

STATE OF NEW MEXICO

Valley
Water & Sanitation District

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 2013

INTRODUCTORY SECTION

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT

YEAR ENDED JUNE 30, 2013

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STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT

YEAR ENDED JUNE 30, 2013

OFFICIAL ROSTER

<u>Name</u>	<u>District Board</u>	<u>Title</u>
Jacqueline Foutz		Chairperson
Joel Foutz		Vice-Chairperson
William L. Flack		Secretary/Treasurer
Brian Mack		Member
Mark Duncan		Member
	<u>Administration</u>	
Jody Rico		Bookkeeper

FINANCIAL SECTION



Manning Accounting and Consulting Services, LLC

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Hector Balderas
New Mexico State Auditor
and
Members of the Board
Valley Water and Sanitation District
Kirtland, New Mexico

We have performed the procedures enumerated below, which were agreed to by the State of New Mexico Valley Water and Sanitation District (District), solely to assist you with respect to the District's compliance for a Tier 4 engagement of Tier 4 of the Audit Act (Section 12-6-1 NMSA 1978 et seq.) with respect to the District's cash and capital assets as of June 30, 2013 and the District's revenues, expenditures, and budget for the year ended June 30, 2013. The District's management is responsible for the company's accounting records and financial information. The 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 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.

We were engaged to perform the following agreed-upon procedures for the period July 1, 2012 to June 30, 2013 and our procedures and results are as follow:

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.
- 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.

Results:

- a. We obtained copies of all bank reconciliations from July 2012 through June 2013. All reconciliations were complete and on-hand. However, one bank reconciliation, April 2013, was not completed until June 10, 2013 which wasn't considered timely. Additionally, the reconciliations do not indicate that they have been reviewed by a member of the Board. This has been included in Finding 2013-01 – Bank Reconciliation Procedures.

- b. We traced reconciled items reflected on the July 31, 2012, November 30, 2012, February 28, 2013, and June 30, 2013 reconciliations to determine that they were properly cleared. We inspected selected cancelled image checks and deposit slips returned with the bank statements to compare actual names and amounts with the general ledger. We traced ending balances to the general ledger and the year-end financial report submitted to DFA-Local Government Division. No exceptions were noted in these procedures.
- c. We reviewed balances at each month end to determine if sufficient pledged collateral had been provided on all uninsured funds. No balances exceeded the FDIC coverage limit of \$250,000 during the year, so no exceptions were noted in these procedures.

2. Capital Assets

Procedures:

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

Results:

The District did not complete a yearly inventory of its capital assets as it did not know that it was required. All capital assets of the District are the sewer lines and pumping stations and one metal building. This exception has been included as Finding 2013-02 Annual Physical Inventory and Asset Classifications.

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 revenues based on auditor judgment and test 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.

Results:

- a. We identified the nature and sources of revenue and performed an analytical review of those revenue sources, comparing them to the budgeted amounts for each classification of revenue. Total revenues exceeded budgeted revenues by \$135,478. We reviewed revenue categories which varied from budget by 15% and by \$5,000 or more. These included Monthly Service Sales, Construction/Engineering Fees, and San Juan County Gross Receipts Tax collections. The District never modified their budget after approving an initial budget even though a large new customer was added to the District and gross receipts tax collections were larger than budgeted. Revenue variations were supported by proper documentation.
- b. We tested the following revenue sources on a cash basis which is how the District maintains its records:
 - i. Monthly Service Sales – The District receives one monthly check from Lower Valley Water Users Association (LVWUA) who provides domestic water services to all of the Districts sewer customers. LVWUA bills sewer services with its water bills and then remits the sewer district collections to the District for the cost of \$100 per month. Five months of distributions – September 2012, November 2012, January 2013, April 2013, and May 2013 – from LVWUA were traced to supporting documentation, to the bank statement, and to the general ledger. No exceptions were noted and all revenues were properly categorized and recorded.

Total collections on Monthly Service Sales for the year amounted to \$120,450 of which \$52,947 were tested, 44.0% of total service revenues.

