



**Accounting &  
Consulting Group, LLP**  
Certified Public Accountants

[www.acgsw.com](http://www.acgsw.com)

***Malaga Mutual Domestic Water Consumers and  
Sewage Works Association  
Tier 4- Agreed Upon Procedures Report  
For the Year Ended December 31, 2013***

## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Tier 4 – Agreed Upon Procedures  
For the 12 Months Ended December 31, 2013  
Table Of Contents

	<b><u>Page</u></b>
<b>INTRODUCTORY SECTION</b>	
Table of Contents	3
Official Roster	4
<b>FINANCIAL SECTION</b>	
Independent Accountant’s Report On Applying Agreed-Upon Procedures	6
<b>SUPPLEMENTARY INFORMATION</b>	
Procedures Performed and Related Results	8-10
Schedule of Revenues and Expenditures –	
Budget and Actual	11
Schedule of Findings and Responses	12-16
Exit Conference	17

**STATE OF NEW MEXICO**

Malaga Mutual Domestic Water Consumers and Sewage Works Association

Directory of Officials

December 31, 2013

<u>Name</u>	<u>Board</u>	<u>Title</u>
David C Navarette		President
Efrain Rios		Vice President
Craig Ogden		Secretary-Treasurer
Mitchell Ballard		Director
Ronnie Calderon		Director
	<u>Administrative Officials</u>	
Faye Arias		Office Manager

**FINANCIAL SECTION**



**Accounting & Consulting Group, LLP**  
Certified Public Accountants

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

Hector H. Balderas  
New Mexico State Auditor  
The U.S. Office of Management and Budget and  
Malaga Mutual Domestic Water Consumers and Sewage Works Association Chairman,  
Board of Directors and Citizens of Malaga  
Malaga, New Mexico

We have performed the procedures enumerated below, in the Procedures Performed and Related Results section of this report, which were agreed to by the Malaga Mutual Domestic Water Consumers and Sewage Works Association (Association) and the New Mexico State Auditor's Office, solely to assist in determining if the Association is in compliance with New Mexico State Auditor Rule, Tier 4, for the year ended December 31, 2013. 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 his report has been requested or for any other purpose.

The procedures performed and the associated findings are described in the Procedures Performed and Related Results and Schedule of Findings and Responses sections of this report respectively.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. 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 management and others within the Association, the State Auditor, the 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 these specified parties.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
November 6, 2014

**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Tier 4-Agreed Upon Procedures  
 Procedures Performed and Related Results  
 For the Year Ended December 31, 2013

**1. 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.

*Of the four separate bank accounts with periodic statements, we noted for two separate bank accounts that biannual reconciliations were not performed (see finding 2013-004).*

- 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.

*We found one instance out of the 5 reconciliations tested in which there was a difference between the ending balance per the reconciliation in comparison with the general ledger and supporting documentation (see finding 2013-004); also, financial reports were not submitted to DFA-Local Government Division (see finding 2013-002).*

- 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.

*We determined that the average running balance is below \$250,000 in all accounts. Additional procedures were not performed.*

**2. Capital Assets**

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

*The annual physical inventory of capital assets was completed for fiscal year ending December 31, 2013.*

**3. Revenues**

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

*We compared actual to budget for each type of revenue. Results are as follows:*

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Water use fees	\$205,210	\$208,422	\$3,212

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:

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

*11 revenue transactions from the general ledger were tested. All transactions tested agreed to 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.



**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Tier 4-Agreed Upon Procedures  
Procedures Performed and Related Results  
For the Year Ended December 31, 2013

*11 revenue transactions from the general ledger were tested. All transactions tested appear properly recorded with respect to classification, amount, and period per review of the supporting documentation and the general ledger.*

**4. Expenditures**

a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- I. Determine that 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.

*11 disbursements were randomly selected for testing. All disbursements tested agree to adequate supporting documentation. The amounts, payees, dates, and descriptions agree to the vendor's invoice, purchase order, contract and canceled check as appropriate.*

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

*11 disbursements were randomly selected for testing. All disbursements tested appear 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) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

*11 disbursements were randomly selected for testing. All disbursements tested appear to follow the appropriate bid process in accordance with the New Mexico Procurement Code, State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).*

**5. Journal Entries**

a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

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

*Of the 17 journal entries tested, all appear to be reasonable and have supporting documentation.*

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

*Journal entries are prepared and posted by a contracted bookkeeper. The Association does not have any procedures that require journal entries to be reviewed and there is no evidence that reviews are being performed (See finding 2013-005).*

**6. Budget**

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

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Tier 4-Agreed Upon Procedures  
 Procedures Performed and Related Results  
 For the Year Ended December 31, 2013

- 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-LDG.

