

**LLANO QUEMADO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION, INC.**

AGREED UPON PROCEDURES REPORT

DECEMBER 31, 2012

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION, INC.**

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**LLANO QUEMADO MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION, INC.**

December 31, 2012

Official Roster

Board of Directors

Andrew Chavez, President
Alipio Mondragon, Secretary
Johnny Valerio, Treasurer
Kenneth Varos, Member
Brian Trujillo, Member

Principal Employees

Lionides Martinez, Operator



**Independent Accountant's Report on Applying
Agreed Upon Procedures**

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Suite 400
Albuquerque, NM 87110
505.338.0800

To Management
Llano Quemado Mutual Domestic Water Consumers Association, Inc.
Llano Quemado, New Mexico
and
To Mr. Timothy Keller, State Auditor

We have performed the procedures enumerated below, which were agreed to by the Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association) and the New Mexico State Auditor's Office, solely to assist in determining if the Association is in compliance with New Mexico State Audit Rule, Tier 4, as of December 31, 2012. The Association is the responsible party and the subject matter is the responsibility of the Association. 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 the 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.

The procedures we performed and the associated findings are included in a supplemental attachment.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed-upon procedures. 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 management and others within the Association, the State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Ricci & Company, LLC

Albuquerque, New Mexico
February 23, 2017

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES**

December 31, 2012

PROCEDURES PERFORMED AND RELATED RESULTS

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.

We observed all bank statements for the year and noted that bank reconciliations are completed manually by the Treasurer. We determined that all bank reconciliations are performed on a timely basis and all were complete and on-hand for the fiscal year and submitted to the Board for review in the monthly Treasurer's Report.

- 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.

We tested reconciliations for August and October 2012. Reconciliations are accurate and tie to supporting detail and Treasurer's Report. The Association did not submit reports to DFA – Local Government Division. This is a repeat finding from the prior year. See related finding 2010-001 in the Schedule of Findings and Responses.

- 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.

We determined upon review of the monthly bank statements and bank reconciliations that the Association maintained a cumulative account balance below the \$250,000 Federal Deposit Insurance Corporation coverage limit; therefore, additional procedures were not performed.

2. Capital Assets

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

The Association did not perform a yearly inventory as required by Section 12-6-10 NMSA 1978, because they do not have any movable equipment or chattels that cost over \$5,000.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
December 31, 2012

PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)

3. 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.

It was noted that the Association did not submit a formal budget to DFA as required but uses prior year amounts as a guideline for its current year budget. We performed an analytical review of the change in current year revenue from prior year and compared current year actual revenues with amounts from prior year. We noted no unusual or unexplained variances.

Select a sample of revenues based on auditor judgement 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.

The billing reports for February, May, June, July September and November were compared to the operating report and general ledger for year ended 12/31/2012. The classifications of income including water sales, rent and interest appeared to be properly recorded.

4. Expenditures

Select a sample of cash disbursements based on auditor judgement 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.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES**

December 31, 2012

PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)

A sample of 15 disbursements totaling \$9,632.24, 11.29% of total expenditures were tested. Disbursement amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate, were verified without exception. Disbursements were properly authorized and approved with policies and procedures in place by the Association.

- 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)

There were no expenses noted that were covered by the above requirements.

5. Journal Entries

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.

The Association does not have a formal general ledger accounting system. The Association utilizes Excel and Lotus 1-2-3 spreadsheets and account registers to record transactions on a cash basis. Journal entries prepared and posted to the spreadsheets appeared reasonable.

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.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES**

December 31, 2012

PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)

It was noted that the Association had net expenditures in excess of the approved budget during the year ended December 31, 2012. This amount consists of unfavorable variances in utilities, maintenance and repairs, office supplies, miscellaneous expenses and depreciation. See Finding 2010-02.

- 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.

The Association prepares an annual budget, using prior year amounts as a guideline, and did not submit any budget information to DFA-LGD as required. This finding is repeated from the prior year. See related finding 2010-003 in the Schedule of Findings and Responses.

