

Accounting & Auditing Services, LLC

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Lumberton Mutual Domestic Water Consumers Association

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending December 31, 2017

Lumberton Mutual Domestic Water Consumers Association
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Fiscal Year Ending December 31, 2017

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**Lumberton Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2017**

Board of Directors

Joey Valdez, President

Joel Valdez, Vice President

Mary Jane Maestas, Secretary

Christine Romnes, Treasurer

Ray Tafoya, Board Member

Administration

William A. Lindner, Bookkeeper

Dennis Martinez, Plant Operator

Steven Herrera, Meter Reader

Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Directors
Lumberton Mutual Domestic Water Consumers Association
Lumberton, New Mexico
and
Wayne Johnson, New Mexico State Auditor
Santa Fe, New Mexico

I have performed the procedures enumerated below for the Lumberton Mutual Domestic Water Consumer Association (Association) for the year ended December 31, 2017, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) 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 representations 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."

According to the Association's general ledger, total revenues for the fiscal year ending December 31, 2017 were \$57,573. Based on this information, the Association was properly determined to be a Tier 4 entity for FY17 since their revenues were between \$50,000 and \$250,000 and they did not receive or expend a capital outlay appropriation during FY17.

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 account and two savings accounts at Wells Fargo Bank, and no investment accounts. All of the bank statements for the fiscal year were complete and on hand.

Except for the months of August through September 2017, the bank account reconciliations were performed on a monthly basis in a timely manner. See Finding 2017-001 on p. 6.

- 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.

Except for the months of November and December 2017, the randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the general ledger and supporting documentation.

The ending cash balance for the quarter ending September 30, 2017 could not be traced to the financial report submitted to DFA-LGD since the Association did not submit the 3rd quarter report to DFA-LGD. Also, for the quarters ending March 31, 2017, June 30, 2017 and December 31, 2017, the ending cash balances on the quarterly reports to DFA-LGD did not agree with the bank reconciliations and general ledger. See Finding 2017-003 on p. 8.

- c. Determine whether the local public body's financial institutions have provided it with 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

The checking and savings account balances of the Association were fully insured by the FDIC during the fiscal year; therefore, no pledged collateral from the bank was required.

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 does not have any movable chattels and equipment that cost more than \$5,000 and none were noted during the agreed-upon procedures.

4. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation. 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 monthly water usage fees, late payment fees, new membership fees and interest income.

Actual revenue compared to the prior fiscal year revealed no significant or unusual fluctuations and the variance were adequately explained by the Association's contract bookkeeper.

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

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

A sample of cash receipts were judgmentally selected and tested which amounted to 44% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

ii. 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.

5. Expenditures

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

i. Determine that the 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 were tested which amounted to 50% of total expenditures. For most of the expenditures, the amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The Association does not use purchase order forms. However, the Association was unable to provide invoices or receipts for expenditures totaling \$344.05. See Finding 2017-002 on p. 7.

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

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- iii. 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).

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code, State Purchasing Regulations and the Per Diem and Mileage Act, as applicable.

6. Journal Entries

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

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

According to the Association's general ledger, several non-routine journal entries were posted to the general ledger in 2017 to make adjustments to member accounts for inaccurate meter readings or excessive water billings caused by water leaks. The journal entries appear reasonable. However, the Association did not have adequate documentation to support seven adjustments totaling \$4,719.82. See Finding 2017-004 on p. 9.

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

The Association has a review procedure for non-standard journal entries. The Association's contract bookkeeper provides the financial reports and proposed journal entries to the Board of Directors for their review during the monthly board meetings and there is evidence the reviews are being performed.

7. Budget

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following test work:

- i. 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 Association adopted its FY17 budget in a board meeting on October 12, 2016. DFA-LGD approved the FY17 budget on December 7, 2016. There were no budget adjustments during the fiscal year.

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

Total actual expenditures of \$59,392 did not exceed budgeted expenditures of \$77,940. Therefore, a compliance finding was not applicable.

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 on p. 11.

8. 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 all required content detailed in Section 2.2.2.10 (L) NMAC.

No other findings were noted during the performance of the agreed-upon procedures.

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 subject matter. 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 management and others with the Association, the NM State Auditor, the NM Department of Finance and Administration – Local Government Division, and the NM State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

May 1, 2018

**Lumberton Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Status of Prior Year Findings

Not applicable.

Current Year Findings

Finding 2017-001. Untimely Performance of Bank Account Reconciliations

Condition

For all three bank accounts at Wells Fargo, the bank account reconciliations for the months of August and September 2017 weren't performed until 11/21/2017. Also, the bank reconciliations for the months of November and December were not performed.

Criteria

It is a prudent business practice to perform monthly bank accounts reconciliations in a timely manner to verify that all monetary transactions are accurately recorded and accounted for by the bank and the Association.

Effect

Without timely bank account reconciliations, recording errors or irregularities could have gone undetected and uncorrected.

Cause

The bank reconciliations for August and September were performed late since the former bookkeeper quit. The current contract bookkeeper stated that he did not perform the bank reconciliations for November and December 2017 because he needed time to learn the general ledger and software program (Quickbooks) that was maintained by the previous contract bookkeeper.