*We verified the Board of Directors' approval of the original budget. There were no budget amendments or adjustments. Approval was neither sought nor granted from DFA-LGD (See finding 2013-002).*

**6. Budget-(continued)**

- II. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

*We noted it appears the actual expenditures exceeded the final budget. Results are as follows:*

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<i>Expenditures</i>	\$192,900	\$245,703	(\$52,803)

- III. 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 attached Schedule of Revenues and Expenditures – Budget and Actual.*

**7. 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(I)(3)(C) NMAC.

Segregation of Duties - (see finding 2013-001)

Late Report - The report is considered to be a late report (see finding 2013-003).

**STATE OF NEW MEXICO**  
**Malaga Mutual Domestic Water Consumers and Sewage Association**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual**  
**For the Year Ended December 31, 2013**

	Budgeted Amounts		Accrual Basis	Variances Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
<i>Operating revenues</i>				
Water sales	\$ 205,210	\$ 205,210	\$ 208,422	\$ 3,212
<i>Total operating revenues</i>	<u>205,210</u>	<u>205,210</u>	<u>208,422</u>	<u>3,212</u>
<i>Operating expenditures</i>				
Payroll	49,000	49,000	65,309	(16,309)
Professional Fees	7,500	7,500	5,048	2,452
Insurance	7,800	7,800	8,074	(274)
Utilities	14,000	14,000	13,902	98
Supplies	22,000	22,000	29,255	(7,255)
Taxes	6,000	6,000	7,886	(1,886)
Repairs	18,000	18,000	45,067	(27,067)
Interest	13,000	13,000	11,162	1,838
Depreciation	55,600	55,600	60,000	(4,400)
<i>Total operating expenditures</i>	<u>192,900</u>	<u>192,900</u>	<u>245,703</u>	<u>(52,803)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>\$ 12,310</u>	<u>\$ 12,310</u>	<u>\$ (37,281)</u>	<u>\$ (49,591)</u>
Add back depreciation	55,600	55,600		
	<u>67,910</u>	<u>67,910</u>		
(Increase) decrease in cash	<u>(67,910)</u>	<u>(67,910)</u>		
	<u>0.00</u>	<u>0.00</u>		

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
For the Year Ended December 31, 2013

2013-001 Segregation of Duties

***Condition***

The office manager handles all of the cash receipts and disbursements due to lack of additional personnel in the office. During our testwork of the cash disbursements we noted the following instances of a lack of appropriate segregation of duties.

- Account Payable vendors can be setup by the same person processing the accounts payable checks.
- Cash is received, recorded into the system, deposited and reconciled to the bank statements by the same person.
- Payroll checks are prepared and mailed by the same person.

***Criteria***

Appropriate segregation of duties in cash disbursing and payroll processing is required to maintain proper and sufficient internal controls and properly report all expenditures as required by Section 6-6-3, NMSA 1978.

***Effect***

Without adequate segregation of duties in key control processes, there is an increased risk of fraudulent activity, and also an increased risk of errors that may not be detected timely.

***Cause***

The Association is a small business and has a limited number of personnel. Per discussion with the office manager, the Treasurer reviews each invoice and bill, a financial statement is prepared for each monthly board meeting containing a list of payables, and a board member is the second signer of checks above \$100.

***Recommendation***

We recommend the Treasurer continue to reconcile / match the bills and invoices to the list of payables on the financial statement. We also recommend the Board continue to actively participate in the expenditure approving process by approving all expenditures before payment and documenting the approval in the minutes.

***Agency Response***

The Association's board of directors will continue to review and approve all expenditures on monthly financial statements at each monthly board meeting for payment and continue to document the approval in the monthly minutes.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
For the Year Ended December 31, 2013

2013-002 Budget Not Prepared Quarterly Reports Not Submitted to Local Government Division

***Condition***

During our testing over budgetary compliance, we noted the Association did not submit a proposed budget to the Local Government Division for fiscal year 2013. Quarter financial reports were not submitted to the Local Government Division throughout the year ended December 31, 2013 as required. The actual expenditures exceed the budget expenditures for fiscal year 2013 by \$67,910. A copy of the year end report was not filed with the Local Government Division for fiscal year 2013.

***Criteria***

Good accounting practices require that a budget should be prepared annually and compared to the actual results.

Section 6-6-2A NMSA 1978 requires a proposed budget for the next fiscal year to be submitted by the local public body to the Local Government Division by December 1 of each year.

Section 6-6-2F NMSA 1978 requires the Association to submit periodic financial reports to the Local Government Division at least quarterly.

