

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, 2017

Rutherford Mutual Domestic Water Consumers Association
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Fiscal Year Ending December 31, 2017

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**Rutherford Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2017**

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

Board of Directors
Rutheron Mutual Domestic Water Consumers Association
and
Wayne Johnson, 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, 2017, 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, 2017 were \$61,948 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 FY17 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, 2017, 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 of the bank statements for the fiscal year were complete and on hand, and the monthly bank reconciliations were performed in a timely manner.

- b. Test at least 30% of the 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 and supporting documentation. However, the cash balances reported on three quarterly reports to DFA-LGD did not agree with the cash balances reported on the bank reconciliations. See Finding 2017-001 on p. 8.

- 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 the FDIC insurance coverage of \$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 that cost 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 \$4,727 more than budgeted revenues for FY17. The variances between the actual FY16 revenue and actual FY17 revenue were adequately explained by the contract accountant; no unusual or unexplained variances were noted.

- b. Select a sample of revenue equal to at least 30% of the total dollar amount and test 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 34% 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 equal to at least 30% of the total dollar amount and test the following attributes:

- i. 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.

A sample of 26 cash disbursements were tested which amounted to approximately 39% of total expenses. Except for three disbursements totaling \$921.26, 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. See Finding 2017-002 on p. 9.

- 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. 6.

- 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. No payments for mileage and per diem were noted.

6. Journal Entries

- a. Test all non-routine journal entries, adjustments and reclassifications posted to the general ledger for the following attributes:
 - i. Journal entries appear reasonable and have supporting documentation.

According to the Association's general ledger and fee accountant, one non-routine journal entry was posted to the general ledger to record depreciation expense of \$16,655 and two journal entries totaling \$8,680.36 were posted to record interest expense and adjust the loan payable balances to agree with the lender's loan statements. The journal entries appear reasonable.

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

The journal entries noted above were not reviewed and approved by management. The Association has not implemented a procedure to review non-routine journal entries posted to the general ledger by the fee accountant. See Finding 2016-003 on p. 7.

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 its 2017 budget on January 8, 2017 (Resolution 01082017.1) which was approved by DFA-LGD on January 25, 2017. The Board adjusted its original budget on May 14, 2017 (Resolution

05142017.2) and the budget adjustment request was approved by DFA-LGD on May 23, 2017.

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

Total expenditures for FY17 did not exceed the final approved budget. According to the Association's general ledger and budget, actual expenditures for FY17 were \$4,846 less than budgeted expenditures.

- 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 (L) NMAC.

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

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter. Accordingly, we do not express such an opinion or conclusion. 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
May 24, 2018

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Status of Prior Year Findings

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

Finding 2016-002. No Written Procurement Policies and Procedures – Repeated.

Finding 2016-003. No Review Procedure for Journal Entries – Repeated.

Finding 2016-004 – Actual Expenditures Exceeded the Approved Budget – Resolved.

Current Year Findings

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.

Update on status of corrective action: The Board of Directors did not approve a procurement policy by July 31, 2017 as stated in management’s response to the prior year finding. However, the Board of Directors approved a procurement policy on January 14, 2018.

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). 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.

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Management's Response

RWA Board of Directors approved procurement policies and procedures on January 14, 2018.

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.

Update on status of corrective action: The Board of Directors did not approve a journal entry review policy by July 31, 2017 as stated in management's response to this prior year finding. However, the Board of Directors approved a journal entry review policy on January 14, 2018.

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 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 fee accountant.

Management's Response

RWA Board of Directors approved a journal entry review policy on January 14, 2018. The Board of Directors will now review the proposed journal entries before they are posted to the general ledger by the fee accountant.

