

State of New Mexico

Llano Quemado Mutual Domestic Water Consumers Association

2018 Tier 5 Agreed Upon Procedures Report

December 31, 2018

Llano Quemado Mutual Domestic Water Consumers Association

2018 Tier 5 Agreed Upon Procedures Report

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Official Roster

As of December 31, 2018

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

Brian Colon
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, 2018, 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 monthly 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.

- 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, 2018, 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 for CPA services to conduct a Tier 5 Agreed Upon Procedures engagement in 2018. 3 CPA firms submitted proposals. All payments of State grant money for capital outlay were made pursuant to procurements made in prior fiscal years.

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 at year end 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 produce a balance sheet and income statement monthly. The board reviews a summary of monthly income, a complete list of disbursements and reconciled bank balances at the monthly board meetings. Journal entries are made quarterly and annually to convert the books to accrual basis for DFA quarterly reports and to produce accrual basis financial statements. At that time the board reviews and approves all journal entries at a regularly scheduled board meeting

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 January 18, 2018. The budget was approved by DFA-LGD on February 5, 2018. All subsequent amendments to the original budget were approved by a resolution of the Board of Directors and recorded in the Board minutes.

- 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, 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** 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. All disbursements for State funded capital assets were made pursuant to prior year procurements.

- 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.*

The agreement did not require a separate bank account.

- 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.

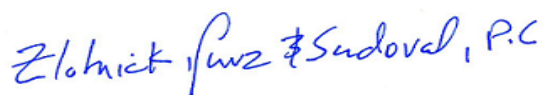
9. Other

- 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

May 30, 2019

Llano Quemado Mutual Domestic Water Consumers Association

2018 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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Water Fees	\$ 105,000	105,000	102,015	\$ (2,985)
RCAC Loan	25,929	25,929	-	(25,929)
Membership and Meter Sales	-	-	-	-
16-A #10-STB Appropriation	2,736	2,736	2,736	-
Interest Income	34	34	46	12
Rentals	63,900	63,900	65,983	2,083
SAP18-C2299 STB-Appropriation	50,000	50,000	-	(50,000)
Total Revenues	<u>247,599</u>	<u>247,599</u>	<u>170,780</u>	<u>(76,819)</u>
Cash Balance	25,065	25,065		
Total Resources	<u>\$ 272,664</u>	<u>272,664</u>	<u>170,780</u>	<u>\$ (76,819)</u>
Expenditures				
Office Salaries	\$ 13,407	13,407	13,240	\$ 167
Meter Reading	6,933	6,933	6,860	73
Utilities Expense	9,000	9,240	9,240	-
Maintenance & Repair	15,000	14,760	10,232	4,528
Office Supplies	3,000	3,678	3,678	-
Miscellaneous Expense	1,800	1,800	1,678	122
Payroll and Other Taxes	7,645	7,645	7,583	62
Licenses, Dues & Insurance	873	873	443	430
Insurance Expense	7,683	7,005	3,150	3,855
Legal/Professional Services	9,000	9,000	7,562	1,438
Interest Expense	48,000	48,000	43,171	4,829
Board Expense	2,800	2,800	1,852	948
Waterline Construction	28,665	28,665	8,707	19,958
SAP 18-C2299 STB- Const Proj	50,000	50,000	-	50,000
Total Expenditures	<u>203,806</u>	<u>203,806</u>	<u>117,396</u>	<u>86,410</u>
Loans				
Annual Debt Service - USDA Loan 1	22,234	22,971	22,971	-
Annual Debt Service - USDA Loan 2	2,208	2,208	2,163	45
Annual Debt Service - USDA Loan 3	378	378	378	-
Annual Debt Service - RCAC Loan	2,909	2,172	-	2,172
Total	<u>231,535</u>	<u>231,535</u>	<u>142,908</u>	<u>88,627</u>

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

Year-end Financial Report Submitted to DFA

Schedule of Capital Outlay Awards

Non-GAAP Cash Basis

For the Fiscal Year Ended December 31, 2018

State of New Mexico Appropriation

Amount awarded for the project	\$20,000.00
Amount received / requested	\$20,000.00
Amount expended as of 12/31/17	\$17,263.63
Expenditures during fiscal year ending 12/31/18	<u>2,736.37</u>
Amount expended as of 12/31/18	<u>\$20,000.00</u>
Remaining Balance	<u>None</u>

Note: \$20,000.00 appropriation pursuant to Laws of 2016, Chapter 81, Section 18, Paragraph 80 to plan, design, construct and renovate the Llano Quemada Mutual Domestic Water Consumers Association water system, including waterlines, a water tank and a well. The appropriation reversion date is June 30, 2020.

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	Resolved			X		
2010-004	Timeliness of Report	Resolved			X		
2017-003	Journal entries	Resolved				X	

There were no current year audit findings.

Exit Conference

On May 30, 2019, 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