

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE APPLICATION OF TIER 4
AGREED-UPON PROCEDURES
YEAR ENDED DECEMBER 31, 2016**

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
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DECEMBER 31, 2016**

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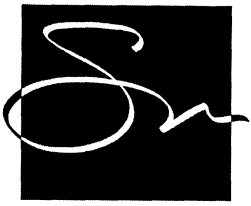
**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2016**

BOARD OF DIRECTORS

Name	Title
David C. Navarette	President
Efrain Rios	Vice President
Craig Ogden	Secretary/Treasurer
Tony Hernandez	Director
John Wright	Director

ADMINISTRATIVE OFFICIALS

Faye Arias	Office Manager
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SCOTT NORTHAM, CPA, PC
Certified Public Accountants

**INDEPENDENT ACCOUNTANT'S REPORT ON THE
APPLICATION OF TIER 4 AGREED-UPON PROCEDURES**

Timothy Keller, New Mexico State Auditor, and
Board of Directors of
Malaga Mutual Domestic Water Consumers
and Sewage Works Association
Malaga, New Mexico

We have performed the procedures enumerated below for the Malaga Mutual Domestic Water Consumers and Sewage Works Association (Association), for the year ended December 31, 2016. The Association was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The Association's management is responsible for the organization's accounting records and compliance with State Auditor Rules as described above.

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 those parties specified in the 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 results are detailed under Scope of Procedures and Results as noted in the table of contents.

Our findings, if any, related to the procedures in the Scope of Procedures and Results are presented in the accompanying schedule of findings and responses as listed in the table of contents.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Association's financial reporting to the State Auditor as described above. 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 the Malaga Mutual Domestic Water Consumers and Sewage Works Association, the New Mexico Office of the State Auditor, the New Mexico Legislature, and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

Scott Northam, CPA, PC
Ruidoso, New Mexico
April 20, 2017

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2016**

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."	
Tier 4 Requirements – Cash basis revenues of \$50,000 or more but less than \$250,000 with no capital outlay award expenditures.	The Association's cash basis revenues totaled approximately \$225,771 and the Association did not expend any capital outlay awards. The Association is correctly categorized as a Tier 4 agency.
2. Cash Procedures	
a. Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements are complete and on-hand.	All fiscal year bank statements were on-hand and available for compliance examination. Reconciliations were timely performed within the a reasonable time after the end of the month.
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.	A review of all bank reconciliations noted the reconciliations were accurate and agreed with the general ledger and DFA reports.
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 Association's funds on deposit with the financial institution exceeded the \$250,000 FDIC maximum insured coverage during the year. The financial institution provided adequate additional collateralization for uninsured deposits to exceed the 50% collateralization requirement.
3. Capital Assets	
Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.	The Association maintains and annually approves a capital asset inventory listing as required under Section 12-6-10 NMSA 1978.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2016**

4. Revenue 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.	Analytical review and tests of actual revenue compared to budgeted revenue for the fiscal year noted no exceptions.
b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement..	Amounts recorded in the general ledger agreed with deposit slips, utility reports and other supporting documentation provided and the bank statements with no exceptions.
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.	A representative sample of 12 transactions of revenue entries noted the amounts were properly recorded on cash basis as to classification, amount and period per review of supporting documentation.

5. Expenditures Select a sample of cash disbursements based on auditor judgement using the following attributes:	
a. Determine that the 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.	A representative sample of 20 disbursement transactions noted no exceptions with respect to amount, payee, date and description.
b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.	A representative sample of 20 disbursements noted no exceptions as to authorization and approval for payment, budget compliance and compliance with policies and procedures.
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).	Disbursement testwork revealed no exceptions to the process (or request for proposal process, if applicable), purchase orders, contracts and agreements being 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).

