

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

AGREED UPON PROCEDURES REPORT

JUNE 30, 2015

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

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

June 30, 2015

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, 2015. 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
December 14, 2015

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
June 30, 2015

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, 2015, we noted eight 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. Client was unaware that reconciliations needed to be prepared. Reconciliations will be performed beginning with the 2016 fiscal year. This exception is written up as finding #2014-002.

- 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 nine months for the reconciled checking and savings accounts: October, November and December 2014, and January, February, March, April, May, and June 2015. For all 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 client updated the reconciliation 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. The non submittal of the quarterly reports is written up as finding #2014-004.

- 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, 2015

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 June 30, 2015 in accordance with 12-6-10 NMSA 1978. In July of 2014 there was a fixed asset addition. We reviewed the inventory listing detailing the items capitalized by the Association. We also reviewed the invoice for the asset addition (WP 1202) which ties to the GL listing. 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. The Association anticipates connection and reconnection fees annually, and these were not included in the budget. Water revenues were slightly down for the year but appeared reasonable based on inquiry and U. S Drought Monitor reports for 2015.

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 2014, and April, May, and June 2015 - 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, 2015

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 outside 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. All journal entries appear reasonable and routine as they were for interest and depreciation of fixed assets on a monthly basis. The Board President indirectly reviews all AJE's by reviewing the monthly financial statements including the Balance Sheet.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
June 30, 2015

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 June 10, 2015 Board of Directors meeting minutes that the original budget was approved via resolution. DFA-LGD conditionally approved the budget for the entire fiscal year (condition based on not receiving copy of Board minutes indicating approval of budget). DFA-LGD determined Association did not need to send approval documented in June 2015 Board minutes, so no finding was written for this.

- 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 exceeded budgeted expenditures by \$23,132, and is compliance finding #2015-001.

- 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.

The Schedule of Revenues and Expenditures – Budget and Actual is included in this report on page 7.

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, 2015

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Water revenue	\$ 55,000	55,000	48,970	(6,030)
Connection fees	-	-	3,686	3,686
Miscellaneous/interest	-	-	4	4
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Total revenues	55,000	55,000	52,660	(2,340)
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Expenditures				
Current:				
Payroll expenses	5,733	5,733	7,226	(1,493)
General expenses	18,335	18,335	21,932	(3,597)
Water systems	9,400	9,400	28,298	(18,898)
Wastewater system	6,050	6,050	2,854	3,196
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Total expenditures	39,518	39,518	60,310	(20,792)
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Excess of revenues over expenditures	\$ 15,482	15,482	(7,650)	(23,132)
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WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

2014-002 BANK RECONCILIATIONS – MODIFIED AND REPEATED (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY)

CONDITION

While applying agreed upon procedures over timeliness of cash reconciliations, it was noted that eight of eighteen bank reconciliations tested for timeliness were performed over thirty days after the statement date. It was also noted that the timeliness of bank reconciliations improved after the prior year's Agreed Upon Procedures report and findings were submitted to the Association. All bank reconciliations following February of 2015 appear to be timely.

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, reconciliation was not prepared for these accounts. Although this was identified as a finding in the 2014 Agreed Upon Procedures report, the report was issued April 1, 2015, thus the Association did not have time to implement the corrective action plan for the entire 2015 fiscal year.

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 Association, 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. Beginning after the prior year's submission of the Agreed Upon Procedures to the Association, all bank reconciliations appear to be done now within thirty days and are timely.

No reconciliations were prepared for the two bank accounts associated with a loan due to the New Mexico Finance Authority (NMFA). The client was unaware of the need to reconcile accounts because of the unusual nature of the accounts. Once made aware of the need to reconcile these accounts, the Association has taken steps to begin reconciliations beginning with fiscal year 2016.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

2014-002 BANK RECONCILIATIONS – MODIFIED AND REPEATED (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY) (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 Association should establish a policy by which bank reconciliations are required to be performed within thirty days of the statement end date for all bank accounts, or an amount of time deemed appropriate by management.

MANAGEMENT RESPONSE

As a result of the finding in the last AUP we establish a policy of monthly bank register reconciliations. We have also now directed the accountant to include the NMFA Loan account in our books as recommended. The Board President will ensure that these reconciliations are being performed effective January 2016.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

2014-004 QUARTERLY FINANCIAL REPORTING – MODIFIED AND REPEATED
(OTHER NONCOMPLIANCE)

CONDITION

The Authority did not submit all required quarterly reports to the New Mexico Department of Finance Local Government division. Although this was identified as a finding in the 2014 Agreed Upon Procedures report, the non-submission of the second quarterly report was an oversight by management.

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 did not submit the second quarter financials.

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 are now on track to regularly submit quarterly reports to the NM Department of Finance Local Government division. The Board President will ensure that reports are being submitted timely effective January 2016.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

2015-001 EXPENDITURES IN EXCESS OF BUDGET (OTHER NONCOMPLIANCE)

CONDITION

The Authority had net expenditures in excess of the approved budget during the year ended June 30, 2015 in the amount of \$20,792. This amount consists of unfavorable variances in payroll, general and water system expenses and a favorable variance in wastewater system expenses.

CRITERIA

State Statute 6-6-6, NMSA 1978 requires the expenditures of public bodies not to exceed budget authority.

CAUSE

The Authority budgeted \$5,733 for payroll expenditures and the actual cost was \$7,226; the Authority budgeted \$18,335 for general expenditures and the actual cost was \$21,932; the Authority budgeted \$9,400 for water systems expenditures and the actual cost was \$28,298. The Authority budgeted \$6,050, for wastewater system expenditures and the actual cost was \$2,854. The Board President noted that the water system expenditures had additional expenditures due to unforeseen circumstances such as patrons flushing diapers and paper products in the system, causing repairs. It does not appear that any budget adjustments were made.

EFFECT

The Authority violated its budgets constraints during the current year that it was not authorized to spend.

RECOMMENDATION

We recommend that the Authority monitor its budgeted costs more closely and that changes be made in the accounting methodologies to facilitate this monitoring. We also recommend that adjustments be made to the budget when it becomes apparent that the cost will exceed the budgeted amounts and proper approvals for any changes obtained

MANAGEMENT RESPONSE

Our situation was a true crisis. The excess spending amounted to some \$24,000.00, about half our normal year's income. This was due to an unidentified customer flushing diapers and rags into the toilets and clogging or sewage pumps. We only survived because we had a cash reserve. If we exceed out budget again we will approve an amended budget. The Board President will be responsible for reviewing quarterly reports and submitting budget adjustment requests as needed prior to June 30, 2016.

**WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
AGREED UPON PROCEDURES
EXIT CONFERENCE
June 30, 2015**

An exit conference was held on December 14, 2015 to discuss the agreed upon procedures. Attending were the following:

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

Michael Daly, President

Representing the Independent Accountant:

Sandy Ricci, CPA, Principal