

Accounting & Auditing Services, LLC

Financial Audits + Agreed Upon Procedures + Tax + Consulting

Rutherford Mutual Domestic Water Consumers Association

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending December 31, 2016

Rutherford Mutual Domestic Water Consumers Association
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Fiscal Year Ending December 31, 2016

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**Rutherford Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2016**

Board of Directors

Michael Rife, President

Vacant, Vice President

Donna Agnew, Secretary

Tim Andrews, Treasurer

Kathy Larson, Board Member

Lonnie Hennigh, Board Member

Tina Cordova, Board Member

Administrative Staff

None

Independent Accountant's Report on Applying Agreed-Upon Procedures

Michael Rife, President
Rutheron Mutual Domestic Water Consumers Association
and
Timothy Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Rutheron Mutual Domestic Water Consumers Association (Association) for the year ended December 31, 2016, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. 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 the parties specified in this 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

1. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

Based on a review of the Association's general ledger, total revenues for the fiscal year ending December 31, 2016 were \$80,113 and the Association did not receive a capital outlay appropriation. Based on this information, the Association was properly determined to be a Tier 4 entity for FY16 since their total revenues were between \$50,000 and \$250,000 and they did not receive a capital outlay appropriation.

2. Cash
 - 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.

As of December 31, 2016, the Association had two checking accounts (operating and long-term reserve) at the New Mexico Bank & Trust. The Association did not have any investment accounts. All bank statements for the fiscal year were complete and on hand. However, the monthly bank reconciliations were not performed in a timely manner. See Finding 2016-001 on p. 6.

- 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.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the Association's general ledger, supporting documentation and the 4th quarter financial report submitted to 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.

The bank account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank balances were below \$250,000 during the fiscal year.

3. Capital Assets

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

At the end of the fiscal year, the Association did not have any movable chattels and equipment costing more than \$5,000. No capital asset purchases during the fiscal year were noted during the agreed-upon procedures.

4. Revenue

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The revenue sources of the Association consist of monthly water dues, new membership fees and interest income. According to the Association's general ledger, actual revenues were \$30,282 more than budgeted revenues for FY16. The variances between the actual FY15 revenue and actual FY16 revenue were adequately explained by the contract accountant; no unusual or unexplained variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
 - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts and deposits was judgmentally selected and tested which amounted to approximately 58% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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, modified accrual or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger on the cash basis of accounting.

5. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- i. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of cash disbursements were tested which amounted to approximately 57% of total expenses. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The Association does not use purchase order forms.

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

The cash disbursements tested were properly authorized and approved in compliance with the budget and legal requirements. However, the Association has not established written procurement policies and procedures. See Finding 2016-002 on p. 7.

- iii. 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), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code and the Per Diem and Mileage Act.

6. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- i. Journal entries appear reasonable and have supporting documentation.

According to the Association's contract accountant, no non-routine journal entries were posted to the general ledger during the fiscal year and none were noted during the agreed-upon procedures.

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

The Association has not implemented a procedure to review non-routine journal entries posted to the general ledger by the contract accountant. See Finding 2016-003 on p. 8.

7. Budget

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- i. 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 Association's Board of Directors adopted a budget which was approved by DFA-LGD in a letter dated December 28, 2015.

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

Total expenditures for FY16 exceeded the final approved budget. According to the Association's general ledger, actual expenditures for FY16 were \$12,401 more than budgeted expenditures. See Finding No. 2016-004 on p. 8.

- iii. 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, modified accrual or accrual basis) for each individual fund.

Based on the Association's budget and general ledger, the Schedule of Revenues and Expenditures was prepared on the cash basis of accounting. See Exhibit 1 on p. 10.

8. Other

- a. 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 (1)(3)(C) NMAC.

No other findings were noted during the agreed-upon procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed upon procedures. 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 management and others with the Association, the New Mexico State Auditor, 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 these specified parties.

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

April 13, 2017

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Status of Prior Year Findings

Finding 2015-001. Late Submission of AUP Contract and Report – Resolved.

Current Year Findings

Finding 2016-001. Bank Reconciliations Not Performed in a Timely Manner

Condition

The bank account reconciliations for the months of January through September 2016 were not performed until October 27, 2016.

Criteria

It is a prudent business practice to perform monthly bank accounts reconciliations to verify that all monetary transactions are accurately recorded and accounted for by the bank and the Association.

Effect

Without timely bank account reconciliations, recording errors or irregularities could have gone undetected and uncorrected.

