

**PENA BLANCA WATER AND SANITATION DISTRICT**

**Independent Accountant's Report on  
Applying Agreed-Upon Procedures (TIER 5)**

**For the Fiscal Year Ended  
June 30, 2019**

**ASSURANCE TAX ACCOUNTING PC**

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**Financial Audits - Agreed Upon Procedures - Tax - Consulting**

**Office:** (505) 620-8526 **Fax:** (866) 800-6970; PO Box 27213 Albuquerque, NM 87125; johnnymangu@msn.com

**PENA BLANCA WATER AND SANITATION DISTRICT**

**Table of Contents**

**Fiscal Year Ended June 30, 2019**

	Page
<b>Table of Contents</b> .....	1
<b>Official Roster</b> .....	2
<b>Independent Accountants' Report on Applying Agreed-Upon Procedures (Tier 5)</b> .....	3
<b>Statement of Revenues and Expenditures (Budget and Actual)</b> .....	12
<b>Schedule of Findings and Responses</b> .....	13
<b>Exit Conference</b> .....	19

**PENA BLANCA WATER AND SANITATION DISTRICT  
OFFICIAL ROSTER  
Fiscal Year Ending June 30, 2019**

<b>Name</b>	<b>Title</b>
John Gurule	President/Director
Elaine Gilmartin	Vice-President/Director
John Compton	Treasurer/Director
Emily Hurtado	Member
Flora Quintana	Member

**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES (TIER 5)**

John Gurule, President  
Pena Blanca Water and Sanitation District  
and  
Honorable Brian S. Colón  
New Mexico State Auditor  
Santa Fe, New Mexico

We have performed the procedures enumerated below which were agreed to by Pena Blanca Water and Sanitation District (District) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the District's financial reporting relating to its compliance with Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC as of and for the year ended June 30, 2019. The District's management is responsible for its financial reporting as described above. This agreed-upon procedures engagement was conducted in accordance with AICPA Statements on Standards for Attestation Engagements (Clarified), AT-C Section 215 for agreed-upon procedures engagements. 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.

**Procedure to be Performed:**

1. Verify the local public body's revenue calculation and tier determination documented on the form provided at [www.osanm.org](http://www.osanm.org) under "Tier System Reporting Main Page."

**Results of Procedure 1:**

We verified Pena Blanca Water & Sanitation District's revenue calculation and tier determination documented on the form provided at [www.osanm.org](http://www.osanm.org) under "Tier System Reporting Main Page" and it was determined that Pena Blanca Water and Sanitation District falls under the Tier 5 procedures. General revenues were \$90,206 and capital projects were started.

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### Procedure to be Performed:

#### 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.

### Results of Procedure 2(a):

We determined that all bank reconciliations were performed. All bank statements and investment/savings statements were complete and on hand without exception. All monthly bank reconciliations for the operating account and the savings account were examined without exception. We noted that the months of October of 2018 for checking and savings accounts were performed late. See Finding 2016-001.

### Procedure to be Performed:

- 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.

### Results of Procedure 2(b):

We tested at least 30% of bank reconciliations for accuracy and traced the ending balances to the general ledger for all bank statements and savings accounts reconciliations. We noted that the checking account reconciliation for June 2019 was not accurate as there is a reconciliation variance of \$457 between the book balance per reconciliation and book balance per the financial statements. See Finding 2016-001. The District did not submit the quarterly financial reports to DFA-LGD. See finding 2017-001.

### Procedure to be Performed:

- 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 of Procedure 2(c):

We determined that the balances of the operating account and the savings account at no time exceeded the insured limits provided by the FDIC of \$250,000. Therefore, pledged collateral by the financial institution was not required.