- ii. Construction/Engineering Fees – The District collected \$41,146 in Construction/Engineering Fees during the year. We tested the three largest month’s collections – July 2012, August, 2012, and September 2012 – which accounted for 87.4% of total collections, \$35,984. All revenues were traced to supporting documentation, bank statements, and the general ledger. All revenues were properly recorded and categorized. No exceptions were noted.
 - iii. New Mexico Gross Receipts Tax – Local businesses within the sewer district boundaries collect a 0.5% gross receipts tax which is distributed to the District by San Juan County. A direct deposit is made to the District’s account for this gross receipts distribution. We selected three months – September 2012, January 2013, and May 2013 – to verify that amounts were properly deposited into the District’s bank account and that it was properly and timely recorded into the general ledger. Total amounts collected through the county amounted to \$35,272 of which \$9,685 was tested, or 27.5% of the total. No exceptions were noted.
- c. Total revenues tested amounted to \$98,616 or 46.3% of total revenues reported by the District. All classifications were proper, the amounts agreed to supporting documentation and bank statements, and amounts agreed to general ledger amounts and were recorded in the proper periods. No exceptions were noted.

4. **Expenditures**

Procedures:

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

- a. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor’s invoice, purchase order, contract and canceled check, as appropriate.
- 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 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results:

We randomly selected 30 of the 129 total disbursements made for the year. We also selected all disbursements equal to or greater than \$5,000 which weren’t selected in the random sampling. This added eight additional items to the testing sample for a total of 38 items tested. Total disbursements were \$203,070, and the 38 items selected accounted for \$122,123, or 60.1% of total disbursements.

- a. We tested each disbursement to ascertain the following:
 - Vendor invoice is clerically accurate
 - P.O. is clerically accurate and initiated by purchasing agent
 - Amount and payee per check agree to P.O. and invoice
 - P.O. is supported by proper quote or bid documentation as required by State Purchasing Requirements
 - Traced to general ledger
 - Does not violate Anti-Donation Laws
 - Receiving documents identify items received and when and who received them and that items are OK to pay

We tested all disbursement according to the above criteria. The items had proper documentation and amounts, payees, dates and descriptions agreed to supporting documentation except as noted below:

- The District does not issue purchase orders; thus, no disbursements had been properly encumbered prior to expenditure.
- The District does not have a receiving policy, and no invoices had any indication of being reviewed by a responsible party indicating that the products and services had been received and were authorized for payment.

The exceptions are noted in Finding 2013-03 – Purchasing and Receiving Procedures.

- b. All checks were signed by a member of the Board and were thus authorized for disbursement and were legal disbursements of the District. However, total expenditures exceeded budgetary authority. This is discussed below with the Budget area.
- c. During our review regarding the Procurement Code, it was identified that one party was paid on four different occasions which should have required three quotations be on file prior to purchasing the products and services. Also, one party was paid for monthly work which exceeded the bid requirements. These exceptions are noted in Finding 2013-03 – Purchasing and Receiving Procedures.

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.

Results:

- a. We obtained all manual journal entries for the period July 1, 2012 through June 30, 2013. We reviewed the journal entries for non-routine entries, such as adjustments or reclassifications which were posted to the general ledger.
- b. We determined that all journal entries, except for the recording of depreciation, were reasonable and had proper supporting documentation; however, the District has no procedures that require journal entries to be reviewed by anyone other than the accountant making the entries. The entry for depreciation was improperly recorded as an expense line was not used and the accumulated depreciation was a debit entry rather than a credit entry. The incorrect recording of the entry is noted as an exception in Finding 2013-04 – Proper Recording of Depreciation. The fact that the District does not have a policy for review of non-routine journal entries is noted as Finding 2013-06 – Review of Journal Entries.

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.

Results:

- a. We obtained the original budget and all minutes for the period of June 1, 2012 through October 31, 2013 and identified that the budget for the 2013 fiscal year was properly approved by the Board and DFA-LGD. No modifications were made to the original budget during the year.
- b. We reviewed all expenditures and determined that the District exceeded their budgetary authority by \$107,067 in total and by \$142,474 in individual line items. This exception is noted in Finding 2013-05 Budgetary Controls.
- c. We have prepared a Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis) which was prepared on the cash basis which is the basis used by the District in preparing its financial statements. This schedule is included in this report on page 1.

Other

Procedures:

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.

