

# **Accounting & Auditing Services, LLC**

**Financial Audits + Agreed Upon Procedures + Tax + Consulting**

**Penasco Mutual Domestic Water Consumers Association**

**Independent Accountant's Report on Applying Agreed-Upon Procedures**

**For the Fiscal Year Ending December 31, 2015**

**Penasco Mutual Domestic Water Consumers Association  
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Fiscal Year Ending December 31, 2015**

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**Penasco Mutual Domestic Water Consumers Association  
Official Roster  
Fiscal Year Ending December 31, 2015**

**Board of Directors**

Pete Pacheco, President

Joe E. Martinez, Vice President

Catherine Garduno, Secretary/Treasurer

Pam Fernandez, Board Member

Pete Contreras, Board Member

**Administrative Staff**

None

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

Pete Pacheco, President  
Penasco Mutual Domestic Water Consumers Association  
and  
Timothy Keller, New Mexico State Auditor

We have performed the procedures enumerated below for the Penasco Mutual Domestic Water Consumers Association (Association) for the year ended December 31, 2015, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. 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 the parties specified in this 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 findings are as follows

### 1. Cash

- 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.

The Association has one checking account and one savings account at the Centinel Bank in Taos, New Mexico. The bank account reconciliations were performed on a monthly basis in a timely manner. All bank statements for the fiscal year were 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 reports submitted to DFA-Local Government Division.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the general ledger and supporting documentation. The Association did not submit the quarterly reports to DFA-LGD as required. See Finding 2010-001 on p. 6 of this report.

- 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 bank account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank and CD balances were below \$250,000 during the fiscal year.

## 2. Capital Assets

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

At the end of the fiscal year, the Association performed an inventory but did not have any movable chattels and equipment costing more than \$5,000. No capital asset purchases during the fiscal year were noted during the agreed-upon procedures.

## 3. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The revenue sources of the Association consist of monthly water dues, membership dues, bank interest and miscellaneous cash receipts. The variances between actual revenues for 2014 and 2015 were adequately explained by the bookkeeper. No unusual or unexplained variances were noted.

Actual revenue compared to budgeted revenue was reviewed. For 2015, actual revenues were \$1,484 less than budgeted revenues; the major reason was due to a decrease in water use by customers in 2015. No significant or unusual variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
  - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts was judgmentally selected and tested which amounted to 52.1% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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.

The cash receipts tested were properly classified and recorded in the general ledger.

#### 4. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- i. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of cash disbursements were tested which amounted to 31.8% of total expenses. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, purchase order, contract and canceled check.

- ii. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- iii. 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), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code, State Purchasing Regulations and the Per Diem and Mileage Act.

## 5. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- i. Journal entries appear reasonable and have supporting documentation.

The Association's bookkeeper posted non-routine journal entries to the general ledger to record the annual depreciation expense, to adjust the accounts receivable balance in the general ledger to agree with the water billing system, and to adjust the loan payable balance in the general ledger to agree with the loan statements from the lender. The significant journal entries were selected and tested. The bookkeeper provided reasonable explanations for the journal entries and nothing unusual was noted.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

During the meetings of the Board of Directors, the bookkeeper provides financial reports to the board members which include the journal entries posted to the general ledger. The financial reports, documentation and explanations from the bookkeeper are reviewed by the Board of Directors.

## 6. Budgets

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- i. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.

The original budget for 2015 was not submitted to DFA-LGD for approval. See Finding 2010-001 on p. 6 of this report. The Association did not have any budget adjustments during the fiscal year.

- ii. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

Total expenditures for 2015 did not exceed the final approved budget. According to the Association's general ledger, actual expenditures were \$14,371 less than budgeted expenditures. See p. 9 of this report.

- iii. 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.

Based on the Association's general ledger, the Schedule of Revenues and Expenses was prepared on the cash basis of accounting. See p. 9 of this report.

## 7. Other

- a. 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 (1)(3)(C) NMAC.

See the Schedule of Findings and Responses on p. 6-8 of this 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 Tier 4 agreed upon procedures. 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 management and others with the Association, the New Mexico State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Auditing Services, LLC*

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

May 20, 2016



**Penasco Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2015**

**Status of Prior Year Findings**

Finding 2010-001: Budget Submissions/Approved and Quarterly Financial Reports to DFA/LGD – Modified and Repeated.

Finding 2013-002: Procurement Code Compliance – Resolved.

Finding 2014-001. Late Submission of Firm Recommendation Form, Contract and Agreed-Upon Procedures Report - Modified and Repeated.

Finding 2014-002. Unallowable Expense and Missing Invoice – Resolved.

**Current Year Findings**

**Finding 2010-001. Non-compliance with Budget Laws and Regulations**

**Condition**

For the fiscal year ending December 31, 2015, the Board of Directors of the Association adopted an annual budget on February 6, 2015 but did not submit it to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for approval. Also, the Association did not submit its quarterly financial reports to DFA-LGD as required.

**Criteria**

Pursuant to Section 6-6-2.A NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year. Since the Association's fiscal year end is December 31, the Association is required to submit its proposed budget to DFA-LGD by December 1 of each year. Also, each local public body is required to submit quarterly financial reports and budget adjustments to DFA-LGD for approval per Section 6-6-2.F and 6.6.2.G NMSA 1978, respectively. Furthermore, per Section 6-6-5 NMSA 1978, upon receipt of any budget approved by DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body.

**Effect**

There is a lack of oversight and internal control over expenditures since the Association was not in compliance with the State's budget laws and regulations.

**Penasco Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2015**

Cause

The Association stated that they were aware of the requirements but were unable to meet them.

