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**STATE OF NEW MEXICO**

**LIBERTY MUTUAL DOMESTIC WATER SYSTEM  
ASSOCIATION, INC.**

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON  
PROCEDURES**

**YEAR ENDING DECEMBER 31, 2010**

STATE OF NEW MEXICO

LIBERTY MUTUAL DOMESTIC WATER SYSTEM ASSOCIATION, INC.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

YEAR ENDING DECEMBER 31, 2010

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STATE OF NEW MEXICO  
LIBERTY MUTUAL DOMESTIC WATER SYSTEM ASSOCIATION, INC.

December 31, 2010

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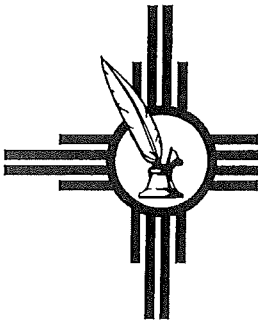
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STATE OF NEW MEXICO  
LIBERTY MUTUAL DOMESTIC WATER SYSTEM ASSOCIATION, INC.

December 31, 2010

Official Roster

Name	<u>Board of Directors</u>	Title
David Hein		President
Wayne Huffman		Vice President
Trude Bauler (January to June)		Secretary/Treasurer
Jeannette Maddaford (July to December)		Secretary/Treasurer
Tom Bauler		Member
Pablo Lopez		Member
Janet Garcia	<u>Staff</u>	Maintenance



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES

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To: David Hein, President  
Liberty Mutual Domestic Water System Association, Inc.  
and  
Honorable Hector H. Balderas  
New Mexico State Auditor

I have performed the procedures enumerated below for the Liberty Mutual Domestic Water System Association, Inc. (LMDWSA), for the year ended December 31, 2010, solely to assist LMDWSA in demonstrating compliance with a Tier 4 entity under the Audit Act, Section 12-6-3 B (4), NMSA, 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A), NMSA, 1978, as set forth in the accompanying Exhibits. The procedures were agreed to by LMDWSA through the Office of the New Mexico State Auditor. Liberty Mutual Domestic Water System Association, Inc.'s management is responsible for the organization'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, 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. My procedures and findings are as follows:

1. Cash

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.

Liberty Mutual Domestic Water System Association (LMDWSA) had one checking and two saving accounts. Bank reconciliations from January to September in 2010 were not performed on a timely basis. Based on September, 2010 minutes, no books at all were maintained for 2005, 2006, 2007, 2008, and 2009. Bookkeeping did not begin and bank reconciliations were not prepared for any account until September, 2010. Retroactive bank reconciliations were prepared, according to the minutes from 2005 through August of 2010, for only one checking account at the beginning of September, 2010.

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1. Cash, continued

Saving account bank reconciliations were not prepared, however, the general ledger agreed with the ending account balance of December 31, 2010.

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.

I selected three months to test bank reconciliations including May, 2010, July, 2010, and October, 2010. The reconciliations were accurate and matched to bank statements and financial reports. One saving account's ending balance, both May and July per the general ledger, did not agree with the bank statements by \$ 2,367 but tied to financial statement at the end of the year, 2010, indicating final adjustments were made.

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, New Mexico Public Money Act, if applicable.

All balances were under \$250,000 and insured by FDIC. No additional pledged collateral was required.

2. Capital Assets

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

The Association does not have "moveable chattels". Capital Assets consist of waterlines and installed water meters. Therefore, this requirement is not applicable.

3. 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.

I selected the billing periods for March, August and November of 2010 for the analytical review. I obtained the billing rates for 2010 from the bookkeeper; however, I was

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3. Revenue, continued

unable to obtain an officially adopted rate schedule. I applied the rates to the total gallons delivered and compared with the billing for the month. The revenue billed for each month was reasonable.

The Association did not have a budget for 2010; therefore, I was unable to compare revenues with the budget.

