



MACIAS, GUTIERREZ & CO., P.C.  
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, 2013

**STATE OF NEW MEXICO**

**RUTHERON WATER ASSOCIATION**

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**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

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December 31, 2013**

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**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Official Roster  
at December 31, 2013**

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<u>Name</u>	<u>Title</u>
<b><u>Board of Directors</u></b>	
Mike Rife	President
Bruce Whittet	Vice- President
Donna Agnew	Secretary
Tim Andrews	Treasurer
Kathy Larson	Member
Lonnie Hennigh	Member



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

*Certified Public Accountants  
Member AICPA, NMSCPA*

1302 Calle De La Merced, Suite A  
Española, New Mexico 87532  
505.747.4415  
Fax 505.747.4417

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

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

We have performed the procedures enumerated below for the Rutherford Water Association (RWA), for the year ended December 31, 2013, 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 Rutherford 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, in one financial institution, and utilizes Quickbooks to record cash transactions. Bank statement reconciliations are performed on a timely basis and all bank statements were complete and on-hand for the entire year.

- b) Random tests of bank reconciliations revealed no exceptions. The reconciliations were accurate and agreed with supporting documentation. However, we did not trace the December 31, 2013 cash balances to a year-end quarterly financial report to DFA-LGD since one was not submitted. Currently, there is no DFA-LGD required cash balance reporting format.
- c) Cumulative, single-institution 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. The RWA did not submit a 2013 budget to DFA-LGD for approval but adopted a budget for internal use only. The test of actual revenue compared to budgeted revenue for the year for each revenue type revealed no exceptions.
- b) We requested supporting documentation for sixteen (16) deposits from a total of 129 deposits for the year. For the sample selected, amounts recorded on Quickbooks general ledger agreed with deposit tickets, other supporting documentation provided and the bank statements, without exception.
- 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 131 disbursements for the year. Our tests of transactions revealed that amounts recorded as disbursed agreed to supporting documentation, with two (2) exceptions where no supporting documentation was provided. 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. The internal use budget only was not submitted to DFA-LGD for approval so that is an instance of non-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 was one (1) reasonable and supported general journal entry posted to the general ledger during the year for correction of accounts receivable. 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 prepared an internal use only budget for the year ended December 31, 2013 and did not submit it to DFA-LGD for approval. The Board approved the 2013 budget at the November 10, 2013 board meeting.
- b) Since the Board did not submit a 2013 budget for DFA-LGD approval, the comparison of actual expenditures to budget for the purposes of determining whether actual expenditures exceeded the final budget does not apply. However, for the internal use only budget, the total actual expenditures exceeded the final budget in the amount of \$2,508 as demonstrated in accompanying Exhibit A.
- c) The RWA prepared a Profit and Loss statement for the year ended December 31, 2013. A schedule of revenues and expenses – budget and actual was prepared from RWA records on the modified accrual 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 Capital Assets, 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 Rutherford 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 14, 2014



**STATE OF NEW MEXICO**  
**RUTHERON WATER ASSOCIATION**  
**Schedule of Revenues and Expenses-Budget and Actual (Modified Accrual Basis)**  
**Year Ended December 31, 2013**

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
Water Payments	\$ 41,436	\$ 41,436	\$ 50,676	\$ 9,240
System Funding	27,598	27,598	27,353	(245)
Membership Fee	-	-	-	-
Miscellaneous	1,200	1,200	-	(1,200)
Interest Income	104	104	91	(13)
Total revenues	<u>70,338</u>	<u>70,338</u>	<u>78,120</u>	<u>7,782</u>
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	<u>70,338</u>	<u>70,338</u>	<u>78,120</u>	<u>7,782</u>
<b>Expenses:</b>				
Bank Services Charges	450	450	337	113
Computer Equipment/Internet	1,800	1,800	2,387	(587)
Contract Work	5,000	5,000	-	5,000
Dues and Subscriptions	1,440	1,440	234	1,206
Depreciation Expense	-	-	-	-
Financial Loan Set Up Fee	-	-	-	-
Liability Insurance	3,500	3,500	3,246	254
Interest Paid	2,261	2,261	1,549	712
NM Gross Receipts Tax	3,250	3,250	2,082	1,168
NM Water Conservation Fee	100	100	51	49
Office Supplies	275	275	151	124
Postage and Shipping	350	350	477	(127)
Printing and Reproduction	100	100	12	88
Professional Fees	15,150	15,150	13,840	1,310
Property Taxes	175	175	172	3
System Oversight	14,000	14,000	18,034	(4,034)
System Maintenance and Repairs	1,000	1,000	8,884	(7,884)
Utilities-Electric	1,800	1,800	1,703	97
Total expenses	<u>50,651</u>	<u>50,651</u>	<u>53,159</u>	<u>(2,508)</u>
<b>Excess revenues over (under) expenses</b>	<u>\$ 19,687</u>	<u>\$ 19,687</u>	<u>\$ 24,961</u>	<u>\$ 5,274</u>

