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STATE OF NEW MEXICO

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON
PROCEDURES

YEAR ENDING DECEMBER 31, 2011

STATE OF NEW MEXICO

LIBERTY MUTUAL DOMESTIC WATER SYSTEM ASSOCIATION, INC.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

December 31, 2011

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

December 31, 2011

Official Roster

Name

Title

Board of Directors

Wayne Huffman
Kirk Kuykendall
Jeannette Maddaford
A.C. Pepper
Pablo Lopez

President
Vice-President
Secretary/Treasurer
Member
Member

Staff

Janet Garcia

Maintenance



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To: Wayne Huffman, President
Liberty Mutual Domestic Water System Association, Inc.
and
Mr. 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, 2011, 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 for the checking account are performed on a timely basis and all bank reconciliations for the year were complete and on-hand. Reconciliations are not performed for the savings accounts; however, transactions are very limited.

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1. Cash, continued

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 four months to test the bank reconciliations including the months of January, April, June and September. While the bank reconciliations reflected the correct ending bank balances and agreed with supporting documentation, the general ledger and financial reports, I noted the bank reconciliation form does not provide for deposits in transit. Rather, the deposit in transit is included in the deposit column which resulted in the June deposits as reflected on the bank reconciliation not agreeing with deposits per bank by a net amount of \$670.

I noted that interest income of \$469 paid during the year on the Everyone's Federal Credit Union savings account was not recorded timely during the year. The interest income was recorded at December 31 and the correct balance was reflected on the general ledger at year end.

Reports were not submitted to DFA.

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.

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 require the performance of a yearly inventory as required by Section 12-6-10 NMSA, 1978 because the Association does not have movable chattels and equipment costing more than five thousand dollars. This verification is not applicable.

The Association does maintain a depreciation schedule of waterlines, tanks and water meters.

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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 the months of March, May, September, and November of 2011 to test billing reports for revenue reasonableness. I researched the water billing rate to the approval by the Board. I applied the water rates to the total gallons delivered, added the flat service fee per customer and compared the results with the billing for the month. The revenue billed for each month was reasonably stated.

The Association did not have budgeted revenue in 2011; therefore, I was unable to compare revenues with the budget.

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 bank statement.

Amounts recorded in the general ledger agreed with bank statements for the months of January, April, June, and September, amounting to \$19,191 or 33.5% of total annual revenue.

- 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.

As noted in the prior year's report, the books of the Association were not maintained for years 2005 through August of 2010. The cash basis of accounting was adopted for purposes of recording transactions for periods 2005 through 2010 in the interest of saving time and as information to record the accruals was not available. At the end of the calendar year 2011, the accounting system was converted to the accrual basis of accounting for purposes of recording revenue. Total revenues for the year were included in the accrual basis adjustment in a single journal entry.

December 31, 2011

3. Revenue, continued

I tested a schedule of total annual revenues used to prepare the accrual journal entry to the revenue billing reports for the months of March, August, September, and November, noting agreement with the billing reports. I agreed the total revenues for the year as reflected on the summary schedule to the general ledger as to classification and amount.

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.

I selected 27 transactions randomly (2 to 3 of the larger check amounts from each month) resulting in testing 50% of total annual expenses. Amounts recorded as disbursed agreed with the supporting documentation, as well as payee, date and description, canceled check and vendor's invoice. The Association does not use purchase orders.

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

Checks were authorized and approved when the Association had their monthly board meetings and were reflected in the minutes. All tested checks had dual signatures; however, as noted below, two disbursements were not included in the minutes for approval. Because the Association did not have a budget for 2011, I cannot verify that the disbursements were approved in compliance with budget.

Disbursements not included in minutes:

Check No. 3883 - Baker Utility	June 9, 2011	\$542.49
Check No. 3900 - Colorado Casualty	August 2, 2011	\$141.00

(Although not approved in the minutes, signed checks reflected dual signatures of two Board Members.)

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4. Expenditures, continued

- 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).

All disbursements were under the amounts that are required for requesting written sealed bids. The Association did not use per diem and mileage, but actual reimbursement for an immaterial amount (\$37) 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 documentation.

