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Certified Public Accountants

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**Malaga Mutual Domestic Water Consumers
and Sewage Works Association
Tier 4- Agreed Upon Procedures Report
for the Year Ended December 31, 2014**

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, 2014
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STATE OF NEW MEXICO

Malaga Mutual Domestic Water Consumers and Sewage Works Association

Directory of Officials

December 31, 2014

| <u>Name</u> | <u>Board</u> | <u>Title</u> |
|--------------------|--|---------------------|
| David C Navarette | | President |
| Efrain Rios | | Vice President |
| Craig Ogden | | Secretary-Treasurer |
| Tony Hernandez | | Director |
| John Wright | | 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

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

We have performed the procedures listed in the attached schedule which were agreed to by the Office of the State Auditor and the Malaga Mutual Domestic Water Consumers and Sewage Works Association, (the Association) for the year ended December 31, 2014. 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 Association is responsible for the 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 and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 findings related to the procedures in the schedule 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 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
May 25, 2015

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, 2014

1. Cash

Procedures

- 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. [For purpose of performing these procedures “timely” means completion of the bank reconciliations within one month after the last day of the reporting month and “complete” means that statements for bank and investment accounts are all accounted for by the Association.]
- 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. [For the purpose of performing these procedures, “accuracy” means that reconciling items agree to deposit slips and subsequent bank statement and reconciled balances agree 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.

Results of Procedures

- a. We obtained the bank statements and corresponding reconciliations for the all of Association’s accounts as of December 31, 2014. No exceptions were noted as a result of this procedure. Bank reconciliations were completed in a timely manner, and all bank statements and reconciliations are complete and on hand.
- b. A random sample of 6 monthly bank reconciliations were haphazardly selected in fiscal year 2014 from the Association’s main operating account and found to be accurate. Reconciled balances were traced to the general ledger and supporting documentation with no exceptions; however, no financial reports were submitted to DFA-Local Government Division during fiscal year 2014 (see finding 2013-002).
- c. No collateral was required because the Association’s accounts at their respective financial institutions did not exceed \$250,000.

2. Capital Assets

Procedure

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

Result of Procedure

The Association performed a capital asset inventory that was certified by its Board of Directors for the year ended December 31, 2014.

3. Revenues

Procedures

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

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, 2014

3. Revenues-Continued

- a. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue. [For purposes of performing analytical procedures, we inquired of the Association’s management for explanations of all variances of budget to actual of more than 10%.]

Select a sample of revenues based on auditor judgment [for purposes of procedures in 3(b) and 3(c), we haphazardly selected the 5th deposit of every month for a total of 12 deposits] and test using the following attributes:

- b. Amount recorded in the general ledger agrees to 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 a cash basis, modified accrual basis, or accrual basis.

Results of Procedures

- a. Actual revenue compared to budgeted revenue for the fiscal year was within expectations as detailed in the comparison schedule below.

| | <u>Budget</u> | <u>Actual</u> | <u>Difference</u> | <u>Percentage</u> |
|-------------|---------------|---------------|-------------------|-------------------|
| Water sales | \$ 215,100 | \$ 202,273 | \$ (12,827) | -6% |

The following items were selected for procedures 3(b)-3(c):

| Receipt Date | Payer | Description | Amount |
|--------------|---------|----------------|----------|
| 1/15/2014 | Various | Water billings | 429.15 |
| 2/10/2014 | Various | Water billings | 1,666.45 |
| 3/10/2014 | Various | Water billings | 2,426.70 |
| 4/7/2014 | Various | Water billings | 933.61 |
| 5/8/2014 | Various | Water billings | 731.12 |
| 6/9/2014 | Various | Water billings | 1,774.65 |
| 7/8/2014 | Various | Water billings | 944.39 |
| 8/11/2014 | Various | Water billings | 3,377.90 |
| 9/9/2014 | Various | Water billings | 1,647.72 |
| 10/8/2014 | Various | Water billings | 423.46 |
| 11/10/2014 | Various | Water billings | 2,216.81 |
| 12/8/2014 | Various | Water billings | 1,274.16 |

- b. No exceptions were noted as a result of this procedure. Amounts recorded in the general ledger agreed with supporting documentation and the bank statements.
- c. No exceptions were noted as a result of this procedure. Amounts were properly recorded on a cash basis as to classification, amount and period per review of supporting documentation.

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, 2014

4. Expenditures

Procedures

Select a sample of cash disbursements based on auditor judgment [for purposes of procedures in 4(a), 4(b), and 4(c), we haphazardly selected the 10th cash disbursement of every month for a total of 10 disbursements] and test using the following attributes:

- a. 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.
- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established 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).

The following cash disbursements were selected and the procedures described in 4(a)-4(c) above were performed:

| <i>Check Number</i> | <i>Check Date</i> | <i>Payee</i> | <i>Description</i> | <i>Check Amount</i> |
|---------------------|-------------------|----------------------|--------------------------|---------------------|
| 9704 | 9/9/2014 | Eddy County | Right of Way Payment | 100.00 |
| ACH | 9/28/2014 | NM Mutual Casualty | Insurance Policy Payment | 566.00 |
| 9606 | 5/21/2014 | Faye Arias | Mileage Reimbursement | 2.75 |
| 9644 | 7/1/2014 | Card Service Center | Postage | 184.39 |
| 9798 | 12/16/2014 | Tax & Rev Dept. | CRS-1 Payment | 68.73 |
| 9648 | 7/7/2014 | Cecilia Mendoza | Payroll Taxes | 37.50 |
| 9649 | 7/7/2014 | Alfredo Lopez | Yard expense | 120.00 |
| ACH | 7/31/2014 | Baker Utility Supply | Supplies | 2,762.01 |
| ACH | 7/1/2014 | AT&T | Telephone Expense | 51.34 |
| 103 | 8/28/2014 | Engineers, Inc. | Phase IV payment | 32,405.01 |

Results of Procedures

- a. No exceptions were noted as a result of this procedure. The amounts recorded as disbursed agreed to supporting documentation: amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract, and cancelled check, as appropriate.
- b. No exceptions were noted as a result of this procedure. The disbursements were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures.
- c. No exceptions were noted as a result of this procedure. 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 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

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, 2014

5. Journal Entries

Procedures

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 [A journal entry is considered reasonable if: i. Explanation is consistent with the nature of the adjustment and the general ledger accounts affected. ii. supporting documentation {invoices, contracts, correspondence, calculations, etc.} agrees with the journal entry details.]
- b. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results of Procedures

- a. There were no non-routine journal entries recorded during fiscal year ending December 31, 2014, thus the procedure was not performed.
- b. There were no non-routine journal entries recorded during fiscal year ending December 31, 2014, thus the procedure was not performed.

6. Budget

Procedures

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 public body's governing body and DFA-LGD.
- b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
- 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.

Results of Procedures

- a. The review of Board minutes indicated that the budget was approved by the Board,; however, the budget was not sent to DFA for approval (see finding 2013-002).
- b. Total actual expenditures from the general ledger exceeded budgeted expenditures by \$89,961. See finding (2013-002).
- c. A schedule of revenues and expenses – budget and actual was prepared from the Association record on the cash budgetary basis.

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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, 2014

7. Other

Procedures

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.

Results of Procedures

Please refer to the schedule of findings and responses of this report.

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers and Sewage Works Association
Schedule of Revenues and Expenditures
Budget and Actual
For the Year Ended December 31, 2014

| | Budgeted Amounts | | Cash Basis | Variances Favorable (Unfavorable) |
|---|------------------|------------|------------|---|
| | Original | Final | Actual | Final to Actual |
| Operating revenues | | | | |
| Water sales | \$ 215,100 | \$ 215,100 | \$ 202,273 | \$ (12,827) |
| Total operating revenues | 215,100 | 215,100 | 202,273 | (12,827) |
| Operating expenditures | | | | |
| Payroll | 50,000 | 50,000 | 44,532 | 5,468 |
| Professional fees | 7,500 | 7,500 | 74,214 | (66,714) |
| Insurance | 10,100 | 10,100 | 11,511 | (1,411) |
| Utilities | 17,200 | 17,200 | 15,132 | 2,068 |
| Supplies | 35,000 | 35,000 | 52,751 | (17,751) |
| Taxes | 6,500 | 6,500 | 5,969 | 531 |
| Repairs | 30,000 | 30,000 | 40,653 | (10,653) |
| Interest | 9,500 | 9,500 | 10,999 | (1,499) |
| Total operating expenditures | 165,800 | 165,800 | 255,761 | (89,961) |
| Excess (deficiency) of revenues over expenditures | 49,300 | 49,300 | (53,488) | (102,788) |
| Nonoperating revenues and expenditures | | | | |
| Interest income | 170 | 170 | 139 | (31) |
| Capital grant income-federal | - | - | 367,947 | 367,947 |
| Revenues over (under) expenditures | \$ 49,470 | \$ 49,470 | \$ 314,598 | \$ 265,128 |

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers and Sewage Works Association
Schedule of Findings and Responses
For the Year Ended December 31, 2014

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

Condition

During our procedures over budgetary compliance, we noted the Association did not submit a proposed budget to the Local Government Division for fiscal year 2014. Quarter financial reports were not submitted to the Local Government Division throughout the year ended December 31, 2014 as required. Also final actual expenditures exceeded budgeted expenditures by \$89,961.

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.

New Mexico State Statute 6-6-6 NMSA 1978 requires that local government spending does not exceed budgeted amounts, unless approved budget adjustments are made.

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, 2014.

Cause

The governing body was unaware of these requirements and did not periodically monitor its actual expenditures in comparison with budgeted amounts.

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 and monitor its actual expenditures in comparison with budgeted amounts monthly to ensure budget adjustments are timely made.

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
Exit Conference
For the Year Ended December 31, 2014

EXIT CONFERENCE

The contents of this report were discussed on May 26, 2015. 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