

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWAGE
WORKS ASSOCIATION
INDEPENDENT ACCOUNTANTS' REPORT
APPLYING AGREED UPON PROCEDURES**

DECEMBER 31, 2013

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWAGE
WORKS ASSOCIATION
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December 31, 2013**

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**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWAGE
WORKS ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2013**

The Quemado Mutual Water & Sewage Works Association (Association) was organized on August 6, 1962 as a non-profit organization to provide water and sewer services to occupants and residents within the vicinity of the community of Quemado, Catron County, New Mexico. The association serves approximately 110 active meter customers.

BOARD OF DIRECTORS

Larry Yankee	President
Tommy Padilla	Vice-Pres
Wendy Hough	Treasurer
Rodney Armstrong	Member
Marciel Montoya	Member

STAFF

Debbie Leschner	Secretary
Midge Bishop	Bookkeeper

Beckham & Penner, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Timothy Keller, State Auditor, and
Members of the Board of Directors
Quemado Mutual Water & Sewage Works Association
Quemado, New Mexico

We have performed the procedures described in the following Schedule of Agreed Upon Procedures for the Quemado Mutual Water & Sewage Works Association (Association) for the year ended December 31, 2013, solely to assist the Association with respect to the Tier 4 requirements of the Audit Act – Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association and the New Mexico Office of the State Auditor. The Association's management is responsible for their financial records and presentation of the Tier 4 requirements. This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified parties of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the following Schedule of Procedure either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following; Schedule of Agreed Upon Procedures and Results of Procedures, Schedule of Revenues and Expenditures – Cash Basis, and the Schedule of Findings and Responses.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the schedules. 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 Quemado Mutual Water & Sewage Works Association, the New Mexico Office of the State Auditor, and the New Mexico Department of Finance and Administration – Local Government Division, and the NM Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

Beckham + Penner P.C.

June 23, 2015

Beckham & Penner, P.C.

Certified Public Accountants

AGREED UPON PROCEDURES SECTION

**STATE OF NEW MEXICO
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SCHEDULE OF AGREED UPON PROCEDURES
AND RESULTS OF PROCEDURES
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Procedure 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.
- 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.
- 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.

Results:

The Association does not have the bank statements or supporting documentation for this fiscal year. We were not able to perform this procedure. See Finding number 2010-001 and Finding number 2010-006.

Procedure 2: Capital Assets

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

Results: The Association has not performed or maintain the yearly inventory as required by Section 12-6-10 NMSA 1978. See Finding number 2010-002.

Procedure 3: Revenue

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.

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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 statement.
- c) 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.

Results:

The Association does not have any internal budget, agreements, underlying documentation, or bank statements for this fiscal year. We were not able to perform the above procedures. See Finding number 2010-003

Procedure 4: Expenditures

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, contact 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).

Results:

The Association does not have any documentation for the paid vouchers for the fiscal year. We were not able to perform the above procedures. See Finding number 2010-004.

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Procedure 5: Journal Entries

If non-routine 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.

Results:

The Association does not have any documentation for journal entries posted to the general ledger. We were not able to perform this procedure. See Finding number 2010-005.

Procedure 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.
- 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 revenue 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.

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Procedure 6: Budget, continued

Results:

The Association does not have any documentation of a budget for this fiscal year. We were not able to perform this procedure, except for the preparation of a Schedule of Revenue and Expenditures. See Finding number 2010-006

- a) We prepared a Schedule of Revenues and Expenditures – Cash Basis for each individual fund (the Association has only one fund) and it is presented following this report.

Procedure: Other

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

Results:

There was a serious lack of Segregation of Duties which attributed to an embezzlement loss. See Finding number 2010-007.

This AUP Report was not timely submitted to the Office of the State Auditor. See Finding number 2010-008.

