

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, 2017

**Penasco Mutual Domestic Water Consumers Association
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**Penasco Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2017**

Board of Directors

Pete Pacheco, President

Anne Marie Medina, Vice President

Pam Fernandez, Secretary/Treasurer

Lauralee Martinez, Board Member

John Paul Bradley, Board Member

Administration

Ernest Garcia, Meter Reader (Independent Contractor)

Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Directors

Penasco Mutual Domestic Water Consumers Association

Penasco, New Mexico

and

Wayne Johnson, New Mexico State Auditor

Santa Fe, New Mexico

We have performed the procedures enumerated below for the Penasco Mutual Domestic Water Consumers Association (Association) for the year ended December 31, 2017, 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 and Section 2.2.2.16 NMAC. 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, 2017 were \$73,839. Based on this information, the Association was properly determined to be a Tier 4 entity for FY17 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, and the bank reconciliations were performed in a timely manner.

- b. Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

33% of the bank reconciliations were tested for accuracy. The bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the general ledger and supporting documentation. However, the cash balances on the bank reconciliations did not agree with three quarterly financial reports submitted to DFA-LGD. See Finding 2017-001 on p. 7. Also, the Association did not submit its quarterly financial report to DFA-LGD for the period ending March 31, 2017. 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.

The Association provided documentation that the capital asset inventory was performed on January 28, 2018. The Association 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. 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 2016 and 2017 were adequately explained by the bookkeeper. No unusual or unexplained variances were noted.

- b. Select a sample of revenues equal to at least 30% of the total dollar amount and test 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 equal to at least 30% of the total dollar amount and test 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 34% 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 and the Per Diem and Mileage Act.

6. Journal Entries

a. Test all non-routine journal entries, adjustments and reclassifications posted to the general ledger 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 record loan interest expenses and loan payable adjustments 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 policies and 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 test work:

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 interim budget for 2017 was submitted to DFA-LGD on December 2, 2016. The budget was adopted by the Association's Board of Directors on March 26, 2017 and approved by DFA-LGD on August 9, 2017. The Association did not have any budget adjustments during the fiscal year.

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

Total expenditures for 2017 did not exceed the final approved budget. According to the Association's general ledger and budget, actual expenditures were \$11,501 less than budgeted expenditures. See the Schedule of Revenues and Expenditures on p. 9.

- 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 the Schedule of Revenues and Expenditures on p. 9.

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 (L) NMAC.

No other findings were noted during the agreed-upon procedures.

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

May 7, 2018

**Penasco Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Status of Prior Year Findings

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

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

Finding 2016-001. Untimely Bank Account Reconciliations – Resolved.

Current Year Findings

Finding 2010-001. Non-Submission of Quarterly Report to DFA-LGD

Condition

The Association did not submit a quarterly financial report to DFA-LGD for the period ending March 31, 2017.

The Association implemented significant corrective action to resolve the prior-year finding since the 2017 budget was submitted to DFA-LGD for approval, and three quarterly reports were submitted to DFA-LGD for the period April 1, 2017 – December 31, 2017.

Criteria

Pursuant to Section 6-6-2.F NMSA 1978, each local public body is required to submit quarterly financial reports to DFA-LGD. Per DFA-LGD Memorandum #BFB-17-03 to all local governments, “financial reports are due 30 days after the reporting period ends.”

Effect

DFA-LGD was unable to monitor the Association’s budget for the quarter ending March 31, 2017 since they did not receive the quarterly report.

Cause

The prior year recommendation was not reported to the Association until after the 1st quarter had ended. The Board of Directors implemented its prior year corrective action after they received the prior year recommendation from the auditor.

**Penasco Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Recommendation

Within 30 days after the end of each quarter, the Association should submit its quarterly financial reports to DFA-LGD that accurately report the cash balances, loan balances and cumulative totals for revenues and expenditures in the manner prescribed by DFA-LGD. The Board of Directors should implement a review and approval procedure to ensure the reports are submitted to DFA-LGD by the due date.

Management's Response

The March 31, 2017 DFA-LGD (Q1) report was submitted simultaneously with the June 30, 2017 (Q2) report to our budget analyst on July 26, 2017 after both reports were approved at the July 16, 2017 board meeting. Significant corrective action has already been taken to resolve Finding 2010-001. DFA-LGD 2017 Q2, Q3, Q4 and 2018 Q1 reports were all filed timely. In September 2017, the newly installed board made the decision to have monthly meetings in order to approve and submit DFA-LGD reports timely.

Finding 2017-001. Inaccurate Cash Balances Reported to DFA-LGD

Condition

The cash balances on the quarterly reports to DFA-LGD did not agree with the Association's bank reconciliations as follows:

Quarter Ending	Cash Per Bank Reconciliation	Cash Per Report to DFA-LGD	Difference
6/30/2017	\$ 135,440	\$ 136,809	\$ 1,369
9/30/2017	\$ 130,751	\$ 134,566	\$ 3,815
12/31/2017	\$ 135,601	\$ 134,448	\$ 1,153

Criteria

As required by Section 6-6-2.F NMSA 1978, the Association should submit accurate quarterly financial reports to DFA-LGD.

Effect

Inaccurate quarterly reports are misleading to its users if they do not contain the correct account balances.

Penasco Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017

Cause

According to the Association's bookkeeper, journal entries for loan principal/interest payments and gross receipts taxes were posted to the general ledger after the quarterly reports were submitted to DFA-LGD. The reconciling items were not disclosed on the quarterly reports.

