

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.

**Independent Accountant's Report on
Applying Agreed-Upon Procedures (TIER 4)**

**For the Fiscal Year Ended
June 30, 2018**

ASSURANCE TAX ACCOUNTING PC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

Office: (505) 620-8526 **Fax:** (866) 800-6970; PO Box 27213 Albuquerque, NM 87125; johnnymangu@msn.com

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.

Table of Contents

Fiscal Year Ended June 30, 2018

	Page
Table of Contents	1
Official Roster	2
Independent Accountants' Report on Applying Agreed-Upon Procedures (Tier 4)	3
Statement of Revenues and Expenditures (Budget and Actual)	8
Year-end Financial Report submitted to DFA	9
Schedule of Findings and Responses	10
Exit Conference	14

WHITE CLIFFS MUTUAL DOMESTIC WATER USES ASSOCIATION, INC.
OFFICIAL ROSTER
Fiscal Year Ending June 30, 2018

Name	Title
Michael Daly	President
Randall Henry	Secretary-Treasurer
Dorian Rios	Member

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES (TIER 4)**

Michael Daly, President
White Cliffs Mutual Domestic Water Users Association
and
Honorable Wayne A. Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below which were agreed to by White Cliffs Mutual Domestic Water Users Association (Association) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its compliance with Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC as of and for the year ended June 30, 2018. The Association's management is responsible for its financial reporting as described above. This agreed-upon procedures engagement was conducted in accordance with AICPA Statements on Standards for Attestation Engagements (Clarified), AT-C Section 215 for agreed-upon procedures engagements. The sufficiency of these procedures is solely the responsibility of those parties specified in the 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. 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."

We verified White Cliffs Mutual Domestic Water Users Association's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tier System Reporting Main Page" and it was determined that the White Cliffs Mutual Domestic Water Users Association falls under the Tier 4 procedures. General revenues were \$63,022.83 and no capital projects were started or completed.

2. 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 determined that all bank reconciliations were performed. The bank reconciliations were not performed in a timely manner. All bank statements and investment/savings statements were complete and on hand without exception. All monthly bank

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reconciliations for the operating account and the savings account were examined without exception. See Finding 2018-001.

- 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.

We randomly selected four months for review – September, December, March, and June. We traced the ending balances to the general ledger for all bank statements and savings accounts reconciliations. We determined that the bank reconciliations were accurate. The Association submitted the quarterly financial reports to DFA-LGD. No exceptions were noted in these procedures.

- 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 that the balances of the operating account and the savings account at no time exceeded the insured limits provided by the FDIC of \$250,000. Therefore, pledged collateral by the financial institution was not required.

3. Capital Assets

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

We inquired as to whether or not White Cliffs Mutual Domestic Water Users Association is performing a yearly inventory as required by section 12-6-10 NMSA 1978. The Association did complete a yearly inventory of its capital assets. Almost all capital assets of the Association are water rights, infrastructure, and land.

4. Revenue

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 performed an analytical review of each type of revenue and compared each type of revenue to the budget. We noted no exceptions.

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

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b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

We selected receipts (100% of total receipts) and we traced the amounts recorded in the supporting documentation including deposit books to the general ledger and to the bank statements. We noted no exceptions.

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 all receipts (100% of total receipts), and we traced the amounts recorded in the general ledger and comparing to the supporting documentation for proper coding and distribution. No exceptions were noted.

5. Expenditures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount 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.

We selected a sample of cash disbursements equal to 38% of the total dollar amount and determined that the District had adequate documentation for disbursements. In the testwork we checked that the amount recorded as disbursed agrees to adequate supporting documentation and that the amount, payee, date and description agreed to the purchase order, contract, vendor's invoice and canceled check as appropriate. No exceptions were noted.

b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

We determined that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures. No exceptions were noted.

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).

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Note: The sample must be representative of the population.

No major projects requiring bidding were started or completed during this accounting period. Because the Association was not using the appropriate mileage reimbursement rate, it resulted in one overpayment of \$42.84 for the items tested. See finding 2017-002.

6. 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.

We selected all nonroutine journal entries entered during FY 2018 for testing. All journal entries appear reasonable based on the memorandum explanation for each entry.

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

We selected all journal entries entered during FY 2018 for testing. The Association was unable to provide written supporting documentation to show that the journal entries are being reviewed and approved for the items selected. See finding 2018-002.

7. Budget

Obtain the original fiscal year budget and all budget adjustments 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.

We verified through review of minutes that the original budget was approved by the District Board, submitted and approved by DFA-LGD.

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

We determined through comparing the Original/Final Budget to the Actual Expenditures that the Association is in compliance with statutes by not over-expending 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 Statement of Revenues and Expenditures – Budget and Actual.

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8. 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 all the required content detail in Section 2.2.2.10(L) NMAC.

No information came to our attention indicating any fraud or illegal acts. Instances of noncompliance and internal control deficiencies are disclosed in the findings of this report.