### Procedure to be Performed:

#### 3. Capital Assets

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

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### **Results of Procedure 3:**

We inquired as to whether or not Pena Blanca Water & Sanitation District is performing a yearly inventory as required by section 12-6-10 NMSA 1978. The majority of the district assets are included in the water system and water tank, most of which is underground. The system is inspected regularly and monitored to ensure that water pressure within the system is constant. Damage to the system such as water leaks, or broken mains, is determined from the monitoring system. The District maintains a written inventory of all equipment and furniture including tagging the items for positive identification. The Office Administrator performed the inventory listing and a copy was provided to the board for review and it was signed by the board President. We noted no exceptions.

### **Procedure to be Performed:**

#### **4. Revenue**

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.

### **Results of Procedure 4(a):**

We performed an analytical review of each type of revenue and compared each type of revenue to the budget. We noted no exceptions.

### **Procedure to be Performed:**

Select a sample of revenues equal to at least 30% of the total dollar amount and test using the following attributes:

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

### **Results of Procedure 4(b):**

We selected a sample of 25 receipts (46% of total receipts) and we traced the amounts recorded in the supporting documentation including deposit books to the general ledger and to the bank statements. We noted no exceptions.

### **Procedure to be Performed:**

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.

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### Results of Procedure 4(c):

We selected a sample of 25 receipts (46% of total receipts), and we traced the amounts recorded in the general ledger and comparing to the supporting documentation for proper coding and distribution. No exceptions were noted.

### Procedure to be Performed:

#### 5. Expenditures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount 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.

### Results of Procedure 5(a):

We randomly selected a sample of cash disbursements equal to 44% of the total dollar amount and determined that the District had adequate documentation for disbursements. In the testwork we checked that the amount recorded as disbursed agrees to adequate supporting documentation and that the amount, payee, date and description agreed to the purchase order, contract, vendor's invoice and canceled check as appropriate. On only two items we noted that the Quarterly Payroll Tax forms were incorrectly reported and overpaid. The quarterly Form 941 form ending 06/30/2018 and 9/30/2018 had tax overreported and overpaid by \$562. See finding 2018-001.

### Procedure to be Performed:

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

### Results of Procedure 5(b):

We determined that the disbursements were properly authorized and approved in compliance with legal requirements and established policies and procedures. See budget finding 2018-002.

### Procedure to be Performed:

- 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).

Note: The sample must be representative of the population.

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### Results of Procedure 5(c):

The only project requiring bidding was under \$5,000 on the Capital Outlay disbursement, where bidding is not required. All mileage reimbursements selected for testing were disbursed according to the Mileage Act.

### Procedure to be Performed:

#### 6. Journal Entries

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.

### Results of Procedure 6(a):

Because there was only one manual journal entry created for reconciliation discrepancies and below \$1 during FY 2019, no testing was performed in this area.

### Procedure to be Performed:

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

### Results of Procedure 6(b):

Because there was only one manual journal entry created for reconciliation discrepancies and below \$1 during FY 2019, no testing was performed in this area.

### Procedure to be Performed:

#### 7. Budget

Obtain the original fiscal year budget and all budget adjustments made throughout the fiscal year and perform the following test work:

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.

### Results of Procedure 7(a):

We verified through review of minutes that the original budget was approved by the District Board.

### Procedure to be Performed:

b) 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.

### Results of Procedure 7(b):

We determined through comparing the Original/Final Budget to the Actual Expenditures that the District is not in compliance with statutes by over-expending at the fund level, see finding 2018-002.

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### Procedure to be Performed:

- 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 of Procedure 7(c):

See Attached Statement of Revenues and Expenditures – Budget and Actual.

### Procedure to be Performed:

#### 8. Capital Outlay Appropriations

Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year and perform the following:

Test all capital outlay expenditures during the fiscal year to:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor’s invoice and cancelled check, as appropriate.

### Results of Procedure 8(a):

We determined that amount recorded as disbursed agreed to adequate supporting documentation and we verified that amounts, payees, dates and descriptions agreed to the vendor’s invoice and cancelled check copies, as appropriate. The District does not use purchase order forms.

### Procedure to be Performed:

- b) Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.