Cause

Due to health reasons, the Association's Treasurer was unable to perform the bank reconciliations. The Association hired an accounting contractor in September 2016 who now performs the bank reconciliations every month.

Recommendation

The Association's Board of Directors should implement a review procedure to ensure that the bank reconciliations are performed in a timely and accurate manner shortly after the bank statements are received.

Management's Response

The Association's Treasurer emails the bank statements for the bank accounts ending in 043 and 060 the first week of the month to the contract accountant. The contractor reconciles the accounts within three business days of receiving the bank statements. Bank statements along with the bank reconciliation report are submitted to the Treasurer with financials prior to the 2nd Sunday of the month. The bank reconciliation process was established in October 2016 and continues to be implemented as described.

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Finding 2016-002. No Written Procurement Policies and Procedures

Condition

The Association does not have any written procurement policies and procedures to control the purchase of goods and services and ensure compliance with the State Procurement Code.

Criteria

Adequate procurement policies and procedures provide for the fair and equal treatment of all persons involved in public procurement, maximize the purchasing value of public funds and provide safeguards for maintaining a procurement system of quality and integrity.

Effect

Without adequate procurement policies and procedures, there is a lack of internal control over cash disbursements and the Association is at risk of noncompliance with the State Procurement Code.

Cause

The District's Board of Directors was unaware of the need to establish written procurement policies and procedures.

Recommendation

The Board of Directors should establish and implement written procurement policies and procedures to ensure compliance with the State Procurement Code (Sections 13-1-28 through 13-1-199 NMSA 1978). For the purchase of all goods and services, the Association should consider adopting the State Procurement Code Regulations (1.4.1 NMAC). The procurement policy should include a record retention policy whereas all procurement documentation shall be filed, retained and safeguarded for at least five years after the end of the fiscal year in which the procurement occurred.

Management's Response

The Association's Treasurer will present written procurement policies and procedures to the Board of Directors for approval no later than July 31, 2017 and implemented no later than August 15, 2017. The procurement policies and procedures will be approved at an open meeting and will include the following: (A) Ensure compliance with the State Procurement Code (Sections 13-1-28 through 13-1-199 NMSA 1978); (B) For the purchase of goods and services, the Association will adopt the State Procurement Code Regulations (1.4.1 NMAC); and (C) The procurement policy will include a record retention policy

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

whereas all procurement documentation shall be filed, retained and safeguarded for at least five years after the end of the fiscal year in which the procurement occurred.

Finding 2016-003. No Review Procedure for Journal Entries

Condition

The Association's Board of Directors does not have a policy or procedure in place to review any non-standard journal entries that are posted to its general ledger.

Criteria

For proper internal control over the general ledger, it is a prudent business practice for management to review non-standard journal entries that adjust the account balances of the Association.

Effect

Financial reporting errors and irregularities could occur if there is no oversight over the recording of transactions in the general ledger.

Cause

The District's Board of Directors was unaware of the need to review non-standard journal entries.

Recommendation

The Association's Board of Directors should implement a policy and procedure to review and approve all non-standard journal entries posted to its general ledger by the contract accountant.

Management's Response

The Association's Treasurer will present a written policy and procedure for the purpose of reviewing all non-standard journal entries posted to the general ledger by the contract accountant to the Board of Directors for approval no later than July 31, 2017 and implemented no later than August 15, 2017.

Finding 2016-004 - Actual Expenditures Exceeded the Approved Budget

Condition

For the fiscal year ending December 31, 2016, total expenditures exceeded the approved budget by \$12,401.

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Criteria

According to state law, Section 6-6-6 NMSA 1978, "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 warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."

Effect

Excessive spending will eventually create financial problems for the Association. Claims against the officials of the Association could occur for future non-compliance with Section 6-6-6 NMSA 1978.

Cause

Management of the Association did not adequately monitor its actual expenses against the approved budget to ensure that it was not overspent.

Recommendation

To avoid overspending the approved budget, management of the Association should monitor its actual expenses throughout the fiscal year. The contract accountant should submit budget status reports to the Board of Directors on a quarterly basis. If there is the possibility that actual expenses will exceed the budget at the total fund level during the fiscal year, the Board of Directors should submit a budget adjustment request to DFA-LGD for approval as required by Section 6.6.2.G NMSA 1978.

