

**STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION**

**Independent Accountants' Report on
Applying Agreed-Upon Procedures**

**For the Year Ended
December 31, 2018**



STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
DECEMBER 31, 2018
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**STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2018**

Board of Directors

<u>Name</u>	<u>Title</u>
James Chessum	President
Anne Bommarito	Treasurer
Shannon Zetich	Secretary
Mary Griffith	Director
Kay Oakes	Director

Administration

Mary Griffith	Office Manager
Anne Bommarito	Assistant Office Manager



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Quemado Lake Water Association
and
Brian S. Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

I have performed the procedures enumerated below which were agreed to by the State of New Mexico Quemado Lake Water Association (the "Association") and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting and compliance relating to its Cash, Capital Assets, Revenues, Expenditures, Journal Entries, and Budget information and its compliance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended December 31, 2018. The Association is responsible for its financial reporting as described above. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I 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.

In accordance with Tier 4 of the Audit Act – Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC, my procedures and associated findings are as follows:

1. REVENUE DETERMINATION

Procedures

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".

Findings

The Association's revenue calculation and tier determination was agreed to the trial balance without exception. Total revenue was \$57,400 which requires Tier 4 agreed-upon procedures.

2. CASH

Procedures

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. For purposes of performing my procedures "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the Association.

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 Department of Finance & Administration - Local Government Division (DFA-LGD). For purposes of performing my procedures "accuracy" means that reconciling items agree to deposit slips and subsequent bank or investment statements, and the reconciliations are mathematically correct.

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.

Findings

Bank accounts were complete and on-hand. Reconciliations were accurate. All quarterly financial reports were submitted to DFA. The operating account reconciliation for April 2018 was not completed timely. See finding 2018-001 in the accompanying schedule of findings and responses.

3. CAPITAL ASSETS

Procedures

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

Findings

The Association performed their annual capital asset inventory without exception.

4. REVENUE

Procedures

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.

Select a sample of revenues equal to at least 30% of the total dollar amount and test 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.

Findings

Revenue was analytically tested and met expectations without exception. 15 receipts totaling \$18,116 were tested and were determined to be properly recorded as to amount, classification and period.

5. EXPENDITURES

Procedures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test 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 cancelled 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 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings

37 disbursements were tested, for a total of \$19,286. All payroll disbursements were supported by approved timesheets and pay rates to support the payments. All vendor disbursements tested were properly supported and approved. 1 disbursement tested was subject to the Per Diem and Mileage Act and was tested with no exceptions. The Association did not have any expenditures that were subject to the state procurement code.

6. JOURNAL ENTRIES

Procedures

Test all non-routine journal entries, adjustments and reclassifications, posted to the general ledger 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.

Findings

100% of the general journal entries posted during the year were tested. The entries tested were reasonable, had adequate support. The Association has established a policy for reviewing and approving journal entries but none of the entries tested were approved. See finding 2018-002 in the accompanying schedule of findings and responses.

7. BUDGET

Procedures

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.

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

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.

Findings

A budget was properly prepared and approved by the Association’s Board of Directors and was properly certified by DFA-LGD. Actual expenses exceeded budgeted amounts. See finding 2018-003 in the accompanying schedule of findings and responses. The Schedule of Revenues and Expenditures - Budget and Actual (Cash Basis) is presented on page 7 of this report.

8. OTHER

Procedures

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(L) NMAC.