### Results of Procedure 8(b):

We looked at the District's request for reimbursement form and observed the chairman approval of the disbursement, therefore we determined that disbursement was properly authorized but not approved in compliance with the budget, legal requirements and established policies and procedures. See finding 2018-002.

### Procedure to be Performed:

- 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

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#### **Results of Procedure 8(c):**

The only project requiring bidding was under \$5,000 on the Capital Outlay disbursement, where bidding is not required.

#### **Procedure to be Performed:**

- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.

#### **Results of Procedure 8(d):**

No physical capital asset was provided, only Engineering Report was generated and it was inspected and determined to be complete.

#### **Procedure to be Performed:**

- e) Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.

#### **Results of Procedure 8(e):**

Capital Project Agreement did not require status reports to be submitted to the state agency. No work was performed in this area.

#### **Procedure to be Performed:**

- f) If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.

#### **Results of Procedure 8(f):**

The District had one state-funded capital outlay expenditure of \$2,372 on 2/22/2019 during the audit period. The project was not intended to be funded in advance but on a reimbursement basis. For the \$2,372 reimbursement, the project was invoiced on 1/25/2019 and payment to the vendor was completed on 3/19/2019.

#### **Procedure to be Performed:**

- g) If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.

#### **Results of Procedure 8(g):**

Pena Blanca Water & Sanitation District was awarded a \$50,000 state-funded Capital Appropriation, and for the FY2019 audit period there was only one capital outlay expenditure of \$2,372. The unexpended balance for the Capital Appropriation is \$47,627. The Reversion Date is 06/30/2022.

#### **Procedure to be Performed:**

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- h) Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is no-interest bearing if no required by the capital outlay award agreement.

#### **Results of Procedure 8(h):**

The check received from the NM Environment Department was deposited in the District's checking account at Los Alamos National Bank. When the funds were received from the NMED, the disbursement to the vendor was completed.

#### **Procedure to be Performed:**

- i) Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

#### **Results of Procedure 8(i):**

The District filed Requests for Reimbursement Forms with the NM Environment Department when invoiced by the provider of study that was completed in the current fiscal year. The request was supported by invoice submitted to the District for work done on the Engineering work. The cost was not paid by the District prior to the request for reimbursement. The District paid for its project expenditures after the payment was received from the NM Environment Department. A finding was not considered necessary since the District complied with the reimbursement procedures.

#### **Procedure to be Performed:**

- 9. 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 all the required content detail in Section 2.2.2.10(L) NMAC.

#### **Results of Procedure 9:**

No information came to our attention indicating any fraud or illegal acts. Instances of noncompliance and internal control deficiencies are disclosed in the findings of this report.

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 on the Pena Blanca Water and Sanitation District's financial reporting to the State Auditor as described above. 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 the Pena Blanca Water and Sanitation District, the New Mexico Office of the State Auditor, the New Mexico Office

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Legislature, the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

*Assurance Tax Accounting P.C.*

Assurance Tax Accounting P.C.

Albuquerque, New Mexico

December 13, 2019

STATE OF NEW MEXICO  
PENA BLANCA WATER AND SANITATION DISTRICT  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (Cash Basis)  
For the year ended June 30, 2019