Test 50% of the total amount of revenues for the following attributes:

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

Amounts recorded in the general ledger agreed with bank statements for the months tested, amounting to \$26,489 or 53% of revenues for March, June, September, October and December.

- 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.

The Association maintained its accounting records on cash basis in 2010. I tested each month activity for the 2010 year. Amounts were properly recorded on the cash basis as to classification, amount, and period per review of bank statements and the general ledger.

4. Expenditures

Select a sample of cash disbursements and test at least 25 transactions and 50% of the total amount of expenditures for 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, contact and canceled check, as appropriate.

I selected randomly 2 to 3 of the larger check amounts from each month resulting in testing 84% of total annual expenses. Amounts recorded as disbursed agreed with

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4. Expenditures, continued

vendor's invoices or other supporting documentation as to amount paid, payee, description and approval in the minutes.

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

Each check was authorized and approved when the Association had its monthly board meeting. All tested checks had dual signatures. Because the Association did not have a budget for 2010, I cannot verify the disbursements were approved in compliance with budget.

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).

All disbursements were less than amounts required for requesting bids. The Association did not use per diem and mileage, but actual reimbursement for an immaterial amount (\$217) for fuel.

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 attribute:

a) Journal entries appear reasonable and have supporting documentations.

I selected three month's journal entries randomly including April, August, and September. As the accounting system is cash basis, all journal entries were routine, primarily for bank reconciliation adjustments. I noted payroll is initially recorded net and, subsequently, grossed up by journal entry. I was unable to examine supporting documentation to document the gross up of payroll; however, the total wages for the year reflected on the general ledger agreed to total wages reported on forms 941.

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



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5. Journal entries, continued

The Association does not have a policy regarding the preparation of journal entries. The journal entries are not initialed by the preparer or initialed by a reviewer.

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.
- 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.

The Association did not have any budget for 2010. So, the budget procedures are not applicable.

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(l)(3)(C) NMAC.

Minutes of the September, 2010, Board meeting reflect that no books of account were maintained for the years of 2005 through August of 2010. Forms 990 were not filed for years 2005 through 2009, reports to the Public Regulation Commission were not filed and in 2009, employees were treated as contract labor in 2009 and payroll taxes were not withheld. A member of the Association, familiar with bookkeeping procedures, reconstructed the books of account and filed delinquent payroll tax reports, forms 990, and Public Regulation Reports for all years. A new bookkeeper was appointed by the Board after reconstruction of the books and filing of reports. I did not review periods prior to 2010.

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I was not engaged to, and did not conduct an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or any part thereof, including the Statement of Revenue and Expenditures-Budget and Actual. Accordingly, I do not express such an opinion. 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 Liberty Mutual Domestic Water System Association, Inc., the New Mexico State Auditor's Office, 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 those specified parties.



R. Kelly McFarland, CPA, PC

Tucumcari, New Mexico

January 12, 2013

LIBERTY MUTUAL DOMESTIC WATER USERS COOPERATIVE

Statement of Revenues and Expenditures  
 Budget and Actual  
 December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Water user fees, other charges	\$0	\$0	\$50,402	\$50,402
Interest income	0	0	2	2
Total revenues	<u>0</u>	<u>0</u>	<u>50,404</u>	<u>50,404</u>
Expenditures:				
Water purchases	0	0	16,181	(16,181)
Salaries	0	0	11,532	(11,532)
Sales tax	0	0	3,153	(3,153)
Operating supplies and repair	0	0	2,034	(2,034)
Contract system repairs	0	0	1,990	(1,990)
Interest	0	0	1,987	(1,987)
Insurance	0	0	1,848	(1,848)
Contract labor	0	0	1,717	(1,717)
Office supplies	0	0	1,548	(1,548)
Payroll taxes	0	0	1,349	(1,349)
Utilities	0	0	560	(560)
Postage	0	0	309	(309)
Dues and subscriptions	0	0	240	(240)
Car expense and mileage	0	0	217	(217)
Bank charges	0	0	96	(96)
Licenses and taxes	0	0	80	(80)
Miscellaneous	0	0	46	(46)
Total expenditures	<u>0</u>	<u>0</u>	<u>44,887</u>	<u>(44,887)</u>
Excess (deficiency) revenues over expenditures	<u>0</u>	<u>0</u>	<u>5,517</u>	<u>5,517</u>
Non-cash expenditures				
Depreciation	0	0	9,900	(9,900)
	<u>\$0</u>	<u>\$0</u>	<u>(\$4,383)</u>	<u>(\$4,383)</u>

