

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES REPORT

YEAR ENDED December 31, 2012

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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, 2012

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
CERTIFIED PUBLIC ACCOUNTANT

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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, 2012. 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 June and December of 2012 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, 2012 showing only two revenue accounts – water services and interest earned. The PMDWCA prepared a budget for the year then ended December 31, 2012 that was approved by the Board and DFA-LGD. We performed an analytical review and tested actual revenues compared to budgeted revenues for the year for the two types of revenues. No exceptions noted.
- 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 amounts 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.
- b) PMDWCA disbursements were authorized disbursements for the operations of the association. PMDWCA maintained adequate supporting documentation for disbursements in compliance with legal requirements and established policies and procedures.
- c) PMDWCA did 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, 2012.

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 prepared a budget that was approved by the Board and DFA-LGD for the year ended December 31, 2012. PMDWCA did not make any budget adjustment to its original budget.
- b) Determined that total actual expenditures did not exceed 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.

Other

Procedures

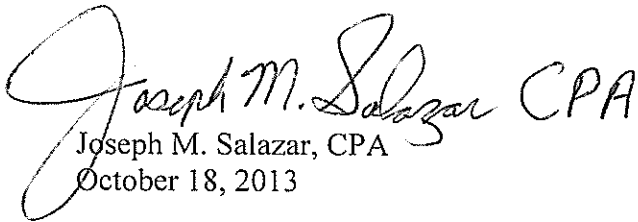
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The finding must include the required contents per Section 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
October 18, 2013

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 31,2012

	Budget Amounts		Actual Amounts	Variance with Final Budget
	<u>Orginal</u>	<u>Final</u>		
REVENUES				
Water service	\$ 87,167	\$ 87,167	\$ 77,528	9,639
Interest earned	300	300	92	208
Total revenues	\$ 87,467	\$ 87,467	\$ 77,620	\$ 9,847
Expenses				
Utilities	\$ 5,800	\$ 5,800	\$ 4,902	\$ 898
Insurance	1,450	1,450	2,600	\$ (1,150)
Bookkeeping/Billing	6,000	6,000	5,969	31
Certified Operator	5,400	5,400	5,400	-
Water operations	4,500	4,500	5,241	(741)
Board expense	2,000	2,000	480	1,520
Repairs, maintenance, contract labor	13,000	13,000	7,076	5,924
Subscriptions, dues,fees	400	400	755	(355)
Office supplies	750	750	281	469
Postage	1,200	1,200	767	433
Regulation and licensing fees	10	10	-	10
Professional services				
Legal	1,500	1,500	-	1,500
Audit	3,200	3,200	3,196	4
Tax preparation	2,000	2,000	1,974	26
Gross receipt tax	2,948	2,948	2,847	101
Water conservation fee	576	576	577	(1)
Rent	1,800	1,800	1,788	12
Software maintenance	1,200	1,200	-	1,200
Total operating expenses	53,734	53,734	43,853	9,881
Debt service				
NMED RIP	16,776	16,776	-	16,776
RUS loan	10,790	10,790	12,923	(2,133)
Total debt service	27,566	27,566	12,923	14,643
Reserves				
Operating reserve	600	600	-	600
Capital improvement reserve	5,567	5,567	-	5,567
Total reserves	6,167	6,167	-	6,167
Total expenses	87,467	87,467	56,776	30,691
Revenue over (under) expenses	\$ -	\$ -	\$ 20,844	\$ 20,844

**STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION
Schedule of Findings and Responses
YEAR ENDED DECEMBER 31, 2012**

Current Year Findings

2010-1 Quarterly Financial Reports Submitted to DFA/ LGD

Criteria

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 quarterly financial reports as required to DFA-LGD.

Entity Response

Now that we are aware of the quarterly reporting requirement, we will comply in the next fiscal year.

**STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2012**

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 2012 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 November 5, 2013.

Cause

Penasco Mutual Domestic Water Consumers Association was unable to submit its recommend to the State Auditor on a timely basis.

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 2013 and this will allow us to submit our agreed upon procedures report timely.

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

**Schedule of Findings and Responses
YEAR ENDED DECEMBER 31, 2012**

2013-1 Late Submission of IPA Recommendation Form

Criteria

New Mexico State Auditor Rule Section 2.2.2.8 A (G) (6) (c) requires that Local Public Bodies submit the required IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor by July 1.

Condition

The IPA Recommendation Form for Tiered Systems of Local Public Bodies and agreed upon procedures contract was not submitted to the State Auditor prior to the due date of July 1, 2013.

Cause

Penasco Mutual Domestic Water Consumers Association was unable to submit its IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor on a timely basis.

Effect

The lateness of submitting the IPA Recommendation Form for Tiered System of Local Public Bodies and the agreed upon procedures contract creates noncompliance with the State Auditor Rule requirements of completing and submitting the IPA recommendation Form for the Tiered System of Local Public Bodies and the agreed upon procedures contract 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 IPA Recommendation Form and the completed agreed upon procedures contract by the due date.

Entity Response

In order to meet the deadline, the IPA recommendation letter has already been submitted to OSA for fiscal year 2013.

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION

Exit Conference

YEAR ENDED DECEMBER 31, 2012

Exit Conference

The report contents were discussed at an exit conference held October 18, 2013 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