See attached Schedule of Revenues and Expenditures - Budget and Actual - General Fund (page 8) which is prepared on the cash basis of accounting.

7. 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(1)(3)(C) NMAC.

No information came to our attention indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies that were not included as findings in this report.

See Schedule of Findings and Responses beginning on page 9.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND - CASH BASIS
Year Ended December 31, 2012

| | Original Budget | Final Budget | Actual Budget Basis | Variance Favorable (Unfavorable) |
|---|--------------------|-----------------|---------------------------|--|
| Revenues | | | | |
| Water revenue | \$ 50,000 | 50,000 | 41,881 | (8,119) |
| Rental income | 29,500 | 29,500 | 30,762 | 1,262 |
| Interest | 500 | 500 | 88 | (412) |
| Total revenues | 80,000 | 80,000 | 72,731 | (7,269) |
| Expenditures | | | | |
| Current: | | | | |
| Office salaries | 12,240 | 12,240 | 12,240 | - |
| Meter reading | 5,760 | 5,760 | 5,760 | - |
| Utilities | 4,467 | 4,467 | 6,532 | (2,065) |
| Maintenance and repairs | 2,881 | 2,881 | 5,001 | (2,120) |
| Office supplies | 1,419 | 1,419 | 1,776 | (357) |
| Miscellaneous | 1,373 | 1,373 | 1,586 | (213) |
| Payroll and other taxes | 6,900 | 6,900 | 6,132 | 768 |
| Licenses, dues and insurance | 8,923 | 8,923 | 7,134 | 1,789 |
| Depreciation | 4,700 | 4,700 | 7,589 | (2,889) |
| Engineering fees | 4,000 | 4,000 | - | 4,000 |
| Total expenditures | 52,663 | 52,663 | 53,749 | (1,086) |
| Excess of revenues over expenditures | \$ 27,337 | 27,337 | 18,982 | (8,355) |
| Prior year cash balance required to balance the budget | | | \$ 8,355 | |

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
December 31, 2012**

SCHEDULE OF FINDINGS AND RESPONSES

A. PRIOR YEAR AUDIT FINDINGS

| | | STATUS |
|----------|--|---------------|
| 2010-001 | Financial Reports Not Submitted to DFA – Material Noncompliance | Repeated |
| 2010-002 | Expenditures in Excess of Budget – Other Noncompliance | Repeated |
| 2010-003 | Budgets Not Submitted to DFA for approval – Material Noncompliance | Repeated |
| 2010-004 | Timeliness of Report – Other Noncompliance | Repeated |

B. CURRENT YEAR AUDIT FINDINGS

See all prior year repeated findings above.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
December 31, 2012**

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

2010-001 Financial Reports Not Submitted to DFA – Material Noncompliance

CONDITION

During testwork related to the cash and bank reconciliations, it was noted that quarterly reports to DFA have not been submitted.

CRITERIA

Chapter 6, Article 6 of the New Mexico Statutes Annotated (NMSA) 1978 requires the Local Government Division (LGD), Financial Management Bureau of the New Mexico Department of Finance and Administration (DFA) to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies, including transfers between funds. All local governments are required to submit operating budgets to LGD, operate within LGD approved budget unless adjustments are needed, which might require LGD approval; submit quarterly financial reports; and to conform to rules and regulations as required by LGD.

EFFECT

The Association is not in compliance with DFA – LGD rules relating to financial reporting.

CAUSE

The Association was not aware of this requirement to provide financial reports to DFA -LGD.

RECOMMENDATION

We recommend that the Association provide all information required in accordance with DFA – LGD rules.

