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CERTIFIED PUBLIC ACCOUNTANTS  
ESPANOLA, NEW MEXICO  
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**STATE OF NEW MEXICO**

**RUTHERON WATER ASSOCIATION**

Independent Accountants' Report on Applying  
Agreed-Upon Procedures

Year Ended December 31, 2012

**STATE OF NEW MEXICO**

**RUTHERON WATER ASSOCIATION**

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Agreed-Upon Procedures**

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**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

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December 31, 2012**

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**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Official Roster  
at December 31, 2012**

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<u>Name</u>	<u>Title</u>
<b><u>Board of Directors</u></b>	
Kathleen Galbraith	President
Mike Rife	Vice- President/ Secretary
Dianna Andrews	Treasurer
Leonard Horan	Member
Marla Ulibarri	Member



**Macias, Gutierrez  
& Co., P.C.**

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

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To: Michael A. Rife, President  
Rutheron Water Association  
and  
Honorable Hector H. Balderas  
New Mexico State Auditor

We have performed the procedures enumerated below for the Rutheron Water Association (RWA), for the year ended December 31, 2012, solely to assist RWA 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 Exhibit A. The procedures were agreed to by the RWA through the Office of the New Mexico State Auditor. The Rutheron Water Association'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, 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. Cash**

#### **Procedures**

- 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.
- 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 (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.

#### **Findings**

- a) The RWA has two checking accounts (Operating and Construction) and a Reserve savings account and utilizes Quickbooks to record cash transactions. Formal monthly bank statement reconciliations for the two checking accounts were not performed during the entire year but there were subsequent reconciliations prepared on April 11, 2013 for each of the four quarters ended March, June, September and December 2012. The board President reviewed (initialed) all four quarterly reconciliations on June 18, 2013.

Quarterly bank statement reconciliations for the Reserve savings account were not performed during the entire year but there were reconciliations prepared on July 1, 2013 for each quarter of 2012. There is no evidence of management reviews on these reconciliations.

A mitigating circumstance is that all three bank accounts have minimal monthly/quarterly activity and all monthly/quarterly ending bank balances equal the book balances (no reconciling items). For all three accounts, the December 31, 2012 bank balances equal the book balances.

Also, from various notations made on the bank statements throughout the year, it appears that account activity was being compared to Quickbooks activity reports. All bank statements for the three accounts were complete and on-hand for the entire year.

- b) We could not perform random tests of bank reconciliations for reasons described above. Also, since required quarterly financial cash reports were not submitted to DFA-LGD at any time during the year or at year-end, we could not trace ending cash balances to those reports.
- c) Collective bank account balances never exceeded uninsured limits and, therefore, pledged collateral was not required on uninsured deposits at any time during the year.

## 2. Capital Assets

### Procedures

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

### Findings

Although there are several capital assets groupings shown on the balance sheet, the RWA did not maintain a capital assets inventory listing and, therefore, did not perform a yearly inventory as required by Section 12-6-10 NMSA 1978.

## 3. Revenue

### Procedures

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.

Select a sample of revenue based on auditor judgment using the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- 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.

### Findings

- a) An analytical review of prior-year to current-year revenue revealed no unexplained or unusual variations. A budget was not adopted so we could not test actual revenue compared to budgeted revenue for the year for each revenue type.
- b) We requested supporting documentation for fifteen (15) deposits from a total of 131 deposits for the year. Except for one new membership fee deposit, amounts recorded on Quickbooks general ledger agreed with deposit tickets, other supporting documentation provided and the bank statements.
- c) Amounts were properly recorded on a cash basis as to classification, amount and period per review of supporting documentation.

#### **4. Expenditures**

##### **Procedures**

Select a sample of cash disbursements based on auditor judgment 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 check clearing amount (cancelled checks not returned), as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- 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 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC ).

