

# **Accounting & Auditing Services, LLC**

**Financial Audits + Agreed Upon Procedures + Tax + Consulting**

**Tesuque Mutual Domestic Water Association**

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

**For the Fiscal Year Ending December 31, 2011**

**Tesuque Mutual Domestic Water Association  
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Fiscal Year Ending December 31, 2011**

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**Tesuque Mutual Domestic Water Association  
Official Roster  
Fiscal Year Ending December 31, 2011**

**Board of Directors**

Gretchen Goff, President

Randy Buckley, Vice President

Jamie Painter, Treasurer

Maria Bustamante, Secretary

Robert Martinez, Board Member

**Administrative Staff**

Ana Berry, Contract Bookkeeper

# Accounting & Auditing Services, LLC

Financial Audits + Agreed Upon Procedures + Tax + Consulting

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

Randy Buckley, President  
Tesuque Mutual Domestic Water Association  
and  
Timothy Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Tesuque Mutual Domestic Water Association (Association) for the year ended December 31, 2011, 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, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. 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. 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 bank reconciliations were performed on a monthly basis in a timely manner. All bank statements for the fiscal year were complete and on hand. For the period January 1, 2011 through January 31, 2012, the Association had one checking account at the Bank of America. For the period December 29, 2011 through December 31, 2014, the Association had one checking account and five savings accounts at the Los Alamos National Bank which are still open as of the date of this report. The Association did not have any investment accounts.

- 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.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the Association's general ledger and supporting documentation. The ending balances on the bank reconciliations could

not be traced to the financial reports submitted to DFA since the Association did not submit any financial reports to DFA for FY11. See Finding No. 2010-1.

- 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 balances were well below \$250,000 during the fiscal year.

## 2. 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 did not perform a capital asset inventory for the fiscal year ending December 31, 2011. See Finding No. 2010-2.

## 3. Revenue

- 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, transfer fees and interest income. The variances between the actual FY10 revenue and the FY11 revenue were adequately explained by the Bookkeeper; no unusual or unexplained variances were noted.

The actual revenue compared to budgeted revenue for each type of revenue was reviewed. According to the Association's general ledger, actual revenues were \$6,888 more than budgeted revenues for FY11. No significant or unusual variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
  - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts and deposits was judgmentally selected and tested which amounted to approximately 80% 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, modified accrual or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger on the cash basis of accounting.

#### 4. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using 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 approximately 87.5% of total expenses. 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, contract and canceled check. The Association does not use purchase order forms.

- 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 State Purchasing Regulations.

## 5. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- i. Journal entries appear reasonable and have supporting documentation.

According to the Association's Bookkeeper, the only non-routine journal entries posted to the general ledger during the fiscal year were 1) to reclassify the loan payments into separate principal and interest amounts; 2) to record the annual depreciation expense for capital assets; 3) to record the transfer of cash to another bank account; and 4) to reclassify temporary restricted net assets to unrestricted net assets. The journal entries and supporting documentation appear reasonable. No other non-routine journal entries were noted during the agreed-upon procedures.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association has procedures in place to ensure that non-routine journal entries posted to the general ledger by the Bookkeeper are reviewed and approved by the governing body.

## 6. Budget

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- 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 Association prepared a budget for FY11, but the budget was not formally adopted by the Board of Directors and recognized in the minutes of its board meetings. The Association did not have any budget adjustments in FY11. See Finding No. 2010-1.

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

Total expenditures for FY11 did not exceed the final approved budget. According to the Association's general ledger, actual expenditures for FY11 were \$3,711 less than budgeted expenditures.

- 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, modified accrual or 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 Exhibit 1 on p. 10. The year-end financial report submitted to DFA-LGD was not presented in this report since the Association did not submit any financial reports to DFA-LGD for FY11. See Finding 2010-1.

## 7. 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 (I)(3)(C) NMAC.

The Association did not submit the IPA Recommendation Form, Agreed-Upon Procedures contract, and this agreed-upon procedures report to the NM Office of the State Auditor by the required due dates. See Finding No. 2010-3.

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 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 29, 2015



**Tesuque Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2011**

**Status of Prior Year Findings**

Finding 2010-1. Repeated.

Finding 2010-2. Repeated.

Finding 2010-3. Repeated.

**Current Year Findings**

**Finding 2010-1. Non-compliance with Budget Laws and Regulations**

**Condition**

The Association prepared a budget for FY11 but the budget adoption and approval was not documented in the minutes of a Board of Directors meeting. Also, the Association did not submit its FY11 annual budget to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for review and approval by December 1, 2010. Furthermore, the Association did not submit its FY11 quarterly financial reports to DFA-LGD as required.

**Criteria**

Pursuant to Section 6-6-2.A NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year. Since the Association's fiscal year end is on December 31, the Association is required to submit its proposed budget to DFA-LGD by December 1 of each year. Also, each local public body is required to submit quarterly financial reports and budget adjustments to DFA-LGD per Section 6-6-2.F and 6.6.2.G NMSA 1978, respectively. Furthermore, per Section 6-6-5 NMSA 1978, upon receipt of any budget approved by DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body.

**Effect**

For FY11, the Association was not in compliance with the State's budget laws and regulations.

**Cause**

Although the Association prepared an annual budget, the Association was not aware that it had to be approved by DFA-LGD. The Association was not aware of the budget laws and reporting requirements for local governments which include Mutual Domestic Water Consumers Associations.

**Tesuque Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2011**

Recommendation

The Association should adopt, approve and submit its annual budget for the next fiscal year to DFA-LGD by December 1 of each fiscal year. After the Association receives the budget certification letter from DFA-LGD, the Association's Board of Directors should make record of the approval in the minutes of its meetings. The Association should submit its budget adjustments and quarterly financial reports to DFA-LGD as required. The Association should develop and implement written policies and procedures to ensure that the budget laws and regulations are fully complied with in the future.

Management's Response

Annual budgets were prepared for all years; however, we did not have the 2010, 2011 and 2012 budgets approved by the Board. We were not aware that the budget had to be submitted to DFA for initial approval or that quarterly financial report submissions were required.

Corrective Action Plan - All annual budgets will be prepared by the Treasurer with input from the Accounts Manager in October and the budget will be submitted to the Board for approval in November. Budget will be submitted to DFA for initial approval by December 1<sup>st</sup>. All quarterly financial reports will be submitted as required.

**Finding 2010-2. No Inventory of Capital Assets at Fiscal Year-End**

Condition

For the fiscal year ending December 31, 2011, the Association did not perform a physical inventory of its capital assets and does not have a capital asset listing.

Criteria

Section 12-6-10.A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness." Section 2.20.1 NMAC requires an annual inventory and establishes standards to properly record, control and account for capital assets acquired by agencies.

**Tesuque Mutual Domestic Water Consumers Association  
Schedule of Findings and Responses  
Fiscal Year Ending December 31, 2011**

Effect

Noncompliance with capital asset laws and regulations weakens the Association's internal controls over its capital assets. A capital asset inventory listing is useful for the Association to properly account for and manage its capital assets.

Cause

The Association was not aware of the annual physical inventory law or the capital asset listing requirements.

Recommendation

At the end of each fiscal year, the Association should perform and document a complete physical inventory of its capital assets as required by Section 12-6-10A NMSA 1978. The description of each capital asset, date acquired, actual or estimated cost, location, useful life and capital asset balance should be recorded on the capital asset listing as required by Section 2.20.1 NMAC. The results of the inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the Association.

Management's Response

The Association has its capital assets listed on the balance sheet but was not aware that a capital asset inventory listing needed to be done.

Corrective Action Plan - An inventory listing will be done by the Board and water operator around the end of 2015 and will be approved by the Board at the following board meeting. The inventory listing will be updated as needed by the Accounts Manager with Board approval.

**Finding 2010-3. Late Submission of Firm Recommendation Form and Agreed-Upon Procedures Contract, and Late Agreed-Upon Procedures Report**

Condition

For the fiscal year ending December 31, 2011, the Association did not submit the Recommendation Form for Tiered System Local Public Bodies and the signed agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until March 2015.

