

**Butterfield Park Mutual Domestic
Water Association**

**Independent Accountant's Report
On Applying Agreed-Upon Procedures
for the Year Ended June 30, 2011**

STATE OF NEW MEXICO
BUTTERFIELD PARK MUTUAL DOMESTIC WATER ASSOCIATION

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STATE OF NEW MEXICO
BUTTERFIELD PARK MUTUAL DOMESTIC WATER ASSOCIATION

OFFICIAL ROSTER
JUNE 30, 2011

Board of Directors

Linda Liess	President
Alree Sweat	Vice President
Mary Berry, Ph.D	Secretary/Treasurer
Joe Garcia	Director
Bill Berry	Director

Staff

Lupe Terrazas	Bookkeeper
Daniel Chasse	Operator

INDEPENDENT AUDITORS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Hector H. Balderas, State Auditor
and the Board of Directors of the
Butterfield Park Mutual Domestic Water Association
Organ, New Mexico

We have performed the procedures enumerated below, which were agreed to by Butterfield Park Mutual Domestic Water Association, (the Association), for the year ended June 30, 2011. The Association was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The Butterfield Park Mutual Domestic Water Association's management is responsible for the Association's accounting records. 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 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:

I. 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.
- 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 (DFA-LGD).
- 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

- a) All bank and investment reconciliations are performed on a timely basis and all were complete and on-hand.
- b) Random tests of bank reconciliations revealed some exceptions. The reconciliations were not accurate and did not agree with supporting documentation. The December 2010 and June 2011 operating bank account's reconciliations had differences of \$74 and \$1,918, respectively, between the general ledger and the reconciliation. Also the June 2011 bank balance of the certificate of deposit did not agree to the general ledger by \$86. In addition, required quarterly financial reports were not submitted to DFA-LGD at any time during the year. The Association bookkeeper indicated that they have not been informed of the requirement to report DFA or the regulation requiring it.
- c) Bank account balances did not exceed the uninsured limits during the year ended June 30, 2011 and therefore, pledged collateral was not required for any bank account.

2. Capital Assets

Procedures

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

Observation

Butterfield Park Mutual Domestic Water Association performed an inventory of capital assets and provided the inventory listing that was the result of their inventory.

3. 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 based on auditor judgment and test using the following attributes:

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

Observation

- a) Analytical review and test of actual revenue compared to budgeted revenue for the year for each type of revenue revealed no exceptions.
- b) Amounts recorded in the general ledger agreed with supporting documentation and the bank statements.
- c) Amounts were properly recorded on a cash basis as to classification, amount and period per review of supporting documentation.

4. Expenditures

Procedures

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 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

- a) Except as described below, amounts recorded as disbursed agreed to supporting documentation: amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and cancelled check, as appropriate. However, there were two instances where the Association paid less than the vendor's invoice amount. These consisted mainly of regular monthly payments for utilities. The Association paid the remaining balance with the following monthly invoice.
- b) There were 2 instances where the disbursements occurred when the line item was already overbudget. There were 15 instances where the disbursements occurred within budget but at the end of the year the line item was overbudget. There were 8 instances where the disbursements occurred within budget and the line item was within budget at the end of the year.
- c) 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).

5. Journal Entries

Procedures

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.

Findings

- a) Journal entries appear reasonable and have supporting documentation.
- b) Butterfield Park Mutual Domestic Water Association has no review process for journal entries and the journal entries tested have no evidence of review.

6. 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) A review of Board minutes indicated that the budget was approved by the Board and submitted to the USDA RUS but was not submitted to DFA-LGD for approval. The budget was prepared for internal use and USDA RUS only and the Association made no subsequent 2011 budget adjustments. The 2011 budget has not yet been submitted to the DFA-LGD for approval.
- b) Total actual expenditures exceeded the final budget by \$45,441 at the total fund level, the legal level of budgetary control.
- c) The Association prepares but did not submit the budget report for the year ended June 30, 2011 to DFA-LGD. A schedule of revenues and expenses – budget and actual was prepared from the Association records on the cash budgetary basis.

7. Other

Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose 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.

Findings

Per discussions with Mary Berry, Secretary/Treasurer of Butterfield, there is a former board member / employee who allegedly has stolen from the Association.

The former board member was filling in for the bookkeeper when the bookkeeper was on vacation in June 2010. When the bookkeeper returned, the former board member fired the bookkeeper immediately. There is no documentation on the reason for termination of any sort at the Association.