December 31, 2010

## **SCHEDULE OF FINDINGS AND RESPONSES**

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2010-1

### **CASH**

#### **Condition**

Bank accounts were not reconciled for the first eight months of the year. Bank reconciliations are not reviewed by someone other than the preparer.

#### **Criteria**

Effective internal control requires that bank accounts be reconciled timely in order to ensure that any differences between amounts recorded in the general ledger and transactions reflected in the bank statements are identified and adjusted to preclude misstatement of the financial statements. Timely bank reconciliations are also critical for controlling cash balances to ensure effective cash management as well as a control measure, along with other controls to preclude possible misappropriation.

#### **Effect**

The Association was at risk for misstatement of the financial statements and possible misappropriation.

#### **Cause**

Failure to reconcile bank accounts was a result of ineffective Board oversight.

#### **Recommendation**

I recommend the Board review the bank reconciliation each month and that the Board minutes document the review of the bank reconciliation.

#### **Entity Responses**

The Association Board will review the bank reconciliations each month and Board minutes will reflect the review of the bank reconciliations beginning with 2013.

December 31, 2010

**SCHEDULE OF FINDINGS AND RESPONSES, continued**

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2010-2

**JOURNAL ENTRIES**

**Condition**

Journal entries are not reviewed by someone other than the preparer.

**Criteria**

Because journal entries can be used to manipulate the financial statements, effective internal control procedures provide for the review of journal entries by another person and include attached supporting documentation.

**Effect**

The Association is at risk for misstatement of the financial statements.

**Cause**

The Association is a very small entity, with one person who does the bookkeeping.

**Recommendation**

I recommend the Association appoint an officer of the Board to review journal entries and the supporting documentation. The review should be documented by signing the journal entry.

**Entity Response**

The Association Board will appoint an officer of the Board to review journal entries and the supporting documentation. The reviewer will sign the journal entries upon completing the review beginning with the calendar year 2013.

December 31, 2010

## **SCHEDULE OF FINDINGS AND RESPONSES, continued**

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2010-3

### **BUDGET**

#### **Condition**

The Liberty Mutual Domestic Water System Association (LMDWSA) did not prepare or submit a 2010 proposed budget to DFA-LGD for approval nor did they submit required reports to DFA-LGD during the year or at year end.

#### **Criteria**

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the Local Government Division of the Department of Finance and Administration (DFA-LGD), on or before June 1 of each year, a proposed budget for the next fiscal year. Upon receipt of any budget approved by 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 division. Section 6-6-3 NMSA, 1978 Compilation state that every local public body shall make all reports as may be required by DFA-LGD and conform to the rules and regulations adopted by the division. While the statute makes no reference to calendar year entities, DFA encourages calendar year entities to submit their budgets in November of the preceding year.

#### **Effect**

The LMDWSA is not in compliance with the statute.

#### **Cause**

The Association was not aware of the requirement to prepare an annual budget and to submit the budget to DFA-LGD.

#### **Recommendation**

I recommend that management prepare an annual budget and submit the budget to the Department of Finance and Administration, Local Government Division for approval in November of each year. The form of the budget includes the beginning cash balance, projected revenues, projected expenses and a positive ending cash balance.