Results:

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud or illegal acts.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the District's cash and capital assets as of June 30, 2013 and the District's revenue, expenditures, and budget for the year ended June 30, 2013. 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, others within the District, the State Auditor, and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Manning Accounting + Consulting Services, LLC

Kirtland, New Mexico

November 21, 2013

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET
AND ACTUAL (NON - GAAP BUDGETARY BASIS)
FOR THE YEAR ENDING JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
Monthly Service Sales	\$ 53,000	\$ 53,000	\$ 120,450	\$ 67,450
Construction/Engineering Fees	-	-	41,156	41,156
San Juan County GRT	11,700	11,700	35,272	23,572
Tap Fees Sales	9,400	9,400	12,950	3,550
Other Fees	3,500	3,500	3,250	(250)
<i>Total revenues</i>	<u>77,600</u>	<u>77,600</u>	<u>213,078</u>	<u>135,478</u>
<i>Expenses:</i>				
Engineering Costs	8,500	8,500	9,332	(832)
Construction Inspection Costs	3,200	3,200	39,194	(35,994)
Operations Maintenance Costs	8,000	8,000	20,302	(12,302)
Court/Clerk Fees	-	-	848	(848)
Meter Reads	-	-	1,907	(1,907)
Billing Services	1,200	1,200	1,200	-
Other Taxes Expense	3,200	3,200	-	3,200
Rent or Lease Expense	2,100	2,100	10,017	(7,917)
Fuel/Oil	1,600	1,600	908	692
Maintenance & Repairs Expense	-	-	77,987	(77,987)
Supplies Expense	18,650	18,650	-	18,650
Small Tools Expense	-	-	637	(637)
Utilities Expense	7,200	7,200	8,639	(1,439)
Office Supplies Expense	300	300	265	35
Secretarial Expense	900	900	1,655	(755)
Miscellaneous Expense	9,650	9,650	-	9,650
One-Call Expense	3,400	3,400	5,256	(1,856)
Insurance Expense	8,200	8,200	5,020	3,180
<i>Total expenses</i>	<u>76,100</u>	<u>76,100</u>	<u>183,167</u>	<u>(107,067)</u>
<i>Excess (deficiency) of revenues over (under) expenses</i>	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 29,911</u>	<u>\$ 28,411</u>

June 1, 2013
Income Statement
For the Twelve Months Ending June 30, 2013

	4th Quarter 2013		Year to Date	
Revenues				
Construction/Engineering	\$ 0.03	0.00	\$ 41,156.40	19.32
Application Fee Sales	0.00	0.00	750.00	0.35
Tap Fees Sales	1,200.03	2.20	12,950.00	6.08
Monthly Service Sales	43,514.65	79.79	120,450.18	56.53
Admission Fee	0.00	0.00	2,500.00	1.17
San Juan County GRT	9,825.11	18.01	35,271.81	16.55
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Total Revenues	54,539.82	100.00	213,078.39	100.00
	<hr/>		<hr/>	
Cost of Sales				
Engineering Costs	3,004.73	5.51	9,332.33	4.38
Construction Inspection Costs	7,847.36	14.39	39,194.05	18.39
Service Line Construction Cost	(7,990.88)	(14.65)	0.00	0.00
Operations Maintenance Costs	13,837.55	25.37	20,302.21	9.53
Court/Clerk Fees	151.66	0.28	847.83	0.40
Meter Reads	111.89	0.21	1,906.87	0.89
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Total Cost of Sales	16,962.31	31.10	71,583.29	33.59
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Gross Profit	37,577.51	68.90	141,495.10	66.41
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Expenses				
Billing Services	300.00	0.55	1,200.00	0.56
Rent or Lease Expense	7,017.00	12.87	10,017.00	4.70
Fuel/Oil	908.23	1.67	908.23	0.43
Maintenance & Repairs Expense	37,705.71	69.13	77,986.47	36.60
Small Tools Expense	0.00	0.00	637.39	0.30
Utilities Expense	2,755.65	5.05	8,638.67	4.05
Office Supplies Expense	0.00	0.00	264.83	0.12
Secretarial Expense	675.00	1.24	1,655.00	0.78
One-Call	1,640.54	3.01	5,255.89	2.47
Insurance Expense	0.00	0.00	5,020.00	2.36
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Total Expenses	51,002.13	93.51	111,583.48	52.37
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Net Income	\$ (13,424.62)	(24.61)	\$ 29,911.62	14.04
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Valley Water and Sanitation District
Income Statement
For the Twelve Months Ending June 30, 2013

