

PENA BLANCA WATER AND SANITATION DISTRICT

**Independent Accountant's Report on
Applying Agreed-Upon Procedures (TIER 4)**

**For the Fiscal Year Ended
June 30, 2015**

PENA BLANCA WATER AND SANITATION DISTRICT

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**PENA BLANCA WATER AND SANITATION DISTRICT
OFFICIAL ROSTER
Fiscal Year Ending June 30, 2015**

| | |
|--------------------------|---------------------|
| President/Director | Karman Kleinschmidt |
| Vice-President/ Director | Mike Michaels |
| Treasurer/Director | Tony Quintana |
| Director | William Bonney |
| Director | Eraldo Lucero |
| | |
| Office Administrator | Sandra Gutierrez |

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES (TIER 4)**

Karman Kleinschmidt, President
Pena Blanca Water and Sanitation District
and
Honorable Timothy Keller
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 and the New Mexico State Auditor (the specified parties), solely to assist users in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (3) NMSA 1978, Section 2.2.2.16 NMAC as of and for the year ended June 30, 2015. The District's management is responsible for its accounting records and financial reporting. 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. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tier System Reporting Main Page."

We verified Pena Blanca Water & Sanitation District's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tier System Reporting Main Page" and it was determined that the Pena Blanca falls under the Tier 4 procedures. General revenues were \$92,085 and no capital projects were started or completed.

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.

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We determined that all bank reconciliations were performed in a timely manner and that 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.

- 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.

We performed a test of bank reconciliations for accuracy and traced the ending balances to the general ledger and the financial reports submitted to DFA-LGD for all bank statements and savings accounts reconciliations. We noted no exceptions.

- 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.

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.

3. Capital Assets

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

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 constantly 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. Sandra Gutierrez, Office Administrator performed the inventory listing and a copy was provided to the board for review.

4. Revenue

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

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a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

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

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.

We randomly selected a sample of 25 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.

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.

We randomly selected a sample of 25 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.

5. Expenditures

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.

We randomly selected a sample of 25 disbursements and determined 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. All amounts agreed and we noted no exceptions.

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

We determined that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures. No exceptions were noted.

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.

We determined that the bid process, purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State purchasing Regulations. No major projects requiring bidding were started or completed during this accounting period. During testing we identified four travel reimbursements and noted that all four reimbursements for \$294.47, \$365.31, \$294.47, and \$244.28 were reimbursed at a mileage rate which exceeds state mandated rates.

See finding 2015-001 on page 11 of this report.

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.

We selected all eight journal entries entered during FY 2015 for testing. All Journal Entries appear reasonable based on the memorandum explanation for each entry.

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

The District was unable to provide written supporting documentation for 8 journal entries.

See finding 2015-002 on page 12 of this report.

7. Budget

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.

We verified through review of minutes the original budget approved by the District Board. The District's budget was not approved by DFA-LGD.

See finding 2015-003 on page 13 of this report.

b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

We determined through comparing the Original/Final Budget to the Actual Expenditures that the District is in compliance with statutes by not over-expending at the fund level, which is the legal level of budgetary control.

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.

See Attached Statement of Revenues and Expenditures – Budget and Actual on page 9 of this report.

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

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 audit, the objective of which would be the expression of an opinion on the District's accounting records and financial reporting. 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.

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This report is intended solely for the information and use of the board of directors and management of the Pena Blanca Water and Sanitation District, the New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C.

Albuquerque, New Mexico

November 27, 2015

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, 2015

| | Budgeted Amount | | Actual Modified Accrual | Variances | |
|---|-----------------|---------------|-------------------------------|-----------------------------|---------------------------|
| | Original | Revised | | Favorable (Unfavorable) | |
| | | | | Original Budget To Final | Actual to Final Budget |
| Revenue | | | | | |
| Septic Tank Cleanout | 30,000 | 30,000 | 30,941 | - | 941 |
| Water Sales | 60,000 | 60,000 | 62,103 | - | 2,103 |
| New Meter | - | - | - | - | - |
| Meter Installation | - | - | 100 | - | 100 |
| Other Miscellaneous sources | - | - | (1,059) | - | (1,059) |
| | <u>90,000</u> | <u>90,000</u> | <u>92,085</u> | <u>-</u> | <u>2,085</u> |
| Expenses | | | | | |
| Personnel services | 37,920 | 37,920 | 42,765 | - | (4,845) |
| Operating expenses | 9,708 | 9,708 | 10,006 | - | (298) |
| System maintenance / utilities | 19,140 | 19,140 | 18,188 | - | 952 |
| Insurance | 2,952 | 2,952 | 2,918 | - | 34 |
| Utilities | 3,840 | 3,840 | 3,478 | - | 362 |
| Water lease / test | 8,712 | 8,712 | 4,655 | - | 4,057 |
| | <u>82,272</u> | <u>82,272</u> | <u>82,010</u> | <u>-</u> | <u>262</u> |
| Revenues over (under) expenditures | <u>7,728</u> | <u>7,728</u> | <u>10,075</u> | <u>-</u> | <u>2,347</u> |
| Other financing sources (uses): | | | | | |
| Interest earned | 15 | 15 | 16 | - | 1 |
| Operating transfers in | - | - | - | - | - |
| | <u>15</u> | <u>15</u> | <u>16</u> | <u>-</u> | <u>1</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>7,743</u> | <u>7,743</u> | <u>10,091</u> | <u>-</u> | <u>2,348</u> |