Management's Response

The Association's Board meeting is held the second Sunday of the month. The contract accountant presents month end actual expenses compared to the approved budget to the Board of Directors prior to the scheduled meeting date. Effective immediately, at each Board meeting, the accountant will notify the Treasurer should there be a possibility that actual expenses will exceed the budget at the total fund level during the fiscal year. If needed, the Treasurer will present a BAR for approval by the Board of Directors and the approved BAR will be submitted to DFA-LGD.

Rutheron Mutual Domestic Water Consumers Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2016

Exhibit 1

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:				
Water Fees	\$ 48,940	\$ 48,940	\$ 60,098	\$ 11,158
Membership Fees	-	-	20,000	20,000
System Funding	828	828	-	(828)
Miscellaneous - Interest	63	63	15	(48)
Total Revenues	<u>\$ 49,831</u>	<u>\$ 49,831</u>	<u>\$ 80,113</u>	<u>\$ 30,282</u>
Expenditures:				
Credit Card Fees	\$ 18	\$ 18	\$ -	\$ 18
IRS Late Fee	-	-	280	(280)
Bank Service Charges	924	924	288	636
NM Gross Receipts Tax	3,720	3,720	5,496	(1,776)
NM Water Conservation Fee	81	81	50	31
Property Taxes	171	171	189	(18)
Loan Interest - NMFA	2,285	2,285	1,968	317
Contact Work	3,028	3,028	1,964	1,064
Office Supplies	657	657	488	169
Storage Rental	703	703	650	53
Computer Equipment/Internet	718	718	729	(11)
System Maintenance & Repairs	2,760	2,760	13,662	(10,902)
System Maintenance & Updates	1,061	1,061	910	151
System Operator	16,284	16,284	14,359	1,925
System Supplies	499	499	9,003	(8,504)
System Oversight - Other	1,200	1,200	-	1,200
Accounting/Billing Services	5,400	5,400	7,071	(1,671)
Auditing Services	8,547	8,547	4,800	3,747
Legal Fee/Water Rights	744	744	80	663
Professional Fees - Other	491	491	-	491
Insurance	3,311	3,311	3,678	(367)
Travel, Training and Conference	530	530	-	530
Membership Dues & Subscriptions	361	361	319	42
Postage and Shipping	723	723	530	194
Utilities - Electricity	1,535	1,535	1,639	(103)
Total Expenditures	<u>\$ 55,750</u>	<u>\$ 55,750</u>	<u>\$ 68,151</u>	<u>\$ (12,401)</u>

Copy of Year-End Financial Report Submitted to DFA-LGD

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Rutherford Water Association

Balance Sheet

01/24/17

As of December 31, 2016

Accrual Basis

	Dec 31, 16
ASSETS	
Current Assets	
Checking/Savings	
1000 · Community Bank Operational 043	2,359.60
1010 · Long Term Reserve Funds 060	139,679.51
Total Checking/Savings	142,039.11
Total Current Assets	142,039.11
Fixed Assets	
1600 · Gallery Land	100,000.00
1610 · Water Rights	184,000.00
1640 · Gallery Equipment	30,000.00
1660 · System Fence Install	7,301.01
1700 · Tank, meters and water lines	350,000.00
1710 · System Improvements	98,278.43
1725 · Accumulated Depreciation	-224,550.06
Total Fixed Assets	545,029.38
Other Assets	
1740 · Office Equipment	126.60
1760 · Radio Read Meters	41,330.71
Total Other Assets	41,457.31
TOTAL ASSETS	728,525.80
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2000 · Accounts Payable	52.72
Total Accounts Payable	52.72
Total Current Liabilities	52.72
Long Term Liabilities	
2010 · Gallery Land Loan-1307	25,452.57
2020 · System Restoration Loan-2697	64,097.16
Total Long Term Liabilities	89,549.73
Total Liabilities	89,602.45
Equity	
3000 · Opening Bal Equity	612,750.00
3900 · Retained Earnings	14,210.90
Net Income	11,962.45
Total Equity	638,923.35
TOTAL LIABILITIES & EQUITY	728,525.80

Copy of Year-End Financial Report Submitted to DFA-LGD

Rutherford Water Association Profit & Loss Budget vs. Actual January through December 2016

