

STATE OF NEW MEXICO

**EAST PECOS MUTUAL
DOMESTIC WATER
CONSUMERS
ASSOCIATION**

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

**For the Year Ended
December 31, 2013**

**STATE OF NEW
MEXICO**

**East Pecos Mutual
Domestic Water
Consumers Association
DECEMBER 31, 2013**

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**STATE OF NEW
MEXICO**

**East Pecos Mutual
Domestic Water
Consumers
Association
OFFICIAL ROSTER
DECEMBER 31, 2013**

**Board of
Commissioners**

<u>Name</u>	<u>Title</u>
Ramon Orlando Vigil	President
Robert Baca	Treasurer
Kathy Wallace	Secretary, Treasurer
Ralph Vigil	Member
David Vigil	Member

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

Board of Commissioners
East Pecos Mutual Domestic Water
Consumers Association and
Honorable Timothy M.
Keller New Mexico State
Auditor Santa Fe, New
Mexico

We have performed the procedures enumerated below which were agreed to by the East Pecos Mutual Domestic Water Consumers Association (the “Association”) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association’s financial reporting relating to its capital outlay award and its compliance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended December 31, 2013. The Association is responsible for its financial reporting as described above. 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.

In accordance with Tier 4 of the Audit Act – Section 12-6-3 B (3) NMSA 1978 and Section 2.2.2.16 NMAC, our procedures and associated findings are as follows:

1. Cash:

- 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.

Results of Procedures:

- a) No bank reconciliations for the year. SAS was able to obtain a complete list of bank statements. See resulting finding. See Finding 2012-004
- b) Could not be performed due to lack of reconciliations, etc. See resulting finding.

c) No uninsured funds, no issue noted.

2. Capital Assets:

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

Results of Procedures:

a) SAS was not able to obtain a list of inventory. See resulting finding. 2012-006

3. Revenue:

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:

a) Association did not prepare budgets. See resulting finding. 2012-001

b) Association did not prepare. See resulting finding. 2012-004

c) Association did not prepare. No policies in place for accounting basis, etc. 2012-005

4. Expenditures:

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 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). Note: The sample must be representative of the population.

Results of Procedures:

- a) Association did not prepare. No policies in place for accounting basis, etc. Extreme expenditure issues resulting from apparent fraud-noted below. See resulting finding 2012-001
- b) Association did not prepare. No policies in place for accounting basis, etc. Extreme expenditure issues resulting from apparent fraud-noted below. See resulting finding 2012-001
- c) SAS reviewed documentation related to issue. Association had no policies or procedures in place, however no direct issues related to matter detailed at YE December 31, 2013.

5. Journal Entries:

OFFICE OF THE STATE AUDITOR 2013 AGREED UPON PROCEDURES Tier 4 of the Audit Act – Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC Page 2 of 2 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:

- a) No journal entries prepared. Journal entries were required for Additions of fixed assets and results of fraud discovery however entity did not have knowledge on preparation of JE's. See resulting finding. 2012-005
- b) No journal entries prepared. Journal entries were required for Additions of fixed assets and results of fraud discovery. See resulting finding. 2012-005, FA 2012-006

6. Budget:

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:

- a) SAS noted no issues related to matter of minutes.
- b) No budget prepared or submitted. See resulting finding. 2012-001, 2012-003
- c) No budget prepared or submitted. See resulting finding. 2012-001, 2012-003

Other 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.

Results of Procedures:

a) SAS noted apparent issue of fraud within Association: Immediately upon discovery of any violation of a criminal statute in connection with financial affairs, the state auditor shall report the violation to the proper prosecuting officer and furnish the officer with all data and information in his possession relative to the violation. An agency or independent auditor shall report a violation immediately to the state auditor. See Finding 2013-001

History: 1953 Comp., § 4-31-6, enacted by Laws 1969, ch. 68, § 6; 2003, ch. 273, § 19.

Association did not notify State Auditor about related issue due to lack of understanding of reporting requirements. Association did report the issue to the Bernalillo County District Attorney and an agreement with the perpetrator was reached. The Association is in process of preparing a 12.6.6 for the State Auditor.

SAS saw no evidence of capital outlay for the year ended December 31, 2013 making this a Tier 4 AUP.