I selected four month's journal entries randomly including the months of March, May, July, and December. As the accounting system was cash basis until September, 2011, all journal entries were routine, primarily for bank reconciliation adjustments. The total wages for the year reflected on the general ledger agreed to total wages reported on forms 940 and 941. All tested journal entries had supporting bank statements and all of the deposits and interest income was cleared.

At year end, the accounting system was converted from the cash basis to the accrual basis for revenue reporting. I reviewed the journal entry converting to the accrual basis along with supporting documentation. The entry properly records revenue for 2011; however, accounts receivable was not adjusted at the beginning of the year to properly reflect the effect of 2010 billed revenues collected in 2011. The net effect of the adjustment has been reflected as miscellaneous income in 2011, rather than a prior period adjustment to retained earnings.

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

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.

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5. 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 prepare a budget for 2011. Therefore, the budget procedures are not applicable.

6. 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.

Finding of internal control deficiencies and noncompliance are included with this report in the Schedule of Findings and Responses.

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 State of New Mexico Auditor's Office and the Department of Finance and Administration, Local Government Division and is not intended to be and should not be used by anyone other than those specified parties.



R. Kelly McFarland, CPA, PC
May 30, 2013

LIBERTY MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.

Statement of Revenues and Expenditures
 Budget and Actual (Accrual Basis*)
 For the year ending December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Water user fees, other charges	\$0	\$0	\$20,375	\$20,375
Maintenance and service meters	0	0	34,887	34,887
Miscellaneous income	0	0	933	933
Late charges	0	0	639	639
Interest income	0	0	473	473
Total revenues	0	0	57,307	57,307
Expenditures:				
Water purchases	0	0	22,339	(22,339)
Salaries	0	0	12,669	(12,669)
Operating supplies and repair	0	0	4,007	(4,007)
Insurance	0	0	1,871	(1,871)
Contract system repairs	0	0	1,675	(1,675)
Payroll taxes	0	0	1,606	(1,606)
Interest	0	0	1,449	(1,449)
Contract labor	0	0	858	(858)
Computer expense	0	0	625	(625)
Utilities	0	0	510	(510)
Postage	0	0	415	(415)
Office supplies	0	0	187	(187)
Dues and subscriptions	0	0	129	(129)
Car expense and mileage	0	0	37	(37)
Licenses and taxes	0	0	35	(35)
Bank charges	0	0	26	(26)
Total expenditures	0	0	48,438	(48,438)
Excess (deficiency) revenues over expenditures	0	0	8,869	8,869
Non-cash expenditures:				
Depreciation	0	0	11,414	(11,414)
	\$0	\$0	\$ (2,545)	\$ (2,545)

* During this year, the Association converted to the accrual basis of reporting from the cash basis of reporting. The change in accounting method from cash to accrual of revenues, payables or expenses are not recorded.

See Independent Accountant's Report on Applying Agreed-upon Procedures.

December 31, 2011

SCHEDULE OF FINDINGS AND RESPONSES

2011-01

CONVERSION TO ACCRUAL BASIS

Condition

I noted the net adjustment converting the books of account to the accrual basis of accounting in the amount of \$1,748 was adjusted through income for 2011, rather than as a prior period adjustment to retained earnings.

Criteria

Financial Accounting Standards Codification (FASC) 250-10 requires that the effect of accounting changes reflect the changes effecting prior periods as adjustments to retained earnings at the beginning of the year. This requirement is to facilitate analysis of comparative data, such that each accounting period reflects consistently applied data.

Effect

Income reflected in the financial statements for 2011 is overstated by \$1,748.

Cause

The Association was not aware of the requirements of FASC 250-10.

Recommendation

I recommend that any future accounting changes be reflected as adjustments to retained earnings at the beginning of the year.

Entity Response

Management agrees with the recommendation.

December 31, 2011

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-1

CASH

Condition (Repeated and modified)

Bank reconciliations are not reviewed by someone other than the preparer. The bank reconciliation form does not provide for recording deposits in transit. Outstanding checks are separately stated on the bank reconciliation; however, deposits in transit are included in the bank deposit balance, without identifying the deposit in transit.

Interest income on the Everyone's Federal Credit Union savings account earned during the year in the total amount of \$469 was not recorded until year end.

