

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, 2016

Penasco Mutual Domestic Water Consumers Association
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Fiscal Year Ending December 31, 2016

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**Penasco Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2016**

Board of Directors

Pete Pacheco, President

Joe E. Martinez, Vice President

Rachel Tafoya, Secretary/Treasurer

Pam Fernandez, Board Member

Larry Hoover, Board Member

Administrative Staff

None

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, 2016, 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. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

According to the Association's general ledger, total revenues for the fiscal year ending December 31, 2016 were \$77,917. Based on this information, the Association was properly determined to be a Tier 4 entity for FY16 since their total revenues were between \$50,000 and \$250,000 and they did not receive or expend a capital outlay appropriation from the State of New Mexico.

2. 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. All bank statements for the fiscal year were complete and on hand. However, several of the monthly bank reconciliations were not performed in a timely manner. See Finding 2016-001 on p. 9.

- 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, supporting documentation and the financial reports submitted to DFA-LGD. However, the Association did not submit the last three quarterly reports to DFA-LGD by the required due date. See Finding 2010-001 on p. 6.

- 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.

3. 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.

4. 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 fees, bank interest and miscellaneous cash receipts. The variances between actual and budgeted revenues for 2015 and 2016 were adequately explained by the bookkeeper. No unusual or unexplained 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 37% 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.

5. 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 49% of total expenditures. 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.

6. 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 balance at the end of the fiscal year, and to adjust the loan payable and interest expense balances in the general ledger to agree with the fiscal year-end loan statement from the lender. The board member/bookkeeper provided reasonable explanations and documentation for the journal entries.

- 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 explains the journal entries and provides financial reports and supporting documentation to the board members. The Association provided evidence that the journal entries were reviewed and approved by two board members.

7. 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 2016 was approved by the Association's Board of Directors on February 21, 2016 and DFA-LGD on June 17, 2016. The Association did not have any budget adjustments during the fiscal year. However, the Association did not submit its budget to DFA-LGD by the required due date. See Finding 2014-001 on p. 7.

- 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 2016 did not exceed the final approved budget. According to the Association's general ledger, actual expenditures were \$13,748 less than budgeted expenditures. See p. 11 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 Expenditures was prepared on the cash basis of accounting. See p. 11.

8. 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 (I)(3)(C) NMAC.

The Association did not submit the agreed-upon procedures contract and this report to the NM Office of the State Auditor by the required due dates. See Finding 2014-001 on p. 7.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter. Accordingly, we do not express such an opinion or conclusion. 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

August 4, 2017

**Penasco Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Status of Prior Year Findings

Finding 2010-001: Non-compliance with Budget Laws and Regulations – Modified and Repeated.

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

Current Year Findings

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

Condition

For the fiscal year ending December 31, 2016, the Board of Directors of the Association adopted an annual budget on February 21, 2016 but did not submit it to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) by the due date of December 1, 2015.

Also, the Association did not submit its last three quarterly financial reports to DFA-LGD by their due date; the 2nd quarter report was submitted on August 15, 2016 and the 3rd and 4th quarter reports were submitted on July 13, 2017.

The Association's Board of Directors took partial corrective action to resolve the prior-year finding since their 2016 budget was submitted to DFA-LGD for approval, and they submitted their quarterly reports to DFA-LGD although three of the reports were late.

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 to DFA-LGD per Section 6-6-2.F NMSA 1978. Per DFA-LGD Memorandum #BFB-17-03 dated October to all local governments, "financial reports are due 30 days after the reporting period ends."

Effect

There is a lack of financial oversight of the Association's financial activities results of operations since the Association was not in full 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, 2016

Cause

The Board of Directors neglected to implement their prior year corrective action plan to submit the annual budget and quarterly reports to DFA-LGD by the required due dates.

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's Board member/bookkeeper should submit its quarterly financial reports to DFA-LGD within 30 days after each quarter ends. The Board of Directors should develop and implement a monitoring procedure to ensure that the budget laws and regulations are fully complied with in the future.

Management's Response

The Board of Directors has been informed multiple times over multiple years of the requirement to hold meetings after the end of each quarter in order to approve preliminary and final budgets, financial statements and DFA-LGD quarterly financial reports so the budgets and reports can be submitted timely to the appropriate agencies. According to the By-Laws, the President of the Association is the only person who can call a meeting. Until there is a transition in leadership, the Association may not be in compliance with reporting deadlines.