Recommendation

The contract bookkeeper should immediately perform and document the bank account reconciliations for November and December 2017. The Board of Directors should implement a policy requiring the contract bookkeeper to perform and document a monthly bank account reconciliation of all bank accounts shortly after the bank statements are received but no later than the beginning of the following month. The Board of Directors should review the results of the bank reconciliations on a monthly basis to ensure they are being performed in a timely and accurate manner.

**Lumberton Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Management's Response

It is the policy of the Association to make a reconciliation of income and expenses with the bank statement on a monthly basis. The reconciliations were performed and will continue to be performed by the bookkeeper on a monthly basis when the bank statement becomes available. The reconciliations are made on a simple spreadsheet much as a household checkbook would be reconciled. This "checkbook" spreadsheet along with a record of member payments is presented to the Board at each monthly meeting for their information and approval. The bookkeeper will add to the "checkbook" spreadsheet the precise date the reconciliation was performed. The reconciliation will be performed by the end of each subsequent month. This policy is effective immediately on April 30, 2018.

Finding 2017-002. Missing Expense Records

Condition

During the performance of the agreed-upon procedures for expenditures, 25 cash disbursements totaling \$29,586 were selected for testing. Out of the items tested, the Association was unable to provide invoices or expense receipts for 4 disbursements to the plant operator for postage totaling \$312.40 and 1 disbursement to the contract bookkeeper for postage of \$31.65.

Criteria

It is a prudent business practice to establish a procurement policy and maintain supporting documentation for the disbursement of public funds. Section 13-1-158 NMSA of the State Procurement Code states: No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction, or items of tangible personal property unless the using agency certifies that the services, construction or items of tangible personal property have been received.

Effect

Since the records for the cash disbursements are missing, there are no records on file to substantiate the expenditures and support the reimbursements to the contractors.

Cause

The contractors did not maintain the expense receipts and were not required to submit the receipts to the Association.

**Lumberton Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Recommendation

The Association's Board of Directors should require its independent contractors to submit receipts for all expenses claimed on their invoices. The Association's bookkeeper should not process a payment to the contractors if the supporting documentation for the claimed expenses is not submitted with their invoices.

Management's Response

The bookkeeper will no longer pay bills based upon missing documentation except in rare and exceptional case and only upon specific direction from the Board of Directors. Should any such exception occur, the fact shall be recorded in the minutes of the Board meeting.

Finding 2017-003. Non-Submission of Quarterly Report to DFA-LGD

Condition

The Association did not submit a quarterly report to DFA-LGD for the period ending September 30, 2017.

Also, for the cash balances on the other quarterly reports to DFA-LGD did not agree with the Association's bank statements or general ledger as follows:

Quarter Ending	Cash Per Bank Reconciliation	Cash Per Report to DFA-LGD	Difference
3/31/2017	\$ 32,718	\$ 33,488	\$ 770
6/30/2017	\$ 21,583	\$ 26,549	\$ 4,966
12/31/2017	\$ 30,064	\$ 28,879	\$ 1,185

Criteria

As required by Section 6-6-2.F NMSA 1978, the Association should submit accurate quarterly financial reports to DFA-LGD.

Effect

DFA-LGD is unable to perform its oversight function of the Association without a quarterly financial report. Also, the quarterly reports are inaccurate and misleading to its users if they do not contain the required financial information.

**Lumberton Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Cause

The prior bookkeeper no longer works for the Association so an explanation for the differences could not be provided.

Recommendation

Within 30 days after the end of each quarter, the Association should submit quarterly financial reports to DFA-LGD that accurately report the cash balances, loan balances and cumulative totals for revenues and expenditures in the manner prescribed by DFA-LGD. The Board of Directors should review the quarterly reports for accuracy before they are submitted to DFA-LGD.

Management's Response

Within thirty days after the end of each quarter, The Association's bookkeeper will submit quarterly financial reports to the Local Government Division of the Department of Finance and Administration of the State of New Mexico. Those reports will state accurately the cash balances, loan balances, and cumulative totals for revenues and expenditures to the extent required and in the manner required by the DFA-LGD. The Board of Directors will review said quarterly reports for accuracy prior to their submission to the DFA-LGD. This policy is effective immediately on April 30, 2018.

Finding 2017-004. No Documentation for Adjusting Journal Entries

Condition

The Association was unable to provide written documentation to support seven journal entries totaling \$4,719.82 to the revenue and accounts receivable balances in the general ledger. There was no documentation showing the adjustments were approved by the Association's Board of Directors.

According to the current bookkeeper, credits were posted to the member's accounts receivable balances to reduce the amounts billed for excessive water usage caused by leaks or inaccurate meter readings.

**Lumberton Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Criteria

For proper internal control over the account balances and financial statements, written documentation and approvals should be maintained for all journal entries to the general ledger.

Effect

The Association does not have documentation on file to substantiate the credits to the member's accounts receivable balances. Inaccurate or unauthorized adjustments to the general ledger could go undetected by management.