	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Revenues				
Construction/Engineering	\$ 0.00	\$ 0.00	\$ 41,156.40	\$ 23,820.26
Application Fee Sales	0.00	0.00	750.00	2,226.61
Tap Fees Sales	0.00	111.90	12,950.00	20,015.30
Monthly Service Sales	18,885.12	1,828.79	120,450.18	8,749.27
Admission Fee	0.00	0.00	2,500.00	1,968.81
San Juan County GRT	3,532.91	2,313.38	35,271.81	19,671.40
Sales/Fees Discounts	0.00	0.00	0.00	(71.44)
Total Revenues	<u>22,418.03</u>	<u>4,254.07</u>	<u>213,078.39</u>	<u>76,380.21</u>
Cost of Sales				
Engineering Costs	2,305.41	561.97	9,332.33	5,763.17
Construction Inspection Costs	7,847.36	2,152.83	39,194.05	24,054.26
Service Line Construction Cost	(7,990.88)	0.00	0.00	0.00
Operations Maintenance Costs	5,881.99	372.80	20,302.21	1,304.79
Court/Clerk Fees	0.00	0.00	847.83	0.00
Meter Reads	0.00	0.00	1,906.87	0.00
Total Cost of Sales	<u>8,043.88</u>	<u>3,087.60</u>	<u>71,583.29</u>	<u>31,122.22</u>
Gross Profit	<u>14,374.15</u>	<u>1,166.47</u>	<u>141,495.10</u>	<u>45,257.99</u>
Expenses				
Billing Services	100.00	100.00	1,200.00	500.00
Rent or Lease Expense	4,817.00	0.00	10,017.00	2,100.00
Fuel/Oil	908.23	0.00	908.23	0.00
Maintenance & Repairs Expense	22,620.22	0.00	77,986.47	359.01
Small Tools Expense	0.00	0.00	637.39	0.00
Utilities Expense	823.25	352.24	8,638.67	2,672.57
Office Supplies Expense	0.00	0.00	264.83	65.00
Secretarial Expense	180.00	0.00	1,655.00	740.00
Interest Expense - N/P Whipple	0.00	0.00	0.00	107.92
One-Call	506.71	761.46	5,255.89	2,220.93
Insurance Expense	0.00	0.00	5,020.00	6,134.00
Total Expenses	<u>29,955.41</u>	<u>1,213.70</u>	<u>111,583.48</u>	<u>14,899.43</u>
Net Income	<u>\$ (15,581.26)</u>	<u>\$ (47.23)</u>	<u>\$ 29,911.62</u>	<u>\$ 30,358.56</u>

Valley Water and Sanitation District
Balance Sheet
June 30, 2013

ASSETS

Current Assets		
Checking Account	\$	<u>79,296.78</u>
Total Current Assets		79,296.78
Property and Equipment		
Property and Equipment		3,371,129.52
Accum. Depreciation - Prop&Eq		<u>71,922.00</u>
Total Property and Equipment		3,443,051.52
Other Assets		
Total Other Assets		<u>0.00</u>
Total Assets	\$	<u><u>3,522,348.30</u></u>

LIABILITIES AND CAPITAL

Current Liabilities		
Sales Tax Payable	\$	<u>944.26</u>
Total Current Liabilities		944.26
Long-Term Liabilities		
N/P Whipple Taps		<u>12,500.00</u>
Total Long-Term Liabilities		<u>12,500.00</u>
Total Liabilities		13,444.26
Capital		
Fund Balance - Fixed Assets		3,443,051.52
Fund Balance - Operating		35,940.90
Net Income		<u>29,911.62</u>
Total Capital		<u>3,508,904.04</u>
Total Liabilities & Capital	\$	<u><u>3,522,348.30</u></u>

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Prior Year Findings:

None

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013 – 01 Bank Reconciliation Procedures

Criteria: In accordance with proper accounting procedures and 2.20.5.8 NMAC, bank reconciliations should be completed in a timely manner. A timely reconciliation of bank accounts is normally considered to be completed within 30 days of month end. Also, bank statements should be reviewed by someone other than the individual completing the bank statements.

Condition: The April 2013 cash reconciliation was not completed until June 10, 2013. Additionally, there is no indication on any of the bank reconciliations or in Board minutes that these bank reconciliations are being reviewed by members of the Board.

Cause: The District did not remember being late in reconciling any of the reports. They believe that they may have found an issue with the April reconciliation and redone it later. They also believe that they have been reviewing cash reconciliations but had not been indicating it in any way or including it in the minutes of the Board meetings.