We were 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 White Cliffs Mutual Domestic Water Users Association's financial reporting to the State Auditor as described above. 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 White Cliffs Mutual Domestic Water Users Association, the New Mexico Office of the State Auditor, the New Mexico Office Legislature, 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.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C.
Albuquerque, New Mexico
November 14, 2018

STATE OF NEW MEXICO
 WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (Accrual Basis)
 For the year ended June 30, 2018

	Budgeted Amount		Actual	Variance
	Original	Final	Budget Basis	Favorable (Unfavorable)
Revenue				
Water Sales	\$ 56,760	56,760	58,053	1,293
Interest income	-	-	61	61
Connection Fees	-	-	4,909	4,909
	<u>56,760</u>	<u>56,760</u>	<u>63,023</u>	<u>6,263</u>
Expenses				
Payroll expenses	11,028	11,028	8,961	2,067
General expenses	34,408	34,408	28,168	6,240
Water wells	800	800	5,061	(4,261)
Water treatment	10,650	10,650	3,698	6,952
Water distribution	3,000	3,000	6,002	(3,002)
Water system repairs	800	800	1,954	(1,154)
Wastewater collection system	400	400		400
Sewer pump station	2,050	2,050	607	1,443
Wastewater lagoons	2,600	2,600	711	1,889
CDBG Grant	-	-	6,004	(6,004)
NTUA water	-	-	2,033	(2,033)
Access Road Maintenance	-	-	200	(200)
	<u>65,736</u>	<u>65,736</u>	<u>63,399</u>	<u>2,337</u>
Revenues over (under) expenditures	<u>(8,976)</u>	<u>(8,976)</u>	<u>(376)</u>	<u>8,600</u>
Other financing sources (uses):				
Interest earned	-	-	-	-
Operating transfers in	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (8,976)</u>	<u>(8,976)</u>	<u>(376)</u>	<u>8,600</u>

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018

Prior Year Findings:

Finding 2017-001 – Purchase Orders and Payment Authorization	Resolved
Finding 2017-002 – Per Diem and Mileage Act	Repeated

Current Year Findings

- Finding 2017-002 – Per Diem and Mileage Act
- Finding 2018-001 – Bank Reconciliations
- Finding 2018-002 – No Documentation or Approval of Journal Entries

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2018

Finding 2018-001 - Bank Reconciliations

Condition:

While applying the agreed upon procedures over timeliness and accuracy of cash reconciliations, it was noted that the months of August, October, November, February, April and May bank reconciliations tested for timeliness were performed late.

Criteria:

In accordance with Subsection H of 2.2.2.16 NMAC, all agreed upon procedures engagements should report as findings and 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.

Cause:

The District was not aware of the requirement to reconcile the bank accounts within 30 days after the statement end date. Because of the length of time between the transaction and reconciliation, accurate documentation could not be located.

Effect:

Bank reconciliations that are not reconciled on a timely basis could lead to inaccurate interim financial reporting. In addition, errors and misappropriation of assets could be more difficult to detect if not identified in a timely manner or if historical bank reconciliations do not tie to the 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.

Management's Response:

The Association will begin reconciling the bank statements on a timely basis effective immediately. The President will ensure that these reconciliations are being performed within thirty days after the statement end date.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2018

Finding 2017-002 - Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Condition:

The District used the incorrect mileage reimbursement rate to reimburse employee use of personal vehicles for the benefit of the District. Because the District was not using the appropriate mileage reimbursement rate, it resulted in one overpayment of \$42.84 for the items tested. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Per the Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC) the Association should be using the rates provided by DFA. "Unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA 1978, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately-owned vehicle."

Cause:

The Association was not aware of the appropriate mileage reimbursement rate to be used.

Effect:

Because the Association is not compliant with the Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC), fraud waste and abuse could take place without being detected, affecting the entity adversely in the eye of the stakeholders.

Recommendation:

The Association should begin using the DFA published mileage rates along with strengthening the review and approval process.

Management's Response:

The Association adopted for FY19 the IRS rate on November 19, 2018 and will begin using the approved mileage reimbursement rates effective immediately. The President is responsible for meeting the deadline as required.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
Fiscal Year Ended June 30, 2018

Finding 2018-002 No Documentation or Approval of Journal Entries (Significant Deficiency)

Condition:

Supporting documentation of journal entries was not provided by the Association. The Association does not have procedures to prepare and retain supporting written documentation, and that require journal entries to be reviewed and there is no evidence the reviews were being performed.

Criteria:

Proper internal controls that prevent management override include requiring that journal entries must have supporting documentation and appear reasonable, and have evidence that the entries are being reviewed and approved.

Cause:

The Association was not aware that supporting documentation of the Journal Entries should be retained and Journal Entries should be reviewed and approved.

Effect:

If Journal Entries are not reviewed and approved, fraud waste and abuse could take place without being detected, and the financial statements could be manipulated or misstated.

Recommendation:

The Association should prepare supporting documentation of journal entries to be reviewed and approved by the Board. The supporting documentation should provide support that the journal entries are being reviewed and approved prior to their entry in the system.

Management's Response:

The Association decided to approve the FY18 journal entries on the next board meeting, and going forward will prepare and retain the supporting documentation of the journal entries effective immediately. The Board President will provide the supporting documentation with the explanation of the journal entry to the Board for review and approval prior to entry in the system. The Board President is responsible for meeting the deadline as required.

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2018

The report contents were discussed at an exit conference held on November 14, 2018 with the following in attendance:

WHITE CLIFFS MUTUAL DOMESTIC WATER USERS ASSOCIATION

Michael Daly Board President

Assurance Tax Accounting PC

Johnny Mangu, MBA, CPA, CGFM, CGMA Principal