

# **Accounting & Auditing Services, LLC**

**Financial Audits + Agreed Upon Procedures + Tax + Consulting**

**Lumberton Mutual Domestic Water Consumers Association**

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

**For the Fiscal Year Ending December 31, 2018**

**Lumberton Mutual Domestic Water Consumers Association  
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Fiscal Year Ending December 31, 2018**

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**Lumberton Mutual Domestic Water Consumers Association  
Official Roster  
Fiscal Year Ending December 31, 2018**

**Board of Directors**

Joey A. Valdez, President

Joel Valdez, Vice President

Christine Romnes, Treasurer

Mary Jane Maestas, Secretary

Ray Tafoya, Board Member

**Administration**

Dennis Martinez, Plant Operator

William Lindner, Bookkeeper

Lester Pendegrass, Meter Reader

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

Board of Directors

Lumberton Mutual Domestic Water Consumers Association

Lumberton, New Mexico

and

Brian S. Colon, Esq., 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, 2018, 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](http://www.osanm.org) under "Tiered System Reporting Main Page."

According to the Association's profit and loss statement, total revenues for the fiscal year ending December 31, 2018 were \$62,187. Based on this information, the Association was properly determined to be a Tier 4 entity for 2018 since their revenues were between \$50,000 and \$250,000 and they did not receive or expend a capital outlay appropriation from the New Mexico State Legislature during 2018.

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.



The monthly bank account reconciliations appear to have been performed in a timely manner.

- 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.

33% of the monthly bank statements were selected for testing. However, the bank reconciliations could not be tested for accuracy since the Association's bookkeeper did not document the results of the monthly bank account reconciliations. Therefore, the ending cash balances on the bank reconciliations could not be traced to the general ledger, supporting documentation or the financial reports submitted to DFA-LGD. See Finding 2017-001 on p. 6.

Also, for the quarters ending June 30, 2018, September 30, 2018 and December 31, 2018, the cash balances on the quarterly reports to DFA-LGD did not agree with the Association's general ledger (check register). See Finding 2017-003 on p. 7.

- 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 2018; 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 did not perform a capital asset inventory at the end of 2018. See Finding 2018-001 on p. 9.

### 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.

The actual revenue in 2018 compared to budgeted revenue for each type of revenue was reviewed. According to the Association's general ledger, total revenues were \$2,813 less than budgeted revenues in 2018. The actual revenue in 2018 was compared to actual revenue in 2017. No unusual fluctuations were noted and the variances were explained by the Association's 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 45% 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 42% 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.

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 bookkeeper, nine non-routine journal entries totaling \$2,364.80 were posted in 2018 to make adjustments to member's accounts receivable balances for inaccurate meter readings or excessive water billings caused by water leaks. The journal entries and supporting documentation appear reasonable.

- 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 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 2018 budget on April 11, 2018 (Board Resolution #2018-004). DFA-LGD approved the 2018 budget on April 23, 2018. 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.

According to the Association's general ledger, total expenditures of \$62,349 did not exceed budgeted expenditures of \$67,725. 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 Exhibit 1 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 New Mexico State Auditor, the New Mexico 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.

*Accounting & Auditing Services, LLC*

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

May 15, 2019



**Lumberton Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2018**

**Status of Prior Year Findings**

Finding 2017-001. Untimely Performance of Bank Account Reconciliations – Revised and Repeated.

Finding 2017-002. Missing Expense Records – Resolved.

Finding 2017-003. Non-Submission of Quarterly Report to DFA-LGD – Revised and Repeated.

Finding 2017-004. No Documentation for Adjusting Journal Entries – Resolved.

**Current Year Findings**

**Finding 2017-001. Undocumented Bank Account Reconciliations**

**Condition**

For 2018, the Association’s bookkeeper did not document the results of the monthly bank account reconciliations for all three bank accounts at Wells Fargo. The bookkeeper only wrote a date on the bank statement to document when the bank account reconciliation was performed.

Management of the Association did not implement its prior year corrective action plan to resolve this finding.

**Criteria**

Monthly bank accounts are performed to verify that all monetary transactions are accurately recorded and accounted for by the bank and the Association, and to correct any recording errors, if any. Therefore, it is a prudent business practice to fully document the results of monthly bank accounts reconciliations to show how the cash balance on each bank statement agrees with the cash balance in the Association’s general ledger at the end of each month.

**Effect**

Since the bank account reconciliations were not documented, the Association’s financial records do not demonstrate how the bank balances agree with the Association’s check register and general ledger at the end of each month. Recording errors or irregularities could have gone undetected and uncorrected.