We were not engaged to, and did not conduct an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or any part thereof, including the accompanying Exhibits A through E. 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 the East Pecos Mutual Domestic Water Consumers Works Association, the New Mexico State Auditor's Office and the Department of Finance and Administration, Local Government Division and the NM Legislature and is not intended to be and should not be used by anyone other than those specified parties.

Southwest Accounting Solutions

Albuquerque, NM 87110

August 4, 2016

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers
Association
Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)
DECEMBER 31, 2013

General Fund 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Current	Original	Final	Actual	Final to actual
State Allotments	\$ -	\$ -	\$ -	\$ -
State Grants	-	-	-	-
Federal Grans	-	-	-	-
Water Dues	-	-	53,685	53,685
Miscellaneous Revenue	-	-	-	-
Total revenue	-	-	53,685	53,685
Expenditures				
Current				
Board Payments	-	-	16,074	(16,074)
Repairs and Maintenance	-	-	2,447	(2,447)
Utilities	-	-	24	(24)
Supplies	-	-	4,252	(4,252)
Professional Services	-	-	774	(774)
Travel	-	-	220	(220)
Bank fees and errors	-	-	1,392	(1,392)
Miscellaneous Expenses	-	-	26,201	(26,201)
Postage, mailing	-	-	810	(810)
Meter Reading	-	-	8,973	(8,973)
Taxation and Revenue	-	-	774	(774)
Total expenditures	\$ -	\$ -	61,941	(61,941)
Excess (deficiency) of revenues over expenditures			\$ (8,256)	\$ (8,256)

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
DECEMBER 31, 2013

- 1. Prior Year Finding 2012-001, Unresolved**
- 2. Prior Year Finding 2012-002, Unresolved**
- 3. Prior Year Finding 2012-003, Unresolved**
- 4. Prior Year Finding 2012-004, Unresolved**
- 5. Prior Year Finding 2012-005, Unresolved**
- 6. Prior Year Finding 2012-006, Unresolved**
- 7. Current Year Finding 2013-001, Current Year**

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East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
DECEMBER 31, 2013

Findings (prior year-one current year):

2012-001

Budget Preparation (None Prepared)

Criteria

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the Department of Finance and Administration-Local Government Division (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 6-6-6 NMSA 1978 states that when any budget for a local public body has been approved, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof.

Condition

Total Budget/actual expenditures for the year were not available for comparison as Association did not have a proper budget available for review.

Cause

The Association did maintain their prepared budgeted revenue and expenses for the DFA properly.

Effect

The Association has not complied with Section 6-6-6 NMSA 1978.

Recommendation

We recommend that the Association make prepare budgets, maintain budgets, and make appropriate budget adjustments to insure that total actual expenditures do not exceed total budgeted expenditures.

Association Response

“The Association Board of Directors on behalf of the Association will prepare budgets, maintain budgets, and make appropriate budget adjustments to insure that total actual expenditures do not exceed total budgeted expenditures.”

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
DECEMBER 31, 2013

2012-002

Late Report

Criteria

Office of the State Auditor, Rule 2012, Section 2.2.2.16.H, requires that local public bodies with a fiscal year end other than June 30 must submit the agreed upon procedures (AUP) report no later than five months after the fiscal year end.

Condition

The Association has a December 31 year end but the agreed upon procedures report was submitted more than five months after the end of the fiscal year.

Cause

The AUP was not contracted until 2016.

Effect

The Association has not complied with Office of the State Auditor, Rule 2012, Section 2.2.2.16.H.

Recommendation

We recommend that the Association contract on a timely basis and submit all future agreed-upon procedures reports by the required deadline.

Association Response

“The Association late report was created due to a lack of timely schedule. The Association Board of Directors will insure that contracting is done on a timely basis and submit all future agreed-upon procedures reports by required deadline.”

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East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
DECEMBER 31, 2013

2012-003

Budget Reporting on Quarterly Financial
Reports/Profit and Loss Reports-
Submissions to DFA

Criteria

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 (DFA/Local Government Division Budgeting and Reporting Guidelines for Special Districts).

Condition

The Association did not perform/report quarterly reports to the DFA for the year ended December 31, 2013.