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2016**

6. 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.	There were no non-routine journal entries posted to the general ledger and all reviewed journal entries had 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.	There were no non-routine journal entries posted to the general ledger. The Association has policies in place that require any journal entries made by the contract bookkeeper to be reviewed and approved by the Board of Directors at the monthly meeting.
7. 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 body's governing body and DFA-LGD.	The original budget was approved by the Board of Directors and DFA-LGD. There were no subsequent budget adjustments for the fiscal year.
b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.	Total actual expenditures exceeded the final budget at the total fund level by approximately \$36,750, the legal level of budgetary control. See Finding 2016-001.
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 fund.	The Schedule of Revenue and Expenses – Budget and Actual on the cash basis is following these procedures.
8. 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(I)(3)(C) NMAC.	No other or additional exceptions were noted when applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts or internal control deficiencies.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Water Sales and Charges for Service	\$ 210,000	\$ 210,000	\$ 196,433	\$ (13,567)
Reconnect and Disconnect Fees	100	100	472	372
Installation Fees	5,000	5,000	27,769	22,769
Memberships	-	-	900	900
Total Operating Revenues	<u>215,100</u>	<u>215,100</u>	<u>225,574</u>	<u>10,474</u>
OPERATING EXPENSES				
Wages and Salaries	50,000	50,000	71,633	(21,633)
Payroll Taxes	4,200	4,200	5,942	(1,742)
Advertising	-	-	1,229	(1,229)
Fuel and Mileage Expense	4,700	4,700	9,861	(5,161)
System Expense	-	-	667	(667)
Equipment Rental and Supplies	12,000	12,000	12,458	(458)
Insurance	10,100	10,100	8,619	1,481
Office Expense	11,500	11,500	10,115	1,385
Telephone	3,700	3,700	3,477	223
Professional Fees and Contracted Services	9,000	9,000	8,980	20
Repairs and Maintenance	22,500	22,500	33,217	(10,717)
Property and Other Taxes	2,200	2,200	1,961	239
Utilities	13,500	13,500	11,868	1,632
Asset Reserve	8,668	8,668	8,791	(123)
Debt Service Reserve	1,660	1,660	1,660	-
Debt Service - Principal	5,306	5,306	5,306	-
Total Operating Expenses	<u>159,034</u>	<u>159,034</u>	<u>195,784</u>	<u>(36,750)</u>
Operating Income	56,066	56,066	29,790	(26,276)
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	170	170	197	27
Interest Expense	(10,654)	(10,654)	(10,654)	-
Total Non-operating Income (Expense)	<u>(10,484)</u>	<u>(10,484)</u>	<u>(10,457)</u>	<u>27</u>
Revenues Over (Under) Expenditures	<u>\$ 45,582</u>	<u>\$ 45,582</u>	<u>\$ 19,333</u>	<u>\$ (26,249)</u>

MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
YEAR-END FINANCIAL REPORT
SUBMITTED TO DFA
FOR THE YEAR ENDED DECEMBER 31, 2016

MALAGA MD WATER & SWA			
Year 2016 - 1/1 to 12/31			
	<u>Approved</u>		<u>Second</u>
	<u>Budget</u>	<u>First Quarter</u>	<u>Quarter</u>
Beginning Cash Balance on December 31, 2015:	233,410	233,410	233,410
Revenue			
Water Service	210,000	42,978	59,687
Reconnect & Disconnect Fees	100	142	-
Installation Fees	5,000	4,628	4,628
Membership Fees	-	250	100
Interest Income	170	45	50
Grant Income	-	-	-
Total Revenue	215,270	48,043	64,464
Expenditures			
Wages	50,000	11,789	12,936
Payroll Taxes	4,200	1,023	1,064
Insurance	10,100	-	7,952
Office Expense	11,500	2,388	2,518
Repairs & Maintenance	22,500	17,823	14,019
Supply Expense	12,000	394	3,361
Utilities	13,500	2,880	2,706
Telephone	3,700	859	868
Mileage	4,700	1,648	1,712
Upgrade System - Materials	-	-	-
Upgrade System - Contract Labor	-	360	-
Upgrade System - Professional Fees	-	-	-
Other Taxes and Licenses	2,200	56	404
N/P - USDA Rural Dept	15,960	3,990	3,990
Return Rent Deposits	-	50	-
Legal & Accounting	9,000	680	5,308
Asset Reserve	8,668	2,196	2,197
Debt Service	1,660	421	421
	-	-	-
	-	-	-
Total Expenditures	169,688	46,558	59,456
Estimated Ending Cash Balance on December 31, 2016	\$247,916		