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01/24/17

Accrual Basis

	Jan - Dec 16	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
4010 · Water Fees	46,915.62	27,872.04	19,043.58	168.3%
4012 · Water Payments	13,182.72	21,067.92	-7,885.20	62.6%
4014 · Water Payments ACH	0.00	828.00	-828.00	0.0%
4020 · System funding				
Total 4010 · Water Fees	60,098.34	49,767.96	10,330.38	120.8%
4030 · Interest Earned	14.83	63.00	-48.17	23.5%
4040 · Membership Fee	20,000.00	0.00	20,000.00	100.0%
Total Income	80,113.17	49,830.96	30,282.21	160.8%
Gross Profit	80,113.17	49,830.96	30,282.21	160.8%
Expense				
6221 Credit card fees	0.00	18.36	-18.36	0.0%
Administrative				
IRS LATE FEE	280.00			
Total Administrative	280.00			
6210 · Bank Service Charges				
6215 Electronic Transaction Fee	0.00	153.00	-153.00	0.0%
6212 · Returned NSF checks	0.00	0.00	0.00	0.0%
6220 · Wire Transfer fees	281.85	30.96	250.89	910.4%
6223 · ACH FEE	-15.93	225.00	-240.93	-7.1%
6210 · Bank Service Charges - Other	22.00	515.04	-493.04	4.3%
Total 6210 · Bank Service Charges	287.92	924.00	-636.08	31.2%
6222 · NM Gross Receipts Tax	5,496.20	3,720.00	1,776.20	147.7%
6230 · NM Water Conservation Fee	49.92	80.52	-30.60	62.0%
6235 · Rio Arriba Prop Tax	188.96	171.08	17.88	110.5%
6270 · Interest Paid				
6271 · Interest NIM FA 2697	1,967.87	2,284.68	-316.81	86.1%
Total 6270 · Interest Paid	1,967.87	2,284.68	-316.81	86.1%
6400 · Contract work	1,964.11	3,028.44	-1,064.33	64.9%
6560 · Office Supplies	487.99	656.64	-168.65	74.3%
6561 · Office materials Storage rental	650.00	702.60	-52.60	92.5%
6564 · Computer Equipment/ Internet	728.60	717.84	10.76	101.5%
6600 · System Maintenance & Repairs	13,661.79	2,760.00	10,901.79	495.0%

Rutherford Water Association
 Profit & Loss Budget vs. Actual
 January through December 2016

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01/24/17

Accrual Basis

	Jan - Dec 16	Budget	\$ Over Budget	% of Budget
6610 · System Oversight				
6665 Software Maint & updates	909.94	1,051.40	-151.46	85.7%
6612 · System Operator	14,358.59	16,284.00	-1,925.41	88.2%
6615 · System Supplies	9,002.52	498.60	8,503.92	1,805.6%
6610 · System Oversight - Other	0.00	1,200.00	-1,200.00	0.0%
Total 6610 · System Oversight	24,271.05	19,044.00	5,227.05	127.4%
7100 · Professional Fees				
7110 · Accounting / Billing	7,070.71	5,400.00	1,670.71	130.9%
7115 · Accountant, Auditor CPA	4,800.00	8,546.76	-3,746.76	56.2%
7140 · Legal Fee/Water Rights	80.34	743.54	-663.20	10.8%
7100 · Professional Fees - Other	0.00	491.04	-491.04	0.0%
Total 7100 · Professional Fees	11,951.05	15,181.34	-3,230.29	78.7%
7200 · Insurance				
7210 · Liability Insurance	2,607.18	2,106.84	500.34	123.7%
7215 · Officers/Directors	1,071.00	1,203.96	-132.96	89.0%
7200 · Insurance - Other	0.00			
Total 7200 · Insurance	3,678.18	3,310.80	367.38	111.1%
7300 · Travel, Training and Conference	0.00	530.04	-530.04	0.0%
7650 · Membership Dues-Subscriptions	318.81	361.08	-42.27	88.3%
7840 · Postage/and Shipping	529.72	723.36	-193.64	73.2%
7850 · Printing and Reproduction	0.00	0.00	0.00	0.0%
8220 · Utilities all				
8222 · Electric Expense	1,638.55	1,535.23	103.32	106.7%
Total 8220 · Utilities all	1,638.55	1,535.23	103.32	106.7%
Total Expense	68,150.72	55,750.01	12,400.71	122.2%
Net Ordinary Income	11,962.45	-5,919.05	17,881.50	-202.1%
Net Income	11,962.45 /	-5,919.05	17,881.50	-202.1%

**Rutherford Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ending December 31, 2016**

On April 13, 2017, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Rutherford Mutual Domestic Water Consumers Association

Mike Rife, President
Diane Nunez, eWaterbilling.com

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, General Manager