Previously, the Operator at the Association would take the deposits to the bank, the former board member started taking them herself. People became suspicious. The Board looked at the deposits and noted that the cash was less than the receipts. At this point they notified the Sheriff. The Sheriff investigator found that from June 24, 2010 to August 31, 2010, there was \$2,519 received and not deposited. The former board member has since confessed to the stealing.

Charges have been filed and they are currently awaiting trial in Dona Ana County.

Since then, the former bookkeeper was rehired. The association has implemented additional procedures to help mitigate the risks of this happening again by having a different employee deliver the deposit than who receives the money. Also, the Board Secretary / Treasurer is agreeing the deposits per bank to the receipts per the billing software.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. 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 Butterfield Park Mutual Domestic Water Association the New Mexico State Auditor's Office and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

White + Sanoniego + Campbell, LLP

El Paso, Texas
August 30, 2011

STATE OF NEW MEXICO
 BUTTERFIELD PARK MUTUAL DOMESTIC WATER ASSOCIATION

SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (CASH BASIS)
 FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Water revenue	\$ 146,000	\$ 146,000	\$ 164,448	\$ 18,448
Other income	1,150	1,150	1,399	249
Total operating income	147,150	147,150	165,847	18,697
Operating Expenses				
Accounting/Audit	2,219	2,219	2,221	(2)
Auto expense	5,000	5,000	3,533	1,467
Bank charges	100	100	721	(621)
Conservation fees	955	955	1,012	(57)
Construction	1,000	1,000	-	1,000
Dues & subscriptions	900	900	1,311	(411)
Insurance	4,700	4,700	11,245	(6,545)
Licenses/Permits	100	100	464	(364)
Mileage	2,000	2,000	1,599	401
Municipal supply	5,000	5,000	18,394	(13,394)
Office complex	1,450	1,450	937	513
Office expense	500	500	1,021	(521)
Office supplies	500	500	746	(246)
Payroll expenses	-	-	1,178	(1,178)
Pension	2,400	2,400	2,400	-
Postage	1,400	1,400	1,258	142
Repair and maintenance	9,000	9,000	26,341	(17,341)
Salaries	35,000	35,000	41,288	(6,288)
Taxes, GRT	5,500	5,500	1,514	3,986
Taxes, payroll	2,900	2,900	3,198	(298)
Taxes, property	2,130	2,130	2,227	(97)
Technical services	100	100	5,384	(5,284)
Telephone	3,200	3,200	2,783	417
RUS services	1,452	1,452	-	1,452
Utilities	31,000	31,000	31,713	(713)
Water test	150	150	-	150
Workman's comp	1,500	1,500	1,977	(477)
Other expenses	-	-	1,132	(1,132)
Total operating expenses	120,156	120,156	165,597	(45,441)
Excess (deficiency) of revenues over expenditures	26,994	26,994	250	(26,744)
Nonoperating expenditures				
Agency loans	17,728	17,728	17,434	294
Total nonoperating expenditures	17,728	17,728	17,434	294
Revenues over (under) expenses	\$ 9,266	\$ 9,266	\$ (17,184)	\$ (27,038)

STATE OF NEW MEXICO
BUTTERFIELD PARK MUTUAL DOMESTIC WATER ASSOCIATION

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

2011-01 Expenses in Excess of Budget (Compliance Finding)

CONDITION	The Association's actual expenditures exceeded approved budgeted expenditures by \$45,441 in total.
CRITERIA	Budgets for mutual domestic water consumers and sewage works associations are approved by DFA in accordance with Section 6-6-3 NMSA 1978. Association's expenditures cannot exceed the approved budget according to Section 6-6-6 NMSA 1978 which states: "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."
EFFECT	The Association is not in compliance with state law.
CAUSE	The Association was not aware of the DFA-LGD requirements.
RECOMMENDATION	Adopt budget adjustments in accordance with the Association's plans and operations. Monitor accounts at least quarterly to ensure that actual expenditures do not exceed the approved budget or available fund balance at any time during the fiscal year.
RESPONSE	<p>This is the Association's first engagement under the State Auditor of New Mexico's Audit Rule. The Association was not aware of the state law requiring that expenses be within budget.</p> <p>Also, the Association has revised its process for preparing budgets and believes that future budgets will be more realistic than the FY 2011 budget.</p>

2011-02 Budget Submission (Compliance Finding)

CONDITION	The Association did not submit their 2011 budget for DFA-LGD approval.
CRITERIA	Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD, on or before December 1, of each year, a proposed budget for the next fiscal year. Upon receipt of any budget approved by the DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. Section 6-6-2 (B) NMSA, 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD.
EFFECT	Association is not in compliance with state law.
CAUSE	The Association was not aware of the DFA-LGD requirements.

