

State of New Mexico
East Pecos Mutual Domestic Water
Consumers Association
Tier 5 Agreed-Upon Procedures
Report December 31, 2018

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
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STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Official Roster
December 31, 2018

Board of Directors

Robert Baca President
Joe David Vigil Vice President
Kathy Wallace Secretary
Monica Varela Treasurer
Ralph Vigil Member



Auditors~Consultants~CPA

INDEPENDENT AUDITORS' REPORT ON APPLYING AGREED UPON PROCEDURE'S

Brian S. Colón, Esq.
New Mexico State Auditor
and
Robert Baca, President
East Pecos Mutual Domestic Water Consumers Association

We have performed the procedures enumerated below, which were agreed to by the New Mexico Office of the State Auditor and East Pecos Mutual Domestic Water Consumers Association (the Association), as of December 31, 2018. The Association's management is responsible for the Tier System Reporting established by the New Mexico Office of the State Auditor. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

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 the Association's calculation and determination as a Tier 5 agreed-upon procedures engagement based on Capital outlay appropriations.

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.

The Association has one checking and two savings accounts. We found bank reconciliations for the Fiscal Year were performed on a timely basis and appeared to be accurate; therefore the Finding numbered 2017-001 had been resolved.

The bank statements for the entire calendar year were complete and on-hand.

- b. Test at least 30% of the bank reconciliations for accuracy. Also trace ending balances to the general ledger, supporting documentation, and the financial reports submitted to DFA-Local Government Division.

We reviewed bank reconciliations for March, May, November and December 2018, or 33% of reconciliations. The December bank reconciliations showed outstanding checks for \$546 in the checking account, which were properly included in the reconciliation, there were no outstanding deposits. The ending balance within the budget submitted to the DFA was understated by \$4,495. See Finding 2018-001.

- 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.

The Bank Account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank balances were well below \$250,000 during the year up to year-end.

3. Capital Assets

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

The Association only has infrastructure assets consisting of water wells, tank reservoir, water meters, and connections. There were no tangible assets over \$5,000 reported by the Association. Items for both Fiscal years ended December 31, 2017 and 2018 were included in the fixed asset listing, thereby resolving finding 2017-002.

4. Revenues

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.

The revenue sources of the Association consist of water user fees, interest, and State Grants. The variance between water fees revenues and NMED reimbursement revenues was approximately 1% from December 31, 2017 to December 31, 2018, however we noted the revenues were understated in the budgetary report submitted to the DFA between actual revenues of the association and the actual revenues reported to the DFA.

Select a sample of revenue equal to at least 30% of the total dollar amount and test the following attributes:

- b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts was judgmentally selected and tested, this amounted to \$35,596.78 which was 40% of the year's revenue, and included all receipts for Capital Outlay. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement for each receipt tested, there were no other noted issues with revenues.

- 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.

The cash receipts tested were properly classified and recorded in the general ledger on the cash basis of accounting. There was an issue with an understatement of cash within the budget, but being that the General Ledger appeared correct, this did not appear to rise to the level of a finding.

5. Expenditures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following attributes:

- a. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of cash disbursements totaling \$54,924.68, 49% of the year's expense, was judgmentally selected and tested. The amounts recorded as disbursed agreed with the supporting documentation available which included canceled checks, invoices, board minutes and bank statements. Finding 2017-003 is resolved as a result.

- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

Each of the disbursements reviewed had dual signatures, and we traced disbursements to the minutes of the meetings of the board of directors which included the Treasurer's report. The report included a list of checks/disbursements that were reviewed and approved by the board. All invoices were signed off on and reviewed prior to disbursement.

- 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), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

We noted no procurement issues in the Association's obtaining of vendors who were selected for this project. In Addition the project was a carry-over from previous years, and no previous issues with Procurement were noted. The cash disbursements tested, which included all capital outlay expenditures, were processed in accordance with applicable provisions of the State Procurement Code and State Purchasing Regulations.

6. Journal Entries

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:

- a. Journal entries appear reasonable and have supporting documentation.

There were 9 journal entries posted during the year, all of which were tested. The Association maintained all of these in QuickBooks, and we noted no issues. Most of these entries deal with NSF checks, end of year issues and sales tax corrections.

- b. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association did have a review of JE's in place, the treasurer prepared the JE's and presented them to the board, in addition an outside accountant reviewed all JE's for errors and appropriateness.

7. Budgets

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.

The original budget and the final budget is the same since the Association did not make budget adjustments during the year. The budget was adopted and approved by the Association's Board of Directors on January 14, 2018. The budget was approved by DFA-LGD on January 22, 2018.

- b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.

