

**WHITE CLIFFS MUTUAL DOMESTIC
WATER USERS ASSOCIATION, INC.**

AGREED UPON PROCEDURES REPORT

JUNE 30, 2014

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION,
INC.**

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WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.

June 30, 2014

Official Roster

Board of Directors

Michael Daly, President
Randal Henry, Secretary/Treasurer
Dorian Rios, Member



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

6200 Uptown Blvd NE
Suite 400
Albuquerque, NM 87110
505.338.0800

To Management
White Cliffs Mutual Domestic Water Users Association, Inc.
Gallup, New Mexico
and
To Mr. Timothy Keller, State Auditor

We have performed the procedures enumerated below, which were agreed to by the White Cliffs Mutual Domestic Water Users Association, Inc. (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 4, as of June 30, 2014. The Association is the responsible party and the subject matter is the responsibility of the Association. 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 those 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 we performed 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 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 the Board of Directors 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.

Ricci & Company, LLC

Albuquerque, New Mexico
April 1, 2015

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
June 30, 2014**

PROCEDURES PERFORMED AND RELATED RESULTS

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.

We reviewed all of the bank reconciliations in order to ensure that they were completed and performed in a timely manner. The Association has a checking and savings account for which bank reconciliations were performed. Of the twenty-four bank statements received during the year ended June 30, 2014, we noted fourteen were completed over 30 days after the statement date. The Association also has bank accounts associated with their loan with the New Mexico Mortgage Finance Authority (NMFA). We noted the balance in these accounts ties to the financial statements; however reconciliations have not been prepared for these accounts. These issues have been included as finding 2014-001 in the schedule of findings and responses.

- 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.

We tested reconciliations for seven months for the reconciled checking and savings accounts: July, September, October, and December 2013, and April, May, and June 2014. For six of the seven months tested, reconciliations are accurate and tie to supporting detail and general ledger. It was noted however that for one month tested, the general ledger did not tie to the bank reconciliation on hand. The cause of the discrepancy was determined to be an error that was later corrected after the reconciliation was performed. The reconciliation was not updated to reflect the correction.

The Authority did not submit quarterly reports to the DFA-Local Government Division, thus we were not able to trace balances to financial reports.

- 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.

We determined upon review of the monthly bank statements and bank reconciliations that the Association maintained a cumulative account balance below the \$250,000 FDIC coverage limit; therefore, additional procedures were not performed.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
June 30, 2014

PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)

2. Capital Assets

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

An annual inventory listing of capital assets was completed. There were no additions or disposals in the year. We reviewed the inventory listing detailing the items capitalized by the Association. The Association utilizes Microsoft Excel to maintain its inventory listing.

3. Revenues

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.

We compared budget to actual for each type of revenue. Please see the Schedule of Revenues and Expenditures – Budget and Actual – General Funds – Cash Basis Schedule (page 7) for amounts. The variance in water revenues is attributable to new users joining the system during the year ended June 30, 2014. The Association anticipates connection and reconnection fees annually.

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.

We selected six months of billing activity for water and sewer charges - September, November and December 2013, and January, February, and March 2014 - and compared the amount billed to the general ledger. We also compared the amounts collected per the bank deposit to the general ledger. Our work was performed on the cash basis, which is consistent with the accounting basis used by the Authority. No exceptions were noted testing the attributes above.

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES**

June 30, 2014

PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)

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).

We randomly selected 16 disbursements for review from the total disbursement population. No exceptions were noted testing the attributes above.

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.

Adjusting journal entries are recorded by the outside accountant. The accountant provides the Association Board President with the QuickBooks file after transactions have been recorded. The Board President can review all transactions as deemed necessary. The Association is small such that abnormal entries would be easily identified.

We noted two adjusting journal entries made during the year. The Association produced supporting documentation and the entries were reasonable.

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES**

June 30, 2014

PROCEDURES PERFORMED AND RELATED RESULTS (CONTINUED)

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.

We verified from the September 24, 2013 Board of Directors meeting minutes that the original budget was approved via resolution. We also traced to approval by DFA-LGD on September 27, 2013.

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

It was determined that the Association's total actual expenditures did not exceed the final budget at the fund level, which is the legal level of budgetary control.

- 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.

See attached Schedule of Revenues and Expenditures - Budget and Actual - General Fund (page 7) which is prepared on the cash basis of accounting. As mentioned above, the Association did not submit quarterly budget reports to DFA-LGD. This has been included as finding 2014-004.

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.

See schedule of findings and responses beginning on page 8.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND - CASH BASIS
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Water revenue	\$ 48,500	48,500	55,282	6,782
Connection fees	-	-	1,800	1,800
Miscellaneous/interest	-	-	3	3
Total revenues	48,500	48,500	57,085	8,585
Expenditures				
Current:				
Payroll expenses	6,088	6,088	5,770	318
General expenses	17,685	17,685	10,812	6,873
Water systems	12,825	12,825	5,533	7,292
Wastewater system	7,200	7,200	7,112	88
Interest	-	-	2,041	(2,041)
Total expenditures	43,798	43,798	31,268	12,530
Excess of revenues over expenditures	\$ 4,702	4,702	25,817	21,115

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014**

2014-001 TIMELINESS OF REPORT

CONDITION

The White Cliffs Mutual Domestic Water Users Association, Inc. submitted the required agreed upon procedures report for the 2014 fiscal year after the deadline of December 1, 2014.

CRITERIA

The Association was required to submit the agreed upon procedures report for the year ended June 30, 2014 on or before December 1, 2014 in accordance with Section 2.2.2.16 H. of the New Mexico State Auditor's Rule.