**Lumberton Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2018**

Cause

The bookkeeper stated that he did not use the Association's general ledger software program (Quickbooks) to document the results of the monthly bank account reconciliations because it was too cumbersome and time consuming.

Recommendation

The contract bookkeeper should fully document the results of the monthly bank account reconciliations. 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 verify they are fully documented in writing and the results agree with the bank statements, general ledger and supporting documentation.

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. The reconciliation will be documented by the bookkeeper on the form that Wells Fargo Bank supplies with the monthly bank statement. This policy is effective May 9, 2019.

**Finding 2017-003. Inaccurate Quarterly Financial Reports to DFA-LGD**

Condition

The cash balances on the quarterly reports to DFA-LGD did not agree with the cash balances reported in the Association's general ledger (check register) as follows:

**Lumberton Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2018**

Quarter Ending	Cash Balance Per Check Register	Cash Balance Per Report to DFA-LGD	Difference
6/30/2018	\$ 21,799	\$ 21,413	\$ 386
9/30/2018	\$ 25,933	\$ 25,745	\$ 188
12/31/2018	\$ 26,573	\$ 29,308	\$ 2,735

Also, the revenues and expenditure totals on the Association's profit and loss statement for the fiscal year ending December 31, 2018 did not agree with the revenue and expenditure totals on the quarterly report to DFA-LGD for the fiscal year ending December 31, 2018 as follows:

	Total Per Profit and Loss Statement	Total Per Report to DFA-LGD	Difference
Revenues	\$ 62,187	\$ 58,596	\$ (3,591)
Expenditures	<u>(60,411)</u>	<u>(61,046)</u>	<u>(635)</u>
Net Income	<u>\$ 1,776</u>	<u>\$ (2,450)</u>	<u>\$ (4,226)</u>

Regarding the corrective action taken in 2018 to resolve this prior-year finding, the bookkeeper entered cash balances in the quarterly reports to DFA-LGD; however, the amounts in the quarterly reports did not agree with the Association's general ledger. Therefore, management of the Association did not take sufficient corrective action in 2018 to resolve this prior-year finding.

Criteria

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

Effect

Inaccurate quarterly financial reports are misleading to oversight agencies and other users of the reports.

Cause

The bookkeeper stated that he did not include gross receipts or water conservation taxes, new membership income or interest income in the quarterly reports to DFA-LGD because the tax amounts were a "wash" and interest income was "trivial." The bookkeeper stated



**Lumberton Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**Fiscal Year Ending December 31, 2018**

that DFA-LGD requires the Association to report the revenues and expenditure amounts using their standard account classifications which are different than the Association's chart of accounts which contributed to the reporting discrepancies.

Recommendation

The bookkeeper should ensure that all of the Association's cash, revenue and expenditure transactions are accurately recorded in the general ledger. The bookkeeper should prepare the quarterly reports to DFA-LGD using the account balances and classifications recorded in the general ledger at the end of each quarter. The Board of Directors should verify that the account balances reported on the quarterly reports to DFA-LGD agree with the Association's general ledger and bank account reconciliations before they are submitted to DFA-LGD.

Management's Response

The bookkeeper will ensure the quarterly reports will accurately state the cash balances, loan balances, and cumulative totals for revenues and expenditures in the manner required by the DFA-LGD. The Board of Directors will review said quarterly reports for accuracy prior to their submission to DFA-LGD.

The Association's President, Treasurer and bookkeeper agree that it is very important to have the various compilations of income and expenses in agreement and will work together to assure that agreement. This policy will be effective May 9, 2019.

**Finding 2018-001 – No Capital Asset Inventory at Fiscal Year-End**

Condition

For the year ending December 31, 2018, the Association did not perform and document a physical inventory of its capital assets and have the results of the physical inventory certified by the Board of Directors.

Criteria

Section 12-6-10.A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness."



**Lumberton Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2018**

Effect

The Association's capital asset listing as of December 31, 2018 may be incomplete or inaccurate.

Cause

Management wasn't aware of the requirement to perform and document the physical inventory at the end of each year and have the Board of Directors certify the results.

Recommendation

At the end of each year, the Association should perform and document a physical inventory of its capital assets in accordance with Section 12-6-10.A NMSA 1978. For each capital asset, the description of the asset, date acquired, cost, location, useful life, and ending balance of its capital assets should be recorded on the Association's capital asset listing. The results of the inventory shall be recorded in a written inventory report, certified as to correctness and approved by the Association's Board of Directors.

Management's Response

The Association's President, Treasurer and bookkeeper discussed the requirement for an annual inventory, regrets the neglect of that work at the end of 2018, and resolves that the Plant Operator will perform such an annual inventory by December 31, 2019. The results of the inventory will be recorded in a written inventory report, certified as to correctness and approved by the Association's Board of Directors during the January 2020 board meeting.