MANAGEMENT RESPONSE

Effective immediately, the Association will submit all required reports to DFA –LGD and initiate a system whereby these items are submitted on a timely basis. The Board President will ensure that this action is undertaken as required.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
December 31, 2012**

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

2010-002 EXPENDITURES IN EXCESS OF BUDGET (OTHER NONCOMPLIANCE)

CONDITION

The Association budgeted \$4,467 for utilities expenditures and the actual cost was \$6,532; the Association budgeted \$2,881 for maintenance and repairs expenditures and the actual cost was \$5,001; the Association budgeted \$1,419 for office supplies expenditures and the actual cost was \$1,776; the Association budgeted \$1,373 for miscellaneous expense and the actual cost was \$1,586; the Association budgeted \$4,700 for depreciation and the actual amount expensed was \$7,589. It does not appear that any budget adjustments were made.

CRITERIA

State Statute 6-6-6, NMSA 1978 requires the expenditures of public bodies not to exceed budget authority.

CAUSE

The Association was not aware that subsequent budget adjustments had to be approved by the local public body's governing body and DFA-LGD.

EFFECT

The Association violated its budgets constraints during the current year that it was not authorized to spend.

RECOMMENDATION

We recommend that the Association monitor its budgeted costs more closely and that changes be made in the accounting methodologies to facilitate this monitoring. We also recommend that adjustments be made to the budget when it becomes apparent that the cost will exceed the budgeted amounts and proper approvals for any changes obtained

MANAGEMENT RESPONSE

The Association agrees to monitor expenditures and make adjustments to the budget, and obtain paper approvals when necessary. The Board President will ensure that this action is undertaken as required.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
December 31, 2012**

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

2010-003 Budgets Not Submitted to DFA for Approval– Material Noncompliance

CONDITION

During testwork related to the budget, it was noted that that the original budget of the Association was not submitted to DFA.

CRITERIA

Chapter 6, Article 6 of the New Mexico Statutes Annotated (NMSA) 1978 requires the Local Government Division (LGD), Financial Management Bureau of the New Mexico Department of Finance and Administration (DFA) to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies, including transfers between funds. All local governments are required to submit operating budgets to LGD, operate within LGD approved budget unless adjustments are needed, which might require LGD approval; submit quarterly financial reports; and to conform to rules and regulations as required by LGD.

EFFECT

The Association is not in compliance with DFA – LGD rules relating to budget approval.

CAUSE

The Association was not aware of this requirement to submit its budget to DFA-LGD for approval.

RECOMMENDATION

We recommend that the Association submit its budget to DFA –LGD for approval, together with any budget amendments which may be required during the year, in accordance with DFA – LGD rules.

MANAGEMENT RESPONSE

Effective immediately, the Association will submit its budget and any budget amendments, to DFA –LGD and initiate a system whereby these items are submitted on a timely basis. The Board President will ensure that this action is undertaken as required.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
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December 31, 2012**

2010-004 TIMELINESS OF REPORT

CONDITION

Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association) submitted the required agreed upon procedures report for the year ended December 31, 2012 after the deadline of May 31, 2013.

CRITERIA

The Association was required to submit the agreed upon procedures report for the year ended December 31, 2012 on or before May 31, 2013 in accordance with Section 2.2.2.16 of the New Mexico State Auditor's Rule.

CAUSE

The Association was not aware of the reporting requirements and when they did find out, they immediately contacted a qualified IPA. Then, the State of New Mexico Agreed Upon Procedures Contract was not approved by the State Auditor until July 22, 2016.

EFFECT

The Association is not in compliance with the New Mexico State Auditor's Rule and State Statutes. In addition, the users of the report, such as legislators, creditors, and grantors do not have a current report for analysis.

RECOMMENDATION

The Association should continue its efforts to get reports completed in a timely manner.

MANAGEMENT RESPONSE

We were not aware of the requirements for filing with the State Auditor's office. We will now report timely. The President of the Board, Andrew Chavez will be responsible for making sure the future reports, beginning with 2016, are filed timely.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
December 31, 2012**

EXIT CONFERENCE

An exit conference was held via teleconference on December 23, 2016 to discuss the agreed upon procedures. Attending were the following:

Representing the Llano Quemado Mutual Domestic Water Consumers Association, Inc.:

Board of Directors:

Andrew Chavez, President
Johnny Valerio, Treasurer

Representing the Independent Accountant:

Paul Donisthorpe, Manager