Effect: Issues which may have arisen with the bank account during the month under reconciliation may not have been identified and corrected in a timely manner. Also, the Board has made no indication in the record of reviewing the cash position and reconciliations of the District.

Auditor's Recommendation: We recommend that all cash reconciliations be completed within 30 days of month end and that the reconciliations be reviewed by the Board or a member of the Board and that the cash reconciliation be signed by the reviewing party.

Responsible Official's View: The District will make sure all bank statements are reconciled within 30 days of month end. A board member has always reviewed the bank statements in the past. The district will begin to have the reconciled statements reviewed and approved with a date and signature.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013 – 02 Annual Physical Inventory and Asset Classifications

Criteria: In accordance with proper accounting procedures and 2.20.1.16 NMAC, Lower Valley Water and Sanitation District (District) should complete an annual “physical inventory ... recorded in a written inventory report, certified as to correctness and signed by the governing authority of the agency.” Per 2.20.1.9 NMAC, it is recommended that fixed assets be classified in various categories. i.e., land, land improvements, buildings and structures, etc.

Condition: The District did not do a physical inventory which was detailed and certified by the Board for the year ended June 30, 2013. Additionally, all assets of the District are recorded in one account titled “property and equipment” which includes land, sewer system improvements, and a metal building. These items include depreciable and non-depreciable assets in the same category and are not categorized by like assets.

Cause: The District was unaware of the recommendation to segregate fixed assets by major classification.

Effect: The District is maintaining depreciable and non-depreciable assets in the same category which doesn't provide proper segregation and tracking of the fixed assets. It also doesn't provide the proper detail that a state agency should be providing in its financial reports.

Auditor's Recommendation: We recommend that the District segregate its assets into proper categories, segregating land, land improvements (sewer system assets including lines and pumping stations), and buildings and structures appropriately.

Responsible Official's View: The District will segregate its assets into proper categories as recommended by the Accountant and certify the fixed asset detail each year.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013 – 03 Purchasing and Receiving Procedures

Criteria: In accordance with proper accounting procedures and 1.4.1 NMAC 1) purchases of goods and services should be preceded with the issuance of a purchase order to encumber the funds, 2) purchases of tangible personal property, construction, and nonprofessional services between \$5,000 and \$20,000 should include three written quotes to be maintained in the purchasing file, and 3) professional services in excess of \$50,000 should be procured through requests for proposals.

Condition: The District does not issue purchase orders before expending funds. The District made four payments to D&G Construction totaling \$42,882.25 in the last quarter of 2013, each payment ranging between \$5,680 and \$13,495; however, no quotations from three vendors were obtained prior to awarding the services. The District paid AECS, Inc. (DTF) \$72,757.90 for construction and engineering services; however, no request for proposal for services was done by the District. Additionally, the District does not indicate that products or services are received and authorized for payment. No invoices indicate that the products or services have been received and are authorized for payment.

Cause: The District was unaware of the state purchasing guidelines affecting state agencies.

Effect: The District is not in compliance with state regulations regarding purchases in all three major categories of purchasing requirements. Funds are not being encumbered prior to purchase, and no quotation or bidding process is being followed by the District which may lead to excessive costs being incurred by the organization. Finally, a formal receiving process is not performed by the District whereby an authorized official signs and dates invoices indicating products or services have been received and are authorized for payment. This could lead to payments for products or services which haven't been received or that are not properly completed.

Auditor's Recommendation: We recommend that the District begin issuing purchase orders for all purchases. We also recommend that the District obtain quotations for amounts which qualify for small purchases and go to formal requests for proposals for purchases and services which exceed the small purchases guidelines. We also recommend that an authorized official sign and date all invoices for products and services indicating that the invoice is "OK to pay". This will provide assurance that an authorized individual is accepting responsibility for the products and services provided to the District.

Responsible Official's View: All invoices submitted for payment by the district are reviewed by a board member upon receipt. The board member knows or makes sure that the service/material has been approved for and completed/received. A purchasing system has been implemented as of November 15, 2013 that includes a purchase order for all services or materials approved. A purchase order requires an approved signature. Invoices are now being stamped with a received date as well as approval by signature.

The District obtained proposals for the daily maintenance of the sewer system from the only 2 available sources in the area that are equipped to provide the services needed. The District chose D&G Construction to complete the daily maintenance services for their lower rates and their availability to complete the daily tasks. An annual rate contract with D&G Construction was approved by the Board. D&G Construction's services were obtained during numerous emergency repairs of sewer leakage from busted or cracked lines.