Also, the agreed-upon procedures report for the fiscal year ending December 31, 2011 was not submitted to the OSA by the due date of June 1, 2012.

**Tesuque Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Responses**  
**Fiscal Year Ending December 31, 2011**

Criteria

According to State Audit Rule, Section 2.2.2.16.D (6) NMAC, the Association should have submitted the completed Recommendation Form for Tiered System Local Public Bodies and the completed and signed agreed-upon procedures contract to the State Auditor by January 1, 2012.

According to State Audit Rule, Section 2.2.2.16 (H) NMAC, "Local public bodies with a fiscal year-end other than June 30 must submit the agreed-upon procedures report no later than 5 months after the fiscal year-end."

Effect

Since the recommendation form and contract were submitted late, the agreed-upon procedures report was not submitted to the State Auditor by the required due date of June 1, 2012.

If the report is late, users of the report are not receiving timely information about the results of the agreed-upon procedures.

Cause

The Association was unaware of the State Auditor's contracting requirements for agreed-upon procedures, and therefore, did not comply with the requirements.

Recommendation

The Board of Directors and Bookkeeper of the Association should read Section 2.2.2.16 NMAC of the State Audit Rule to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, the Association shall determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B NMAC to determine what agreed-upon procedures or audits are required for the fiscal year. When required, the Association should take the necessary steps to ensure that future IPA recommendation forms and contracts are submitted to the State Auditor by January 1, and the report by the following June 1.

Management's Response

Corrective Action Plan - The Accounts Manager will ensure that the required forms are submitted to OSA by January 1<sup>st</sup> of the following year and the agreed upon procedures are conducted and submitted to OSA by June 1<sup>st</sup>.

**Tesuque Mutual Domestic Water Association**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP Cash Basis)**  
**For the Fiscal Year Ending December 31, 2011**

**Exhibit 1**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Membership Fees	\$ 2,000	\$ 2,000	\$ 1,000	\$ (1,000)
Transfer Fee	1,500	1,500	1,000	(500)
Water Bills	62,400	62,400	70,788	8,388
Total Revenues	<u>\$ 65,900</u>	<u>\$ 65,900</u>	<u>\$ 72,788</u>	<u>\$ 6,888</u>
<b>Expenditures</b>				
Accounting Services	\$ 541	\$ 541	\$ 541	\$ -
Bounced Check	-	-	212	(212)
Bounced Check Charge	18	18	48	(30)
Depreciation	-	-	2,688	(2,688)
Emergency Reserve Funds	12,000	12,000	-	12,000
Liability Insurance	1,089	1,089	1,790	(701)
Surety Bond	100	100	100	-
NMED Loan Principal	4,102	4,102	958	3,144
USDA Loan Principal	4,092	4,092	785	3,307
Meeting Space	-	-	473	(473)
Bookkeeping	7,983	7,983	7,984	(1)
Office Supplies	600	600	439	161
PO Box Rental	96	96	96	-
Postage	528	528	546	(18)
Printing and Reproduction	76	76	-	76
Miscellaneous Office Expenses	-	-	369	(369)
Line Locates	126	126	23	103
Materials	-	-	1,251	(1,251)
Water Operator	7,980	7,980	12,335	(4,355)
Water Testing	454	454	454	(0)
Well Repairs	-	-	7,245	(7,245)
Software Support	325	325	346	(21)
Repairs	7,200	7,200	7,109	91
System Maintenance - Other	7,200	7,200	-	7,200
Gross Receipts Taxes	3,000	3,000	3,460	(460)
Water Conservation Fee	168	168	218	(50)
Corporation Taxes	-	-	4,057	(4,057)
Taxes - Other	50	50	-	50
Utilities - Electricity	1,596	1,596	2,085	(489)
Total Expenditures	<u>\$ 59,324</u>	<u>\$ 59,324</u>	<u>\$ 55,613</u>	<u>\$ 3,711</u>

**Tesuque Mutual Domestic Water Association  
Exit Conference  
Fiscal Year Ending December 31, 2011**

On May 29, 2015, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Tesuque MDWA

Randy Buckley, President  
Marge Loehr, Treasurer  
Ana Berry, Bookkeeper

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager