	381	119
System Supplies	3,000	3,000	2,094	906
System Upgrade/Repairs	6,000	6,000	3,495	2,505
System Design	800	-	-	-
Tax	6,000	10,000	10,489	(489)
Training	700	700	714	(14)
Utilities	7,500	7,500	7,669	(169)
Water Rights Transfers	500	500	-	500
Total expenses	155,220	162,820	156,785	6,035
Excess revenues over (under) expenses	\$ 17,811	\$ 10,211	\$ (39,845)	\$ (50,056)

Chamita MDWCA
Profit & Loss Budget Performance
October through December 2016

	<u>Oct - Dec 16</u>	<u>Jan - Dec 16</u>	<u>Annual Budget</u>
Ordinary Income/Expense			
Income			
Disconnect Fee	0.00	25.00	0.00
Reserve Fund	0.00	0.00	60,000.00
Reconnect fee	0.00	50.00	0.00
Refund	11.55	37.10	0.00
Reimbursement	330.48	2,040.18	0.00
Returned Item Replacement	0.00	381.18	0.00
Sale of Vehicle	0.00	200.00	0.00
Water Service Sales	28,369.06	113,911.35	113,031.00
Total Income	<u>28,711.09</u>	<u>116,644.81</u>	<u>173,031.00</u>
Gross Profit	28,711.09	116,644.81	173,031.00
Expense			
Advertising	0.00	0.00	300.00
Association Meetings	0.00	56.50	300.00
Audit	0.00	3,908.26	5,000.00
Auto	0.00	20.05	700.00
Bank	15.00	60.00	80.00
Bank Chrg	0.00	0.00	10.00
Chamita Community Center	1,214.66	5,886.83	6,000.00
Contract Labor	0.00	3,836.00	3,000.00
Dues	0.00	0.00	300.00
Insurance	0.00	4,294.00	5,100.00
Legal	0.00	698.75	700.00
Loan Payment	0.00	63,262.75	64,000.00
Misc	50.00	400.00	630.00
Office Supplies	1,199.15	7,378.78	6,000.00
Payroll Expenses	10,061.59	39,636.52	40,000.00
Postage	399.00	1,604.70	1,500.00
NMRW Registration Fee	0.00	900.00	1,000.00
Returned Cks	0.00	381.18	500.00
System Supplies	164.62	2,093.77	3,000.00
System Upgrade	3,494.87	3,494.87	6,000.00
Tax	3,711.62	10,489.64	10,000.00
Training	0.00	713.85	700.00
Utilities	1,676.90	7,668.82	7,500.00
Water Rights Transfers	0.00	0.00	500.00
Total Expense	<u>21,987.41</u>	<u>156,785.27</u>	<u>162,820.00</u>
Net Ordinary Income	<u>6,723.68</u>	<u>-40,140.46</u>	<u>10,211.00</u>
Net Income	<u><u>6,723.68</u></u>	<u><u>-40,140.46</u></u>	<u><u>10,211.00</u></u>

**STATE OF NEW MEXICO
 CHAMITA MUTUAL DOMESTIC WATER CONSUMERS
 AND SEWAGE WORKS ASSOCIATION**

**Schedule of Findings and Responses
 Year Ended December 31, 2016**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Pledged Collateral on Uninsured Deposits	D	N/A	2015-001
Follow-up on Prior Year Findings:			
Pledged Collateral on Uninsured Deposits	D	2015-001	2015-001 Revised Repeated

*** Legend for Findings:**

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

**STATE OF NEW MEXICO
CHAMITA MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2016**

2015-001

Pledged Collateral on Uninsured Deposits

Criteria

The Federal Deposit Insurance Corporation (FDIC) insures deposits in a single financial institution up to maximum of \$250,000. Section 6-10-17 NMSA 1978 states, in part, “that any bank or savings and loan association designated as a depository of public money shall deliver securities of the kind specified in [Section 6-10-16](#) NMSA 1978 to a custodial bank described in [Section 6-10-21](#) NMSA 1978 and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received.”

Section 6-10-17.1 NMSA 1978 states that “when a treasurer, board of finance or board of control finds that a bank or savings and loan association that has been designated as a depository of public money has not maintained qualifying securities as collateral for deposits of public money under the control of that treasurer or board as required by law, the treasurer or board shall request the depository to substitute or provide additional qualifying securities to meet those requirements within ten calendar days. If the bank or savings and loan association does not comply with the request within ten calendar days, the treasurer or board shall withdraw from that depository within the next ten calendar days all deposits of public money under the treasurer's or board's control without penalty to the public depositor, notwithstanding any other provision of law to the contrary.”

Condition

The Chamita Mutual Domestic Water Consumers and Sewage Works Association's (CMDWCSWA) cumulative single-bank deposits exceeded \$250,000 for only the first month of the fiscal year but the financial institution did not provide the CMDWCSWA with 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, nor did they withdraw the excess funds from that financial institution as required by Section 6-10-17.1 NMSA 1978. The amount over the \$250,000 FDIC insured amount was \$17,014. This is a repeat finding from 2015 but for 2016, the excess was for only one month as opposed to the last six months of 2015.

Cause

The CMDWCSWA did not have procedures in place to recognize that the cumulative bank balance amounts exceeded the FDIC insured amount.

Effect

The CMDWCSWA was exposed to custodial credit risk for the first month of the year and did not comply with Section 6-10-17 and 6-10-17.1 NMSA 1978. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

**STATE OF NEW MEXICO
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**Schedule of Findings and Responses
Year Ended December 31, 2016**

2015-001 (cont'd)

Pledged Collateral on Uninsured Deposits (cont'd)

Recommendation

We again recommend that the CMDWCSWA implement procedures to recognize when cumulative single-bank account balances exceed FDIC insured limits and comply with Sections 6-10-17 and 6-10-17.1 NMSA 1978.

Entity Response and Corrective Action Plan

“The CMDWCSWA will implement procedures to monitor bank account balances so that the balances do not exceed FDIC insurance limits. The President and Treasurer will move the CD amount of \$16,472.45 in June of 2017. This will ensure that balances do not exceed FDIC insured limits.”

**STATE OF NEW MEXICO
CHAMITA MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Exit Conference
Year Ended December 31, 2016**

EXIT CONFERENCE

The report contents were discussed at a telephonic exit conference held on May 25, 2017 with the following:

Chamita Mutual Domestic Water Consumers and Sewage Works Association

By telephone:

Gloria Gonzales, Board President
Juliet Salazar, Office Manager

Accounting Firm

James R. (Jim) Macias, CPA