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 1st 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 no later than 30 days after the quarter ends and provide proof that quarterly reports were submitted to DFA-LGD at the next board meeting.

Finding 2014-001. Late Agreed-Upon Procedures Contract and Report

Condition

For the fiscal year ending December 31, 2016, the Association did not submit the agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until May 17,

**Penasco Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

2017. Also, this agreed-upon procedures report was not submitted to the OSA until August 7, 2017.

The Association did not take any corrective action in 2016 to resolve this prior year finding.

Criteria

According to State Audit Rule 2016, 2.2.2 NMAC, the Association should have submitted the agreed-upon procedures contract to the OSA by December 1, 2016 and the agreed-upon procedures report by June 1, 2017.

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 implement their prior year corrective action plan to submit the agreed-upon procedures contract and report to the OSA by the due dates.

Recommendation

The Association's Board of Directors should thoroughly read Section 2.2.2.16 NMAC of Audit Rule 2017 to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, the Board of Directors 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 develop and implement a monitoring procedure 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 2017, Section 2.2.2.8.F (8.f) NMAC (effective March 14, 2017), "After selected an IPA, each agency must enter the appropriate requested information online on the OSA-Connect website (www.osa-app.org) and deliver the unsigned contract generated by OSA-Connect to the OSA no later than 30 days before the end of the fiscal year (December 1).

**Penasco Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

- According to State Audit Rule 2017, Section 2.2.2.16.G (1) NMAC,, “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

The Association will comply with the State Audit Rule 2.2.2 NMAC in the future. At the next regular meeting on August 27, 2017, the bookkeeper will inform the Board of Directors of their duty to oversee the delivery of the unsigned contract to the Office of the State Auditor by December 1, 2017 and the completed AUP report by June 1, 2018.

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 1st of each year.

Finding 2016-001. Untimely Bank Reconciliations

Condition

The bank account reconciliations (checking account) for April-May 2016 were not performed until July 16, 2016. The bank account reconciliations (checking account) for July-October 2016 were not performed until December 13, 2016. The bank account reconciliation (checking account) for November 2016 was not performed until January 15, 2017. The bank account reconciliations (savings account) for January-May 2016 were not performed until July 17, 2016. The bank account reconciliations (savings account) for July-December 2016 were not performed until June 1, 2017.

Criteria

It is a prudent business practice to perform monthly bank accounts reconciliations to verify that all monetary transactions are accurately recorded and accounted for by the bank and the Association.

Effect

Recording errors or irregularities may not have been corrected or detected in a timely manner.

Penasco Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016

Cause

The Association's Board of Directors has not established a policy and procedure to ensure that the Board Member/contract bookkeeper performs the monthly bank account reconciliations in a timely manner.

Recommendation

The Association's Board of Directors should implement a policy requiring the contract bookkeeper to perform and document a monthly bank account reconciliation of all bank accounts shortly after the bank statements are received, but no later than the beginning of the next month. Also, the Board of Directors should develop and implement a review procedure to ensure that the bank reconciliations are performed in a timely and accurate manner.

Management's Response

In the past, bank reconciliations have always been prepared in order to present financial statements at board meetings which are held intermittently throughout the year. The bookkeeper was not aware of the need to prepare bank reconciliations on a monthly basis. Now that the bookkeeper is aware of the requirement, bank reconciliations will be completed monthly by the beginning of the next month.