Also the State Auditor requirements for presenting the results of a tier 4 agreed upon procedures engagement include presenting a copy of the year-end financial report submitted to the Local Government Division.

***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. Since the Association did not submit quarterly financial reports to the Local Government Division, the year-end quarterly report is unavailable for presentation in the tier 4 agreed upon procedures report for the year ended December 31, 2013.

***Cause***

The governing body was unaware of these requirements.

***Recommendation***

We recommend management and members of the governing body of the Association attend training sessions and presentations conducted by the Local Government Division to ensure the Association has identified all budget and reporting requirements.

***Agency Response***

The Board will begin preparing an annual budget, submitting quarterly and year end financial reports, and attend training sessions conducted by the Local Government Division.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
For the Year Ended December 31, 2013

2013-003 Late Report Finding

***Condition***

The Association did not deliver its 2013 agreed upon procedures report by the May 31, 2014 deadline.

***Criteria***

Chapter 12, Section 6 NMSA 1978 and New Mexico State Audit Rule 2.2.2.9A requires the Association to submit its fiscal year 2013 agreed upon procedures report by May 31, 2014.

***Effect***

The Association is in noncompliance with financial reporting requirements established by state regulation. The results of the agreed upon procedures were not available for the use of management or third party stakeholders.

***Cause***

The Association did not procure agreed upon procedures contract for fiscal year 2013 until June 16, 2014 which was already past the required due date of May 31, 2014.

***Recommendation***

We recommend the Association procure agreed upon procedures reports timely and submit their fiscal year 2014 agreed upon procedures report by the May 31, 2015 deadline.

***Agency Response***

The Association will work with external auditors to ensure the fiscal year 2014 report is submitted timely.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
For the Year Ended December 31, 2013

2013-004 Bank Reconciliations

***Condition***

During our testing of bank reconciliations, we noted reconciliations for June 2013 were missing for the Debt Service and Asset Management bank accounts. We tested 28 monthly bank reconciliations in 4 separate bank accounts for purposes of determining if bank reconciliations were being performed in a timely manner and whether all bank and investments statements for the year ended December 31, 2013 are complete and on hand.

In addition, we noted on the May 31, 2013 bank reconciliation there was a \$17.20 difference between the reconciled cash balance and general ledger balance as of May 31, 2013. We tested 5 bank reconciliations in five separate bank accounts for purposes of determining if bank reconciliations were accurately performed.

***Criteria***

Good accounting practices require bank reconciliations to be prepared accurately and timely and require the Association to retain the evidence that bank reconciliations were prepared for audit and accountability purposes.

***Effect***

The independent accountant could not determine if bank reconciliations were prepared for the month referenced above. Errors or fraud could occur and not be detected if bank reconciliations are not being performed accurately and timely.

***Cause***

It could not be determined if the reconciliations for June 2013 were ever performed, or if the bank reconciliations were lost or misplaced. The \$17.20 difference was due to reporting an uncleared check on the bank reconciliation that did not get posted to the general ledger.

***Recommendation***

We recommend the Association review its procedures for preparing and maintaining bank reconciliations and store monthly bank reconciliations electronically to preserve an audit trail.

***Agency Response***

The Association will begin storing monthly bank reconciliations electronically and ensure bank reconciliations to do contain any differences between the reconciled cash balance and balance recorded in the general ledger.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
For the Year Ended December 31, 2013

2013-005 Journal Entries

***Condition***

During our testing of 17 journal entries we noted there is no evidence that independent reviews are being performed for each journal entry tested.

***Criteria***

Good accounting practices require journal entries to be reviewed and approved by someone other than the person that prepared the journal entry.

***Effect***

Errors or fraud in journal entries could go undetected. Potential impacts could mean that fraud could be perpetrated and concealed due to one person recording and approving the journal entry.

***Cause***

The Association is a small business and has a limited number of personnel. The Association does not have any procedures that require journal entries to be reviewed and approved

***Recommendation***

We recommend the Association's Office Manager review and approve the Bookkeeper's journal entries and evidence the review and approval through initialing each journal entry, or that the board review and approve journal entries monthly. We further recommend the Association draft an internal policy that requires journal entries to be reviewed and approved by someone other than the person that prepared the journal entry.

***Agency Response***

The Association will implement one over one review procedures and draft a policy that requires journal entries to be reviewed by someone other than the preparer.



**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Exit Conference  
For the Year Ended December 31, 2013

**EXIT CONFERENCE**

The contents of this report were discussed on August 25, 2014. The following individuals were in attendance.

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

Craig Ogden, Treasurer/Secretary  
Faye Arias, Office Manager

**Representing Accounting & Consulting Group, LLP**

Cindy Bryan, Partner