

**PONDEROSA MUTUAL DOMESTIC  
WATER CONSUMERS ASSOCIATION**

**AGREED UPON PROCEDURES REPORT**

**DECEMBER 31, 2013**

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS  
ASSOCIATION**

**TABLE OF CONTENTS**

Official Roster	1
Independent Accountant's Report	2
<b>SUPPLEMENTAL ATTACHMENTS</b>	
Procedures Performed and Related Results	3
Schedule of Revenues and Expenditures – Budget and Actual - General Fund – Cash Basis	7
Year-end Financial Report as Submitted to DFA	8
Schedule of Findings and Responses	9
Exit Conference	11

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**December 31, 2013**

**Official Roster**

**Board of Directors**

Gloria Garcia, President  
Louise Bradley, Vice President  
Margie Creel, Secretary/Treasurer  
Chris Garcia, Member  
Arnold Garcia, Member

**Principal Employees**

Diana Clark, Manager  
Scott Niles, Maintenance

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

To Management  
Ponderosa Mutual Domestic Water Consumers Association  
Ponderosa, New Mexico  
and  
To Mr. Hector H. Balderas, State Auditor

We have performed the procedures enumerated below, which were agreed to by the Ponderosa Mutual Domestic Water Consumers Association (Association) and the New Mexico State Auditor's Office, solely to assist in determining if the Association is in compliance with New Mexico State Audit Rule, Tier 4, as of December 31, 2013. The Association is the responsible party and the subject matter is the responsibility of the Association. 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.

The procedures we performed and the associated findings are included in a supplemental attachment.

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 within the Association, the 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.

*Ricci & Company, LLC*

Albuquerque, New Mexico  
May 14, 2014

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
AGREED UPON PROCEDURES  
December 31, 2013**

**PROCEDURES PERFORMED AND RELATED RESULTS**

**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.

We reviewed all of the bank reconciliations in order to ensure that they were completed and performed in a timely manner. No exceptions were noted. The reconciliations for all the 2013 bank statements were performed prior to the subsequent month's Board of Directors meeting and signed off by the Board President.

The Association has five banking accounts- two checking and three savings. All accounts are held at the same financial institution. All reconciliations 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 reports submitted to DFA - Local Government Division.

We tested reconciliations for seven months: April, May, June, July, September, October, and December 2013. Reconciliations are accurate and tie to supporting detail, general ledger and the financial reports submitted to DFA - Local Government Division.

- 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.

We determined upon review of the monthly bank statements and bank reconciliations that the Association maintained a cumulative account balance below the \$250,000 FDIC coverage limit; therefore, additional procedures were not performed.

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**  
**AGREED UPON PROCEDURES**  
December 31, 2013

**PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)**

**2. Capital Assets**

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

An annual inventory listing of capital assets was completed. With no significant additions or disposals in the year, there was no change to the fixed asset listing from prior year. We reviewed the inventory listing prepared by the office manager detailing the items capitalized by the Association. We also verified the assets listed for the Association's Water Office were present during field work. The Association utilizes Microsoft Word software to maintain its inventory listing.

**3. Revenues**

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.

We compared budget to actual for each type of revenue. Please see the Budget-Actual Schedule (page 7) for amounts. We inquired on the following variance:

The variance in the Meter Sales revenues is attributable to no new users joining the system during 2013. The Association anticipates connection and reconnection fees annually. All other variances were immaterial.

Select a sample of revenue based on auditor judgment using the following attributes:

- a) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- b) 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.

To obtain adequate coverage of revenues, we selected six months of billing activity for water sales- January, February, March, September, November and December 2013- and compared with the subsequent month's collections. We analytically determined whether the collections were reasonable in relation to the billing reports obtained from the client. No exceptions were noted testing the attributes above.

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**  
**AGREED UPON PROCEDURES**  
**December 31, 2013**

**PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)**

**4. Expenditures**

Select a sample of cash disbursements based on auditor judgment 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 orders, 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).