##### **Findings**

- a) We requested supporting documentation for 25 disbursements from a total of 136 disbursements for the year. Our tests of transactions revealed that amounts recorded as disbursed agreed to supporting documentation, with eight (8) exceptions. Six (6) exceptions where no supporting documentation was provided and two exceptions where the supporting documentation did not agree with the payment amount. Otherwise, amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and check clearing amount, as appropriate.
- b) Disbursements were authorized and approved, as described below, in compliance with the legal requirements and established policies and procedures. Although individual invoices are not approved, the board minutes demonstrate blanket approval for the month's expenses as part of the Treasurer's profit and loss report. A budget was not prepared so we were unable to determine compliance.
- c) 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 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC ).

#### **5. Journal Entries**

##### **Procedures**

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

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

##### **Findings**

The RWA utilizes Quickbooks to record cash transactions. There were five (5) reasonable and supported general journal entries posted to the general ledger during the year for corrections, reclassifications and to record current-year depreciation. However, there are no procedures that require non-routine journal entries to be reviewed; therefore, there is no evidence of non-routine journal entry reviews being performed.

#### **6. Budget**

##### **Procedures**

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.

### **Findings**

- a) The Board did not prepare a budget for the year ended December 31, 2012, and therefore was not submitted to DFA-LGD for approval.
- b) Since a budget was not prepared, we could not compare budget to total actual revenues and expenditures.
- c) The RWA prepared a Profit and Loss statement for the year ended December 31, 2012. A schedule of revenues and expenses – budget (no budgeted amounts) and actual was prepared from RWA records on the cash budgetary basis. This schedule is included herein as Exhibit A.

### **Other**

#### **Procedures**

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose 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.

#### **Findings**

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud or illegal acts. However, see the Schedule of Findings and Responses for noncompliance and internal control issues related to the agreed-upon procedures for Cash, Capital Assets, Revenue, Expenditures, Journal Entries and Budget described above and Late Report.

\* \* \* \* \*

We were 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 accompanying Exhibit A. 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 the Rutheron Water Association, the New Mexico State 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.

*Macias, Gutierrez & Co., CPAs, P. C.*

Macias, Gutierrez & Co., CPAs, P. C.  
Española, New Mexico  
July 13, 2013



**STATE OF NEW MEXICO**  
**RUTHERON WATER ASSOCIATION**  
**Schedule of Revenues and Expenses-Budget and Actual (Modified Accrual Basis)**  
**Year Ended December 31, 2012**

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
Water Payments	\$ -	\$ -	\$ 42,818	\$ 42,818
System Funding	-	-	37,701	37,701
Membership Fee	-	-	30,000	30,000
Miscellaneous	-	-	1,346	1,346
Interest Income	-	-	104	104
Total revenues	-	-	111,969	111,969
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	-	-	111,969	111,969
<b>Expenses:</b>				
Bank Services Charges	-	-	127	(127)
Computer Equipment/Internet	-	-	511	(511)
Contract Work	-	-	5,659	(5,659)
Dues and Subscriptions	-	-	447	(447)
Depreciation Expense	-	-	13,415	(13,415)
Financial Loan Set Up Fee	-	-	1,050	(1,050)
Liability Insurance	-	-	3,246	(3,246)
Interest Paid	-	-	1,364	(1,364)
NM Gross Receipts Tax	-	-	2,226	(2,226)
NM Water Conservation Fee	-	-	57	(57)
Office Supplies	-	-	265	(265)
Postage and Shipping	-	-	335	(335)
Printing and Reproduction	-	-	90	(90)
Professional Fees	-	-	8,209	(8,209)
Property Taxes	-	-	167	(167)
System Oversight	-	-	13,345	(13,345)
System Maintenance and Repairs	-	-	7,268	(7,268)
Utilities-Electric	-	-	1,774	(1,774)
Total expenses	-	-	59,555	(59,555)
<b>Excess revenues over (under) expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 52,414</b>	<b>\$ 52,414</b>

