

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

**DECEMBER 31, 2014**

**STATE OF NEW MEXICO  
QUEMADO MUTUAL WATER & SEWAGE  
WORKS ASSOCIATION  
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December 31, 2014**

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**STATE OF NEW MEXICO  
QUEMADO MUTUAL WATER & SEWAGE  
WORKS ASSOCIATION  
OFFICIAL ROSTER  
DECEMBER 31, 2014**

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

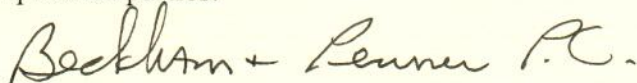
Mr. Timothy Keller, State Auditor, and  
Members of the Board of Directors  
Quemado Mutual Water & Sewage Works Association  
Quemado, New Mexico

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, 2014, 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 – Budget and Actual (Non-GAAP Budgetary 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.



June 23, 2015  
Beckham & Penner, P.C.  
Certified Public Accountants

**AGREED UPON PROCEDURES SECTION**

**STATE OF NEW MEXICO  
QUEMADO MUTUAL WATER & SEWAGE  
WORKS ASSOCIATION  
SCHEDULE OF AGREED UPON PROCEDURES  
AND RESULTS OF PROCEDURES  
December 31, 2014**

**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:** We obtained all of the bank statements, bank reconciliations, general ledger, and bank pledged collateral statements for the fiscal year and performed the above procedures.

- a) The bank reconciliations are being performed in a timely manner and all bank statements for the fiscal year were complete and on-hand. The Association does not have any investment, thus there were no investment statements.
- b) The bank reconciliations were accurate and agreed to the general ledger, supporting documentation, however, the Association does not submit financial reports to DFA-Local Government Division. See Finding number 2010-006.
- c) The pledged collateral requirements of Section 6-10-17 NMSA 1978, NM Public Money Act did not apply to the Association because all of their cash was fully insured by the FDIC coverage.

**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.

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SCHEDULE OF AGREED UPON PROCEDURES  
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December 31, 2014**

**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.

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:** We obtained the internal budget, agreements, underlying documentation, general ledger, and bank statements for the fiscal year and performed the above procedures.

- a) Actual revenue compared to budget is presented as supplementary information in the accompanying Schedule of Revenue and Expenditures – Budget and Actual.
- b) The sample of revenue was found to be recorded in the general ledger and agreed to the supporting documentation and bank statements.
- c) The sample of revenue was properly classified and recorded in the general ledger and presented in the financial statements on the budgetary basis of accounting which is a modified accrual basis.

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**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, 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).

**Results:** We obtained the paid vouchers for the fiscal year and performed the above procedures on a sample of the vouchers.

- a) For the vouchers examined, we determined that the amounts recorded in the accounting records agreed to the supporting documentation and verified that the amount, payee, date and description agreed to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b) For the vouchers examined, we determined that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- d) For the vouchers examined, we determined that, when applicable, the bid process or request for proposal process, purchase order, 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).



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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:** There were no non-routine general journal entries posted to the general ledger, The Association has procedures that require journal entries to be reviewed. All of the journal entries appear reasonable and have supporting documentation.

**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:** We obtained the original budget, the budget amendment, minutes and budget correspondence, and general ledger for the fiscal year and performed the above procedures.

- a) The original budget and budget amendment were approved by the Association, however, the original budget and budget amendment were NOT submitted to or approved by DFA-LGD. See Finding number 2010-006
- b) We determined that the actual expenditures for the fiscal year did not exceed the final budget at the legal level of budgetary control.
- c) We prepared a Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary 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:**

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**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
 For the Year Ended December 31, 2014

	<u>Budgeted Amount</u>		<u>Actual (Budgetary Basis)</u>	<u>Variances ACTUAL To Final BUDGET</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues:				
Water Revenue	\$ 36,000	\$ 36,000	\$ 32,944	\$ (3,056)
Sewage Revenue	31,200	31,200	33,384	2,184
Other Revenue	-	-	786	786
Total revenues	<u>67,200</u>	<u>67,200</u>	<u>67,114</u>	<u>(86)</u>
Expenditures:				
Current:				
Wages & Benefits	18,285	18,285	15,807	2,478
Contractual Servises	1,350	1,350	6,215	(4,865)
Repairs & Maintenance	7,000	7,000	1,860	5,140
Other Operating expenses	18,955	18,955	19,910	(955)
Debt - Service				
Loan Payments	1,920	1,920	1,920	-
Total expenditures	<u>47,510</u>	<u>47,510</u>	<u>45,712</u>	<u>1,798</u>
Revenues over (under) expenditures	<u>19,690</u>	<u>19,690</u>	<u>21,402</u>	<u>1,712</u>
Non-operating revenue (expenditures):				
State grants	-	-	-	-
Federal grants	-	-	-	-
Capital outlay expenditures	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash balance available to balance budget	<u>7,871</u>	<u>7,871</u>	<u>7,871</u>	<u>-</u>
Operating revenues and non-operating Revenues over (under) operating Expenses and non-operating expenses	<u>\$ 27,561</u>	<u>\$ 27,561</u>	<u>\$ 29,273</u>	<u>\$ 1,712</u>
Actual cash balances:	<u>12/31/2013</u>		<u>12/31/2014</u>	
Operating Accounts	2,189		28,381	
Operating Reserve Account	5,682		892	
Total Cash Balance	<u>\$ 7,871</u>		<u>\$ 29,273</u>	

**SCHEDULE OF FINDINGS AND RESPONSES**

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**EXIT CONFERENCE AND OTHER INFORMATION**

**STATE OF NEW MEXICO  
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SCHEDULE OF FINDINGS AND RESPONSES  
EXIT CONFERENCE and OTHER INFORMATION  
December 31, 2014**

**PRIOR YEAR FINDINGS**

**STATUS**

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

**CURRENT YEAR FINDINGS**

2010-002 Capital Assets	
2010-006 DFA Budget Approval and Reporting	
2010-008 Untimely Submission of AUP Report	

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SCHEDULE OF FINDINGS AND RESPONSES  
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**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.

**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.

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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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**2010-008 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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