

**PENA BLANCA WATER AND SANITATION DISTRICT**

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

**For the Fiscal Year Ended  
June 30, 2016**

**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**

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**PENA BLANCA WATER AND SANITATION DISTRICT  
OFFICIAL ROSTER  
Fiscal Year Ending June 30, 2016**

<b>Name</b>	<b>Title</b>
Ralph Bernal	President/Director
Irma Gonzales	Vice-President/Director
John Compton	Treasurer/Director
Angelo Mares	Director
Flora Quintana	Director
Sandra Gutierrez	Office Administrator

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

Ralph Bernal, 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 5 entity per Section 12-6-3 B (5) NMSA 1978, Section 2.2.2.16 NMAC as of and for the year ended June 30, 2016. 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](http://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](http://www.osanm.org) under "Tier System Reporting Main Page" and it was determined that the Pena Blanca falls under the Tier 5 procedures. General revenues were \$82,667 and capital projects were started.

**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.

We determined that all bank reconciliations were performed. The bank reconciliations were not performed in a timely manner. All bank statements and investment/savings

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statements were complete and on hand without exception. All monthly bank reconciliations for the operating account and the savings account were examined without exception. See Finding 2016-001.

- 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 that the reconciliation for June 2016 was not accurate as there is a reconciliation variance of \$6.28. The reconciled ending balance did not tie to the value submitted in the quarterly report submitted to DFA. See Finding 2016-001.

- 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 and it was signed by the board President. We noted no exceptions.

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### 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.

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 two items for \$98.00 and \$450.00 did not have supporting documentation. Of the 25 items tested 9 were for payroll disbursements. Because payroll is manually calculated using excel worksheets, and the formulas are sometimes not correct or a value is entered rather than a formula, resulting in payroll disbursements to have overpayments or underpayments. Payroll disbursements had the following under collections for payroll tax on individual payroll checks: \$1.15, \$11.47, \$5.74, \$9.94, \$26.23, \$31.40, \$4.27, and the following over

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collections for payroll tax on individual payroll checks: \$7.05, \$24.90, \$23.58, \$1.15. We also noted that the Quarterly Payroll tax forms were incorrectly reported. The quarterly 941 ending 03/30/2016 had wages underreported of \$104.47, Federal Withholding underreported and underpaid by \$65.25, Social Security underreported and underpaid by \$12.95, and Medicare tax underreported and underpaid by \$3.03. Quarterly 941 ending 06/30/2016 had wages underreported by \$390.00, Federal Withholding underreported and underpaid by \$403.90, Social Security underreported and underpaid by \$48.35, and Medicare tax underreported and underpaid by \$11.31. State Unemployment tax was underreported and underpaid for the quarter ending 03/31/2016 by \$0.35, and the quarter ending 06/30/2016 underreported and underpaid by \$4.67. We also noted that the State Unemployment reports for quarter ending 06/30/2016 and 09/30/2016 were filed late, resulting in \$150 penalty. See finding 2016-002.

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.

The only project requiring bidding was on the Capital Outlay disbursement. See finding 2016-003 for Procurement Code compliance finding. During testing we identified two travel reimbursements and noted that one reimbursement for \$201 was reimbursed at a mileage rate which exceeds state mandated rate, and one reimbursement for \$228.35 was reimbursed at a mileage rate which is lower than the state mandated rate. See finding 2015-001.

## 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.

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Because there were no manual journal entries created during FY 2016, no testing was performed in this area.

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

Because there were no manual journal entries created during FY 2016, no testing was performed in this area.

### **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 that the original budget was approved by the District Board.

- 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.

### **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.



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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.

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

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

The District did not provide any bidding documentation to show that other providers were considered. See finding 2016-003.

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

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

- 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.

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

- 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.

The District had only one state-funded capital outlay expenditure of \$11,704 on 8/11/2015 during the audit period. The project was not intended to be funded in advance but on a

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reimbursement basis. For the \$11,704 reimbursement, the project was invoiced on 3/2/2015 and payment to the vendor was completed on 8/11/2015.

- 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.

Pena Blanca Water & Sanitation District was awarded a \$155,000 state-funded Capital Appropriation, and for the audit period there was only one capital outlay expenditure of \$11,385. The unexpended balance for the Capital Appropriation is \$143,615. The Reversion Date is 06/30/2018.

- 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.

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.

- 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.

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 Topographic Survey. 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.

- 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 the required content per Section 2.2.2.10(I)(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.

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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 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  
December 9, 2016

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, 2016

	Budgeted Amount		Actual Budget Basis	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenue</b>				
Septic Tank Cleanout	\$ 30,000	30,000	27,170	(2,830)
Water Sales	60,000	60,000	56,511	(3,489)
Meter Installation	-	-	192	192
Other Miscellaneous Sources	-	-	(1,205)	(1,205)
	<u>90,000</u>	<u>90,000</u>	<u>82,667</u>	<u>(7,333)</u>
<b>Expenses</b>				
Personnel Services	42,168	42,168	49,092	(6,924)
Operating Expenses	10,824	10,824	10,931	(107)
System Maintenance / utilities	15,696	15,696	14,904	792
Insurance	2,952	2,952	3,620	(668)
Utilities	3,960	3,960	3,163	797
Water Lease / test	8,712	8,712	2,454	6,258
	<u>84,312</u>	<u>84,312</u>	<u>84,163</u>	<u>149</u>
Revenues over (under) expenditures	<u>5,688</u>	<u>5,688</u>	<u>(1,496)</u>	<u>(7,184)</u>
<b>Other financing sources (uses):</b>				
Interest earned	15	15	20	5
Operating transfers in				
	<u>15</u>	<u>15</u>	<u>20</u>	<u>5</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 5,703</u>	<u>5,703</u>	<u>(1,476)</u>	<u>(7,179)</u>