Cause

The Association did not insure that the amounts reported as Annual Budget on the quarterly reports submitted agreed with the DFA-LGD approved amounts or that all revenue and expense accounts were included. No profit and loss report prepared.

Effect

The Association has not complied with Section 6-6-3 NMSA 1978 and related reporting guidelines.

Recommendation

We recommend that the Association submit the quarterly financial budget to actual reports that include the approved DFA-LGD budget amounts and all revenue and expense accounts.

Association Response

“The Association will submit the quarterly financial budget to actual reports that include the approved DFA-LGD budget amounts and all revenue and expense accounts.”

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
DECEMBER 31, 2013

2012-004

Bank Reconciliations

Criteria

Good accounting practices require properly reconciled cash and investment accounts with the proper reviews in place.

Condition

The Association does not have a process to reconcile the cash and investment accounts to the general ledger.

Cause

The Association staff has not been adequately trained on the accounting system's allocated cash feature. Association staff does not adequately review the reconciliations and their balance relative to the general ledger.

Effect

The Village does not know what actual cash balances were at the time of year-end.

Recommendation

The Association should obtain training on the allocated cash system. The Association should consider hiring an outside accountant to help train staff on cash reconciliations. An individual not preparing this should review all.

Association Response

"The Association clerk/treasurer will obtain training."

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
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2012-005

Generally Accepted Accounting
Principles/Policies and Procedures

Criteria

Good accounting practices require properly followed accounting principles with effective policies and procedures in place.

Condition

The Association does not have a proper process in place and also lacks the proper policies and procedures for effective performance.

Cause

The Association staff has not been adequately trained on the accounting system nor do they have any established processes nor policies and procedures in place.

Effect

The following issues have are resulted of the matter at hand:

- Apparent theft occurred due to lack of proper controls and reviews
- There are no asset nor liability listing on the books of the Association-including Capital Assets and inventory
- No profit or loss statements were prepared
- As mentioned prior, no reconciliations were prepared.
- As previously mentioned, no date was submitted to DFA
- The Association has had no contact with the State Auditor's Office
- No Journal entries have been prepared

Recommendation

- The Association should obtain training on the proper accounting, review, and control procedures. Effective policies and procedures should be put in place.

Association Response

"The Association clerk/treasurer will obtain training."

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
DECEMBER 31, 2013

2012-006

Fixed Assets/Inventory

Criteria

Good accounting practices require properly prepared inventory/Fixed Asset List accounts with the proper reviews in place.

Condition

The Association does not have a process to add items to the asset listing.

Cause

The Association staff has not been adequately trained on the accounting system's asset features. Association staff does not adequately review the purchases of assets and their balance relative to the general ledger.

Effect

The Village does not know what actual asset listings were at the time of year-end.

Recommendation

The Association should obtain training on the system. The Association should consider hiring an outside accountant to help train staff on fixed asset listings. An individual not preparing this should review all.

Association Response

"The Association clerk/treasurer will obtain training."

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
DECEMBER 31, 2013

2013-001

Failure to notify OSA of occurrence of Fraud

Criteria

NM entities are required to notify the Office of the State Auditor immediately on the discovery of the occurrence of fraud.

Condition

In FY 2013 the entities Treasurer absconded with \$89,322 of the entities money.

Cause

The Association staff has not been adequately trained on the accounting system nor do they have any established processes nor policies and procedures in place. They were unaware of the requirement.

Effect

The office of the State Auditor was not made aware of the Fraud until FY 2016. The investigation and subsequent decisions related were made without input from OSA.

Recommendation

The Association is required to notify the Office of the State Auditor of such occurrences moving forward.

Association Response

Southwest Accounting Solutions alerted the Office of the State Auditor of the issues on July 23, 2016.

**STATE OF NEW MEXICO
East Pecos Mutual Domestic Water
Consumers Association**

EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2013

The report contents were discussed at an exit conference held on August 4th, 2016 with the following in attendance:

East Pecos Mutual Domestic Water Consumers Association

Ramon Orlando Vigil	President
Robert Baca	Treasurer
Kathy Wallace	Secretary, Treasurer
Ralph Vigil	Member
David Vigil	Member

Southwest Accounting Solutions, LLC

Geoff Mamerow, CFE