

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER &
SEWER WORKS ASSOCIATION**

**Independent Accountants' Report on
Applying Agreed-Upon Procedures**

**For the Year Ended
December 31, 2018**



STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
DECEMBER 31, 2018
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**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2018**

Board of Directors

<u>Name</u>	<u>Title</u>
Debbie Garcia-Sanchez	President
Wendy Hough	Vice-President
Andy Gump	Treasurer
Rylan Carver	Director
Norman Goldsborough	Director

Administration

Debbie Leschner	Operator
Trent Yankee	Field Manager
Midge Bishop	Bookkeeper



**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Board of Directors
Quemado Mutual Water & Sewer Works Association
and
Brian S. Colon, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

I have performed the procedures enumerated below which were agreed to by the Quemado Mutual Water & Sewer Works Association (the "Association") and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its Cash, Capital Assets, Revenues, Expenditures, Journal Entries, Budget and Capital Outlay and its compliance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended December 31, 2018. The Association is responsible for its financial reporting as described above. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I 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.

In accordance with Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC, my procedures and associated findings are as follows:

1. REVENUE DETERMINATION

Procedures

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

Findings

The Association's revenue calculation and tier determination was agreed to the trial balance without exception. Total revenue was \$92,304 with \$74,997 in capital outlay, which requires Tier 5 agreed-upon procedures.

2. CASH

Procedures

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) 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.

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.

Findings

Bank accounts were complete and reconciled timely. 4 of 12 reconciliations were tested for accuracy and traced to the general ledger. The general ledger balance for the checking account did not agree to the reconciled balance for 3 of 4 months tested, and 1 of 4 savings account reconciliations tested. See item 2018-001 in the accompanying schedule of findings and responses. Cash balances were reported to DFA without exception. Pledged collateral was not required.

3. CAPITAL ASSETS

Procedures

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

Findings

The Association performed and certified their annual capital asset inventory without exception.

4. REVENUE

Procedures

Identify the nature and amount of revenue from all 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 revenue equal to at least 30% of the total dollar amount and test 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.

Findings

Revenue was analytically tested and met expectations without exception. 13 receipts, totaling \$27,973, were tested and were determined to be properly recorded as to amount, classification and period.

5. EXPENDITURES

Procedures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following attributes:

a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled 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).

Findings

38 disbursements totaling \$16,306, including 7 that were subject to the Per Diem and Mileage Act, were tested. No reportable exceptions were noted.

6. JOURNAL ENTRIES

Procedures

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger 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.

Findings

100% of the general journal entries posted during the year were reviewed for reasonableness, adequate support, and approvals, with no exceptions. The Association has a policy for reviewing and approving journal entries.

7. BUDGET

Procedures

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following test work:

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

Findings

The 2018 budget was properly approved by the Association. The budget was certified by DFA on January 29, 2018. Actual expenses exceeded budgeted amounts at the fund level, which is the legal level of budgetary control. See item 2018-002 in the accompanying schedule of findings and responses. The Schedule of Revenues and Expenses - Budget and Actual (Cash Basis) is presented on page 9 of this report.

8. CAPITAL OUTLAY APPROPRIATIONS

Procedures

The scope of the agreed-upon procedures engagement shall encompass any and all state funded capital outlay appropriations of the New Mexico Legislature that meet Tier 5 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet Tier 5 criteria.

Perform the following tests on all state-funded capital outlay expenditures:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b) Determine that the cash disbursements were properly authorized and approved in accordance 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e) Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f) If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g) If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h) Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i) Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Findings

100% of capital outlay disbursements were tested and were agreed to the supporting documentation. All related disbursements were properly approved. The contract was processed in accordance with the New Mexico Procurement Code. Status reports, physical existence were tested without exception. No advances were received, and the grant agreement did not require a separate bank account. The project was completed and there was \$3 reverted to the Board of Finance. All reimbursement requests were properly supported by costs incurred. The vendors were paid seven days after drawdown.

9. OTHER

Procedures

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.