Findings

Nothing else was noted.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Association's financial reporting and compliance as described above. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of the State of New Mexico Quemado Lake Water Association, the New Mexico Office of the State Auditor, the New Mexico Legislature, and 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.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico
May 28, 2019

**SCHEDULE OF REVENUES &
EXPENDITURES - BUDGET AND
ACTUAL (CASH BASIS)**

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		Favorable (Unfavorable)
REVENUES:				
Water sales	\$ 57,660	\$ 57,660	\$ 56,379	\$ (1,281)
Connection fees	1,350	1,350	600	(750)
Other income	-	-	393	393
Total revenues	\$ 59,010	\$ 59,010	\$ 57,372	\$ (1,638)
EXPENDITURES:				
Salaries	\$ 32,100	\$ 32,100	\$ 32,100	\$ -
Employee benefits	1,725	1,725	120	1,605
Electricity	3,400	3,400	3,625	(225)
Other utilities	1,800	1,800	1,500	300
System parts and supplies	1,500	1,500	1,153	347
System repairs and maintenance	2,000	2,000	844	1,156
Vehicle expenses	1,000	1,000	747	253
Office and administrative	2,700	2,700	1,450	1,250
Professional fees	2,400	2,400	2,151	249
Insurance	5,000	5,000	10,846	(5,846)
Dues, fees, permits and licenses	425	425	568	(143)
Taxes	2,064	2,064	2,650	(586)
Training	700	700	2,454	(1,754)
Miscellaneous	550	550	420	130
Total expenditures	\$ 57,364	\$ 57,364	\$ 60,628	\$ (3,264)

YEAR-END DFA REPORT

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
YEAR-END DFA REPORT
YEAR ENDED DECEMBER 31, 2018

MDWCA Name:
Mailing Address:
Email Address:
Phone number:

Quemado Lake Water Association
 HC 60 Box 201, 14 Escondido, Quemado, NM 87829
qlwater7@planet.com
 575-773-4976

Calendar Year
2018

	APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct -Dec	Year to Date(YTD) Totals	YTD (over/under BUDGET	% of Budget
Beginning balances:								
Cash	65,167							
Savings								
CDs								
Investments								
Beginning Balance TOTAL	\$ 65,167							
REVENUES								
Water Sales (Water Use Fees)	57,660	13,078	13,838	14,882	14,581	56,379	1,281	98%
Connection/Reconnection Charges	1,350	600				600	750	44%
Membership and Meter Sales (Utility Service Fees)						0	0	-
Late Fees and Penalties (Other Fines and Forfeits)					70	70	(70)	-
Gross Receipts Tax (Other State shared taxes)						0	0	-
Other Operating Revenue (miscellaneous - other)		127	127	69		323	(323)	-
TOTAL	\$ 59,010	13,805	13,965	14,951	14,651	57,372	1,638	97%
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.	32,100	8,025	8,025	8,025	8,025	32,100	0	100%
Employee Benefits and Expenses	1,725	3	117			120	1,605	7%
Electricity	3,400	1,146	887	770	822	3,625	(225)	107%
Other Utilities - Gas, Water, Sewer, Telephone	1,800	385	379	370	366	1,500	300	83%
System Parts and Supplies	1,500	335	181	34	603	1,153	347	77%
System Repairs and Maintenance	2,000	119	436	148	141	844	1,156	42%
Vehicle Expenses	1,000	338	138	192	79	747	253	75%
Office and Administrative Expenses	2,700	334	737	195	184	1,450	1,250	54%
Professional Services - Accounting, Engineering, Legal	2,400		1,935	216		2,151	249	90%
Insurance	5,000	3,771		2,017	5,058	10,846	(5,846)	217%
Dues, Fees, Permits and Licenses	425	300	10		258	568	(143)	134%
Taxes - Gross Receipts Tax, Water Conservation Fee	2,064	730	640	640	640	2,650	(586)	128%
Training	700	450	1,169		835	2,454	(1,754)	351%
Miscellaneous	550	21	21	303	75	420	130	76%
Loans								
Annual debt service - Loan 1						0	0	-
Annual debt service - Loan 2						0	0	-
TOTAL	\$ 57,364	15,957	14,675	12,910	17,086	60,628	(3,264)	106%
Ending Balance	66,813					61,911		
LESS: Operating Reserve								
Emergency Reserve								
Capital Improvement Reserve								
Debt Reserve								
Ending Available Cash Balance	\$ 66,813					\$ 61,911		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

Mary T. Griffith
 President/Chairperson

1/18/2019
 Date

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Current Year Findings

2018-001 - Bank Reconciliations Not Timely (significant deficiency)

Condition: 1 of 12 operating account bank reconciliations (April 2018) was not completed timely.