	TOTAL						
	Apr 16	May 16	Jun 16	Jul '15 - Jun 16	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>							
<b>Income</b>							
Customer Finance Charges	147.19	138.93	137.25	1,574.68	1,491.23	83.45	105.6%
Meter Installation Fee	95.24	0.00	0.00	191.59	100.00	91.59	191.59%
Reimbursed Expenses	0.00	0.00	0.00	-137.87	15,360.00	-15,497.87	-0.9%
Sanitation Services Sales	2,515.44	2,324.66	2,343.31	31,511.72	30,000.00	1,511.72	105.04%
Water Rights Transfer Credit	-236.00	-232.00	-234.00	-2,749.90	-2,906.50	156.60	94.61%
Water Sales	4,428.70	4,913.50	6,010.94	62,386.10	60,000.00	2,386.10	103.98%
<b>Total Income</b>	<b>6,950.57</b>	<b>7,145.09</b>	<b>8,257.50</b>	<b>92,776.32</b>	<b>104,044.73</b>	<b>-11,268.41</b>	<b>89.17%</b>
<b>Gross Profit</b>	<b>6,950.57</b>	<b>7,145.09</b>	<b>8,257.50</b>	<b>92,776.32</b>	<b>104,044.73</b>	<b>-11,268.41</b>	<b>89.17%</b>
<b>Expense</b>							
Accounting	0.00	0.00	0.00	1,664.09	2,676.00	-1,011.91	62.19%
Advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
Bank Service Charges	0.00	0.00	-19.37	-41.87	0.00	-41.87	100.0%
Computer Repairs	0.00	0.00	0.00	148.99	180.00	-31.01	82.77%
Contract Labor	30.00	50.00	0.00	80.00	240.00	-160.00	33.33%
Contract office cleaning	0.00	60.00	0.00	330.00	360.00	-30.00	91.67%
Contract office clerical	10.00	0.00	0.00	270.00	960.00	-690.00	28.13%
Dues and Subscriptions	0.00	0.00	0.00	349.65	264.00	85.65	132.44%
Electric Lift Station Ortiz/Esq	0.00	0.00	0.00	-0.01	-9.61	9.60	0.1%
Employee Dishonesty Bond	0.00	0.00	100.00	200.00	240.00	-40.00	83.33%
Equipment Rental	0.00	0.00	0.00	0.00	120.00	-120.00	0.0%
Extra Labor (Digging)	0.00	0.00	0.00	0.00	300.00	-300.00	0.0%
Gas & Electric Office	66.81	58.95	56.38	850.32	1,200.00	-349.68	70.86%
Gas & Electric Pumphouse	167.60	169.09	209.83	2,312.61	2,760.00	-447.39	83.79%
Hydrant Maintenance & Repair	84.70	0.00	0.00	84.70			
Interest Expense	0.00	0.00	0.00	319.20			
Legal	535.94	460.33	1,360.59	2,998.49	1,500.00	1,498.49	199.9%
Liability Insurance	0.00	0.00	0.00	3,620.00	2,952.00	668.00	122.63%
Licenses and Permits	0.00	0.00	0.00	40.00	140.00	-100.00	28.57%
Lien Fees	0.00	0.00	0.00	0.00	600.00	-600.00	0.0%
Mileage	418.86	215.91	176.49	2,611.98	2,400.00	211.98	108.83%
Office Building Repairs	0.00	0.00	75.30	121.40	1,620.00	-1,498.60	7.49%
Office Equipment Expense	0.00	0.00	0.00	0.00	192.00	-192.00	0.0%
Office Supplies	142.39	40.08	15.00	1,455.56	1,535.25	-79.69	94.81%
Payroll Taxes	355.87	335.26	261.43	3,255.27	2,520.00	735.27	129.18%
Payroll, Administrator	2,745.00	2,070.00	2,482.50	28,690.80	23,004.00	5,686.80	124.72%
Payroll, Water Operator	1,515.77	722.44	934.88	11,203.20	10,008.00	1,195.20	111.94%
Postage and box rent	101.28	98.00	178.00	1,260.26	1,800.00	-539.74	70.01%
Pumphouse Maintenance & Repair	0.00	996.00	0.00	1,100.87	1,000.00	100.87	110.09%
Returned Checks	0.00	41.54	0.00	82.08			
Septic Tank Cleanouts	1,170.00	1,010.00	850.00	13,711.00	15,360.00	-1,649.00	89.26%
Services Charges	0.00	0.00	0.00	2,442.74			
Small Tools	0.00	0.00	0.00	0.00	336.00	-336.00	0.0%
Telephone	178.33	293.60	179.60	2,144.90	2,100.00	44.90	102.14%
Training	0.00	0.00	0.00	600.00	900.00	-300.00	66.67%
Water Conservation Fee	23.10	21.48	26.11	267.73	312.00	-44.27	85.81%
Water Disinfecting	0.00	112.02	0.00	252.84	360.00	-107.16	70.23%
Water Hydrant Maintenance	0.00	0.00	0.00	0.00	600.00	-600.00	0.0%
Water Line Maintenance & Repair	0.00	0.00	0.00	863.71	3,960.00	-3,096.29	21.81%
Water Meters & Line Supplies	0.00	0.00	0.00	349.56	2,400.00	-2,050.44	14.57%
Water Operator Supplies	0.00	16.48	0.00	68.80	240.00	-171.20	28.67%
Water Testing	146.22	0.00	0.00	651.17	840.00	-188.83	77.52%
<b>Total Expense</b>	<b>7,691.87</b>	<b>6,771.18</b>	<b>6,886.74</b>	<b>84,360.04</b>	<b>85,969.64</b>	<b>-1,609.60</b>	<b>98.13%</b>
<b>Net Ordinary Income</b>	<b>-741.30</b>	<b>373.91</b>	<b>1,370.76</b>	<b>8,416.28</b>	<b>18,075.09</b>	<b>-9,658.81</b>	<b>46.56%</b>
<b>Other Income/Expense</b>							
<b>Other Income</b>							
Interest Income	1.62	1.68	1.62	19.95	15.48	4.47	128.88%
<b>Total Other Income</b>	<b>1.62</b>	<b>1.68</b>	<b>1.62</b>	<b>19.95</b>	<b>15.48</b>	<b>4.47</b>	<b>128.88%</b>
<b>Net Other Income</b>	<b>1.62</b>	<b>1.68</b>	<b>1.62</b>	<b>19.95</b>	<b>15.48</b>	<b>4.47</b>	<b>128.88%</b>
<b>Net Income</b>	<b>-739.68</b>	<b>375.59</b>	<b>1,372.38</b>	<b>8,436.23</b>	<b>18,090.57</b>	<b>-9,654.34</b>	<b>46.63%</b>

