

State of New Mexico

Llano Quemado Mutual Domestic Water Consumers Association

2017 Tier 5 Agreed Upon Procedures Report

December 31, 2017

Llano Quemado Mutual Domestic Water Consumers Association

2017 Tier 5 Agreed Upon Procedures Report

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Official Roster

As of December 31, 2017

Board of Directors

Andrew Chavez, President

Brian Trujillo, Vice-President

Agapito Griego, Secretary

Johnny Valerio, Treasurer

Andrew Valerio, Member

Independent Accountant's Report on Applying Agreed-Upon Procedures

Wayne Johnson
New Mexico State Auditor
and
Andrew Chavez, President
Llano Quemado Mutual Domestic Water Consumers Association
Ranchos de Taos, New Mexico

We have performed the procedures enumerated below for the Llano Quemado Mutual Domestic Water Consumers Association (Association) for the year ended December 31, 2017, solely to assist in determining compliance with, and pursuant to, Tier 5 of the Audit Act (Section 12-6-1 et seq., NMSA 1978). The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. 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. Our procedures and 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."

The Accountant verified the Association's calculation and determination as a Tier 5 agreed upon procedures engagement.

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 bank reconciliations were performed on a monthly basis and bank statements for the fiscal 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.

*The bank reconciliations were accurate and balances per the bank reconciliations agreed to the general ledger. **There were differences between the bank reconciliations and the general ledger balances compared to the year end report submitted to DFA-Local Government Division, for further details see the Schedule of Findings and Responses listed in the table of contents.***

- 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 below \$250,000 during the fiscal year.

3. Capital Assets

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

For the fiscal year ending December 31, 2017, the Association performed and documented a capital asset inventory.

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 fees, new memberships, rental income and other miscellaneous receipts, such as interest income and reimbursements. The variances between actual revenue and budgeted revenue were adequately explained by the Association's bookkeeper and President; no unusual or unexplained variances were noted.

Select a sample of revenue equal to at least 30% of the total 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 (33.0%) was judgmentally selected and tested. The amount recorded in the general ledger agreed with 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 cash receipts tested were properly classified and recorded in the general ledger on the cash basis of accounting.

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.

100% of the total dollar amount of cash disbursements were tested. There was no instance where any of the above documentation was lacking.

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

All disbursements were properly authorized and approved.

- 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).

The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code and State Purchasing Regulations. Payments for mileage were made in accordance with the Mileage Act. There was one procurement of Archeological services during the year. The Association contacted 6 firms for RFP's and received only one proposal.

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.

The accounting process to produce financial statements involves posting all transactions to bank accounts as journal entries in the accounting system. We reviewed all journal entries and none of them would be classified as non-routine. All journal entries appear reasonable and have supporting documentation.

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

*The Association **does not** have established policies and procedures that require journal entries be reviewed. See **Schedule of Findings and Responses**.*

7. Budgets

Obtain the original fiscal year budget and all budget adjustments 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 was adopted and approved by the Association's Board of Directors on May 18, 2017. The budget was approved by DFA-LGD on May 25, 2017. Amendments to the original budget were approved on January 18, 2018 prior to submitting the 4th quarter report to DFA-LGD .

- 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.

*Actual expenditures did not exceed the approved budget for the fiscal year ending December 31, 2017. 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** 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.*

All disbursements meet the above criteria.

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

All disbursements meet the above criteria.

- 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)*

The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code and State Purchasing Regulations. There was one procurement of Archeological services during the year. The Association contacted 6 firms for RFP's and received only one proposal.

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

The capital asset was observed as part of the Agreed Upon Procedures.

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

The status reports were made as per terms of the agreement. Amounts agree with the general ledger and other supporting documentation.

- 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.*

The project was not funded in advance.

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

There was no unexpended balance. Final disbursements of the \$20,000 State appropriation were made in the 2018 Fiscal Year. The money was expended for archaeological services.

- 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 was accounted for in a separate bank account when required by the agreement.

- 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.*

All reimbursement requests were properly supported by costs incurred and paid prior to reimbursement.

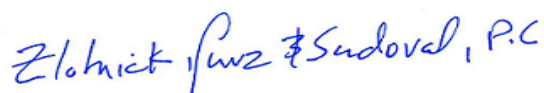
9. Other

- a. 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.

See the Schedule of Findings and Responses listed in the table of contents.

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 and Actual. 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 Llano Quemado 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.