<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year-to-Date Actuals</u>	<u>Over/Under Budget</u>	<u>% of Budget</u>
233,410	233,410	233,410		
52,746	41,022	196,433	(13,567)	93.54%
189	142	472	372	472.25%
4,628	13,884	27,769	22,769	555.37%
100	450	900	900	0
50	52	197	27	116.06%
-	-	-	-	0
57,713	55,550	225,771	\$10,501	104.88%
26,407	20,500	71,633	\$21,633	143.27%
2,193	1,662	5,942	\$1,742	141.48%
667	-	8,619	-\$1,481	85.34%
4,092	2,248	11,247	-\$253	97.80%
2,186	1,015	35,043	\$12,543	155.75%
5,918	7,731	17,404	\$5,404	145.04%
3,685	2,694	11,965	-\$1,535	88.63%
884	866	3,477	-\$223	93.98%
2,626	2,717	8,702	\$4,002	185.16%
-	-	-	\$0	0
-	135	495	\$495	0
-	-	-	\$0	0
435	1,065	1,961	-\$239	89.12%
3,990	3,990	15,960	\$0	100.00%
50	50	150	\$150	0
766	1,436	8,191	-\$809	91.01%
2,198	2,200	8,791	\$123	101.41%
421	422	1,685	\$25	101.51%
-	-	-	\$0	0
-	-	-	\$0	0
56,520	48,730	211,265	\$41,577	124.50%
		\$247,916	-\$31,076	

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

CURRENT YEAR FINDINGS:

2016-001 Expenses in Excess of Authorized Budget – Compliance

CONDITION – The Association exceeded its authorized budget by actual approximately \$36,750.

CRITERIA – Section 6-6-6 of the New Mexico State Statutes prohibits any payments in excess of the approved budget unless budget adjustments are made and approved by Department of Finance and Administration’s Local Government Division.

CAUSE – The Association prepared its budget on the cash basis, but did not properly adjust the budget for additional unanticipated expenses during the fiscal year.

EFFECT – Noncompliance with state statutes referenced in the criteria section above. The Association’s ability to prevent and detect misstatements in the accounting records, fraud, waste and abuse is diminished in the absence of periodic comparisons between actual revenues and expenditures and budgeted revenues and expenditures.

RECOMMENDATION – We recommend the Board utilize the reports provided by the outside fee accountant to evaluate the budget position at least quarterly and adjust the budget as necessary to acknowledge and accommodate any overages in the line item expenditures.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The office manager will coordinate with the outside fee accountant to provide a more comprehensive analysis of budget to actual to the board members and recommend the necessary budget adjustments for approval. This finding should be resolved by the end of the second quarter of 2017.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND RESPONSES
DECEMBER 31, 2016**

PRIOR YEAR FINDINGS:

<u>Finding</u>	<u>Status</u>
2013-002 – Budget Adjustments	Resolved
2015-001 – Bank Statements not Reviewed or Agree to General Ledger	Resolved
2015-002 – Adequate Supporting Documents does not Exist for Expenditures	Resolved

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
DECEMBER 31, 2016**

The contents of this report were discussed with the Malaga Mutual Domestic Water Consumers and Sewage Works Association representatives on April 20, 2017. The following individuals were present for the conference:

**Malaga Mutual Domestic Water Consumers
and Sewage Works Association**

Scott Northam, CPA, PC

Craig Ogden - Secretary Treasurer
Faye Arias – Office Manager

Scott Northam, CPA

The agreed-upon procedures of the Malaga Mutual Domestic Water Consumers and Sewage Works Association were prepared by Scott Northam, CPA, PC, from original books and records provided by and with assistance from the management of the Association.