STATE OF NEW MEXICO
 QUEMADO MUTUAL WATER & SEWAGE WORKS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENDITURES - CASH BASIS
 For the Year Ended December 31, 2013

	<u>Actual (Cash Basis)</u>
Operating Revenues:	
Water & Sewage Revenue	\$ 63,559
Other Revenue	-
Total revenues	<u>63,559</u>
Expenditures:	
Current:	
Wages & Benefits	13,126
Repairs & Maintenance	1,887
Operating expenses	6,376
Debt - Service	
Loan Payments	1,920
Total expenditures	<u>23,309</u>
Revenues over (under) expenditures	<u>40,250</u>
Non-operating revenue (expenditures):	
State grants	-
Federal grants	-
Capital outlay expenditures	-
Embezzlement Loss	(43,154)
	<u>(43,154)</u>
Beginning Cash Balance	<u>10,775</u>
Operating revenues and non-operating Revenues over (under) operating Expenses and non-operating expenses	<u>\$ 7,871</u>
Actual cash balances:	12/31/2013
Operating Account	2,189
Operating Reserve Account	5,682
Total Ending Cash Balance	<u>\$ 7,871</u>

SCHEDULE OF FINDINGS AND RESPONSES

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EXIT CONFERENCE AND OTHER INFORMATION

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SCHEDULE OF FINDINGS AND RESPONSES
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<u>PRIOR YEAR FINDINGS</u>	<u>STATUS</u>
2010-001 Cash	Repeated
2010-002 Capital Assets	Repeated
2010-003 Revenue	Repeated
2010-004 Expenditures	Repeated
2010-005 Journal Entries	Repeated
2010-006 DFA Budget Approval and Reporting	Repeated
2010-007 Segregation of Duties	Repeated
2010-008 Untimely Submission of AUP Report	Repeated

CURRENT YEAR FINDINGS

2010-001 Cash
2010-002 Capital Assets
2010-003 Revenue
2010-004 Expenditures
2010-005 Journal Entries
2010-006 DFA Budget Approval and Reporting
2010-007 Segregation of Duties
2010-008 Untimely Submission of AUP Report

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2010-001 Cash

Statement of Condition:

The Association does not have any of the bank statements, reconciliation or supporting documentation.

Criteria:

An effective system of internal control provides for the proper safeguarding of the entity's records and documentation.

Effect:

We could not verify the Association's financial activity.

Cause:

The Association had an employee at that time that has plead guilty to embezzlement, case number D-728-CR-201400008. The Association has been unable to locate any records since that employee left the office.

Recommendation:

The Association should maintain control of their books and records.

Response:

The Association has implemented policies and procedures to maintain their books and records. This finding was resolved in year 2014.

2010-002 Capital Assets

Statement of Condition:

Detailed records of capital assets of the Association have not been maintained. A Capital Asset inventory control listing should include all the land, buildings, water rights, infrastructure, and equipment and should be reconciled with the accounting records to assure that the listing includes all capital assets of the Association, valued at historical costs, and that capital assets no longer held by the Association has been excluded from the accounting records.

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Criteria:

An effective system of internal control provides for the proper safeguarding of the entity's assets. Such control is established through the inventory listing and the reconciliation with control accounts along with an annual physical inventory inspection.

Cause:

Historical records for the capital assets were not maintained, and procedures and policies for appropriate accounting of capital assets have not been established.

Effect:

Financial statements do not reflect the cumulative cost of capital assets acquired and therefore, depreciation cannot be calculated and reported in the financial statements.

Recommendation:

The detailed capital asset inventory listing should be completed, verified and approved by the Board of Directors; then reconciled to the control accounts in the financial records. The detailed capital asset inventory should continue to be adjusted annually to reflect the additions and deletions of capital assets. The land, buildings, water rights, infrastructure, and other equipment not currently on the detail capital asset inventory should be identified and included at their historical cost.

Management's Response:

The Association is in the process of establishing the detail capital asset inventory control listing.

2010-003 Revenue

Statement of Condition:

The Association does not have any of the bank statements, receipts, reconciliation or supporting documentation.

Criteria:

An effective system of internal control provides for the proper safeguarding of the entity's records and documentation.

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Effect:

We could not verify the Association's financial activity.

Cause:

The Association had an employee at that time that has plead guilty to embezzlement, case number D-728-CR-201400008. The Association has been unable to locate any records since that employee left the office.

Recommendation:

The Association should maintain control of their books and records.

Response:

The Association has implemented policies and procedures to maintain their books and records. This finding was resolved in year 2014.

2010-004 Expenditures

Statement of Condition:

The Association does not have any of the bank statements, invoices, reconciliation or supporting documentation.