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Finding 2017-001. Inaccurate Cash Balances Reported to DFA-LGD

Condition

The cash balances on three quarterly reports to DFA-LGD did not agree with the Association's bank reconciliations and general ledger as follows:

Ending	Reconciliation	to DFA-LGD	Difference
3/31/2017	\$ 138,888	\$ 122,784	\$ 16,104
9/30/2017	\$ 133,722	\$ 131,965	\$ 1,757
12/31/2017	\$ 127,975	\$ 125,300	\$ 2,675

Criteria

As required by Section 6-6-2.F NMSA 1978, the Association should submit accurate quarterly financial reports to DFA-LGD.

Effect

The quarterly reports are inaccurate and misleading to its users if they do not contain the correct financial information.

Cause

The prior fee accountant that prepared the quarterly reports no longer works for the Association so an explanation for the differences was not provided by management.

Recommendation

Within 30 days after the end of each quarter, the Association's fee accountant should prepare and submit quarterly financial reports to DFA-LGD that accurately report the cash balances, loan balances and cumulative totals for revenues and expenditures in the manner prescribed by DFA-LGD. The cash balances on the quarterly reports should agree with the Association's general ledger and bank reconciliation; any differences should be reconciled and explained on the quarterly reports. The Board of Directors should review and approve the quarterly reports before they are submitted to DFA-LGD.

Management's Response

RWA has arranged for the replacement of the current billing and bookkeeping contractor and expects the new company to prepare accurate quarterly financial reports. From now on, the Treasurer will review and approve the quarterly report before the fee accountant submits it to DFA-LGD. The review procedure will begin with the quarterly report for the period ending June 30, 2018.

**Rutherford Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2017**

Finding 2017-002. Missing Expense Records

Condition

During the performance of the agreed-upon procedures for expenditures, 26 cash disbursements totaling \$26,946 were selected for testing. Out of the items tested, the Association was unable to provide invoices or receipts for the following expenditures: billing system (\$426), water testing (\$130.92) and office supplies (\$364.34).

Criteria

It is a prudent business practice to obtain and safeguard supporting documentation for all financial transactions. Section 13-1-158 NMSA of the State Procurement Code states: No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction, or items of tangible personal property unless the using agency certifies that the services, construction or items of tangible personal property have been received.

Effect

Since the records for the cash disbursements are missing, there are no records on file to substantiate the expenses. Duplicate payments for goods and services could occur.

Cause

During the fiscal year, the Association's former fee accountant terminated the contract and the Association hired a new fee accountant. The invoices were apparently misplaced during the transition process.

Recommendation

Management of the Association should implement record retention procedures to file and safeguard all of its financial records to ensure they are not lost or misplaced by management or the fee accountant.

Management's Response

The current billing and bookkeeping contractor lost or misplaced, or delinquent found mailed documents. RWA has arranged for the replacement of the current billing and bookkeeping contractor and expects the new company to be much more successful at maintaining and managing these documents. The Treasurer will work with the new bookkeeping contractor to implement a record retention procedure by July 1, 2018.

Rutherford Mutual Domestic Water Consumers Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2017

Exhibit 1

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water Fees	\$ 51,983	\$ 54,683	\$ 61,934	\$ 7,251
Membership Fees	2,520	2,520	-	(2,520)
System Funding	-	-	-	-
Miscellaneous - Interest	18	18	14	(4)
Total Revenues	\$ 54,521	\$ 57,221	\$ 61,948	\$ 4,727
Expenditures:				
Bank Service Charges	\$ -	\$ -	\$ 364	\$ (364)
Gross Receipts Tax	661	3,361	2,207	1,154
NM Water Conservation Fee	-	-	-	-
Property Taxes	-	-	179	(179)
Loan Interest - NMFA	1,992	10,448	1,922	8,526
Contact Work	17,705	17,705	2,496	15,209
Office and Administrative - Supplies	8,371	8,371	482	7,889
Storage Rental	-	-	1,050	(1,050)
Computer Equipment/Internet	-	-	468	(468)
System Maintenance & Repairs	12,000	12,000	11,409	591
System Maintenance & Updates	-	-	1,117	(1,117)
System Operator	-	-	18,000	(18,000)
System Parts and Supplies	2,600	2,600	3,573	(973)
Accounting/Billing Services	-	-	17,727	(17,727)
Auditing Services	-	-	2,996	(2,996)
Professional Fees - Other	14,280	14,280	-	14,280
Insurance	3,047	3,047	2,926	121
Travel, Training and Conference	347	347	-	347
Dues, Fees, Permits and Licences	906	906	562	344
Postage and Shipping	-	-	391	(391)
Utilities - Electricity	1,680	1,680	2,029	(349)
Miscellaneous	570	570	1	569
Total Expenditures	\$ 64,159	\$ 75,315	\$ 69,900	\$ 4,846