We randomly selected 15 disbursements for review from the total disbursement population; this population excluded payroll and payroll tax disbursements which were tested separately. No exceptions were noted testing the attributes above.

We then tested 100% of the Association's payroll expenditures. No exceptions were noted testing the attributes above.

**5. Journal Entries**

If nonroutine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- 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.

One adjusting journal entry was made during the year relating to a \$2 correction to a bank account reconciliation. We noted from a review of Board meeting minutes that the correction was discussed and approved by the Board. No exceptions were noted testing the attributes above.

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
AGREED UPON PROCEDURES  
December 31, 2013**

**PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)**

**6. Budget**

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 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.

We verified the Board of Directors approved the original budget on November 29, 2012. We also verified by comparing the original to the final budget submitted to DFA-LGD, that there were no budget adjustments made by the Association.

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

It was determined that the Association's total actual expenditures did not exceed the final budget at the fund level, which is the legal level of budgetary control.

- 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, accrual or modified accrual basis) for each individual fund.

See attached Schedule of Revenues and Expenditures - Budget and Actual - General Fund (page 7) which is prepared on the cash basis of accounting.

**Other**

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.

While performing procedures in completion of our engagement, we noted an expense for a Board meeting held in October 2013, which was outside the scope of our initial expenditure testwork. Our subsequent review of the expense indicated noncompliance with New Mexico state statutes, including the Open Meetings Act. A description of the expenditure and detail of the finding is identified as 2013-01 on page 9.



**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL - GENERAL FUND - CASH BASIS**  
**Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Water revenue	\$ 73,000	73,000	72,313	(687)
Meter sales	4,100	4,100	-	(4,100)
Meter deposit	-	-	-	-
Miscellaneous/interest	490	490	442	(48)
<b>Total revenues</b>	<u>77,590</u>	<u>77,590</u>	<u>72,755</u>	<u>(4,835)</u>
<b>Expenditures</b>				
Current:				
Office services	1,000	1,000	2,047	(1,047)
Employees	19,500	19,500	19,091	409
O & M/office expense	16,000	16,000	16,301	(301)
Loans/dues/fees/taxes	15,000	15,000	10,049	4,951
System repair	22,000	22,000	7,118	14,882
Safety deposit box rent	-	-	18	(18)
Meter deposit refunds	-	-	25	(25)
Insurance/bond	3,500	3,500	3,478	22
<b>Total expenditures</b>	<u>77,000</u>	<u>77,000</u>	<u>58,127</u>	<u>18,873</u>
<b>Excess of revenues over expenditures</b>	<u>\$ 590</u>	<u>590</u>	<u>14,628</u>	<u>14,038</u>

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
 YEAR END FINANCIAL REPORT AS SUBMITTED TO DFA  
 December 31, 2013**

**PONDEROSA MDWCA 2013 BUDGET**

Beginning Balance as of 1/1/2013		\$ 82,516.16
<b>REVENUE</b>		
Water Revenue	\$72,312.73	(includes 5% GRT)
Meter Sales	\$0.00	
Misc. Interest (Bank)	<u>\$ 440.27</u>	
Subtotal:	<u>\$72,753.00</u>	
<b>TOTAL</b>		<b>\$155,269.16</b>
<b>EXPENDITURES</b>		
Office Services	\$2,046.61	
Employees	\$19,091.49	
O & M /Office Expense	\$16,300.52	
Loans/Dues/Fees/Taxes	\$10,049.23	
System Repair (Enhancements)	\$7,117.94	
Safety Deposit Box Rent	\$18.00	
Meter Deposit Refund	\$25.00	
Insurance/Bond	\$ 3,478.01	
Interest Correction	<u>(\$2.04)</u>	
Subtotal	<u>\$58,124.76</u>	
<b>Ending Balance as of 12/31/2013</b>		<b><u>\$ 97,144.40</u></b>

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
AGREED UPON PROCEDURES  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2013**

**FINDINGS – AGREED UPON PROCEDURES**

**2013-01 – Noncompliance with NM State Statute**

**CONDITION**

While performing our evaluation of selected expenditures in the completion of our engagement, we identified an additional event and expenditure for review. In October 2013, a Board meeting was held at a restaurant venue. We noted that official meeting minutes were taken and subsequently approved. In addition to Board members and Association staff, some Board and staff spouses were also in attendance.