Findings

No such information was noted.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on the Association's financial reporting and compliance as described above. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of Quemado Mutual Water & Sewer Works Association, New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico
April 1, 2019

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
SCHEDULE OF CAPITAL PROJECTS
YEAR ENDED DECEMBER 31, 2018

<u>Project Number</u>	<u>Project Name</u>	<u>Amount Awarded</u>	<u>Amount Received</u>	<u>Amount Expended</u>	<u>Amount Reverted</u>	<u>Remaining Balance</u>	<u>Legislation/ Effective Dates</u>
18-C2235-STB	Quemado MWSWA Water System	<u>\$ 75,000</u>	<u>\$ 74,997</u>	<u>\$ 74,997</u>	<u>\$ 3</u>	<u>\$ -</u>	Laws of 2018, Ch. 80/Sec. 20 7/1/2018 - 6/30/2022

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
REVENUES:				
Water sales	\$ 85,875	\$ 85,875	\$ 87,798	\$ 1,923
Service charges	-	-	3,554	3,554
Interest	450	450	951	501
Grant revenue	-	-	74,997	74,997
Total revenues	\$ 86,325	\$ 86,325	\$ 167,300	\$ 80,975
EXPENDITURES:				
Administrative cost	\$ 35,175	\$ 35,175	\$ 22,295	\$ 12,880
Electricity	2,750	2,750	2,498	252
Bookkeeping fees	5,000	5,000	4,920	80
Postage and delivery	650	650	724	(74)
Office supplies	500	500	391	109
Operator cost	30,750	30,750	20,285	10,465
Labor cost	1,500	1,500	-	1,500
AUP or audit	3,000	3,000	2,720	280
Miscellaneous	7,000	7,000	202	6,798
Capital outlay	-	-	74,997	(74,997)
Total expenditures	\$ 86,325	\$ 86,325	\$ 129,032	\$ (42,707)

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
DFA QUARTERLY REPORT FOR THE QUARTER ENDING DECEMBER 31, 2018

MDWCA: Quemado Mutual Water & Sewage Works Association
Mailing Address: PO Box 81, Quemado, NM 87829
Email address: QMWSWA@hotmail.com
Phone number: (575) 773-4333

Calendar Year
2018

	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 Cash balance	\$ 269,892.35							
REVENUES (General Fund)								
Water Sales	85,100	17,850	19,593	24,555	\$ 18,554	\$ 80,552.38	4,548	95%
Service Charges	775	1,141	1,079	666	\$ 620	\$ 3,506.72	(2,732)	452%
Membership dues						\$ -	-	-
Penalties and Fees						\$ -	-	-
Non Taxable Income					\$ 7,130	\$ 7,130.00	(7,130)	-
REVENUE TOTALS	\$ 85,875	\$ 18,991	\$ 20,673	\$ 25,222	\$ 26,304	\$ 91,189.10	(5,314)	106%
EXPENDITURES (General Fund)								
Administrative Cost	35,175	5,511	9,170	1,780	\$ 5,833	\$ 22,294.67	\$ 12,880	63%
Electricity	2,750	893	686	444	\$ 475	\$ 2,498.47	\$ 252	91%
Bookkeeping Fees	5,000	930	930	900	\$ 2,160	\$ 4,920.00	\$ 80	98%
Organization Costs						\$ -	\$ -	-
Upgrade System						\$ -	\$ -	-
Postage & Delivery	650	111	263	171	\$ 179	\$ 723.94	\$ (74)	111%
Office Supplies	500	-	-	121	\$ 270	\$ 390.64	\$ 109	78%
Taxes						\$ -	\$ -	-
Operator Cost	30,750	4,888	5,624	4,178	\$ 5,595	\$ 20,285.00	\$ 10,465	66%
Operator Fee						\$ -	\$ -	-
Water Meters						\$ -	\$ -	-
Labor Cost	1,500	-	-	-	\$ -	\$ -	\$ 1,500	0%
Software + Readers						\$ -	\$ -	-
PS - Attorney						\$ -	\$ -	-
AUP or Audit	3,000	2,720	-	-	\$ -	\$ 2,719.76	\$ 280	91%
PS-Attorney						\$ -	\$ -	-
PS-Design						\$ -	\$ -	-
Commission						\$ -	\$ -	-
Miscellaneous	7,000	400	-	-	\$ (198)	\$ 202.12	\$ 6,798	3%
						\$ -	\$ -	-
TOTAL EXPENDITURES	\$ 86,325	\$ 15,453	\$ 16,674	\$ 7,594	\$ 14,314	\$ 54,034.60	\$ 32,290	63%
TOTAL GENERAL FUND to include Beginning cash	\$ 269,442							