December 31, 2010

**SCHEDULE OF FINDINGS AND RESPONSES, continued**

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2010-3, continued

**BUDGET, continued**

**Entity Response**

The Association management will prepare a budget each year to submit to the Department of Finance and Administration for approval in November of each year beginning with the calendar year 2014. Since November, 2012, has already passed, the budget will be submitted in the first quarter of 2013.

December 31, 2010

## **SCHEDULE OF FINDINGS AND RESPONSES, continued**

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2010-4

### **COMPLIANCE AND INTERNAL CONTROL**

#### **Condition**

The books of account were not maintained for years 2005 through August of 2010. Apparently, the only bookkeeping activities were paying bills, billing and collecting from customers. The books of account were reconstructed from bank statements, beginning in September of 2010.

#### **Criteria**

State Auditor Rule 2.2.2.8 J. provides "The agency shall maintain adequate accounting records....." . Maintaining proper books of account and internal controls are essential for providing good stewardship over the assets and operations of the domestic water association.

#### **Effect**

As financial reports were not prepared for over 5 years, the Association had no control over its financial affairs. The Association was at risk for loss of assets and was not in compliance with state statues and other requirements.

#### **Cause**

The elected Board did not perform essential oversight responsibility.

#### **Recommendation**

I recommend the Board adopt policies and procedures to address the financial operations of the domestic water association. These policies should require the review of financial statements every month. Because Liberty has limited resources which do not provide for a proper segregation of duties, the Board and Board Officers need to take a more active role to improve internal control and policies should be designed to provide for review of the bank reconciliation, journal entries, the billing register and the aged accounts receivable as a minimum. Annual calendars should be developed to ensure that payroll tax reports, 1099 reporting, Public Regulation reports, and forms 990 are timely filed.



December 31, 2010

**SCHEDULE OF FINDINGS AND RESPONSES, continued**

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2010-4, continued

**COMPLIANCE AND INTERNAL CONTROL, continued**

**Entity Response**

The Association Board will adopt policies and procedures to address financial operations of the Association. The policies will include the monthly review of financial statement, bank reconciliations, journal entries, billing register, and aged accounts receivable. An annual calendar will be prepared to ensure payroll taxes, 1099 reporting, Public Regulations reports, and forms 990 are timely filed. Since the Association is already in the 2013 calendar year, these policies and the calendar will be prepared in the first quarter of 2013.

December 31, 2010

**SCHEDULE OF FINDINGS AND RESPONSES, continued**

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2010-5

**LATE AGREED-UPON PROCEDURES REPORT**

**Condition**

The Liberty Mutual Domestic Water System Association (LMDWSA) did not timely submit the agreed-upon procedures report.

**Criteria**

Office of the State Auditor, Rule 2010, Section 2.2.2.16.H, requires that local public bodies with a fiscal year end other than June 30 must submit the agreed-upon procedures report no later than five months after the fiscal year-end.

**Effect**

The Association has not complied with Office of the State Auditor, Rule 2010, and Section 2.2.2.16.H.

**Cause**

The LMDWSA was not contacted by the State Auditor's office until 2012 regarding the Agreed-Upon Procedures report and was previously unaware of the requirement. The contract for the audit was not approved until October 25, 2012.

**Recommendation**

I recommend that the Association submit Agreed-Upon Procedures report no later than five months after the fiscal year-end.

**Entity Response**

The Association Board will submit Agreed-Upon Procedures Reports no later than five months after the fiscal year end beginning with the fiscal year ending December 31, 2012.

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## **SCHEDULE OF FINDINGS AND RESPONSES, continued**

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### **STATUS OF PRIOR YEAR FINDINGS**

As this is the first reporting year for LMDWSA, there are no prior year findings.

### **EXIT CONFERENCE**

The report contents were discussed at an exit conference held on January 12, 2013.  
Those in attendance were:

Liberty Mutual Domestic Water System Association, Inc.

Wayne Huffman, Vice President  
Jeannette Maddaford, Secretary/Treasurer

Accounting Firm

R. Kelly McFarland, CPA