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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, 2012

STATE OF NEW MEXICO

LIBERTY MUTUAL DOMESTIC WATER SYSTEM ASSOCIATION, INC.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

YEAR ENDING DECEMBER 31, 2012

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

December 31, 2012

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

December 31, 2012

Official Roster

Name

Title

Board of Directors

Wayne Huffman

President

Pablo Lopez

Vice-President

Jeannette Maddaford

Secretary/Treasurer

A.C. Pepper

Member

Scott Marquart

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, 2012, 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, Inc. (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 (not a finding because of infrequency of transactions in savings account).

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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 February, May, August, and November. The bank reconciliations reflected the correct ending bank balances and agreed with supporting documentation, the general ledger and financial reports. Reconciling items were not significant.

Financial reports were not submitted to DFA (Finding 2010-3).

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 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 in 2012.

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.

December 31, 2012

3. Revenue, continued

I selected the billing dates for the months of January, March, July, and September of 2012 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.

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.

I selected the first and third quarters revenues to compare billing statements from the Association's billing register reports to revenue on the general ledger (The general ledger is posted quarterly). Total tested revenue amount is \$33,285, 54.6% of the total revenue. Amount recorded in the general ledger for the third quarter agrees to the monthly billing statement summary by quarter from the Association's billing register reports. The first quarter reflects a difference of \$3,000 as explained in item 3 c).

- 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.

The Association recorded revenue on the accrual accounting basis during the year 2012. Revenues were properly recorded as to classification, amount, and period, per review of supporting documentation and the general ledger for the months of the third quarter.

I agreed the total revenues for the year as reflected on the monthly billing summary schedule to the general ledger as to classification and amount. However, I noted an addition error of \$3,000 on the first quarter sales of the Association's water sales account receivable sheet. The addition error was not recognized; however, accounts receivable was adjusted to actual at March 31, 2012. An adjustment to revenue of \$3,000 was required with the unidentified credit posted to miscellaneous income.

While the total revenue for the Association is correctly stated, the

December 31, 2012

3. Revenue, continued

misclassification of the journal entry was for water sales to be overstated by \$3,000 and miscellaneous income was understated by \$3,000 (Finding 2012-1).

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 24 transactions randomly (2 of the larger check amounts from each month) resulting in testing 51.8% 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. Supporting documents for this test were invoices, bank statements, and tax forms. All tested checks had dual signatures and enough supporting documents to prove each transaction. However, the disbursements were not compliant with the budget because total actual expenditures exceeded the final budget by \$6,050 (Finding 2012-2).

- 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 have per diem and mileage reimbursement during the calendar year 2012.

December 31, 2012

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 the second and third quarter journal entries for review (Journal Entries are only recorded quarterly). All tested journal entries had supporting documentations.

- 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 (Finding 2010-2).

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.

The original budget and subsequent budget adjustments were not approved by the local public body's governing body and DFA-LGD. It was only approved by the Association Board (Finding 2010-3).

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

Total actual expenditures exceed the final budget in the amount of \$6,050. The largest difference is from water purchase in the amount of \$3,903. According to the Board minutes on September 12, 2012, the water rate was increased from \$2.19 to \$2.81 per thousand, which in part results in expenditures in excess of the budget (Finding 2012-2).

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6. Budget, continued

- 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 (Accrual method, Page 9).

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(I) (3) (C) NMAC.

I noted noncompliance and internal control deficiencies. Findings of internal control deficiencies and noncompliance are included with this report in the Schedule of Findings and Responses as Findings 2012-1, 2012-2, 2010-1, 2010-2, 2010-3, and 2010-5.

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
November 27, 2013

LIBERTY MUTUAL DOMESTIC WATER USERS ASSOCIATION, INC.

Statement of Revenues and Expenditures
 Budget and Actual (Accrual Basis)
 For the year ending December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Water user fees, other charges	\$ 22,000	\$ 22,000	\$ 22,132	\$ 132
Maintenance and service meters	36,800	36,800	38,470	1,670
Miscellaneous income	1,200	1,200	(600)	(1,800)
Late charges	600	600	638	38
Interest income	500	500	315	(185)
Total revenues	61,100	61,100	60,955	(145)
Expenditures:				
Water purchases	23,368	23,368	27,271	(3,903)
Salaries	13,000	13,000	12,688	312
Operating supplies and repair	4,000	4,000	4,170	(170)
Insurance	2,000	2,000	2,197	(197)
Contract system repairs	1,500	1,500	3,345	(1,845)
Payroll taxes	1,606	1,606	1,073	533
Interest	1,160	1,160	1,307	(147)
Contract labor	1,000	1,000	-	1,000
Computer expense	-	-	325	(325)
Utilities	-	-	374	(374)
Postage	-	-	485	(485)
Office supplies	-	-	346	(346)
Dues and subscriptions	-	-	129	(129)
Loss on Equipment	-	-	1,972	(1,972)
Miscellaneous Expense	2,000	2,000	-	2,000
Bank charges	-	-	2	(2)
Total expenditures	49,634	49,634	55,684	(6,050)
Excess (deficiency) revenues over expenditures	11,466	11,466	5,271	(6,195)
Non-cash expenditures:				
Depreciation	11,466	11,466	12,192	(726)
Excess (deficiency) revenues over expenditures after depreciation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,921)</u>	<u>\$ (6,921)</u>