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2013**

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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	2012-1	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
Supporting Documentation Unavailable and Lack of Approvals	C	2012-1	2012-1

**\* Legend for Findings:**

- 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, 2013**

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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 2013 budget for DFA-LGD approval nor did they submit required quarterly financial reports to the DFA-LGD at any time during the year. The board adopted an internal use only budget and there is an unfavorable expenditure variance (budget over-expended) amount of \$2,508 shown on Exhibit A.

**Cause**

The RWA was unaware of the requirements prior to the completion of the 2012 agreed-upon procedures engagement (July 13, 2013) and was unable to comply on a timely basis.

**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 reports, as required, to DFA-LGD.

**Entity Response**

“For the year 2013, the current board treasurer was tasked with, and developed a budget for the remainder of the 2013 fiscal year, the 2014 Fiscal year and has developed a preliminary budget for the 2015 Fiscal year. These budgets are based on the expenditures from the previous years and anticipated cost increases inherent in administration of the system. These budgets 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 activity and its submission to the DFA-LGD has been written into RWA’s annual requirements schedule, for approval prior to Dec 1, and written into the policies and procedures manual. The RWA bookkeeper was expected to undertake this action. The contract for RWA’s bookkeeping is up for bid / renewal and the requirements of this item will be added to the responsibilities of the bookkeeper. The new Treasurer is now aware of the requirement and associated deadlines and will be able to ensure the quarterly reports, and annual budgets are submitted to the DFA-LGD in a more-timely manner moving forward.”

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2013**

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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 did not comply with the prior-years' agreed-upon procedures recommendations.

**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**

"The board did develop an inventory; however it was not developed nor approved by the Board prior to the December 1<sup>st</sup> deadline. The Capital assets inventory is now in possession of the board, and will be reviewed and approved in the last meeting of the fiscal year."

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2013**

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**2011-3**

**Late Report**

**Criteria**

Office of the State Auditor, Rule 2013, 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 with 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 2013, Section 2.2.2.16.H or prior-years' agreed-upon procedures recommendations.

**Recommendation**

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

**Entity Response**

"RWA as mentioned previously is in the process of creating and adding responsibilities to 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. Additionally, RWA has requested and will present for approval in the August 2014 meeting the engagement for the AUP so as to be proactive in providing the required items to the independent accountant as soon as possible after the year-end 2014, thereby ensuring a higher likelihood of time submission."

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Schedule of Findings and Responses  
Year Ended December 31, 2013**

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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) was unable to provide certain supporting documentation for expenditures testing procedures. We requested supporting documentation for 25 disbursements totaling \$16,793 from a total of 131 disbursements totaling \$53,159 for the year. There were two (2) exceptions amounting to \$88 where no supporting documentation was provided. 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 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, Section 6-6-3 NMSA, 1978 Compilation and prior-year recommendations.

**Recommendation**

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

**Entity Response**

"In previous years, the Treasurer reconciled bank accounts and accounting software balances manually; no longer is this the case. The bank account balances and expenditures are presented at the associations monthly meetings and approved by the board. One of the items is an internet connection which is handled entirely online and does not receive appropriate supporting documentation evidence in the form of an invoice. The other item, I have not had the opportunity to research, but I suspect it is a credit card receipt for filters which are ordered online and likely was lost. This is a normal and expected charge, and was likely approved and paid in the normal course of monthly business. Finally, in order to assure a more accurate and transparent expenditure path, the treasurer began during this year's meetings, to report on bills due during the month and the Board approved these expenditures. The meeting schedule of the board can cause bills to be late during each month, as such the Board has authorized the treasurer to pay bills which would otherwise be late and review and approve those payments as well as usual and recurring payments during the next monthly meeting. This meeting is now scheduled during the first 2 weeks of the month. This should help to reduce billings which fall into this timing trap. An AP filing system policy by which all expenditure receipts are filed with a copy of the check or proof of electronic payment is in place. It is further assumed that this one missing invoice/credit card receipt likely occurred prior to the implementation of these procedures after the return of the late AUP last year. "

**STATE OF NEW MEXICO  
RUTHERON WATER ASSOCIATION**

**Exit Conference  
Year Ended December 31, 2013**

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**EXIT CONFERENCE**

The report contents were discussed at an exit conference held on July 15, 2014 with the following in attendance:

Rutheron Water Association

Tim Andrews, Treasurer  
Kathy Larson, Board Member

Accounting Firm

James R. (Jim) Macias, CPA