PENA BLANCA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015

Prior Year Findings:

2014-001 – IPA recommendation submitted after July 1, 2014. Resolved

2014-002 – Timeliness of Report. Resolved

Current Year Findings

Finding 2015-001 – Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Finding 2015-002 – Review and approval of Journal Entries and supporting documentation.

Finding 2015-003 – Original budget and subsequent budget adjustments were not approved the DFA-LGD.

PENA BLANCA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2015

Finding 2015-001. Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Condition:

The District used the IRS mileage reimbursement rate to reimburse employee use of personal vehicles for the benefit of the District.

Criteria:

Per the Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC) the District should be using the rates provided by DFA. "Unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA 1978, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle." Because the District was not using the appropriate mileage reimbursement rate, it resulted in overpayments of 3 instances tested of: \$17.61, \$23.31, and \$17.61

Cause:

The District was not aware of the appropriate mileage reimbursement rate to be used.

Effect:

Because the District is not compliant with the Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC), fraud waste and abuse could take place without being detected, affecting the entity adversely in the eye of the stakeholders.

Recommendation:

The District should begin using the DFA published mileage rates along with strengthening the review and approval process.

Management's Response:

The District will begin using the DFA published mileage reimbursement rates effective immediately, and the Office Administrator will provide the supporting documentation of mileage reimbursements to the board for a quality review and approval before the payments are made. The Office Administrator is responsible for meeting the deadline as required.

PENA BLANCA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2015

Finding 2015-002. Review and approval of Journal Entries and supporting documentation.

Condition:

Supporting documentation of Journal Entries was not provided by the District. The District does not have procedures to prepare and retain supporting written documentation, and that require journal entries to be reviewed and there is no evidence the reviews were being performed.

Criteria:

Proper internal controls that prevent management override include requiring that Journal Entries must have supporting documentation and appear reasonable.

Cause:

The District was not aware that supporting documentation of the Journal Entries should be retained and Journal Entries should be reviewed and approved.

Effect:

If journal entries are not reviewed and approved, fraud waste and abuse could take place without being detected, and the Financial Statements could be manipulated or misstated.

Recommendation:

The District should prepare supporting documentation of Journal Entries to be reviewed and approved by the Board. The supporting documentation should provide support that the journal entries are being reviewed and approved prior to their entry in the system.

Management's Response:

The District will prepare and retain the supporting documentation of the journal entries effective immediately. The Office Administrator will provide the supporting documentation with the explanation of the journal entry to the Board for review and approval prior to entry in the system. The Office Administrator is responsible for meeting the deadline as required.

PENA BLANCA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED JUNE 30, 2015

Finding 2015-003. Original budget and subsequent budget adjustments were not approved by DFA-LGD.

Condition:

Supporting documentation of original budget being approved by DFA-LGD was not provided by the District. We could not verify that the budget approved by the board on 7/14/2014 was approved by DFA-LGD.

Criteria:

The Original budget and subsequent budget adjustments must be approved by the local public body's governing body and DFA-LGD.

Cause:

The District was not aware that supporting documentation of the original budget and subsequent budget adjustments must be approved by DFA-LGD, and retained by the entity.

Effect:

If the original budget and subsequent budget adjustments are not being approved by DFA-LGD, the District is not compliant 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 and retain the supporting documentation of original budget and subsequent budget adjustments being approved by DFA-LGD.

Management's Response:

The District will prepare and retain supporting documentation of original budget and subsequent budget adjustments being approved by DFA-LGD effective immediately. The Office Administrator is responsible for meeting the deadline as required.

PENA BLANCA WATER AND SANITATION DISTRICT
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2015

The report contents were discussed at an exit conference held on December 1, 2015 with the following in attendance:

Pena Blanca Water and Sanitation District

Sandra Gutierrez
Karman Kleinschmidt

Office Administrator
President/Director

Assurance Tax Accounting PC

Johnny Mangu, MBA, CPA, CGFM, CGMA

Principal