Criteria:

An effective system of internal control provides for the proper safeguarding of the entity's records and documentation.

Effect:

We could not verify the Association's financial activity.

Cause:

The Association had an employee at that time that has plead guilty to embezzlement, case number D-728-CR-201400008. The Association has been unable to locate any records since that employee left the office.

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Recommendation:

The Association should maintain control of their books and records.

Response:

The Association has implemented policies and procedures to maintain their books and records. This finding was resolved in year 2014.

2010-005 Journal Entries

Statement of Condition:

The Association does not have any of the supporting documentation or policy and procedures to review journal entries.

Criteria:

An effective system of internal control provides for the proper safeguarding of the entity's records and documentation, as well as policies and procedures for journal entries.

Effect:

We could not verify the Association's financial activity.

Cause:

The Association had an employee at that time that has plead guilty to embezzlement, case number D-728-CR-201400008. The Association has been unable to locate any records since that employee left the office.

Recommendation:

The Association should maintain control of their books and records, and implement policies and procedures for journal entries.

Response:

The Association has implemented policies and procedures to maintain their books and records, and for journal entries. This finding was resolved in year 2014.

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2010-006 DFA Budget Approval and Reporting

Statement of Condition:

The Association did not submit their annual budget or budget amendments to the New Mexico Department of Finance and Administration (DFA) for approval and did not submit any quarterly financial reports to DFA.

Criteria:

Governmental entities must submit their budget to DFA for approval and report their quarterly financial activity to DFA.

Effect:

DFA and other state agencies could not monitor the Association's financial activity.

Cause:

The Association was unaware of the requirement to submit their budget to DFA for approval and to submit quarterly financial reports to DFA. The Association has not been assigned a DFA analyst.

Recommendation:

The Association should contact DFA and comply with the requirements to submit their annual budget and any budget amendments to DFA for approval and to meet the reporting requirements to DFA.

Response:

The Association will contact DFA and comply with their requirements. The Association does submit their budget and annual financial activity to USDA Rural Development.

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2010-007 Segregation of Duties

Statement of Condition:

The Association had only one employee, that employee had total responsibility for all of the accounting and reporting. There were no policies or procedures in place for oversight of that employees actions.

Criteria:

An effective system of internal control provides for the proper segregation of duties and sufficient oversight for compliance.

Effect:

The employee embezzled funds from the Association, case number D-728-CR-201400008, and this went undetected for years. The Association has identified a total embezzlement loss of \$201,761; of which \$43,154 occurred in year 2013.

Cause:

There was a serious lack of segregation of duties and there were no policies or procedures in place or oversight for compliance.

Recommendation:

The Association should establish policies and procedures with sufficient oversight to monitor compliance. The Association should use on contract fee accountant to provide some of the segregation of duties. The Board could also provide sufficient oversight for compliance.

Response:

The Association has implemented policies and procedures, engaged and outside fee accountant, and involved the Board in oversight for compliance. This finding was resolved in year 2014.

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2010-008 Untimely Submission of AUP Report

Statement of Condition:

The New Mexico State Auditor required the report to be completed and submitted to his office by June 1, each year for the preceding calendar year. This report was submitted June 23, 2015.

Criteria:

Governmental entities, agencies, and committees review the reports and prefer to do so in a timely manner. The SAO Rule, NMAC 2.2.2.9 Subsection A establishes a due date of June 1 for the reports of special districts.

Effect:

The users of the financial statements such as legislators, creditors, state and federal grantors, etc., do not have timely reports and financial statements for their review.

Cause:

The Association was not aware of the reporting requirements.

Recommendation:

The Association should comply with the State Auditor's delivery due date.

Response:

The Association will comply with the State Auditor's delivery due date now that they are current.

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Preparation of Schedules

The accompanying schedules were substantially prepared by the Accountants; however, management acknowledges and accepts responsibility for the schedules.

EXIT CONFERENCE

An exit conference was held on June 23, 2015, at the Association Board room.

In attendance for the Association:

Larry Yankee	Board President
Wendy Hough	Board Treasurer
Rodney Armstrong	Board Member
Debbie Leschner	Secretary
Midge Bishop	Bookkeeper

In attendance for the Accountants:

Rick Penner, CPA	Accountant
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