Criteria

Bank reconciliation is critical to ensuring transactions reflected in the bank statement are properly recorded in the books of account. Effective internal control requires that no one person control a transaction or bookkeeping process. A review of the bank reconciliation by someone other than the preparer strengthens internal control. Additionally, the bank reconciliation form should provide for inclusion of deposits in transit, to preclude the possibility of carrying a deposit in transit to cover cash shortages. Interest income on accounts should be recorded during the year as interest earned so to be included on the Association's monthly or quarterly financial statements during the year used by the policy makers for decision making.

Effect

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

Cause

The Association is a very small entity with one person who does the bookkeeping. Deposits for the calendar month are generally all deposited within the calendar month, such that the Association seldom has deposits in transit.

Additionally, the bank reconciliation process was not brought to the attention of the Association until the completion of their first Agreed-Upon Procedures Report, completed in January of 2013. Management has, therefore, not had the opportunity to respond for the 2011 year.

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December 31, 2011

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-1

CASH, continued

Recommendation

I recommend someone other than the preparer review the monthly bank reconciliations and that the bank reconciliation form include deposits in transit if applicable. I also recommend interest income be recorded as earned in the general ledger during the year.

Entity Response

Management has adopted this recommendation for 2013.

December 31, 2011

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-2

JOURNAL ENTRIES

Condition (Repeated)

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 a person other than the preparer to 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. Additionally, the Association was not aware of this deficiency until the completion of their first Agreed-Upon Procedures Report for 2010, which was completed in January of 2013. The Association was, therefore, unable to respond to correct the deficiency in 2011.

Recommendation

I recommend someone other than the preparer review journal entries and the supporting documentation. The review should be documented by signing the journal entry form.

Entity Response

Management has adopted this recommendation for 2013.

December 31, 2011

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-3

BUDGET

Condition (Repeated)

The Liberty Mutual Domestic Water System Association (LMDWSA) did not prepare or submit a 2011 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 Department of Finance and Administration, Local Government Division (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 states 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 Association is not in compliance with the statute.

Cause

The Association was not previously aware of the requirement to prepare an annual budget and to submit the budget to DFA-LGD. The Association had its first Agreed-Upon Procedures Report in January of 2013, for the calendar year of 2010 when it first learned of this requirement. Therefore, the Association has not had an opportunity to comply.

Recommendation

I recommend the Board adopt an annual budget as required by Section 6-6-2 (A) NMSA 1978.

Entity Responses

Management plans to adopt this recommendation to submit budgets and reports to DFA.

December 31, 2011

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-5

LATE AGREED-UPON PROCEDURES REPORT

Condition (Repeated)

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

Criteria

Office of the State Auditor, Rule 2011, 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 the Office of the State Auditor, Rule 2011, 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 Agreed-Upon Procedures was not approved until January 29, 2013.

Recommendation

I recommend the Association comply with the filing requirements of State Auditor Rule Section 2.2.2.16 H.

Entity Response

The Association continues to bring its financial affairs current to comply with reporting requirements.

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STATUS OF PRIOR YEAR FINDINGS

<u>Finding</u>	<u>Status</u>
2010-1 - Cash	Repeated and modified
2010-2 - Journal Entries	Repeated
2010-3 - Budget	Repeated
2010-5 - Late Report	Repeated
2010-4 - Compliance and Internal Control	Substantially Cleared

The books and records of years 2005 through 2011 have been brought current and the Association has an experienced and knowledgeable bookkeeper in place. Regulatory filings have been brought current to include: Form 990, *Return of Organization Exempt from Income Tax*, federal quarterly payroll tax reports, federal and State of New Mexico unemployment reports, the New Mexico Gross Receipts Tax reports, the nonprofit corporate reports filed with the New Mexico Public Regulation Commission, and Forms 1099. Additionally, the Association was successful in receiving abatements for most penalties for failure to file.

The Board of Directors is more aware of its oversight responsibility and has begun to adopt policies to strengthen internal control and operating procedures.

EXIT CONFERENCE

The report contents were discussed at an exit conference held on June 5, 2013. Those in attendance were:

Liberty Mutual Domestic Water System Association, Inc.

Wayne Huffman, President
Jeannette Maddaford, Secretary/Treasurer

Accounting Firm

R. Kelly McFarland, CPA