

**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, 2017**

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
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DECEMBER 31, 2017**

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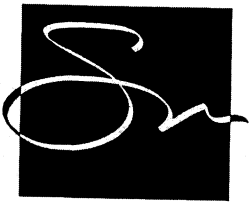
**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2017**

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**

Wayne Johnson, 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, 2017. 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 upon by the Association through the Office of the New Mexico State Auditor. The Association's management is responsible for the organization's accounting records. 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 related to the procedures in the Scope of Procedures and Results are presented in the accompanying Schedule of Findings and Responses as noted in the table of contents.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 Association's financial position and operations as of and for the year ended December 31, 2017. 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 those parties specified in the report.

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 Department of Finance and Administration-Local Government Division 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
February 22, 2018

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2017**

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 legislatively appropriated capital outlay award expenditures.	The Association's cash basis revenues totaled approximately \$223,704 and the Association did not expend any legislatively appropriated capital outlay awards. The Association is properly 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 twelve fiscal year bank statements for the five accounts were on-hand and available for compliance examination. Reconciliations were timely performed within the a reasonable time after the end of the month.
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.	A review of 100% of 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, 2017**

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. Select a sample of revenue equal to 30% of the total dollar amount and test whether the 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. Select a sample of revenue equal to 30% of the total dollar amount and test the 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 review of all twelve of the monthly billings and collections reports (100% of coverage) were reconciled to the general ledger revenue entries and noted the amounts were properly recorded on cash basis as to classification, amount and period.

5. Expenditures Select a sample of cash disbursements representative of the of the population equal to at least 30% of the total dollar amount and test 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 review of all twelve of the monthly disbursement files was conducted (100% of coverage) and no exceptions with respect to amount, payee, date and description were noted.
b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.	A review of all twelve of the monthly disbursement files was conducted (100% of coverage) and 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, 2017**

6. Journal Entries Test all non-routine journal entries, adjustments, and reclassifications are posted to the general ledger 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 the answer is "yes" report a compliance finding.	Total actual expenditures exceeded the final budget at the total fund level. See Finding 2017-001 (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 individual fund.	The Schedule of Revenue and Expenses – Budget and Actual on the cash basis follows these procedures and results.
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, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Water Sales and Charges for Service	\$ 230,000	\$ 230,000	\$ 207,679	\$ (22,321)
Reconnect and Disconnect Fees	100	100	189	89
Installation Fees	5,000	5,000	11,570	6,570
Miscellaneous	100	100	4,030	3,930
Total Operating Revenues	<u>235,200</u>	<u>235,200</u>	<u>223,468</u>	<u>(11,732)</u>
OPERATING EXPENSES				
Wages and Salaries	70,000	70,000	89,843	(19,843)
Payroll Taxes	5,900	5,900	7,333	(1,433)
Advertising	-	-	1,165	(1,165)
Fuel and Mileage Expense	9,000	9,000	10,555	(1,555)
System Expense	-	-	500	(500)
Equipment Rental and Supplies	15,000	15,000	10,866	4,134
Insurance	10,300	10,300	9,511	789
Office Expense	12,000	12,000	7,489	4,511
Telephone	3,700	3,700	3,561	139
Professional Fees and Contracted Services	9,700	9,700	6,974	2,726
Repairs and Maintenance	33,000	33,000	37,506	(4,506)
Property and Other Taxes	1,500	1,500	2,227	(727)
Utilities	13,000	13,000	12,133	867
Asset Reserve	8,668	8,668	8,667	1
Debt Service Reserve	1,660	1,660	1,660	-
Debt Service - Principal	5,488	5,488	5,488	-
Capital Outlay	-	-	11,978	(11,978)
Total Operating Expenses	<u>198,916</u>	<u>198,916</u>	<u>227,456</u>	<u>(28,540)</u>
Operating Income (Loss)	36,284	36,284	(3,988)	(40,272)
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	170	170	236	66
Interest Expense	(10,472)	(10,472)	(10,472)	-
Total Non-operating Income (Expense)	<u>(10,302)</u>	<u>(10,302)</u>	<u>(10,236)</u>	<u>66</u>
Change in Net Position	25,982	25,982	(14,224)	<u>\$ (40,206)</u>
Cash and Cash Equivalents - Beginning	<u>341,121</u>	<u>341,121</u>	<u>341,121</u>	
Cash and Cash Equivalents - Ending	<u>\$ 367,103</u>	<u>\$ 367,103</u>	<u>\$ 326,897</u>	

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
YEAR-END FINANCIAL REPORT SUBMITTED TO DFA
YEAR ENDED DECEMBER 31, 2017**

MDWCA: Malaga MD & S Water
Mailing Address: PO Box 70 Malaga NM 88263
Email address: malagawater@windstream.net
Phone number: 876-746-2913