Criteria: Internal control and proper stewardship requires timely and accurate bank reconciliations each month.

Cause: The Association did not have a policy to complete the reconciliations timely.

Effect: If cash is not reconciled accurately and reported in a timely manner, it may be difficult to properly safeguard assets. Errors may go undetected until it is too late to correct.

Recommendation: I recommend the Association implement policies and procedures that require timely and accurate completion of the bank reconciliation each month. The procedures should provide for proper review and approval of the reconciliation by a person independent of the accounting function.

Agency Response: The April 2018 bank reconciliation was not done in a “timely manner” due to an incorrect entry of a received payment. It was noticed on the May bank statement and corrected on June 6, 2018. Effective immediately, when errors are noted after the reconciliation is done, the bookkeeper will start attaching the original bank reconciliations to the corrected one to document the original date of reconciliation.

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
YEAR ENDED DECEMBER 31, 2018

Current Year Findings, continued

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

Condition: 100% of the journal entries posted in 2018 were tested. 4 of 4 journal entries tested were prepared and posted to the general ledger by the Association's accountant without review or approval.

Criteria: Journal entries are a way to override the accounting system, and organizations should always implement strong internal controls to mitigate the risk of material misstatements from journal entries. Section 12-6-3 B (6) NMSA 1978 requires the independent public accountant to determine whether the local public body has procedures in place that requires journal entries to be reviewed, and that evidence of the review is documented.

Cause: The Association did not follow their policy that requires Board review and approval of journal entries prior to posting to the Association's books.

Effect: Without following the policy for reviewing and approving journal entries, there is an increased risk that a material misstatement in the Association's financial statements will not be prevented, detected or corrected.

Recommendation: I recommend the Association follow their policy for documenting, reviewing and approving journal entries prior to recording them in the general ledger. I also recommend the Association review other existing accounting policies and procedures to ensure all transactions that are recorded in the financial statements are properly authorized and documented.

Agency Response: Approval of journal entries is stated in the QLWA Internal Policies and Procedures up to \$3,500 but it was not approved in writing by the Board at the time it occurred. Starting immediately, approvals by the Board will be documented in writing.

STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
YEAR ENDED DECEMBER 31, 2018

Current Year Findings, continued

2018-003 - Excess of Expenditures Over Authorized Budget (noncompliance)

Condition: The Association's expenditures exceeded the authorized budget in the amount of \$3,264.

Criteria: Section 6-6-6, NMSA 1978 requires the Association to keep expenditures within budgeted amounts. 2.2.2.10 R(1)(a) NMAC requires reporting a finding if actual expenditures exceed budgeted expenditure at the legal level of budgetary control, which is at the fund level for the Association.

Cause: The Association did not monitor their expenditures or make any budget adjustments during the year.

Effect: The Association spent funds that were not authorized by the Board of Directors for 2018.

Recommendation: The Association should monitor their budget throughout the year and have procedures in place for emergency budget amendments when necessary.

Agency Response: The budget was not adjusted for the year 2018 due to the overage of \$3,264. Obviously, as Mr. Hartogensis stated, the Board needs to check the annual budget periodically to make sure we are within our budget. The Board will start reviewing the budget immediately.

**STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2018**

Prior Year Finding

Current Year Status

2015-001 Late Audit Report and Auditor Recommendation

Resolved

**STATE OF NEW MEXICO
QUEMADO LAKE WATER ASSOCIATION
EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2018**

The report contents were discussed at an exit conference held on May 27, 2019, with the following in attendance:

QUEMADO LAKE WATER ASSOCIATION

Mary Griffith	Director/Office Manager
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James L. Hartogenesis, CPA LLC

James Hartogenesis, CPA, CGFM	Principal
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