Cause

The prior bookkeeper who posted the journal entries no longer works for the Association so the current bookkeeper could not explain why the written documentation could not be located.

Recommendation

The Association's Board of Directors should adopt a policy and procedure requiring its bookkeeper to maintain written documentation to support and justify all journal entries posted to the general ledger and financial statements. The documentation should include a record showing that all non-routing journal entries, adjusting journal entries and reclassifications posted to the general ledger were reviewed and approved by the Board of Directors.

Management's Response

Henceforth, all adjustments to customers' accounts, however small they may be, (1) will be submitted to the Board for prior approval, (2) will be duly noted in the official minutes of the Board meeting, and (3) an explanation provided in the Association records. This policy is effective immediately on April 30, 2018.

Lumberton Mutual Domestic Water Consumers Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Water Fees	\$ 64,500	\$ 64,500	\$ 51,745	\$ (12,755)
Fines and Penalties	-	-	2,674	2,674
Interest Income	5	5	5	-
Memberships	-	-	2,000	2,000
Sales - Other	-	-	-	-
Federal Grants	-	-	-	-
State Grants - Capital Outlay	-	-	-	-
Miscellaneous	-	-	1,150	1,150
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u><u>\$ 64,505</u></u>	<u><u>\$ 64,505</u></u>	<u><u>\$ 57,573</u></u>	<u><u>\$ (6,932)</u></u>
Expenditures				
Current:				
Equipment	\$ -	\$ -	\$ -	\$ -
Maintenance	5,000	5,000	-	5,000
Office Supplies	-	-	1,481	(1,481)
Insurance	4,500	4,500	4,132	368
Postage	2,250	2,250	-	2,250
Supplies - Field	-	-	6,159	(6,159)
Subscriptions/Dues	-	-	-	-
Labor	-	-	-	-
Equipment Rental	-	-	-	-
Contract Labor	38,500	38,500	32,147	6,353
Transportation	-	-	-	-
Training	-	-	-	-
Equipment/Machinery	-	-	-	-
AUP or Audit	3,500	3,500	-	3,500
Professional Services - Attorney	-	-	3,474	(3,474)
Professional Services - Design	-	-	-	-
Utilities	-	-	8,259	(8,259)
Miscellaneous	16,150	16,150	1,796	14,354
Debt Service - Principal	4,283	4,283	-	4,283
Debt Service - Interest	3,757	3,757	1,943	1,814
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u><u>\$ 77,940</u></u>	<u><u>\$ 77,940</u></u>	<u><u>\$ 59,392</u></u>	<u><u>\$ 18,548</u></u>

Copy of Year-End Financial Report Submitted to DFA-LGD

Acequia Name: Lumberton MDWCA
Mailing Address: 245C County Rd 357
Email Address: eainsworth@centurytel.net
Phone number: 970-264-9654

Calendar Year
2017

		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	20,438								
Savings	16,027								
CDs									
Investments									
Beginning Balance TOTAL		\$ 36,465							
REVENUES									
Fees	64,500		16,422	16,575	12,855	11,717	57,569	6,931	89%
Fines and Penalties							0	0	-
Interest Income	5		1	1	1	1	4	0	93%
Contributions							0	0	-
Sales-Other							0	0	-
Federal Grant							0	0	-
State Grants-Capital Outlay							0	0	-
Miscellaneous							0	0	-
TOTAL		\$ 64,505	16,424	16,576	12,856	11,718	57,574	6,931	89%
EXPENDITURES									
Equipment							0	0	-
Maintenance	5,000		1,609	4,303	1,711	1,887	9,510	(4,510)	190%
Office Supplies					81	748	829	(829)	-
Insurance	4,500		0	4,132			4,132	368	92%
Postage	2,250		114	538			652	1,598	29%
Supplies-Field							0	0	-
Subscription/Dues							0	0	-
Labor							0	0	-
Equipment Rental							0	0	-
Contract Labor	38,500		6,525	10,625	6,637	8,360	32,147	6,353	83%
Transportation							0	0	-
Debt Service-Principal	4,283		3,296	454	466	471	4,687	(404)	109%
Debt Service-Interest	3,757		579	820	815	810	3,024	733	80%
Training							0	0	-
Equipment/Machinery							0	0	-
AUP or Audit	3,500		3,474				3,474	26	99%
PS-Attorney							0	0	-
PS-Design							0	0	-
Commission							0	0	-
Miscellaneous	16,150		3,804	2,643	19	239	6,705	9,445	42%
TOTAL		\$ 77,941	19,401	23,515	9,729	12,515	65,160	12,781	84%
Ending Balance		23,029					28,879		
Less Reserves									
Ending Available Cash Balance		\$ 23,029					\$ 28,879		

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.

 President/Chairperson

 Date

2/15/18

**Lumberton Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ended June 30, 2017**

On May 1, 2018, the following officials held an exit conference and discussed the results of the agreed upon procedures and the contents of this report:

Lumberton MDWCA

Joey A. Valdez, President
Christine Romnes, Treasurer
Bill Lindner, Bookkeeper

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Audit Manager