DTF Engineering is used by the District to connect new customers to the sewer line as per a contract approved by the Board. DTF Engineering also provides engineering services to any new customers wanting to enter into the District. DTF is used to make sure the customers comply with the District's requirements. Any expense incurred for these services are reimbursed by the new customer. No revenues are generated through this process.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013 – 04 Proper Recording of Depreciation

Criteria: In accordance with proper accounting procedures and 2.20.1.12 NMAC, Lower Valley Water and Sanitation District (District) should properly record depreciation of capital assets.

Condition: The District created a journal entry to record depreciation for the year ended June 30, 2013; however, the journal entry was incorrectly entered which didn't properly record an expense for depreciation and establish a credit balance in the accumulated depreciation account.

Cause: The District improperly recorded the journal entry and did not correctly understand how the journal entry should have been recorded and what accounts should have been affected.

Effect: The District did not record an expense of \$71,922 for the year ended June 30, 2013. Additionally, the Balance Sheet shows Total Property and Equipment of \$3,443,051.52. However, the proper net property amount is only \$3,371,129.52.

Auditor's Recommendation: We recommend that the District correct its June 30, 2013 property and fund balance amounts to reflect a correct recording of depreciation and accumulated depreciation amounts. We also recommend that the District properly review the depreciation entry at the end of the 2014 year to make sure the entry is properly recorded.

Responsible Official's View: Accountant's recommendations have been completed. The District will properly review depreciation entries at 2014 year end.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013 – 05 Budgetary Controls

Criteria: Sections 6-3-1 through 6-3-25 NMSA 1978 require, in part, that expenditures not exceed budgetary authority.

Condition: Valley Water and Sanitation District incurred expenses in excess of budgetary authority in the following amounts:

	Amount
Engineering Costs	\$ 832
Construction Inspection Costs	35,994
Operations Maintenance Costs	12,302
Court/Clerk Fees	848
Meter Reads	1,907
Rent or Lease Expense	7,917
Maintenance & Repairs Expense	77,987
Small Tools Expense	637
Utilities Expense	1,439
Secretarial Expense	755
One-Call Expense	<u>1,856</u>
Total	<u>\$ 142,474</u>

Total expenditures exceeded total budgeted expenditures by \$107,067.

Cause: The District was unaware that they could modify their original budget which was filed with the Department of Finance and Administration’s Local Government Division (DFA LGD). The District had a new customer connect to the system, Central Consolidated School District, which more than doubled their revenues and increased corresponding expenses as well. Additional maintenance issues were incurred which had not been budgeted originally

Effect: The internal controls established by adherence to budgets have been compromised, and excess spending could, and did, result. In addition, New Mexico statutes have been violated.

Auditor’s Recommendation: We recommend that the District adhere to proper accounting procedures and state guidelines of reviewing expenses on an on-going basis and requesting budget adjustments where necessary.

Responsible Official’s View: The District will follow the recommendations of the Accountant. The District is a new entity and is still learning the process of the State’s Budget policies.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013 – 06 Review of Journal Entries

Criteria: In accordance with sound accounting practices and 2.20.5 NMAC, the Board is responsible for establishing sound accounting policies and practices which includes a proper internal control structure. Proper internal controls include review and authorization of all manual journal entries.

Condition: Valley Water and Sanitation District does not have a formal policy of reviewing and approving manual journal entries entered by the bookkeeper.

Cause: The District had not considered the need to review the journal entries of the bookkeeper as they are normally repetitive and don't significantly affect the financial statements.

Effect: Improper entries to the financial statements could occur by accident or intentionally which wouldn't be identified by the Board.

Auditor's Recommendation: We recommend that the District adhere to proper accounting procedures and state guidelines of reviewing journal entries and approving those journal entries on a regular basis.

Responsible Official's View: All journal entries made by the bookkeeper will be reviewed and approved by a board member and include an "Approved" stamp and signature.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2013

Exit Conference

The contents of this report were discussed on November 21, 2013. The following individuals were in attendance.

Valley Water and Sanitation District

Joel Foutz, Board Vice-Chairperson
William L. Flack, Council Secretary/Treasurer
Jody Rico, Bookkeeper

Manning Accounting and Consulting Services, LLC

Byron R. Manning, CPA