Recommendation

The Association should adopt and submit its annual budget to DFA-LGD by December 1 of each fiscal year. After the Association receives the budget certification letter from DFA-LGD, the Association's Board of Directors should make record of the approval in the minutes of its meetings. The Association should submit its budget adjustments and quarterly financial reports to DFA-LGD by the required due dates. The Board of Directors should assign this duty to the bookkeeper or a board member to ensure that the budget laws and regulations are fully complied with in the future.

Management's Response

The Board President will call a Board of Director's meeting during the month of November with the purpose of approving a proposed budget for the next calendar year. The Association's bookkeeper will submit the budget to DFA-LGD for approval by the December 1<sup>st</sup> deadline and provide proof of the submittal to the Board President. After the budget is approved by DFA-LGD, the Board of Directors will record the approval in the minutes of its meetings. The Association's bookkeeper will submit quarterly financial reports to DFA-LGD as required and provide proof that quarterly reports were submitted to DFA-LGD at the next board meeting.

**Finding 2014-001. Late Submission of Firm Recommendation Form and Contract for Agreed-Upon Procedures**

Condition

For the fiscal year ending December 31, 2015, the Association did not submit the Firm Recommendation Form for Tiered System Local Public Bodies and the signed agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until March 23, 2016.

Criteria

According to State Audit Rule 2015, 2.2.2 NMAC, the Association should have submitted the completed Firm Recommendation Form for Tiered System Local Public Bodies and the completed and signed agreed-upon procedures contract to the State Auditor by January 1, 2015.

**Penasco Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**Fiscal Year Ending December 31, 2015**

Effect

A late agreed-upon procedures contract could cause the agreed-upon procedures report to be late. If the report is late, users of the report are not receiving timely information about the results of the agreed-upon procedures.

Cause

The Board of Directors neglected to meet the due date for the agreed-upon procedures contract.

Recommendation

The Association's Board of Directors should thoroughly read Section 2.2.2.16 NMAC of Audit Rule 2016 to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, the Association shall determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B NMAC (Determination of Revenues and Services) to determine what agreed-upon procedures or audits are required for the fiscal year.

The Board of Directors should assign this duty to the bookkeeper or a board member to ensure that future contracts for agreed-upon procedures or audits are submitted to the NM Office of the State Auditor as follows:

- According to State Audit Rule 2016, Section 2.2.2.8.J (9) NMAC (effective March 15, 2016), "After completing the evaluations for each IPA and making the IPA selection, each agency must enter the appropriate requested information online on the OSA-Connect website ([www.osa-app.org](http://www.osa-app.org)).” According to State Audit Rule 2016, Section 2.2.2.8.J (11) NMAC, the Association shall deliver the unsigned contract generated by OSA-Connect to the office 30 days before the end of the fiscal year (December 1).
- According to State Audit Rule 2016, Section 2.2.2.16.G (1) NMAC (effective March 15, 2016), "Local public bodies with a fiscal-year end other than June 30 must submit the agreed-upon procedures report or certification no later than five months after the fiscal year-end (June 1).”

Management's Response

After making an IPA selection in November, the Association's bookkeeper will use the Office of the State Auditor's website (OSA-Connect) to deliver the contract to the Office of the State Auditor by December 1<sup>st</sup> of each year.

**Penasco Mutual Domestic Water Consumers Association**  
**Schedule of Revenues and Expenses**  
**Budget and Actual (Non-GAAP Cash Basis)**  
**For the Fiscal Year Ending December 31, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Interest	\$ 36	\$ 36	\$ 67	\$ 31
Membership Dues	-	-	-	-
Water Services	82,000	82,000	72,421	(9,579)
Reimbursed Expenses	-	-	8,010	8,010
Miscellaneous	36	36	90	54
	<u>36</u>	<u>36</u>	<u>90</u>	<u>54</u>
<b>Total Revenues</b>	<b><u>\$ 82,072</u></b>	<b><u>\$ 82,072</u></b>	<b><u>\$ 80,588</u></b>	<b><u>\$ (1,484)</u></b>
<b>Expenses:</b>				
Mileage and Travel	\$ 1,000	\$ 1,000	\$ 332	\$ 668
Certified Water Operator	6,000	6,000	5,940	60
Professional Services	7,220	7,220	8,161	(941)
Bookkeeping/Billing	6,240	6,240	-	-
Computer Maintenance	1,500	1,500	263	1,237
Postage	1,250	1,250	961	289
Rent	2,400	2,400	2,400	-
Gross Receipts Tax	3,600	3,600	2,426	1,174
Utilities	6,000	6,000	5,460	540
Board Expense	1,000	1,000	-	1,000
Subscriptions, Dues and Fees	750	750	180	570
Insurance	2,600	2,600	2,212	388
RUS Loan Payment	12,200	12,200	12,015	185
Office Supplies	1,000	1,000	143	857
Repairs, Maintenance and Labor	15,000	15,000	8,472	6,528
Regulation and Licensing	10	10	-	10
Water Conservation Fees	577	577	528	49
Water Operations	6,050	6,050	4,710	1,340
Bad Debt Write-Off Allowance	-	-	(418)	418
	<u>-</u>	<u>-</u>	<u>(418)</u>	<u>418</u>
<b>Total Expenses</b>	<b><u>\$ 74,397</u></b>	<b><u>\$ 74,397</u></b>	<b><u>\$ 53,786</u></b>	<b><u>\$ 14,371</u></b>

**Penasco Mutual Domestic Water Consumers Association  
Exit Conference  
Fiscal Year Ended December 31, 2015**

On May 20, 2016, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Penasco Mutual Domestic Water Consumers Association

Pete Pacheco, President  
Pam Fernandez, Board Member/Bookkeeper

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager