

State of New Mexico
Upper Des Montes
Mutual Domestic Water Consumers Association
Agreed Upon Procedures Report
December 31, 2010

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Table of Contents
December 31, 2010

Official Roster 1

Independent Accountant's Report..... 2

Supplemental Attachments

Procedures Performed and Related Results..... 3

Schedule of Findings and Responses 7

Exit Conference 11

**State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Official Roster
December 31, 2010**

Association Board Members

Dan Romero	President
Palemon Martinez	Vice-President
Fabiola Martinez	Secretary/Treasurer
Anicia Fernandez	Member
Jose Rodriguez	Member

INDEPENDENT ACCOUNTANT'S REPORT

Hector H. Balderas
New Mexico State Auditor
and
Board of Directors
Upper Des Montes Mutual Domestic Water Consumers Association

We have performed the procedures enumerated below, which were agreed to by the Upper Des Montes 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 5, as of December 31, 2010. 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 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 5 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.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, P.C.

May 23, 2012

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

The following procedures were performed according to the Office of the State Auditor 2010 Agreed Upon Procedures, Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC. The results of these procedures are presented as a yes or no response as to whether the results of the procedures were satisfactory.

Procedure:	Results: <i>Satisfactory Yes or No</i>
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.	Yes
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	Yes
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.	Yes
<p style="margin-left: 40px;"><i>Note:</i> We determined that the average running balance is below \$250,000 in all accounts; therefore, additional procedures were not performed.</p>	
Capital Assets	
Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.	Yes
Revenue	
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.	Yes

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

Procedure:	Results: <i>Satisfactory Yes or No</i>
Revenue (continued)	
Test 50% of the total amount of revenues for the following attributes:	
a) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.	Yes
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.	Yes
Expenditures	
Select a sample of cash disbursements and test at least 25 transactions and 50% of the total amount of expenditures for 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.	Yes
b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.	Yes
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).	N/A

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

Procedure:	Results: <i>Satisfactory Yes or No</i>
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.	Yes
b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.	No
<i>Note:</i> See finding 2009-03 in the Schedule of Findings and Responses	
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.	N/A
b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.	N/A
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.	N/A
<i>Note:</i> The Association has no formal budget or budget process. The lack of a formal budget or budget process was considered as part of reporting finding 2009-03 in the Schedule of Findings and Responses.	

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

Procedure:	Results: <i>Satisfactory Yes or No</i>
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Capital Outlay Appropriations

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.

N/A

Note: The Association had no capital outlay awards; therefore the procedures required for capital outlay appropriations under the Office of the State Auditor 2010 Agreed Upon Procedures, Tier 5 of the Audit Act – Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC, were not performed.

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.

No

Note: See the Schedule of Findings and Responses.

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

2009-01 Late Report – Material Weakness

CONDITION	The agreed upon procedures report was submitted to the State Auditor in June 2012, which is, after the required deadline.
CRITERIA	Special districts agreed upon procedures reports are required to be submitted to the State Auditor by 5 months after the fiscal year-end. This is a requirement of the State Auditor's Office Rule 2.2.2.9A(1)(h)
EFFECT	State Auditor regulations have not been adhered to. Also, the users of the financial statements such as legislators, creditors, bondholders, State and Federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on State and Federal Funding.
CAUSE	The Association was not aware of the report requirements; therefore, the audit was not completed on time.
RECOMMENDATION	We recommend that the Association file all required reports and documents as soon as possible.
RESPONSE	The recommendation will be adopted.

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

2009-03 Proper Oversight and Segregation of Duties – Material Weakness

CONDITION	The Association does not have any segregation of duties and board oversight is limited. The contract bookkeeper handles all of the cash receipts and disbursements and records all transactions in the accounting records.
CRITERIA	Good accounting procedures include segregation of the physical custody of assets from the recording and record keeping associated with the assets. Where an organization is small and unable to segregate duties it should compensate for this lack of controls with oversight and review procedures by members of the board.
EFFECT	The Association has an increased risk for the loss of assets by error, defalcation or theft.
CAUSE	The Association has a new contract bookkeeper that handles all aspects of the day to day business of the Association. Members of the board are volunteers and have full time work in other capacities. The physical locations of the association, the bank and the bookkeeper are not in close proximity.
RECOMMENDATION	We recommend that the board implement some reasonable and workable procedures to review checks written, deposits made and financial reports prepared on a more timely and regular basis.
RESPONSE	The Upper Des Montes Mutual Domestic Water Consumers Association will designate two board members, one being the treasurer, that will meet with the bookkeeper and review all written checks, deposits and financial reports on a quarterly basis. Each review will be documented, signed and dated then presented to the entire board at the next meeting.

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

2009-04 Record Retention and Maintenance – Material Weakness

CONDITION	The underlying invoices, statements and bills to support amounts expended during 2010 were not all available at the office of the contract bookkeeper. Invoices paid from the construction checking account and invoices for the first four months of the year were not made available by the association.
CRITERIA	The Association is responsible for maintaining complete files and records to support expenditures. All transactions of the Association should be supported by documentation that show the validity and business purpose of the transaction.
EFFECT	The USDA could potentially question all costs where original documentation is not available.
CAUSE	The Treasurer of the board provided supporting documentation for the first part of the year, however, some items were missing.
RECOMMENDATION	We recommend that the organization implement a procedure for the accumulation, retention and storage of documentation in a secure and accessible location.
RESPONSE	The Upper Des Montes Mutual Domestic Water Consumers Association will purchase a secured file cabinet that will provide safe and secure storage of all association documents, financial information, board minutes and will be kept at a designated board members home. Any information that can be stored electronically will be stored and a hard copy backup will be provided and stored in the file cabinet.

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
December 31, 2010

Status of Prior Year's Findings

Finding:

2009-01 Late Reports

2009-02 Financial Statements

2009-03 Proper Oversight and Segregation of Duties

2009-04 Record Retention and Maintenance

Status:

Revised and Repeated

Resolved

Revised and Repeated

Revised and Repeated

State of New Mexico
Upper Des Montes Mutual Domestic Water Consumers Association
Exit Conference
December 31, 2010

The contents of this report were discussed at an exit conference held May 22, 2012.

The Upper Des Montes Mutual Domestic Water Consumers Association was represented by:

Daniel Romero, President
Palemon Martinez, Vice-President
Fabiola Martinez, Secretary/Treasurer
Anicia Fernandez, Board Member
Jose Rodriguez, Board Member

Zlotnick, Laws & Sandoval, P.C. was represented by:

Asa Laws, CPA
Brian Laws, CPA