Zlotnick, Laws & Sandoval, PC

August 17, 2018

Llano Quemado Mutual Domestic Water Consumers Association

2017 Tier 5 Agreed Upon Procedures Report

Schedule of Revenues and Expenditures – Budget to Actual

Non-GAAP Cash Basis

For the Fiscal Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Water Fees	\$ 93,000	93,000	99,175	\$ 6,175
USDA Loan/Grants	-	291,720	87,065	(204,655)
RCAC Loan	-	36,189	10,259	(25,930)
16-A #10-STB Appropriation	-	20,000	17,264	(2,736)
Interest Income	34	34	25	(9)
Rentals	37,700	37,700	37,598	(102)
Total Revenues	130,734	478,643	251,386	(227,257)
Cash Balance	49,994	49,994	23,196	(26,798)
Total Resources	\$ 180,728	528,637	274,582	\$ (254,055)
Expenditures				
Office Salaries	\$ 12,607	12,240	12,240	\$ -
Meter Reading	5,933	6,900	6,900	-
Utilities Expense	9,000	10,005	10,005	-
Maintenance & Repair	15,000	10,671	10,671	-
Office Supplies	3,000	2,507	2,507	-
Miscellaneous Expense	1,800	1,468	1,468	-
Payroll and Other Taxes	6,841	6,809	6,833	(24)
Licenses, Dues & Insurance	7,484	10,853	10,853	-
Legal/Professional Services	15,000	25,932	25,932	-
Interest Expense	42,658	42,587	42,587	-
Waterline Construction	-	308,523	120,045	188,478
Total Expenditures	119,323	438,495	250,041	188,454
Loans				
Annual Debt Service - Loan 1	22,349	22,349	22,349	-
Annual Debt Service - Loan 2	2,121	2,192	2,192	-
Total	143,793	463,036	274,582	188,454

See Independent Accountant's Report on Applying Agreed-Upon Procedures

MIDWCA Name: Llano Quemado MIDWCA Inc.
Mailing Address: P.O. Box 628, Baños de Taus.
Email Address: chavezr342@yahoo.com
Phone number: 575-613-1678

Calendar Year

	Adjusted BUDGET	1st & 2nd QR: Jan - Jun	3rd QR: Jul - Sept	4th QR: Oct - Dec	Year to Date(YTD) Totals	YTD percent/Number BUDGET	% of Budget
Beginning balances: Cash	49,994						
Savings							
CDs							
Investments							
Beginning Balance TOTAL	\$ 49,994						
REVENUES							
Water Sales (Water Use Fees)	93,000	47,108	26,871	23,676	97,655	(8,657)	107%
USDA Loans/Fees	291,720			29,170	291,720	0	100%
RCAAC Loans	36,189				10,259	25,930	28%
Fl. Act #10-51B Appropriation	20,000				17,264	2,736	86%
Interest Income	31	15	6	4	25	9	72%
Other Operating Revenue (Rents)	37,700	16,285	11,742	9,571	37,598	102	100%
TOTAL	\$ 478,643	65,408	38,621	62,421	456,523	22,120	95%
EXPENDITURES							
Office Salaries	12,240	6,120	3,060	3,060	12,240	0	100%
Office Renting	6,900	3,450	1,590	1,270	6,900	0	100%
Utilities Expense	10,005	4,689	2,609	2,707	10,005	0	100%
Maintenance and Repair	10,671	5,655	24	4,992	10,671	0	100%
Office Supplies	2,507	857	504	1,150	2,507	0	100%
Misc Expense	1,468	988	0	480	1,468	0	100%
Payroll and Other Taxes	6,809	6,172	399	238	6,809	0	100%
Electric, Dies and Insurance	10,853	507	4,771	5,580	10,853	0	100%
Legal/Professional Services	25,932	4,963	16,549	4,420	25,932	0	100%
Interest Expense	42,587	21,282	10,731	10,574	42,587	0	100%
Waterline Construction	308,523			308,523	308,523	0	100%
Waterline Construction					0	0	0
Waterline Construction					0	0	0
Annual debt service - Loan 1	22,349	11,153	5,524	5,672	22,349	0	100%
Annual debt service - Loan 2	2,192	1,129	528	535	2,192	0	100%
TOTAL	\$ 463,036	67,546	46,289	349,201	463,036		
Ending Balance	65,601				43,481		
LESS: Operating Reserve							
Emergency Reserve							
Capital Improvement Reserve							
Debt Reserve							
Ending Available Cash Balance	\$ 65,601				\$ 43,481		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

Andrew Delaney
President/Chairperson

_____ Date

See Independent Accountant's Report on Applying Agreed-Upon Procedures

Llano Quemado Mutual Domestic Water Consumers Association

2017 Tier 5 Agreed Upon Procedures Report

Schedule of Findings and Responses

Prior Year Findings:

No.	Title	Status of Prior Year Findings	Significant Deficiency	Material Weakness	Other Compliance	Other Matters	Federal Awards Finding
2010-001	Financial Reports Not Submitted to DFA	Repeated			X		
2010-002	Expenditures in Excess of Budget	Resolved			X		
2010-003	Budgets Not Submitted to DFA for Approval	Resolved			X		
2010-004	Timeliness of Report	Repeated			X		
2016-001	Reserve Account	Resolved				X	X
2016-002	Federal Reporting	Resolved				X	X
2016-003	Pledged Collateral – Federal	Resolved				X	X
2016-004	Written Policies and Procedures	Resolved	X				X
2016-005	Pledged Collateral – State	Resolved		X			

Schedule of Findings and Responses

Current year Findings:

2010-001 – Non-compliance with Budget Laws and Regulations – Noncompliance

Condition

The Association did not have adequate controls in place to ensure the timely filing of financial reports to the DFA. Management did not become aware of the obligation to contract for an annual audit or Agreed-Upon-Procedures until the early months of 2017. Audits of 2011, 2012, 2013, 2014, 2015, and 2016 were completed in 2017. The reports for the first two quarters of 2017 were not filed with DFA-LGD until July 2017. Since then quarterly and annual reports have been submitted on time.

The final budget report submitted to DFA does not agree with the total amounts reported in the Schedule of Revenue and Expenditures-Budget to Actual included in this report. The Revenues from grants and loans were overstated by \$204,655 and the Expenditures for capital expenditures were understated by \$188,478. The Ending Cash Balance was overstated by \$18,465.

Criteria

NMSA 6-6-2 Local government division; powers and duties, grants the local government division of the department of finance and administration the power to require each local public body to file a proposed budget and periodic financial reports before a given deadline. Final reports filed must agree with the books and records.

Effect

Noncompliance with DFA reporting requirements.

Cause

The Association has not been fully aware of all reporting requirements of the State of New Mexico. Over the past year they have been working to create controls that insure that all filings required by the local government division are submitted on time and accurately.

Recommendation

The Association needs to continue to create and follow controls to ensure deadlines are met. Final reports should agree with final reconciled balances from the Association's accounting records.

Management Response

We agree with the above recommendation and will implement controls to ensure the timely filing of reports to DFA. Andrew Chavez, President and Johnny Valerio, Treasurer will work together to formalize a process to ensure timely filings.

Schedule of Findings and Responses

Current year Findings:

2010-004 Late Report – Noncompliance

Condition

The 2017 Tier 5 Agreed Upon Procedures Report was submitted after the due date.

Criteria

NMAC 2.2.2.16 G (1): Local public bodies with a fiscal year end other than June 30 shall submit the agreed-upon procedures report or certification no later than five months after the fiscal year-end.

Effect

The report is not made available to the public in a timely manner and the usefulness of the Report is thereby impaired.

Cause

Because the Association was working to complete previous years audits they did not contract for the 2017 Agreed-Up-On-Procedures until late May of 2018. This did not leave sufficient time to complete the report by May 31, 2018.

Recommendation

We recommend that management set and follow deadlines for the completion of the bookkeeping and financial statements, for the contracting with an IPA, and the completion and submission of the report that insure timely reporting and compliance with NMAC 2.2.2.

Management Response:

The President of the board believed that he should attend the New Mexico State Auditor's annual training before contracting for services. The board now understand that they should proceed with the process much earlier. The Board will assure that the annual requirement for an AUP engagement of audited financial statements is submitted on time.

Schedule of Findings and Responses

Current year Findings:

2017-003 – Journal Entries

Condition

The Treasurer of the Board completes the annual financial statements for the Association by making a journal entry to the general ledger that posts totals for the year from the cash receipts and disbursements records. The Association currently does not have a policy or procedures in place to review and approve journal entries.

Criteria

Proper accounting controls require that knowledgeable individuals review and approve journal entries posted in the accounting system for propriety.

Effect

Journal entries could be posted in error or in a malicious manner without management's knowledge.

Cause

The Association had not considered the need to establish a policy for journal entry review and approvals.

Recommendation

We recommend that the Association establish a policy and procedures to review and approve journal entries and maintain proper supporting documentation for all journal entries posted to the accounting system.

Management Response

The Board will make sure that approval of journal entries is an item for the agenda of board meetings. Approval of journal entries will be reflected in the in the minutes of board meetings in the future.

Exit Conference

On August 23, 2018, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report in a closed meeting:

Llano Quemado Mutual Domestic Water Consumers Association

Andrew Chavez, President

Johnny Valerio, Treasurer

Zlotnick, Laws & Sandoval, PC

Asa Laws, CPA