

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES REPORT

YEAR ENDED December 31, 2010

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STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMER ASSOCIATION

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STATE OF NEW MEXICO

PENASCO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

Official Roster

December 31, 2010

Name

Title

Board of Directors

Peter Pacheco

President

Joe Martinez

Vice-President

Catherine Garduno

Secretary-Treasurer

Pete Contreras

Member

Estevan Lopez

Member

Staff

Peter Pacheco

Water System
Operator

JOSEPH M. SALAZAR
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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES**

Peter Pacheco, President
Penasco Mutual Domestic Water Consumers Association
and
Honorable Hector H. Balderas
New Mexico State Auditor

We have performed the procedures enumerated below for the Penasco Mutual Domestic Water Consumers Association (PMDWCA) for the year ended December 31, 2010. The PMDWCA was determined to be a Tier 4 entity under the Audit Act Section 12-6-3 (B) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the PMDWCA through the Office of the New Mexico State Auditor. The Penasco Mutual Domestic Water Consumers Association 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 representations regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

Our procedures and findings are as follows:

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.
- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reporting submitted to DFA-Local Government Division.

- c) Determine whether the local public body's financial institution 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.

Findings

- a) The PMDWCA has a checking account and a savings account and utilizes QuickBooks to record cash transactions. The two accounts were reconciled on a monthly basis. All bank statements and reconciliations were complete and on-hand for the entire year.
- b) We tested the bank reconciliations for the months of April and December of 2010 and traced to the financial records. No exceptions noted. No reports were filed with the DFA local government division.
- c) Both accounts have FDIC coverage of \$250,000. Bank accounts never exceeded uninsured limits and, therefore, pledged collateral was not required on any of the bank accounts at any time during the year.

2. Capital Assets

Procedures

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

Findings

The balance sheet amounts and as asset detail report amounts agree. The report indicates only water system infrastructure and a well pump. All the system improvements and equipment indicate an acquisition date of calendar year 2008. The listing was certified as true and correct. According to the Board President no improvements have been made to the water system that exceeds \$5,000 that requires being capitalized since calendar year 2008.

3. Revenues

Procedures

Identify the nature and amount of revenue from sources by receiving the budget, agreement, 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.

Test 50% of the total amount of revenues for the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statements.
- c) Proper recording of classification, amounts, 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.

Findings:

- a) We were provided a profit and loss statement for the year ended December 31, 2010 showing only two revenue accounts – water services and interest earned. The PMDWCA did not prepare a budget for the year then ended December 31, 2010. Therefore, we could not perform an analytical review or test actual revenues compared to budgeted revenues for the year for the two types of revenues.
- b) Amounts recorded in QuickBooks general ledger agreed to the supporting documentation (deposit slips and detail of receipts) and the bank statements. No exceptions noted.
- c) Amounts were recorded on a cash basis to the two revenue accounts on a monthly basis. We tested six months of deposit slip amount by totaling the amounts per deposit slips to the total posted to the revenue accounts which exceeded 50% of the total revenues. No exceptions noted.

4. Expenditures

Procedures

Select a sample of cash disbursements and test at least 25 transactions and 50% of the total amount of expenditures for 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 check clearing amount (cancelled checks not returned), 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 order, contracts and agreements were processed in accordance with the New Mexico Procurement Code Section 13-1-28 through 13-1-100 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings

- a) Our tests of transactions revealed that amounts recorded as disbursed agreed to the supporting documentation. The documentation agrees as to amount, payee, date and description agreed with the vendor's invoice. No exceptions noted. PMDWCA does not use purchase orders or contracts. Unable to determine compliance with the procurement code.
- b) Disbursements were properly authorized and approved in compliance with legal requirements and established policies and procedures. We could not test compliance with the budget since one was not established for 2010.
- c) PMDWCA did not maintain documentation to demonstrate compliance with the bid process (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 purchase regulations.

5. Journal Entries

Procedures

If non-routine journal entries, such as adjustment or reclassification, are posed to the general ledger, test significant items for the following attribute:

- a) Journal entries appear reasonable and have 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.

Findings

The PMDWCA utilizes QuickBooks to record cash transactions only and did not prepare formal entries for the year ended December 31, 2010.

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 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, actual or modified accrual basis) for each individual fund.

Findings

- a) The PMDWCA did not prepare a budget for the year ended December 31, 2010.
- b) Since there was no approved budget, we could not determine if total actual expenses exceeded the final budget at the total fund level, the legal level of budgetary control.
- c) A schedule of revenues and expenses-budget and actual was prepared from PMDWCA records on a cash budgetary basis. This schedule is included herein as Exhibit A. The PMDWCA did not submit a budget report the year ended December 31, 2010 to DFA-LGD.

Other

Procedures

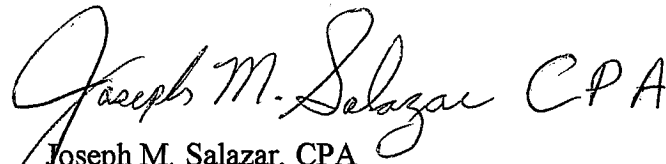
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The finding must include the required contents per Section 2.2.2.1-(1) (3) (C) NMAC.

Findings

No exceptions or information were noted as a result of applying the procedures described above (regardless of materiality) indicating fraud, illegal acts, or any internal control deficiencies. However, see the Schedule of Findings and Responses related to budget, procurement code compliance and late agreed upon procedures report.