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2012**

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	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
<b>Current Year Findings:</b>			
Budget Submission/Approval and Quarterly Financial Reports	D	2011-1	2011-1
Capital Assets Inventory	D	2011-2	2011-2
Late Report	D	2011-3	2011-3
Supporting Documentation Unavailable and Lack of Approvals	C	N/A	2012-1
<b>Follow-up on Prior Year Findings:</b>			
Budget Submission/Approval and Quarterly Financial Reports	D	2011-1	2011-1
Capital Assets Inventory	D	2011-2	2011-2
Late Report	D	2011-3	2011-3
<b>* Legend for Findings:</b>			
A. Fraud			
B. Illegal Act(s)			
C. Internal Control Deficiency(ies)			
D. Noncompliance			

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2012**

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**2011-1**

**Budget Submission/Approval and Quarterly Financial Reports**

**Criteria**

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD, on or before December 1, of each year, a proposed budget for the next fiscal year. Upon receipt of any budget approved by the 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 DFA-LGD. Section 6-6-3 NMSA, 1978 Compilation states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD. Section 6-6-6 NMSA 1978 states that when any budget for a local public body has been approved, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof.

**Condition**

The Rutherford Water Association (RWA) did not submit a 2012 budget for DFA-LGD approval nor did they submit required quarterly financial cash activity and budget to actual reports to the DFA-LGD at any time during the year. Since there was no approved budget, there is an unfavorable expenditure variance (budget over-expended) of \$59,555 shown on Exhibit A.

**Cause**

The RWA was not aware of all of the DFA-LGD requirements until the 2011 Agreed-upon procedures report was completed in December 2012.

**Effect**

The RWA has not complied with Sections 6-6-2, 6-6-3 and 6-6-6 NMSA 1978.

**Recommendation**

We again recommend that the RWA submit their proposed budget to DFA-LGD for approval, on or before December 1 of each year and that upon receipt of the approved budget cause such budget to be made a part of the minutes. We further recommend that the RWA submit quarterly financial cash and budget to actual reports, as required, to DFA-LGD.

**Entity Response**

"Previous budgeting was exported from the accounting software; however it was not specifically approved, via the voting mechanism of the board. The current board treasurer will be asked to develop a budget for the remainder of the year based on the expenditures from the previous year and anticipated cost increases inherent in administration of the system. This budget will be consulted prior to the approval of the Board of larger expenditures in excess of \$500.00 to ensure that the budget is not exceeded and that the revenues of the system are adequate, not excessive, and will ensure adequate reserve funding to ensure the association can weather unexpected system repair requirements. This budget development will be scheduled annually, for approval prior to Dec 1, and written into the policies and procedures manual and action calendar, of the policies and procedures manual. The RWA bookkeeper has been tasked with, and has developed a system by which the quarterly reports required are to be submitted to the DFA-LGD in a timely manner moving forward."

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2012**

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**2011-2**

**Capital Assets Inventory**

**Criteria**

Section 12-6-10 NMSA, 1978 requires each local public body to, at the end of each fiscal year, conduct a physical inventory of capital assets costing more than five thousand dollars (\$5,000) and under control of the governing authority. The inventory shall list all capital assets and the date and cost of acquisition. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each local public body shall maintain one copy in its files.

**Condition**

The Rutherford Water Association (RWA) has not maintained a capital asset listing or performed a yearly inventory as required by Section 12-6-10 NMSA 1978.

**Cause**

The RWA was not aware of all of the statutory requirements until the 2011 agreed-upon procedures report was completed in December 2012.

**Effect**

The RWA has not complied with Section 12-6-10 NMSA 1978.

**Recommendation**

We again recommend that the RWA develop a capital asset inventory listing and perform a yearly inventory as required by Section 12-6-10 NMSA 1978.

**Entity Response**

“As part of the tasks for the Board to accomplish over the coming year, a complete capital asset inventory listing will be developed based upon actual cost of the specific asset. This listing will facilitate the inventory check that needs to be completed annually in the future.”