RECOMMENDATION We recommend that the Association submit their proposed budget to DFA-LGD for approval, on or before December 1 of each year and that upon receipt of the approved budget cause such budget to be made a part of the minutes.

RESPONSE This is the Association's first engagement under the State Auditor of New Mexico's Audit Rule. The Association was not aware of the state law requiring the submission of the budget to DFA-LGD.

The Association is in the process of contacting DFA-LGD and plans to get into compliance with budget submission requirements as soon as possible.

2011-03 Quarterly Financial Reports (Compliance Finding)

CONDITION Periodic financial reports were not submitted, as required, to the DFA-LGD at any time during the year.

CRITERIA Section 6-6-3 NMSA, 1978 Compilation states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

EFFECT Association is not in compliance with state law.

CAUSE The Association was not aware of the DFA-LGD requirements.

RECOMMENDATION We recommend that the Association submit periodic financial reports, as required.

RESPONSE This is the Association's first engagement under the State Auditor of New Mexico's Audit Rule. The Association was not aware of the state law requiring the submission of the quarterly reports.

The Association is in the process of contacting DFA-LGP and plans to get into compliance with report submission requirements as soon as possible.

2011-04 Bank Reconciliation (Material Weakness)

CONDITION During fieldwork we noted that the bank reconciliations for June 2011 and December 2010 for the operational account and the June 2011 certificate of deposit did not agree to the general ledger.

CRITERIA According to NMAC 6.20.2.14, "Every local public body shall establish and maintain cash management programs to safeguard cash and provide prompt and accurate reporting that adheres to cash management requirements of the office of management and budget (OMB) Circular A-102, and applicable state and federal laws and regulations."

EFFECT A portion of cash remains unreconciled at the end of 2011.

CAUSE The bookkeeper failed to reconcile cash to the bank statement properly. There was lack of supervision and review.

RECOMMENDATION Perform complete and accurate bank reconciliations at month end and assign another member of management the responsibility of reviewing each month's bank reconciliation. All unusual reconciling items should be investigated and dealt with promptly so errors do not accumulate thereby making the reconciliation process more difficult and time consuming.

RESPONSE The Board Secretary / Treasurer will begin reviewing bank reconciliations effective immediately.

2011-05 Lack of Supervision and Segregation of Duties (Material Weakness)

CONDITION A former Board Member/Employee has stolen from the Association.

CRITERIA Section 6.20.2.11 of NMAC requires each local public body to develop, establish and maintain a structure of internal accounting controls and written procedures to provide for segregation of duties, a system of authorization and recording procedures, and sound accounting practices in performance of duties and functions. The duties to be segregated are the authorization to execute a transaction, recording the transaction, and custody of assets involved in the transaction.

EFFECT The Sheriff's investigator found that from 6/24/10 to 8/31/10, there was \$2,519 received and not deposited. The Former Board Member/Employee has since confessed to the theft per the Association.

CAUSE The Association did not maintain a structure of internal accounting controls and a system of authorization and recording procedures.

RECOMMENDATION We recommend that the Association implement a system of checks and balances, and involve at least one additional person in the process.

RESPONSE The Association has made improvements to its internal control which should reduce that possibility of this type of activity happening again, including:

1. Requiring someone other than who prepare deposits deliver the deposit to the bank.
2. Requiring the Board Secretary / Treasurer to review bank reconciliations and cash transactions.

**STATE OF NEW MEXICO
BUTTERFIELD PARK MUTUAL DOMESTIC WATER ASSOCIATION**

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2011**

The report contents were discussed at an exit conference held on August 30, 2011 with the following individuals in attendance:

Butterfield Park Mutual Domestic Water Association

Linda Liess	President
Mary Berry, Ph.D.	Secretary/Treasurer
Lupe Terrazas	Bookkeeper

<u>White + Samaniego + Campbell, LLP</u>	
Brad Watts	Partner in-Charge