**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, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Water Usage Fees	\$ 65,000	\$ 65,000	\$ 61,683	\$ (3,317)
Fines and Penalties	-	-	-	-
Interest Income	-	-	4	-
New Membership Fees	-	-	500	500
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b>\$ 65,000</b>	<b>\$ 65,000</b>	<b>\$ 62,187</b>	<b>\$ (2,813)</b>
<b>Expenditures</b>				
<b>Current:</b>				
Equipment	\$ 2,000	\$ 2,000	\$ 1,322	\$ 678
Repairs and Maintenance	19,650	19,650	9,678	9,972
Office Supplies	2,000	2,000	1,121	879
Insurance	4,300	4,300	4,255	45
Subscriptions/Dues	225	225	299	(74)
Equipment Rental	360	360	360	-
Contract Labor	30,000	30,000	25,975	4,025
AUP or Audit Fees	3,154	3,154	3,223	(69)
Utilities	-	-	8,241	(8,241)
Taxes	-	-	2,752	(2,752)
Miscellaneous	912	912	-	912
Debt Service - Principal	1,938	1,938	1,938	(0)
Debt Service - Interest	3,186	3,186	3,186	0
<b>Total Expenditures</b>	<b>\$ 67,725</b>	<b>\$ 67,725</b>	<b>\$ 62,349</b>	<b>\$ 5,376</b>

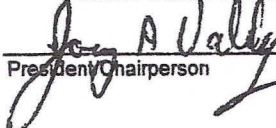
# Copy of Year-End Financial Report Submitted to DFA-LGD

**Acequia Name:** Lumberton MDWCA  
**Mailing Address:** 245C County Rd 357  
**Email Address:** lumbertonwater@gmail.com  
**Phone number:** 505-592-2183

**Calendar Year**  
**2018**

		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
<b>Beginning balances:</b>	Cash	15,726							
	Savings	16,032							
	CDs								
	Investments								
	<b>Beginning Balance TOTAL</b>	<b>\$ 31,758</b>							
<b>REVENUES</b>									
	Fees	65,000	14,883	11,333	16,929	15,451	58,596	6,404	90%
	Fines and Penalties						0	0	-
	Interest Income						0	0	-
	Contributions						0	0	-
	Sales-Other						0	0	-
	Federal Grant						0	0	-
	State Grants-Capital Outlay						0	0	-
	Miscellaneous						0	0	-
	<b>TOTAL</b>	<b>\$ 65,000</b>	<b>14,883</b>	<b>11,333</b>	<b>16,929</b>	<b>15,451</b>	<b>58,596</b>	<b>6,404</b>	<b>90%</b>
<b>EXPENDITURES</b>									
	Equipment	2,000				1,322	1,322	678	66%
	Maintenance	19,650	5,905	5,513	4,081	1,507	17,006	2,644	87%
	Office Supplies	2,000	74	559	581	544	1,758	242	88%
	Insurance	4,300		4,287			4,287	13	100%
	Postage						0	0	-
	Supplies-Field						0	0	-
	Subscription/Dues	225	142	10	30	149	331	(106)	147%
	Labor						0	0	-
	Equipment Rental	360	360				360	0	100%
	Contract Labor	30,000	6,600	6,400	6,350	6,600	25,950	4,050	87%
	Transportation						0	0	-
	Debt Service-Principal	1,938	475	482	489	493	1,940	(2)	100%
	Debt Service-Interest	3,186	805	799	792	788	3,183	3	100%
	Training						0	0	-
	Equipment/Machinery						0	0	-
	AUP or Audit	3,154		3,223			3,223	(69)	102%
	PS-Attorney						0	0	-
	PS-Design						0	0	-
	Commission						0	0	-
	Miscellaneous	912	897	30	274	485	1,686	(774)	185%
	<b>TOTAL</b>	<b>\$ 67,725</b>	<b>15,258</b>	<b>21,303</b>	<b>12,597</b>	<b>11,888</b>	<b>61,046</b>	<b>6,679</b>	<b>90%</b>
	<b>Ending Balance</b>	<b>29,033</b>					<b>29,308</b>		
	<b>Less Reserves</b>								
	<b>Ending Available Cash Balance</b>	<b>\$ 29,033</b>					<b>\$ 29,308</b>		

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.

  
 Jay A. Vally  
 President/Chairperson

1-9-19  
 Date



**Lumberton Mutual Domestic Water Consumers Association  
Exit Conference  
Fiscal Year Ending December 31, 2018**

On May 15, 2019, 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