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budget Basis</u>	<u>Favorable (Unfavorable)</u>
<b>Revenue</b>				
Water Sales	\$ 68,400	\$ -	\$ 56,450	\$ (11,950)
Other Operating Revenue	30,000	-	33,756	3,756
Meter Installation	-	-	-	-
	<u>98,400</u>	<u>-</u>	<u>90,206</u>	<u>(8,194)</u>
<b>Expenses</b>				
Personnel Services	\$ 43,164	\$ -	\$ 56,036	\$ (12,872)
Operating Expenses	15,816	-	18,466	(2,650)
System Maintenance / utilities	7,764	-	17,804	(10,040)
Insurance	4,440	-	3,868	572
Utilities	6,000	-	3,619	2,381
Miscellaneous(Water Lease / test)	12,120	-	5,000	7,120
	<u>89,304</u>	<u>-</u>	<u>104,793</u>	<u>(15,489)</u>
Revenues over (under) expenditures	\$ <u>9,096</u>	\$ <u>-</u>	\$ <u>(14,587)</u>	\$ <u>(23,683)</u>
<b>Other financing sources (uses):</b>				
Capital Appropriation	\$ -	\$ -	\$ 2,372	\$ 2,372
Capital Appropriation Expenditure	-	-	(6,178)	(6,178)
Interest earned			17	(17)
	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(3,789)</u>	\$ <u>(3,823)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ <u>9,096</u>	\$ <u>-</u>	\$ <u>(18,376)</u>	\$ <u>(27,506)</u>
Amount of prior-year cash balance required to balance the budget	\$ <u>-</u>	\$ <u>-</u>	\$ <u>18,376</u>	\$ <u>(18,376)</u>

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2019**

**Prior Year Findings:**

Finding 2016-001 – Bank Reconciliations	Repeated
Finding 2017-001 – Quarterly Reporting to DFA	Repeated
Finding 2018-001 – Payroll miscalculation and incorrectly coding disbursements	Repeated
Finding 2018-002 – Expenditures not approved and Exceeded Budget authority	Repeated
Finding 2018-003 – Late Agreed-Upon Procedures Report	Resolved

**Current Year Findings:**

Finding 2016-001 – Bank Reconciliations	Other Non-Compliance
Finding 2017-001 – Quarterly Reporting to DFA	Other Non-Compliance
Finding 2018-001 – Payroll miscalculation	Other Non-Compliance
Finding 2018-002 – Expenditures exceeded budget authority	Significant Deficiency

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**YEAR ENDED JUNE 30, 2019**

**Finding 2016-001 - Bank Reconciliations (Other Non-Compliance)**

Condition:

While applying the agreed upon procedures over timeliness and accuracy of cash reconciliations, we noted that the month of October of 2018 for checking and savings accounts were performed late. We also noted that the checking account reconciliations for June 2019 was not accurate as there is a reconciliation variance of \$457 between the book balance per reconciliation and book balance per the financial statements. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

In accordance with Subsection H of 2.2.2.16 NMAC, all agreed upon procedures engagements should report as findings and fraud, illegal acts, noncompliance, or internal control deficiencies, consistent with Section 12-6-5 NMSA 1978 which states any violation of good accounting practices shall be set out in detail in a written report. Good accounting practices dictate that reconciliation of bank balances should be completed on a timely basis, to provide assurance that all transactions have been entered by the bank and recorded in the financial statements properly. If bank reconciliations are to serve as an effective control over the cash accounts, they must be prepared on a timely basis and all reconciling items should be investigated and resolved properly. Ideally all bank accounts should be reconciled prior to the close of the bank statement for the following month.

Cause:

The District was not aware of the requirement to reconcile the bank accounts within 30 days after the statement end date. Because of the length of time between the transaction and reconciliation, accurate documentation could not be located.

Effect:

Bank reconciliations that are not reconciled on a timely basis could lead to inaccurate interim financial reporting. In addition, errors and misappropriation of assets could be more difficult to detect if not identified in a timely manner or if historical bank reconciliations do not tie to the current records.

Recommendation:

The District should establish a policy by which bank reconciliations are required to be performed within thirty days of the statement end date for all bank accounts.

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**YEAR ENDED JUNE 30, 2019**

Management's Response:

The District will begin reconciling the bank statements on a timely basis effective immediately. The Office Administrator will ensure that these reconciliations are being performed within thirty days after the statement end date.

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**YEAR ENDED JUNE 30, 2019**

**Finding 2017-001 - Quarterly Reporting to DFA (Other Non-Compliance)**

Condition:

The District did not prepare or submit their operating results quarterly to DFA. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Section 6-6-2 NMSA 1978 requires all local public bodies to submit their operating budget annually to DFA Local Government Division for certification. DFA also requires quarterly reporting by all agencies on prescribed forms.