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 preformed 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 Penasco Mutual Domestic Water Consumers Association, the New Mexico State Auditor's Office and the DFA-Local Government Division and is not intended to be and should not be used by anyone other than those specified parties.


Joseph M. Salazar, CPA
August 30, 2011

STATE OF NEW MEXICO Exhibit A
PENASCO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE REVENUE AND EXPENSES- BUDGET AND ACTUAL (CASH BASIS)
FOR YEAR ENDED DECEMBER 31,2010

	Budget Amounts		Actual Amounts	Variance with Final Budget
	<u>Orginal</u>	<u>Final</u>		
REVENUES				
Water service	-	-	\$ 87,353	87,353
Interest earned	-	-	324	324
Total revenues	-	-	<u>\$ 87,677</u>	<u>\$ 87,677</u>
Cash balance budgeted	-	-		
Total revenues and cash balance budgeted	-	-		
Expenses				
Software maintenance	-	-	\$ 50	\$ 50
Professional services-legal	-	-	500	500
Professional services= taxes	-	-	1,677	1,677
Postage	-	-	899	899
Equipment rental	-	-	301	301
Rent	-	-	1,300	1,300
Gross receipt tax	-	-	2,750	2,750
Utilities	-	-	5,810	5,810
Board members per diem and mileage	-	-	971	971
Regulation and licensing fees	-	-	10	10
Accounting fees	-	-	5,454	5,454
Association membership fees	-	-	334	334
Insurance	-	-	1,433	1,433
Interest expense	-	-	19,525	19,525
Office supplies	-	-	436	436
System repair and maintenance	-	-	13,027	13,027
Water conservation fees	-	-	575	575
Water operations	-	-	9,243	9,243
Bad debt write-off	-	-	37	37
Depreciation expense	-	-	43,684	43,684
Total expenses	-	-	<u>108,016</u>	<u>108,016</u>
Revenue over (under) expenses	-	-	<u>(\$20,339)</u>	<u>(\$20,339)</u>

**STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2010**

Current Year Findings

2010-1 Budget Submission/Approved and Quarterly Financial Reports

Criteria

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD on or before December 1, of each year, a proposed budget for the next fiscal year. Upon receipt of budget approved by the DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. Section 6-6-2 (B) NMSA 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-3 NMSA, 1978 states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

Penasco Mutual Domestic Water Consumers Association (PMDWCA) did not prepare or submit a budget for the DFA-LGD approval nor did they submit required quarterly financial and budget reports to the DFA-LGD at any time during the year or at year end.

Cause

The PMDWCA was not aware of the DFA-LGD requirements.

Effect

The PMDWCA has not complied with Section 6-6-2 and 6-6-3 NMSA 1978.

Recommendation

We recommend that the PMDWCA submit their proposed budget to DFA-LGD for approval, on or before December 1 of each year and that upon receipt of the approved budget cause such budget to be made a part of the minutes. We further recommend that the PMDWCA submit quarterly financial as required to DFA-LGD.

**STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
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Schedule of Findings and Responses
YEAR ENDED DECEMBER 31, 2010**

Entity Response

PMDWCA will prepare a 2012 budget, get Board approval, and submit it to DFA before the deadline of 12-1-11. Further, PMDWCA will submit quarterly financial reports to DFA-LGD in 2012 as required.

2010-2 Procurement Code Compliance

Criteria

All local public bodies in the State of New Mexico are required to comply with the New Mexico Procurement Code.

Condition

PMDWCA did not maintain documentation to demonstrate compliance with the bid process (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.

Cause

The PMDWCA was not aware of the requirements of complying with the procurement code.

Effect

The PMDWCA did not comply with the procurement code.

Recommendation

We recommend that the PMDWCA comply with the New Mexico procurement code.

Entity Response

PMDWCA will research the NM Procurement Code, and then adopt and implement policies and procedures that comply with the New Mexico Procurement Code.

**STATE OF NEW MEXICO
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ASSOCIATION**

**Schedule of Findings and Responses
YEAR ENDED DECEMBER 31, 2010**

2010-3 Late Agreed Upon Procedures Report

Criteria

New Mexico State Auditor Rule Section 2.2.2.9 A (g) requires that agencies with a fiscal year other June 30 must submit the report no later than 5 months after the fiscal year end.

Condition

The agreed upon procedures report for the calendar year 2010 was not submitted to the State Auditor's office by the deadline. The report was submitted and received by the State Auditor's Office on September 2 2011.

Cause

Penasco Mutual Domestic Water Consumers Association was not aware of the requirement.

Effect

The lateness of the agreed upon procedures report creates noncompliance with the State Auditor Rule requirements of completing and submitting the agreed upon procedures report by the due date.

Recommendation

Recommend that the Penasco Mutual Domestic Water Consumers Association comply with the State Auditor Rule requirement of completing and submitting the audit report by the due date.

Entity Response

The PMDWCA Board was not aware of the Agreed Upon Procedure's submission deadline, and will submit the report by May 31st in the future.

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION

Exit Conference

YEAR ENDED DECEMBER 31, 2010

Exit Conference

The report contents were discussed at an exit conference held August 30, 2011
with the following in attendance:

Penasco Mutual Domestic Water Consumers Association

Peter Pacheco, President

Catherine Garduno, Secretary/Treasurer

Pam Fernandez, Contract Accountant

Accounting Firm

Joseph M. Salazar, CPA