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2012**

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**2011-3**

**Late Report**

**Criteria**

Office of the State Auditor, Rule 2012, 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 fiscal year-end.

**Condition**

The Rutherford Water Association (RWA) has a December 31 year end but the agreed-upon procedures report was submitted more than five months after the end of the fiscal year.

**Cause**

The RWA did not contract or provide the independent public accountant the required records for the agreed-upon procedures engagement in a timely manner.

**Effect**

The RWA has not complied with Office of the State Auditor, Rule 2012, Section 2.2.2.16.H.

**Recommendation**

We again recommend that the RWA submit all future agreed-upon procedures reports by the required deadline.

**Entity Response**

"RWA as mentioned previously intends to create an annual action calendar by which the Board and President can be more proactive at ensuring the review is began earlier in the year and completed in time to be reviewed, and approved by the board and submitted by the last day of May."

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2012**

---

2012-1

**Supporting Documentation Unavailable and Lack of Approvals**

**Criteria**

Proper internal accounting controls and Section 6-6-3 NMSA, 1978 Compilation states that every local public body shall keep the books, records and accounts in their respective offices in the form prescribed by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

**Condition**

The Rutherford Water Association (RWA) is not reconciling the bank accounts on a timely basis and was unable to provide certain supporting documentation for revenue and expenditures testing procedures. We requested supporting documentation for fifteen (15) deposits totaling \$95,925 from a total of 131 deposits totaling \$111,969 for the year. RWA could not provide supporting documentation for one new membership fee deposit of \$15,000. Also, we requested supporting documentation for 25 disbursements totaling \$77,280 from a total of 136 disbursements totaling \$167,711 for the year. There were six (6) exceptions amounting to \$830 where no supporting documentation was provided and two exceptions where the supporting documentation (\$1,691 and \$1,104) did not agree with the payment amounts (\$1,234 and \$992, respectively). We also noted that although individual vendor's invoices are not approved, the board minutes demonstrate blanket approval for the month's expenses as part of the Treasurer's profit and loss report. Finally, we determined that non-routine journal entries are not reviewed and approved.

**Cause**

The RWA does not have an internal control system to ensure that bank accounts are reconciled timely and all supporting documentation is filed and maintained for future reference. They also do not have a system to review and approve individual vendor's invoices and non-routine journal entries.

**Effect**

The RWA has not complied with proper internal accounting controls and Section 6-6-3 NMSA, 1978 Compilation.

**Recommendation**

We recommend that the Rutherford Water Association establish and comply with an internal control system to ensure that bank accounts are reconciled timely and all revenue and expenditure supporting documentation can be located and that proper reviews and approvals occur for expenditure and journal entry transactions.

**Entity Response**

"The treasurer previously, reconciled bank accounts and accounting software balances manually, and informed the board of such accounts balancing in the monthly Treasurer's report to the board. This review has brought the need for a monthly reconciliation with the accounting software, verified via signature of the Treasurer, and presented in monthly meetings during the Treasurer's monthly report for approval by the board. Additionally, a new Policies and Procedures Manual for the association will be developed throughout the coming year to set a system to help assure compliance with the aforementioned Audit Act requirements. Finally, in order to assure a more accurate and transparent expenditure path, the treasurer will report on bills due during the month and the Board will approve such expenditure prior their being paid during the monthly meeting. This meeting will now need to be scheduled during the first 2 weeks of the month. Additionally an AP filing system policy by which all expenditure receipts are filed with a copy of the check or proof of electronic payment."

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Exit Conference  
Year Ended December 31, 2012**

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**EXIT CONFERENCE**

The report contents were discussed at an exit conference held on July 13, 2013 with the following in attendance:

Rutherford Water Association

Michael A. Rife, Current President  
Bruce Whittet, Interim Vice-President  
Arlene Valdez, Billing Manager

Accounting Firm

James R. (Jim) Macias, CPA