Cause:

The District was not aware of the reporting requirement imposed by statute and DFA.

Effect:

DFA – Local Government Division lacked the necessary information to perform their oversight duties required by state statute.

Recommendation:

We recommend the District establish contact with their DFA budget analyst to determine what reports are required and whether retroactive reporting will be required. The District should also institute policies to ensure compliance with all reporting requirements imposed by DFA and state statute.

Management's Response:

Effective immediately, Office Administrator will contact a DFA budget analyst to determine which reports need to be reported and by what deadline these reports need to be reported. The District's Board will then determine a policy to ensure compliance with reporting to DFA. Once contact with a DFA analyst has been established, the Office Administrator will also ensure that the reporting is conducted in a timely manner.

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**YEAR ENDED JUNE 30, 2019**

**Finding 2018-001 - Payroll Miscalculation (Other Non-Compliance)**

Condition:

We noted that two of the Quarterly Payroll Tax form 941 were incorrectly reported and overpaid. The quarterly 941 ending 06/30/2018 and 9/31/2018 were overreported and overpaid by \$562. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

In accordance with Subsection H of 2.2.2.16 NMAC, all agreed upon procedures engagements should report as findings and fraud, illegal acts, noncompliance, or internal control deficiencies, consistent with Section 12-6-5 NMSA 1978 which states any violation of good accounting practices shall be set out in detail in a written report. Good accounting practices dictate that payroll tax forms should be calculated and paid accurately and timely.

Cause:

The District did not calculate and pay payroll tax forms accurately.

Effect:

Incorrectly calculating and paying payroll tax forms can result in significant penalties. The entity could be adversely affected in the eyes of the stakeholders.

Recommendation:

The District should adopt a policy of calculating and paying tax forms accurately. Incorrect and overreported payroll tax forms should be filed as amended.

Management's Response:

The District's President will ensure effective immediately that every Board member receive a copy of the financial statements showing all transactions including all deposits and disbursements. Along with every disbursement going forward the District's Office Administrator will ensure that there will be supporting documentation for the transactions and payroll is calculated and reported correctly.

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**YEAR ENDED JUNE 30, 2019**

**Finding 2018-002 – Expenditures Exceeded Budget Authority (Significant Deficiency)**

Condition:

We determined through comparing the Original/Final Budget to the Actual Expenditures that the District is not in compliance with statutes by over-expending at the fund level. The District did not submit an amended budget for approval to NM DFA LGD resulting in expenses exceeding budget authority. Management did not make any progress towards implementing the prior year corrective action plan.

Criteria:

Section 6-6-2 NMSA 1978 requires all local public bodies to submit their original operating budget annually to DFA Local Government Division for certification, and any budget amendments to maintain budget authority.

Cause:

The District was not aware that budget adjustments should be approved by DGA-LGD.

Effect:

If the budget adjustment is not being approved by DFA-LGD, the District is not in compliance with regulations. The District would not have authority to spend funds, and/or the financial statements could be manipulated or misstated.

Recommendation:

The District should prepare the budget adjustments being approved by DFA-LGD.

Management's Response:

Effective immediately, the District President will contact a DFA budget analyst to determine which reports need to be reported and by what deadline these reports need to be reported. The District Board will then determine a policy to ensure compliance with reporting to DFA. Once contact with a DFA analyst has been established, the President will also ensure that the reporting is conducted in a timely manner.

**PENA BLANCA WATER AND SANITATION DISTRICT**  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2019

The report contents were discussed at an exit conference held on December 16, 2019 with the following in attendance:

**Pena Blanca Water and Sanitation District**

Sandra Gutierrez	Office Administrator
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**Assurance Tax Accounting PC**

Johnny Mangu, MBA, CPA, CGFM, CGMA	Principal
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