

**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, 2015**

**STATE OF NEW  
MEXICO**

**East Pecos Mutual  
Domestic Water  
Consumers Association  
DECEMBER 31, 2015**

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**STATE OF NEW  
MEXICO**

**East Pecos Mutual  
Domestic Water  
Consumers  
Association  
OFFICIAL ROSTER  
DECEMBER 31, 2015**

**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, 2015. 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. Verify the local public body's revenue calculation and tier determination documented on the form provided at [www.osanm.org](http://www.osanm.org) under "Tiered System Reporting Main Page."

Results of Procedures:

a) Completed without issue.

2. 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) Bank reconciliations for the year provided, however timeliness and accuracy unable to be verified due to lack of supporting documentation. SAS was able to obtain a complete list of bank statements, however. See resulting finding. See Finding 2012-004
- b) Could not be performed due to lack of supporting documentation, etc. See Finding 2012-004
- c) No uninsured funds, no issue noted.

3. 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

4. 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

5. 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, 2015. See resulting finding 2012-005

6. Journal Entries:

OFFICE OF THE STATE AUDITOR 2015 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

7. 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, 2015 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, 2015**

General Fund 2015

	<u>Budgeted Amounts</u>		<u>Variance Favorable (Unfavorable)</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final to actual</u>
<b>REVENUES</b>				
<b>Current</b>				
State Allotments	\$ -	\$ -	\$ -	\$ -
State Grants	-	-	-	-
Federal Grants	-	-	-	-
Water Dues	-	-	51,879	51,879
Miscellaneous Revenue-Theft Collection	-	-	1,100	1,100
<b>Total revenue</b>	<u>-</u>	<u>-</u>	<u>52,979</u>	<u>52,979</u>
<b>Expenditures</b>				
<b>Current</b>				
Board Payments	-	-	6,565	(6,565)
Repairs and Maintenance	-	-	26,186	(26,186)
Utilities	-	-	4,964	(4,964)
Supplies	-	-	135	(135)
Professional Services	-	-	3,464	(3,464)
Travel	-	-	-	-
Bank fees and errors	-	-	1,070	(1,070)
Miscellaneous Expenses	-	-	35	(35)
Postage, mailing	-	-	854	(854)
Meter Reading	-	-	8,110	(8,110)
Taxation and Revenue	-	-	182	(182)
<b>Total expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>51,564</u>	<u>(51,564)</u>
<b>Excess (deficiency) of revenues over expenditures</b>			<u>\$ 1,415</u>	<u>\$ 1,415</u>

**STATE OF NEW MEXICO**  
**East Pecos Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

- 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. Prior Year Finding 2013-001, Unresolved**

**STATE OF NEW MEXICO**  
**East Pecos Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

**Findings (prior year-no current year, 2015 Findings):**

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. As of the AUP procedures, the Association has assigned the task and has begun the process of completing budgets in a timely manner. The As of the AUP procedures, the Association has assigned the task and has begun the process of completing budgets in a timely manner. The Association expects this finding to be removed for December 31, 2016.

**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, this has begun as of the time of the AUP procedures for FY 2016. The Treasurer position is assuming responsibility for this issue”

**STATE OF NEW MEXICO**  
**East Pecos Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

**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. As of the AUP procedures, the Association expects to have the AUP to OSA in a timely manner for December 31, 2016. The Association expects this finding to be removed for December 31, 2016.

**Cause**

The AUP was not contracted until 2016.

**Effect**

The Association has not complied with Office of the State Auditor, Rule 2015, 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. This process is in place for December 31, 2016”

**STATE OF NEW MEXICO**  
**East Pecos Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

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, 2015. This is in process of being rectified, there were some late submissions in 2016, but the process of catching up with the budget reporting is nearly complete.

**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. The Treasurer will complete this task.”

**STATE OF NEW MEXICO**  
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**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

**2012-004**

**Bank Reconciliations**

**Criteria**

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

**Condition**

The Association did have a process to reconcile the cash and investment accounts to the general ledger for 2015, but they did not maintain enough supporting documentation to verify the accuracy and timeliness of these reports. The Association expects this finding to be removed for December 31, 2016, as they are now maintaining proper records.

**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 prepare reconciliations for the Association."

**STATE OF NEW MEXICO**  
**East Pecos Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

**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. They are in the process of correcting these issues with training and preparing proper polices and procedures.

**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:

- 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-when needed

**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 and maintain records in a detailed manner."

**STATE OF NEW MEXICO**  
**East Pecos Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

**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. At the time of this report, the Association is in process of preparing a 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 prepare a fixed asset list going forward."



**STATE OF NEW MEXICO**  
**East Pecos Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**DECEMBER 31, 2015**

**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. The entity is in compliance with this currently and expects the finding to be removed for December 31, 2016

**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, 2015

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