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

December 31, 2012

SCHEDULE OF FINDINGS AND RESPONSES

2012-1

ACCOUNT RECEIVABLE

Condition

I noted that revenue from water sales was overstated by \$3,000 and miscellaneous income was understated by the same amount.

Criteria

Proper accounting procedures require the proper classification of revenues.

Effect

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

Cause

An addition error in the quarterly totals of the summary of billing reports, compounded by a journal entry which misclassified the adjustment, resulted in the misclassification of revenue.

Recommendation

I recommend the quarterly totals of the billing summary be footed twice to avoid footing errors.

Entity Response

Management agrees with the recommendation.

December 31, 2012

SCHEDULE OF FINDINGS AND RESPONSES, continued

2012-2

BUDGET

Condition

Total actual expenditures were \$6,050 over the final budget.

Criteria

Section 6-6-10, NMSA, 1978, requires governing boards to adhere to the budget. The total budget may be amended by submitting a budget request to the Department of Finance and Administration.

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 or to submit budget adjustment requests and to submit the budget to the Department of Finance and Administration. The Association prepared this budget at the mid of June, 2012, upon learning of the budget requirement; however, the Board believed it to be too late to submit the budget to DFA for 2012.

Recommendation

I recommend a budget adjustment be prepared and submitted to DFA when expenditures exceed total budget expenditures. The Board may wish to consider amending line items in the budget internally that does not require DFA approval.

Entity Response

Management adopts this recommendation for the 2014 budget year.

December 31, 2012

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-1

CASH

Condition (Repeated and Modified)

Bank reconciliations are not reviewed by someone other than the preparer.

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.

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.

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 2012 year.

Recommendation

I recommend someone other than the preparer review the monthly bank reconciliations.

Entity Response

The Association has adopted this recommendation for 2013. President, Wayne Huffman, reviews the Association's bank reconciliations and Board meeting approves it monthly.

December 31, 2012

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 2012.

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

The Association has adopted this recommendation for 2013. It is reviewed by a Board member and approved it at Board meeting.

December 31, 2012

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-3

BUDGET AND REPORT SUBMISSION TO DFA

Condition (Repeated and Modified)

The Liberty Mutual Domestic Water System Association, Inc. (LMDWSA) prepared and presented a 2012 proposed budget to the Association Board. The Board approved the proposed budget but it was not sent to DFA-LGD for approval, nor was financial reports submitted to DFA for the year.

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, and request approval from DFA.

Entity Responses

The Association has adopted this recommendation for the 2014 budget year.

December 31, 2012

SCHEDULE OF FINDINGS AND RESPONSES, continued

2010-5

LATE AGREED-UPON PROCEDURES REPORT

Condition (Repeated and Modified)

Although the Agreed-Upon Procedures Report was submitted timely in accordance with the due date as reflected on the State Auditor's Contract, the submission was after the due date as reflected in the "Audit Rule".

Criteria

Section 2.2.2.16.H requires the Agreed-Upon Procedures Report to be submitted by May 31, 2013 for calendar year entities.

Effect

The report was not submitted by the due date required of the State Auditor Rule.

Cause

The Audit Contract was not approved by the State Auditor's Office until June 19, 2013. The due date on the Agreed-Upon Procedures Contract was December 1, 2013.

Recommendation

I recommend that management send a certified letter to the State Auditor requesting authority to contract for Agreed-Upon Procedures.

Entity Response

The Liberty Mutual Domestic Water System Association has completed three Agreed-Upon Procedures Reports in 2013 for 2010, 2011, and 2012 to become compliant with the new requirements of financial reporting for non-profit water coops. The Association is now current on its financial reporting.

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STATUS OF PRIOR YEAR FINDINGS

<u>Finding</u>	<u>Status</u>
2011-1 - Conversion to Accrual Basis	Corrected
2010-1 - Cash	Partially Corrected – Repeated
2010-2 - Journal Entries	Repeated
2010-3 - Budget	Repeated
2010-5 - Late Report	Repeated

The books and records of years 2005 through 2012 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 November 26, 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
Kee-won Park, Team Member