Penasco Mutual Domestic Water Consumers Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Interest	\$ -	\$ -	\$ 93	\$ 93
Membership Dues	-	-	875	875
Water Services	82,000	82,000	76,949	(5,051)
Miscellaneous	66	66	-	(66)
Total Revenues	\$ 82,066	\$ 82,066	\$ 77,917	\$ (4,149)
Expenditures:				
Mileage and Travel	\$ 1,000	\$ 1,000	\$ -	\$ 1,000
Contract Labor	20,500	20,500	-	20,500
Certified Water Operator	-	-	5,940	(5,940)
Bookkeeping/Billing	-	-	6,631	(6,631)
Water Operations	-	-	5,806	(5,806)
Tax Preparation	-	-	1,977	(1,977)
Attorney	1,500	1,500	-	1,500
Audit or AUP	7,500	7,500	5,136	2,364
Computer Repair & Maintenance	1,500	1,500	618	882
Postage	1,000	1,000	1,167	(167)
Rent	2,400	2,400	2,400	-
Gross Receipts Tax	3,600	3,600	3,219	381
Utilities	6,000	6,000	6,129	(129)
Board Expense	1,000	1,000	1,236	(236)
Subscriptions, Dues and Fees	500	500	189	311
Insurance	2,500	2,500	2,210	290
RUS Loan Payment - Principal	12,000	12,000	4,974	198
RUS Loan Payment - Interest	4,800	4,800	11,802	(174)
Office Supplies	500	500	717	(217)
Repairs, Maintenance and Labor	15,189	15,189	7,474	7,715
Water Conservation Fees	577	577	672	(95)
Bank Fees	-	-	22	(22)
Total Expenditures	\$ 82,066	\$ 82,066	\$ 68,318	\$ 13,748

Copy of Year-End Financial Report Submitted to DFA-LGD

Penasco Mutual Domestic Water Consumers Association 4th Quarter (Oct 1, 2016 - Dec 31, 2016)

Beginning Cash Balance on Jan 1, 2016: \$118,430
 Approved Budget \$118,430
 Jan 1 - Dec 31, 2016
 Amount Over/Under Budget
 % of Budget
 Year to Date
 % of Budget
 Penasco MDWCA CY 2016 YTD

Revenue					
Fees	\$82,000	\$21,442	-\$60,558	26.15%	\$82,543 100.66%
Fines and Penalties	\$0	\$0	\$0	-	\$0
Interest Income	\$0	\$0	\$0	-	\$0
Contributions	\$0	\$0	\$0	-	\$0
Membership Fees	\$0	\$0	\$0	-	\$875
Federal Grant	\$0	\$0	\$0	-	\$0
State Grants-Capital Outlay	\$0	\$0	\$0	-	\$0
Miscellaneous	\$66	\$33	-\$33	50.00%	\$81 122.73%
Total Revenue	\$82,066	\$21,475	-\$60,591	26.17%	\$83,499 101.75%
Expenditures					
Utilities	\$6,000	\$1,833	-\$4,167	30.55%	\$6,128 102.14%
Maintenance	\$15,189	\$3,594	-\$11,595	23.66%	\$7,475 49.21%
Office Supplies	\$500	\$0	\$500	0.00%	\$716 143.20%
Insurance	\$2,500	\$0	-\$2,500	0.00%	\$2,210 88.40%
Postage	\$1,000	\$0	-\$1,000	0.00%	\$1,167 116.70%
Supplies-Field	\$0	\$0	\$0	-	\$0
Subscription/Dues	\$500	\$189	-\$311	37.80%	\$211 42.20%
Labor	\$0	\$0	\$0	-	\$0
Equipment Rental	\$0	\$0	\$0	-	\$0
Contract Labor	\$20,500	\$4,401	-\$16,099	21.47%	\$18,378 89.65%
Transportation	\$1,000	\$0	-\$1,000	0.00%	\$0 0.00%
Debt Service-Principal	\$12,000	\$6,035	-\$5,965	50.29%	\$11,802 98.35%
Debt Service-Interest	\$4,800	-\$1,841	-\$6,641	-38.35%	\$4,974 103.63%
Training	\$1,000	\$0	-\$1,000	0.00%	\$1,236 123.60%
Rent	\$2,400	\$600	-\$1,800	25.00%	\$2,400 100.00%
AUP or Audit	\$7,500	\$0	-\$7,500	0.00%	\$7,113 94.84%
PS-Attorney	\$1,500	\$0	-\$1,500	0.00%	\$0 0.00%
NM Water Conservation Fees	\$577	\$192	-\$385	33.28%	\$672 116.46%
NM GRT	\$3,600	\$870	-\$2,730	24.17%	\$3,218 89.39%
Computer Repair and Software Maintenance	\$1,500	\$0	-\$1,500	0.00%	\$619 41.27%
Total Expenditures	\$82,066	\$15,873	-\$66,193	19.34%	\$68,319 83.25%
Estimated Ending Cash Balance on Dec 31, 2016:					
	\$118,430		\$133,610		112.82%

Penasco Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ended December 31, 2016

On August 4, 2017, 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, General Manager