CAUSE

The State of New Mexico Agreed Upon Procedures Contract was not approved by the State Auditor until December 18, 2014.

EFFECT

The Authority is not in compliance with the New Mexico State Auditor's Rule and State Statutes. In addition, the users of the report, such as legislators, creditors, and grantors do not have a current report for analysis.

RECOMMENDATION

The Authority should continue its efforts to get reports completed in a timely manner.

MANAGEMENT RESPONSE

This was our first audit and the procedure was a bit more arduous than we anticipated. We are on track for a timely filing next time.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014

2014-002 BANK RECONCILIATIONS

CONDITION

While applying agreed upon procedures over timeliness of cash reconciliations, it was noted that fourteen of twenty-four bank reconciliations tested for timeliness were performed over thirty days after the statement date.

It was also noted that for one of the fourteen bank reconciliations tested for accuracy, the register balance per the reconciliation was \$4,530, however the balance per the general ledger was \$4,455. The difference of \$75 was caused by a check which was originally recorded in the accounting system for \$15 and shown as outstanding on the October 31, 2013 bank reconciliation. We noted from the general ledger detail and from the November 30, 2013 bank reconciliation that the check amount was changed to \$90. We reviewed a copy of the cleared check in the November 30, 2013 bank statement and noted it was written for \$90 and signed by an authorized signer. The discrepancy appears to be a mistake in the original entry to QuickBooks that was later corrected when the check cleared the bank.

The Association has two bank accounts associated with a loan due to the New Mexico Finance Authority (NMFA). Although statements received from NMFA are used to record activity, a reconciliation was not prepared for these accounts.

CRITERIA

In accordance with Subsection I of 2.2.2.16 NMAC, all agreed upon procedures engagements should report as findings any fraud, illegal acts, noncompliance or internal control deficiencies, consistent with Section 12-6-5 NMSA 1978 which states any violation of good accounting practices shall be set out in detail in a written report. Good accounting practices dictate that reconciliation of bank balances should be completed on a timely basis, to provide assurance that all transactions have been entered by the bank and recorded in the financial statements properly. If bank reconciliations are to serve as an effective control over the cash accounts, they must be prepared on a timely basis and all reconciling items should be investigated and resolved properly. Ideally all bank accounts should be reconciled prior to the close of the bank statement for the following month. When adjustments are made to previously reconciled bank accounts, those reconciliations affected by the change should be revised.

CAUSE

Because transaction volume is low for the Authority, supporting documents are typically only provided to the outside accountant on a quarterly basis. This is done as an effort to keep costs of administration low.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014

2014-002 BANK RECONCILIATIONS (CONTINUED)

EFFECT

Bank reconciliations that are not reconciled on a timely basis could lead to inaccurate interim financial reporting. In addition error or misappropriations could be harder to detect if not identified in a timely manner or if historical bank reconciliations do not tie to current records.

RECOMMENDATION

The Authority should establish a policy by which bank reconciliations are required to be performed within thirty days of the statement end date, or an amount of time deemed appropriate by management. Any changes made to periods that have already been reconciled should be reflected in a revised reconciliation.

MANAGEMENT RESPONSE

We have established a policy to have the bank statement reconciled each month instead of quarterly.

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014**

2014-003 SEGREGATION OF DUTIES

CONDITION

While performing testwork over cash disbursements it was noted that one individual is responsible for reviewing and approving expenditures, issuing and signing checks, and mailing payments. There is little to no detailed oversight by the Board of Directors.

CRITERIA

In accordance with Subsection I of 2.2.2.16 NMAC, all agreed upon procedures engagements should report as findings any fraud, illegal acts, noncompliance or internal control deficiencies, consistent with Section 12-6-5 NMSA 1978 which states any violation of good accounting practices shall be set out in detail in a written report. A fundamental concept in an adequate system of internal control is the segregation of duties.

CAUSE

The organization is small such that there are a limited number of individuals available to perform financial functions.

EFFECT

A lack of appropriate segregation of duties could lead to misstatements caused by fraud or error.

RECOMMENDATION

The Authority should consider strengthening internal controls through added segregations of duties. This could be accomplished by implementing a policy whereby bank reconciliations are sent directly to the outside accountant, who records transactions and reconciles bank accounts, or to a board member not involved with issuing checks. As an alternative, the accountant could also provide a list of cash disbursements for approval.

MANAGEMENT RESPONSE

We will have the accountant record transactions and reconcile bank accounts as recommended above.

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014**

2014-004 QUARTERLY FINANCIAL REPORTING

CONDITION

The Authority did not submit required quarterly reports to the New Mexico Department of Finance Local Government division.

CRITERIA

NMSA 1978 6-6-2 mandates the Department of Finance and Administration's Local Government Division (LGD) to require periodic financial reports of local public bodies and to prescribe their form. LGD currently requires quarterly reports from counties, municipalities and special districts (not including school districts).

CAUSE

The organization was not aware that they were required to submit quarterly reports.

EFFECT

The Authority is not in compliance with reporting requirements of the Department of Finance.

RECOMMENDATION

The Authority should familiarize themselves with the Department of Finance reporting requirements and due dates, and ensure required reports are submitted timely.

MANAGEMENT RESPONSE

We have contacted Ms. Blanca Surgeon with the Rural Community Assistance Corporation for assistance in determining our reporting requirements and the timing.

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
EXIT CONFERENCE
June 30, 2014**

An exit conference was held on April 1, 2015 to discuss the agreed upon procedures. Attending were the following:

Representing the White Cliffs Mutual Domestic Water Users Association, Inc.:

Board of Directors
Michael Daly, President

Representing the Independent Accountant:

Sandy Ricci, CPA Principal
Shawn Mortensen, CPA, Manager