**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 Cash balance	\$ 237,916.00							
REVENUES (General Fund)								
Water Service	230,000	45,057	63,769	55,056	44,092	\$ 207,974.47	\$ 22,025.53	90%
Reconnect & Disconnect Fees	100	-	47	47	94	\$ 188.92	\$ (88.92)	189%
Installation Fees	5,000	-	4,628	4,628	2,314	\$ 11,570.25	\$ (6,570.25)	231%
Membership Fees	100	50	150	-	150	\$ 350.00	\$ (250.00)	350%
Interest Income	170	51	55	60	70	\$ 236.17	\$ (66.17)	139%
Land Lease	-	-	-	-	-	\$ 3,380	\$ (3,380.40)	-
REVENUE TOTALS	\$ 236,370	\$ 45,169	\$ 68,649	\$ 59,791	\$ 46,720	\$ 223,700	\$ 11,670	95%
EXPENDITURES (General Fund)								
Wages	70,000	19,401	21,550	25,805	23,087	\$ 89,843	\$ (19,843)	128%
Payroll Taxes	5,900	1,676	1,755	2,080	1,821	\$ 7,333	\$ (1,433)	124%
Insurance	10,300	-	8,695	816	-	\$ 9,511	\$ 789	92%
Office Expense	12,000	1,231	1,891	2,481	11,848	\$ 17,451	\$ (5,451)	145%
Repairs & Maintenance	33,000	10,489	18,536	4,716	8,894	\$ 42,634	\$ (9,634)	129%
Supply Expense	15,000	1,939	5,988	1,635	1,303	\$ 10,866	\$ 4,134	72%
Utilities	13,000	3,415	3,286	3,022	2,410	\$ 12,133	\$ 867	93%
Telephone	3,700	875	888	875	924	\$ 3,561	\$ 139	96%
Mileage	9,000	2,246	2,936	2,622	2,752	\$ 10,555	\$ (1,555)	117%
Other Taxes and Licenses	1,500	232	408	419	333	\$ 1,393	\$ 107	93%
Legal & Accounting	9,700	1,613	2,900	1,412	1,049	\$ 6,974	\$ 2,726	72%
						\$ -	\$ -	-
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TOTAL EXPENDITURES	\$ 183,100	\$ 43,118	\$ 68,833	\$ 45,882	\$ 54,422	\$ 212,255	\$ (29,155)	116%
TOTAL GENERAL FUND to include Beginning cash	\$ 290,186							
Revenues (non-operating)								
SAP.. Appropriation Capital outlay	\$ -							
State Grants	\$ 36,302			\$ 36,302				
Federal Grants	\$ -							
Other	\$ -							
Other	\$ -							
Total Revenues (non-operating)	\$ 36,302	\$ -	\$ -	\$ 36,302	\$ -			
Expenditures (non-operating)								
Capital Outlay	\$ -							
Payments	\$ 15,960	\$ 3,990	\$ 3,990	\$ 3,990	\$ -			
Asset Reserve	\$ 8,668	\$ 2,167	\$ 2,167	\$ 2,167	\$ -			
Debt Service	\$ 1,680	\$ 415	\$ 415	\$ 415	\$ -			
Upgrade System	\$ -	\$ 9,673	\$ -	\$ 37,492	\$ 45,823			
Total Expenditure (non-operating)	\$ 26,288	\$ 16,245	\$ 6,572	\$ 44,064	\$ 45,823			
Total (Non-operating)	\$ 10,014	\$ (16,245)	\$ (6,572)	\$ (7,762)	\$ (45,823)			
Estimated Ending Cash Balance on Dec 31, 2017	\$ 300,200.31							

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

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017**

CURRENT YEAR FINDINGS:

2017-001 (2016-001) - Expenses in Excess of Authorized Budget – Compliance (Revised and Repeated)

CONDITION – The Association exceeded its authorized budget approximately \$29,155.

PROGRESS TOWARD RESOLVING FINDING – No progress was made during the year regarding adjusting the budget for cost overruns. The board was presented with monthly budget to actual comparisons but did not adjust the budget to compensate for the overage.

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 – The Association is not in compliance with state statute. The Association’s board is provided a monthly budget to actual comparison to review during its monthly board meetings but did not act on adjusting the budget for additional wages and other items during the year.

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 board Treasurer was unaware that the budget could be amended during the year to reflect unanticipated revenues and expenditures. The Treasurer and 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 Association’s 2018 December fiscal year end.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND RESPONSES
DECEMBER 31, 2017**

PRIOR YEAR FINDINGS:

Finding

Status

2016-001 – Expenses in Excess of Authorized Budget

Repeated

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
DECEMBER 31, 2017**

The contents of this report were discussed with the Malaga Mutual Domestic Water Consumers and Sewage Works Association representatives on February 22, 2018. 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.