Per discussion with management, the dinner meeting has been held annually for the past several years and it serves as an opportunity to express appreciation for the work performed by the volunteer Board and dedicated staff. The Association paid for the meals of all those in attendance. The dinner expenditure totaled \$391.97, of which \$74.15 was for alcoholic beverages.

**CRITERIA**

Although the Association's policies do not prohibit expenditure for alcohol as identified in this circumstance, the independent accountant determined that the expenditure is questionable when considered within the ethical principles set forth by the Governmental Conduct Act, Section 10-16-3(A) NMSA 1978, which provides that "a public officer or employee shall use the powers and resources of public office only to advance the public interest and not to obtain personal benefits or pursue private interests incompatible with the public interest."

In addition, it is unclear that the expense is an appropriate use of funds when evaluated against the criteria for the expenditure of public money. The criteria, as outlined by the NM Department of Finance and Administration and NM Attorney General, Opinion 97-02, are as follows:

- 1) the expenditure must be consistent with the agency's mission;
- 2) it must be for a public purpose and/or benefit; expenditures must always be for a public purpose, but may or may not provide a public benefit;
- 3) it must be necessary; this criterion focuses on making the best choice between options; and
- 4) it must be in accordance with applicable laws related to appropriation, fiduciary responsibility, budget availability, and cash availability.

When evaluating the expenditure under these criteria, payment for the meals of Board and staff spouses was also identified by the independent accountant as an inappropriate use of public money.

While reviewing the expenditure, the independent accountant also noted that the Board meeting resulted in noncompliance with the Open Meetings Act. Section 10-15-1 NMSA 1978 of the Open Meetings Act requires that "all meetings of a quorum of any...authority...held for the purpose of discussing public business... are declared to be public meetings open to the public at all times, except as otherwise provided in the constitution of New Mexico or the Open Meetings Act."

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
AGREED UPON PROCEDURES  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2013**

**FINDINGS – AGREED UPON PROCEDURES (CONTINUED)**

**CAUSE**

The Association viewed the expenditure and the Board meeting to be in compliance with all applicable statutes. The Board did not properly evaluate the meeting and its expense in light of the cited statutes.

**EFFECT**

Public money was expended for an inappropriate purpose and the public was denied their right to attend a meeting where public business was discussed by a quorum of Board members.

**RECOMMENDATION**

The Association Board should review the statutes cited and evaluate all expenditures (especially non-routine expenditures) in light of the applicable regulations. The independent accountant recognizes that statutes are subject to interpretation and may not offer definitive guidance. However, our recommendation is that the Association should publicly and properly address its justification for any questionable expenses, addressing all criteria related to the expenditure of public money and update their internal policies and procedures.

The Association Board and staff should ensure all reasonable efforts are made to permit attendance of all interested individuals at Association meetings. Additionally, Board and staff should obtain and review copies of the Open Meetings Act (OMA) compliance guide published by the NM Attorney General's Office. It should serve as reference to ensure the Association complies with the requirements of the OMA.

**MANAGEMENT RESPONSE**

The Board of Directors of the Ponderosa Mutual Domestic Water Consumers Association will review the statutes and recommendations from Ricci & Company, LLC and take appropriate action as needed.

**PONDEROSA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
EXIT CONFERENCE  
December 31, 2013**

An exit conference was held on May 6, 2014 to discuss the agreed upon procedures. Attending were the following:

Representing the Ponderosa Mutual Domestic Water Consumers Association:

Board of Directors  
Gloria Garcia, President

Management  
Diana Clark, Manager

Representing the Independent Accountant:

Herman Chavez, CPA, Manager  
Christina Cosme, CPA, Staff