The Association legal budget control is based on total budgetary expenditures. Actual expenditures did not exceed the approved budget for the year ending December 31, 2018. See the Schedule of Revenues and Expenditures - Budget and Actual listed in the table of contents.

- 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.

See the Schedule of Revenues and Expenditures - Budget and Actual as listed in the table of contents.

8. Capital Outlay Appropriations

The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital outlay appropriations of the New Mexico Legislature that meet Tier 5 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet the Tier 5 criteria. Perform the following tests on all state-funded capital outlay expenditures:

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.

The total of capital outlay cash disbursements, totaling \$47,277 was selected and tested. The amounts recorded as disbursed agreed with the supporting documentation.

- b. Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.

Each of the disbursements reviewed had dual signatures, and we traced disbursements to the minutes of the meetings of the board of directors which included the Treasurer's report. The report included a list of checks/disbursements that were reviewed and approved by the board. All invoices were signed off on and reviewed prior to disbursement. The amounts disbursed for the year were below the budgeted amounts.

- 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

We tested the population as a whole. We noted no procurement issues in the Association's obtaining of vendors who were selected for this project. In Addition the project was a carry-over from previous years, and no previous issues with Procurement were noted. The cash disbursements tested, which included all capital outlay expenditures, appeared to be processed in accordance with applicable provisions of the State Procurement Code and State Purchasing Regulations.

- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.

We were able to verify the existence of the capital assets per engineering reports included in expense documentation, all items for the current year were design related.

- e. Verify that status reports were submitted to the state agency charged with oversight per the terms of the agreement and verify that the amounts in the status report agree with the general ledger and other supporting documentation.

The status reports submitted the New Mexico Environment Department were examined for accuracy and appeared to be appropriately prepared.

- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.

As of December 31, 2018 and for prior reimbursement requests, the project is being funded on a cost-reimbursement basis; no issues noted.

- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and the agreement with the grantor.

As of December 31, 2018, the project is not complete. Items are being added to the CIP listing for the association during the interim.

- h. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.

Cash received for the awarded was accounted in a separate checking account; thereby fulfilling the requirement.

- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Reimbursement requests were properly supported by capital outlay expense incurred by the Association. The disbursements occurred prior to the requests for reimbursement.

9. 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(L) NMAC.

In regards to Finding 2012-002, Late Report, Non-Compliance; it appears the Association's Tier 5 Agreed Upon Procedures Report for December 31, 2018 will be submitted timely thereby resolving the Finding.

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 review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Schedule of Revenues and Expenditures – Budget to Actual and the Year End Financials Submitted to DFA. 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 management of East Pecos Mutual Domestic Water Consumers Association, the New Mexico State Auditor, the Department of Finance and Administration and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

Southwest Accounting Solutions, LLC

Southwest Accounting Solutions, LLC
Albuquerque, New Mexico
April 16, 2019

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Association
Statement of Revenues and Expenditures -
Budget to Actual
For the Year Ended
December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Water Use Fees	\$ 58,000	\$ 58,000	\$ 51,996	\$ (6,004)
Other Income	-	-	64	64
State Grants-Capital outlay	69,989	69,989	36,532	(33,457)
Total revenue	<u>127,989</u>	<u>127,989</u>	<u>88,592</u>	<u>(39,397)</u>
Expenditures				
Salaries	-	-	-	-
Employee Benefits	-	-	-	-
Electricity	5,100	5,100	5,301	(201)
Other Utilities	-	-	-	-
System Parts and Supplies	-	-	-	-
System Repairs and Maintenance	6,000	6,000	15,653	(9,653)
Vehicle Expense	500	500	601	(101)
Office and Administrative Expense	6,000	6,000	3,587	2,413
Professional Services	50,000	50,000	35,907	14,093
Insurance	100	100	100	-
Dues, Fees Permits and Licenses	-	-	283	(283)
Taxes	3,000	3,000	4,082	(1,082)
Training	-	-	-	-
Miscellaneous	-	-	-	-
Sewer Infrastructure	57,289	57,289	47,277	10,012
Total expenditures	<u>\$ 127,989</u>	<u>\$ 127,989</u>	<u>\$ 112,791</u>	<u>\$ 15,198</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>		<u>\$ (24,199)</u>	
Other financing resources (uses)				
Increases/Decreases in receivables and payables	-		3,283	
Cash Balance, beginning of year	157,442		141,486	
Cash Balance, end of year	<u>\$ 157,442</u>		<u>\$ 120,570</u>	



	APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct - Dec	Year to Date(YTD) Totals	YTD (over)/under BUDGET	% of Budget
Beginning balances:								
Cash	9,722							
Savings	147,720							
CDs								
Investments								
Beginning Balance TOTAL	\$ 157,442							
REVENUES								
Water Sales (Water Use Fees)	58,000	4,132	12,030	6,056	12,621	34,839	23,161	60%
Connection/Reconnection Charges						0	0	-
Membership and Meter Sales (Utility Service Fees)		6	15	28	0	49	(49)	-
Late Fees and Penalties (Other Fines and Forfeits)						0	0	-
Gross Receipts Tax (Other State shared taxes)						0	0	-
Other Operating Revenue (miscellaneous - other)	69,989	10,763	33,938	(9,100)	931	36,532	33,457	52%
TOTAL	\$ 127,989	14,901	45,983	(3,016)	13,552	71,420	56,569	56%
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.						0	0	-
Employee Benefits and Expenses						0	0	-
Electricity	5,100					0	5,100	0%
Other Utilities - Gas, Water, Sewer, Telephone		1,755	1,365	1,112	1,068	5,300	(5,300)	-
System Parts and Supplies						0	0	-
System Repairs and Maintenance	6,000	678	1,436	3,731	9,711	15,556	(9,556)	259%
Vehicle Expenses	500					0	500	0%
Office and Administrative Expenses	6,000	872	438	739	1,143	3,192	2,808	53%
Professional Services - Accounting, Engineering, Legal	50,000	7,840	7,386	23,258	10,153	48,637	1,363	97%
Insurance	100				100	100	0	100%
Dues, Fees, Permits and Licenses			71		253	324	(324)	-
Taxes - Gross Receipts Tax, Water Conservation Fee	3,000		2,130	838	916	3,885	(885)	129%
Training					901	901	(901)	-
Miscellaneous	57,289	5,574	29,134	122	61	34,891	22,398	61%
Loans								
Annual debt service - Loan 1						0	0	-
Annual debt service - Loan 2						0	0	-
TOTAL	\$ 127,989	16,719	41,960	29,801	24,306	112,786	15,203	88%
Ending Balance	157,442					116,075		
LESS: Operating Reserve								
Emergency Reserve								
Capital Improvement Reserve								
Debt Reserve								
Ending Available Cash Balance	\$ 157,442					116,075		

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Association
Schedule of Capital Outlay Appropriations
December 31, 2018

	<u>1</u>
Amount Awarded to project	98,000
Amount Received and Expended in FY17	42,695
Amount Received and Expended in FY18	<u>47,277</u>
Remaining Balance	<u>8,028</u>

1-Grant Agreement between the New Mexico Department of Environment and the East Pecos Mutual Domestic Water Association (Village of Pecos as Fiscal Agent)-Fund 89200 Capital Outlay Appropriation project #16-A22-STB

Legislative Association: NM Laws of 2014, Chapter 66, Section 16, Paragraph 144 and Executive Order 2013-006 (Fiscal Agent)

Date of Agreement: 4/20/2017

Project Description: Design Sewer line Construction

State Grant Amount: \$98,000

Estimated Project Cost: \$104,054

Reversion Date: 6/30/2020

**STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2018**

Prior Year Findings:

<u>Number</u>	<u>Description</u>	<u>Status</u>
2012-002	Late Report	Resolved
2017-001	Cash Reconciliations	Resolved
2017-002	Capital Assets	Resolved
2017-003	Expenditures	Resolved
2017-003	Journal Entries	Resolved

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2018

FS 2018-001 – Department of Finance and Administration Cash Report

Condition: During test-work, we noted that the Association's ending Cash balance report to the Department of Finance and Administration (DFA) would not tie to the Association's general ledger cash and was understated by \$4,495.

Criteria: NMSA 1978 6.6.3 states that every local public body shall make all reports as may be required by the local government division.

Effect: The Association was unable to provide the Department of Finance and Administration accurate cash balances which tie to the Association's actual cash balances.

Cause: Upon review of the report, it appears that the difference was created by incorrect amounts in the clients beginning cash balances in the DFA report.

Auditors' Recommendations: We recommend the Association collaborate with DFA to and adjust their beginning cash balances in fiscal year 2019 reported to the DFA.

Association's Response: Management has been adequately monitoring cash balances and has addressed the issue with the Association's DFA analyst who refused to adjust our beginning cash balances on our budgetary reports.

Planned Corrective Action: The Treasurer will work with the DFA analyst to correct the cash reported to the DFA in the budgetary process. This finding is expected to be resolved by December 31, 2019.

STATE OF NEW MEXICO
East Pecos Mutual Domestic Water Consumers Association
Exit Conference
December 31, 2018

An exit Conference we held on April 16, 2019 with the following in attendance:

Representing the East Pecos Mutual Domestic Water Consumers Association:

Robert Baca	President
Kathy Wallace	Secretary
Monica Varela	Treasurer

Representing Southwest Accounting Solutions, LLC:

Geoff Mamerow, CFE