

**STATE OF NEW MEXICO**  
**PENASCO MUTUAL DOMESTIC WATER CONSUMERS**  
**ASSOCIATION**

**INDEPENDENT ACCOUNTANTS' REPORT ON**  
**APPLYING AGREED UPON PROCEDURES REPORT**

**YEAR ENDED December 31, 2011**

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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, 2011**

**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
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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, 2011. 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 November and December of 2011 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 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.

Select a sample of revenues based on auditor judgment and test using 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, 2011 showing only two revenue accounts – water services and interest earned. The PMDWCA did not prepare a budget for the year then ended December 31, 2011. 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 seven 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 based on auditor judgment 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 order, 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).

### **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) PMDWCA disbursements were authorized disbursements for the operations of the association; however PMDWCA did not approve or maintain adequate supporting documentation for some disbursements in compliance with legal requirements and established policies and procedures. We could not test compliance with the budget since one was not established for 2011.
- 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 posted 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, 2011.

## **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, 2011.
- 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, 2011 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 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 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  
July 17, 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 31,2011**

	Budget Amounts		Actual <u>Amounts</u>	Variance with <u>Final Budget</u>
	<u>Orginal</u>	<u>Final</u>		
<b>REVENUES</b>				
Water service	-	-	\$ 84,842	84,842
Interest earned	-	-	253	253
Total revenues	-	-	<u>\$ 85,095</u>	<u>\$ 85,095</u>
Cash balance budgeted	-	-		
Total revenues and cash balance budgeted	-	-		
<b>Expenses</b>				
Software maintenance	-	-	\$ 25	\$ 25
Professional services-accounting	-	-	5,669	5,669
Professional services-auditing	-	-	3,196	3,196
Professional services- taxes	-	-	1,974	1,974
Postage	-	-	923	923
Equipment rental	-	-	321	321
Rent	-	-	700	700
Miscellaneous	-	-	16	16
Gross receipt tax	-	-	3,233	3,233
Utilities	-	-	5,599	5,599
Board members per diem and mileage	-	-	1,994	1,994
Regulation and licensing fees	-	-	10	10
Association membership fees	-	-	200	200
Insurance	-	-	1,589	1,589
Interest expense	-	-	14,721	14,721
Office supplies	-	-	276	276
System repair and maintenance	-	-	7,936	7,936
Water conservation fees	-	-	576	576
Water operations	-	-	8,373	8,373
Depreciation expense	-	-	39,000	39,000
Total expenses	-	-	<u>96,331</u>	<u>96,331</u>
Revenue over (under) expenses	-	-	<u>(\$11,236)</u>	<u>(\$11,236)</u>

**STATE OF NEW MEXICO  
PENASCO MUTUAL DOMESTIC WATER CONSUMERS  
ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**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.

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**Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**Entity Response**

The PMDWCA has corrected this finding for FY 2012. We have a DFA approved budget, and have been submitting quarterly reports to our budget analyst.

**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**

The Board of PMDWCA adopted procurement code procedures at the end of FY 2011, and we have been in compliance with the State of New Mexico Procurement Code policies for all of FY 2012.

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ASSOCIATION**

**Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**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 2011 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 July 17 2012.

**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**

We underestimated the time it would take to get an approved contract through the process. We will start the process in October 2012 and this will allow us to submit our agreed upon procedures report timely.

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ASSOCIATION**

**Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**2011-1            Supporting Documentation, Recording and Approval of all  
Disbursements**

**Criteria**

Good internal control procedures require that all PMDWCA disbursements be properly approved, recorded and adequate supporting documentation be maintained for all disbursements.

**Condition**

PMDWCA did not approve or maintain supporting documentation for some disbursement. The supporting documentation did not contain any information as to what disbursement category it was recorded. Disbursements are posted based on checks information.

**Cause**

Some disbursements documents are taken to the treasurer to pay without written approval. Also, a loan payment to RUS is transferred on a monthly basis from the PMDWCA bank account however the PMDWCA did not maintain any supporting documentation of the disbursement. Disbursements are posted based on check information not supporting documentation.

**Effect**

The lack of approval and adequate supporting documentation and not noting on the documentation as to what disbursement categories the disbursement was recorded could create errors or irregularity on the financial statements of PMDWCA.

**Recommendation**

Recommend that PMDWCA approve, record to its financial records based on supporting documentation and maintain adequate supporting documentation of all disbursements.

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ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2011**

**Entity Response**

All disbursements requests will be approved by the President of the Board before being paid by the Treasurer. Also supporting documentation for all RUS loans which is paid by ACH credit will be provided to the Treasurer on a monthly basis. All disbursements will be reviewed by the contract accountant and noted on the supporting documentation as to the account or accounts posted and determine that amounts are properly posted.

**STATE OF NEW MEXICO**  
**PENASCO MUTUAL DOMESTIC WATER CONSUMERS**  
**ASSOCIATION**

**Exit Conference**

**YEAR ENDED DECEMBER 31, 2011**

**Exit Conference**

The report contents were discussed at an exit conference held July 9, 2012 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



