

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES REPORT

YEAR ENDED December 31, 2013

JOSEPH M. SALAZAR CPA
P.O. BOX 1744
ESPANOLA, NEW MEXICO 87532
PHONE/FAX 505-747-2775

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMER ASSOCIATION
TABLE OF CONTENTS
December 31, 2013

Title page	i
Table of Contents	ii
Official Roster	iii
Independent Accountants Report on Applying Agreed Upon Procedures	1-6
Schedule of Revenues and Expenses-Budget and Actual (Cash Basis)	7
Schedule of Findings and Responses	8-9
Status of Prior Year Findings	10
Exit Conference	11

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

Official Roster

December 31, 2013

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
P.O. BOX 1744
Española, New Mexico 87532
Phone/Fax 505-747-2775

**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, 2013. 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 October of 2013 and traced to the financial records. No exceptions noted. No reports were filed with the DFA local government division. (See finding 2010-1)
- 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, 2013 showing only five revenue accounts – water services, interest earned, membership dues, miscellaneous revenue and reimbursed expenses. The PMDWCA did not prepare a budget for the year then ended December 31, 2013 that was approved by the Board and DFA-LGD. We did not perform an analytical review and tested actual revenues compared to budgeted revenues for the year for the five types of revenues. (see Finding 2010-1)
- 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 five 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 and bank statements. 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 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. (See Finding 2010-1)
- 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. (See Finding 2013-2)

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, 2013.

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 that was approved by the Board and DFA-LGD for the year ended December 31, 2013. (See Finding 2010-1)
- b) Since there was no approved budget, we could not determine 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

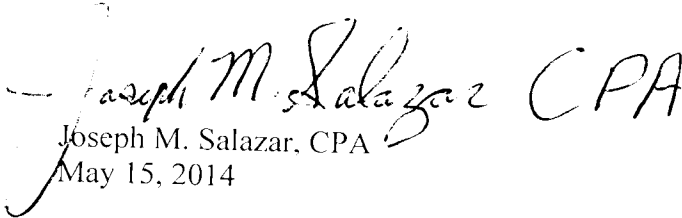
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The finding must include the required contents per Section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

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
May 15, 2014

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 31,2013

	Budget Amounts		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Water service	-	-	\$ 80,446	(80,446)
Interest earned	-	-	48	(48)
Membership dues	-	-	700	(700)
Miscellaneous income	-	-	213	(213)
Reimbursed expenses	-	-	492	(492)
Total revenues	<u>-</u>	<u>-</u>	<u>\$ 81,899</u>	<u>\$ (81,899)</u>
Expenses				
Mileage and travel	-	-	\$ 96	\$ (96)
Association membership fees	-	-	180	(180)
Certified operator	-	-	5,400	(5,400)
Water operations	-	-	4,867	(4,867)
Board expense	-	-	64	(64)
Insurance	-	-	1,700	(1,700)
Interest expense	-	-	12,413	(12,413)
System repairs and maintenance	-	-	18,125	(18,125)
Computer maintenance	-	-	82	(82)
Office supplies	-	-	1,055	(1,055)
Postage	-	-	788	(788)
Rent	-	-	1,558	(1,558)
Professional services	-	-	-	-
Accounting	-	-	5,975	(5,975)
Audit	-	-	1,598	(1,598)
Tax preparation	-	-	1,974	(1,974)
Gross receipt tax	-	-	3,336	(3,336)
Water conservation fee	-	-	672	(672)
Utilities	-	-	5,653	(5,653)
Total operating expenses	<u>-</u>	<u>-</u>	<u>65,536</u>	<u>(65,536)</u>
Revenue over (under) expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,363</u>	<u>\$ (16,363)</u>

**STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2013**

Current Year Findings

2010-1 Budget Submissions/Approved and Quarterly Financial Reports to DFA-LGD

Criteria

Section 6-6-2 (A) NMSA 1978 requires each local public body to furnish and file with the DFA-LGD on or before May 1, of each year, a proposed budget for the next fiscal year. Upon receipt of budget approval by DFA-LGD, the local public body shall cause such budget to be made part of the minutes of the such body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-2 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 Consumer Association (Association) 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 Association did not comply with the DFA-LGD requirements.

Effect

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

Recommendation

We recommend that the Association submit their proposed budget to DFA-LGD for approval and quarterly financial reports as required to DFA-LGD.

Entity Response

In the future the Association will submit budget and financial reports as required by DFA-LGD.

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

**Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2013**

2013-2 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

Association 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 Association was not aware of the requirements of complying with the procurement code.

Effect

The Association did not comply with the procurement code.

Recommendation

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

Entity Response

The Association will follow the Procurement Code as required by the New Mexico State Procurement Code and Regulations in the future.

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION

Status of Prior Year Findings

YEAR ENDED DECEMBER 31, 2013

2010-1	Quarterly Reports Submitted to DFA/LGD	Repeated and expanded
2010-3	Late Agreed Upon Procedures Report	Resolved
2013-1	Late Submission of IPA Recommendation	Resolved

STATE OF NEW MEXICO
PENASCO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION

Exit Conference

YEAR ENDED DECEMBER 31, 2013

Exit Conference

The report contents were discussed at an exit conference held May 15, 2014 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