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


MDWCA Name:
Mailing Address:
Email Address:
Phone number:

Rutherford Water Association
 PO Box 204, Rutherford, NM 87551
 dfane@ewaterbilling.org
 505-771-7038

Calendar Year
 2017

		APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct -Dec	Year to Date(YTD) Totals	YTD (over)/under BUDGET	% of Budget
Beginning balances:	Cash	2,360							
	Savings	139,680							
	CDs								
	Investments								
	Beginning Balance TOTAL	\$ 142,039							
REVENUES									
	Water Sales (Water Use Fees)	51,983	16,637	15,392	15,847	14,058	61,934	(9,951)	119%
	Connection/Reconnection Charges						0	0	-
	Membership and Meter Sales (Utility Service Fees)	2,520					0	2,520	0%
	Late Fees and Penalties (Other Fines and Forfeits)						0	0	-
	Gross Receipts Tax (Other State shared taxes)						0	0	-
	Other Operating Revenue (miscellaneous - other)	18	3	3	3	3	13	5	75%
	TOTAL	\$ 54,521	16,641	15,395	15,851	14,061	61,948	(7,427)	114%
EXPENDITURES									
	Salaries - Operator, Bookkeeper, etc.	17,705	5,060	2,762	4,399	5,779	18,000	(294)	102%
	Employee Benefits and Expenses						0	0	-
	Electricity	1,680	502	667	218	546	1,933	(253)	115%
	Other Utilities - Gas, Water, Sewer, Telephone						0	0	-
	System Parts and Supplies	2,600	1,266	1,360	0	1,400	4,026	(1,426)	155%
	System Repairs and Maintenance	12,000	5,410	5,587	1,710	746	13,453	(1,453)	112%
	Vehicle Expenses						0	0	-
	Office and Administrative Expenses	8,371	322	361	492	1,250	2,425	5,946	29%
	Professional Services - Accounting, Engineering, Legal	14,280	3,924	6,939	7,622	4,807	23,292	(9,012)	163%
	Insurance	3,047				2,926	2,926	121	96%
	Dues, Fees, Permits and Licenses	906	538	291	191	142	1,162	(256)	128%
	Taxes - Gross Receipts Tax, Water Conservation Fee	3,361	655	398	950	383	2,386	975	71%
	Training	347					0	347	0%
	Miscellaneous	570				639	639	(69)	112%
	Loans								
	Annual debt service - Loan 1	10,448	2,114	2,111	2,110	2,110	8,445	2,003	81%
	Annual debt service - Loan 2						0	0	-
	TOTAL	\$ 75,316	19,793	20,477	17,691	20,726	78,686	(3,371)	104%
	Ending Balance	121,245					125,300		
	LESS: Operating Reserve								
	Emergency Reserve								
	Capital Improvement Reserve								
	Debt Reserve								
	Ending Available Cash Balance	\$ 121,245					\$ 125,300		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.



 President/Chairperson

1/16/18

 Date

**Rutherford Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ending December 31, 2017**

On May 24, 2018, the following officials held an exit conference and discussed the results of the agreed upon procedures and the contents of this report:

Rutherford Mutual Domestic Water Consumers Association

Mike Rife, President, Board of Directors
Dianna Andrews, Secretary, Board of Directors

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Audit Manager