Revenues (non-operating)								
SAP.. Appropriation Capital outlay								
State Grants - NMED					\$ 74,997	\$ 74,997.48		
Federal Grants								
Other								
Other - interest	\$ 450	\$ 0	\$ 233	\$ 466	\$ 252	\$ 951.26	\$ (501)	
Total Revenues (non-operating)	\$ 450	\$ 0	\$ 233	\$ 466	\$ 75,250	\$ 75,948.74	\$ (501)	
Expenditures (non-operating)								
Capital Outlay - Old Town Expansion/fire hydrant					\$ (77,083)	\$ (77,082.72)		
Payments - NMED					\$ 74,997	\$ 74,997.48		
Adjust 4th Q 2015/16 assets not reported					\$ 37,342	\$ 37,342.00		
Adjust 4th Q for historical accrual reporting					\$ (1,496)	\$ (1,495.67)		
Depreciation Expense					\$ (150,324)	\$ (150,324.29)		
Total Expenditure (non-operating)	\$ -				\$ (116,563)	\$ (116,563.20)		
Total (Non-operating) revenue - expense	\$ 450				\$ (41,313)	\$ (40,614.46)		
Estimated Ending Cash Balance on Dec 31, 2018	\$ 266,432.39					\$ 266,432.39		

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

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Current Year Findings

2018-001 Bank Reconciliations Not Accurate (significant deficiency)

Condition: 3 of 4 operating account bank reconciliations tested, and 1 of 4 savings account reconciliations tested were inaccurate. Reconciled operating account balances did not agree with general ledger balances for January, July, and October 2018. The reconciled savings account balance did not agree with general ledger balance for July 2018.

Criteria: Internal control and proper stewardship requires accurate bank reconciliations each month.

Cause: After the bank reconciliations were completed, voided checks and an insufficient funds check received from a customer changed the cash balance previously reported.

Effect: The cash balance reported was inaccurate because the balance was subsequently changed after reconciling.

Recommendation: Cash balances should never change after reconciling. When a check is voided, an entry to increase cash (a deposit) should be posted for the check amount, and both the original check and subsequent entry should be cleared on the current bank reconciliation. When an insufficient funds check is received from a customer, an entry to cash (a withdrawal) should be posted for the insufficient check amount, and the original deposit and subsequent entry should be cleared on the next bank reconciliation.

Agency Response: A check for a customer payment was deposited into the savings account. At the end of the month, the check bounced and the credit union took the funds from the checking account instead of the savings account. This created some internal entries to address the issue.

After doing an internal review of the situation, a procedural change was made in early fall of 2018 to never make a deposit into the savings account. All deposits will go into the checking account. The bookkeeper is responsible for implementing this procedural change.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
YEAR ENDED DECEMBER 31, 2018

Current Year Findings, continued

2018-002 Excess of Expenditures Over Authorized Budget (noncompliance)

Condition: The Association's expenditures exceeded the authorized budget in the amount of \$42,707.

Criteria: Section 6-6-6, NMSA 1978 requires the Association to keep expenditures within budgeted amounts. 2.2.2.10 R(1)(a) NMAC requires reporting a finding if actual expenditures exceed budgeted expenditure at the legal level of budgetary control, which is at the fund level for the Association.

Cause: The Association received a capital outlay award in 2018, which was available until 2022. DFA mistakenly required the Association to spend the funds before year-end, forcing the Association to scramble to get the project completed. During this process the Association did not complete the necessary budget amendment to authorize the capital outlay expenditure, and the amount was not budgeted or anticipated when the original budget was authorized.

Effect: The Association spent funds that were not authorized by the Board of Directors for 2018.

Recommendation: The Association should have procedures in place for emergency budget amendments when necessary.

Agency Response: Capital Outlay funds were awarded in fall of 2018. The Quemado Mutual Water & Sewage Association Board and Staff had never dealt with this type of funding. Questions were asked to the Dept of Finance Authority and State Auditors office of the proper handling and reporting of such funds. Three people, the Board President, the Association's Bookkeeper, and the Association's Operator attended the DFA/NM Municipal League Conference in October 2018, and are responsible for implementing the corrective action for any future capital outlay.

We were instructed to handle the transaction as an in/out line item on the DFA reporting and that no budget amendment was required. Subsequently the funds were paid directly to us which then required us to pay the vendors directly. The Capital Outlay Funds were received in December due to a clerical error on the State's part and we then issued checks to the vendors. We plan to attend the 2019 DFA conference again and be better prepared to handle this type of situation in the future.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2018

Prior Year Findings

None.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2018

The report contents were discussed at an exit conference held on April 9, 2019 with the following in attendance:

QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION

Debbie Garcia-Sanchez	Treasurer
Midge Bishop	Bookkeeper

James L. Hartogenesis, CPA LLC

James Hartogenesis, CPA, CGFM	Principal
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