Recommendation

The Association's bookkeeper should prepare the quarterly reports after all of the journal entries for the previous month are posted to the general ledger. If there are monetary differences between the general ledger and the quarterly reports, the bookkeeper should report the reconciling items on the quarterly report to DFA-LGD. The bookkeeper and the Board of Directors should implement a review procedure to ensure that the account balances reported on the quarterly reports agree with the general ledger before they are approved and submitted to DFA-LGD.

Management's Response

Principle payments to our RUS loan which are posted to the liability account "USDA Loan #3" have never been reflected on the DFA-LGD quarterly report which caused there to be a difference in the bank reconciliation balance and the DFA-LGD quarterly report cash balance. Beginning with the 2018 Q1 DFA-LGD report, we began recording the principle payments to our USDA loan on that report. As a part of their approval process for the DFA-LGD quarterly reports, Board Members will compare the end of quarter cash reconciliation balances to the DFA-LGD ending cash balance to assure they agree. The Board of Directors will begin this review and approval process during the board meeting in July 2018.

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, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Interest	\$ -	\$ -	\$ 99	\$ 99
Membership Dues	-	-	-	-
Water Services	77,000	77,000	73,740	(3,260)
Miscellaneous	40	40	-	(40)
	<u>77,040</u>	<u>77,040</u>	<u>73,839</u>	<u>(3,201)</u>
Total Revenues	\$ 77,040	\$ 77,040	\$ 73,839	\$ (3,201)
Expenditures:				
Mileage and Travel - Vehicle	\$ 2,000	\$ 2,000	\$ -	\$ 2,000
Contract Labor - Operator/Bookkeeper	22,000	22,000	-	22,000
Certified Water Operator	-	-	5,940	(5,940)
Bookkeeping/Billing	-	-	9,650	(9,650)
Water Operations	-	-	6,966	(6,966)
Tax Preparation	-	-	1,706	(1,706)
Attorney	-	-	-	-
Professional Services - Audit or AUP	8,000	8,000	2,996	5,004
Computer Repair & Maintenance	-	-	633	(633)
Postage	-	-	1,111	(1,111)
Rent	-	-	2,400	(2,400)
Gross Receipts Taxes, Water Conservation Fee	4,400	4,400	3,257	1,143
Utilities - Electricity	7,000	7,000	7,682	(682)
Board Expense	-	-	25	(25)
Dues, Fees, Permits and Licenses	500	500	557	(57)
Insurance	2,300	2,300	2,301	(1)
RUS Loan Payment - Interest	12,000	12,000	11,580	420
Office Supplies and Administrative	1,500	1,500	514	986
Repairs, Maintenance and Labor	8,840	8,840	8,220	620
Training	1,000	1,000	-	1,000
Miscellaneous	7,500	7,500	-	7,500
	<u>77,040</u>	<u>77,040</u>	<u>65,539</u>	<u>11,501</u>
Total Expenditures	\$ 77,040	\$ 77,040	\$ 65,539	\$ 11,501

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

MDWCA Nam
Mailing Address:
Email Address:
Phone number:

Penasco Mutual Domestic Water Consumers Assn
 P O Box 308
 penasco@mdwca@gmail.com
 575-587-0264

Calendar Year

	APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct -Dec	Year to Date(YTD) Totals	YTD (over/under BUDGET	% of Budget
Beginning balances:								
Cash	27,030							
Savings	99,116							
CDs								
Investments								
Beginning Balance TOTAL	\$ 126,146							
REVENUES								
Water Sales (Water Use Fees)	77,000	18,327	18,527	21,413	15,473	73,740	3,260	96%
Connection/Reconnection Charges						0	0	-
Membership and Meter Sales (Utility Service Fees)						0	0	-
Late Fees and Penalties (Other Fines and Forfeits)						0	0	-
Gross Receipts Tax (Other State shared taxes)						0	0	-
Other Operating Revenue (miscellaneous - other)	40	24	25	25	25	99	(58)	248%
TOTAL	\$ 77,040	18,351	18,552	21,438	15,498	73,839	3,201	96%
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.	22,000	5,085	3,851	7,823	5,796	22,555	(555)	103%
Employee Benefits and Expenses	-					0	0	-
Electricity	7,000	708	2,906	2,230	1,838	7,682	(682)	110%
Other Utilities - Gas, Water, Sewer, Telephone						0	0	-
System Parts and Supplies						0	0	-
System Repairs and Maintenance	8,840	2,891	1,524	860	2,945	8,220	620	93%
Vehicle Expenses	2,000					0	2,000	0%
Office and Administrative Expenses	1,500	609		821	223	1,653	(153)	110%
Professional Services - Accounting, Engineering, Legal	8,000			4,702		4,702	3,298	59%
Insurance	2,300		100	2,201		2,301	(1)	100%
Dues, Fees, Permits and Licenses	500			214	343	557	(57)	111%
Taxes - Gross Receipts Tax, Water Conservation Fee	4,400	583	758	929	987	3,257	1,143	74%
Training	1,000					0	1,000	0%
Miscellaneous	7,500	600	753	1,053	625	3,031	4,469	40%
TOTAL	\$ 77,040	14,670	11,570	23,681	15,616	65,537	11,503	85%
Ending Balance	126,146							
LESS: Operating Reserve						134,448		
Emergency Reserve						7,500		
Capital Improvement Reserve						13,000		
Debt Reserve						69,003		
						16,776		
Ending Available Cash Balance	\$ 126,146					\$ 28,169		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

President/Chairperson

Date

John Pacheco

1-29-18

Penasco Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ended December 31, 2017

On May 7, 2018, the following officials held an exit conference and discussed the results of the agreed upon procedures and the contents of this report:

Penasco Mutual Domestic Water Consumers Association

Pete Pacheco, President
Anne Marie Medina, Vice-President
Pam Fernandez, Board Member/Bookkeeper

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Audit Manager