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2016**

**Prior Year Findings:**

Finding 2015-001 – Per Diem and Mileage Act	Repeated
Finding 2015-002 – Review and approval of Journal Entries	Resolved
Finding 2015-003 – Original budget and subsequent budget adjustments were not approved the DFA-LGD.	Resolved

**Current Year Findings**

- Finding 2015-001 – Per Diem and Mileage Act
- Finding 2016-001 - Bank Reconciliations
- Finding 2016-002 - Lack of Documentation of Cash Disbursements and Payroll miscalculation
- Finding 2016-003 – No Supporting Documentation Provided for Procurement

**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**YEAR ENDED JUNE 30, 2016**

**Finding 2016-001 - Bank Reconciliations**

Condition:

While applying the agreed upon procedures over timeliness and accuracy of cash reconciliations, it was noted that all but one of the bank reconciliations tested for timeliness were performed late and the month of June 2016 reconciliation was inaccurate with a variance of \$6.28. The reconciled ending balance for two months in the cash accounts did not tie to the value submitted in the quarterly report to DFA.

Criteria:

In accordance with Subsection I 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.

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, 2016**

**Finding 2016-002 - Lack of Documentation of Cash Disbursements and Payroll miscalculation**

Condition:

We determined that two disbursements for \$98.00 and \$450.00 did not have supporting documentation. Of the 25 items tested 9 were for payroll disbursements. Because payroll is manually calculated using excel worksheets, and the formulas are sometimes not correct or a value is entered rather than a formula, resulting in payroll disbursements to have overpayments or underpayments. Payroll disbursements had the following under collections for payroll tax on individual payroll checks: \$1.15, \$11.47, \$5.74, \$9.94, \$26.23, \$31.40, \$4.27, and the following over collections for payroll tax on individual payroll checks: \$7.05, \$24.90, \$23.58, \$1.15. We also noted that the Quarterly Payroll tax forms were incorrectly reported. Quarterly 941 ending 03/30/2016 had wages underreported of \$104.47, Federal Withholding underreported and underpaid by \$65.25, Social Security underreported and underpaid by \$12.95, and Medicare tax underreported and underpaid by \$3.03. Quarterly 941 ending 06/30/2016 had wages underreported by \$390.00, Federal Withholding underreported and underpaid by \$403.90, Social Security underreported and underpaid by \$48.35, and Medicare tax underreported and underpaid by \$11.31. State Unemployment tax was underreported and underpaid for the quarter ending 03/31/2016 by \$0.35, and the quarter ending 06/30/2016 underreported and underpaid by \$4.67. We also noted that the State Unemployment reports for quarter ending 06/30/2016 and 09/30/2016 were filed late, resulting in \$150 penalty.

Criteria:

Proper internal controls require supporting documentation for all transactions that occur. The supporting documentation should be retained along with the copy of the check disbursement.

Cause:

The District does not have a process for retaining the proper documentation for disbursements. Payroll is calculated manually and susceptible to mistakes.

Effect:

Lack of supporting documentation for financial transactions can cause misstatements that may go undetected. Incorrectly calculated payroll can result in significant penalties.

Recommendation:

The District should adopt a policy of retaining supporting documentation for every disbursement, to help determine that disbursements recorded are complete, accurate and timely. Miscalculated and underreported 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 correctly.



**PENA BLANCA WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**YEAR ENDED JUNE 30, 2016**

**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. Management did not make any progress towards implementing the prior year corrective action plan.

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 one overpayment of \$23.52 and one underpayment of \$1.95 for the items tested.

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, 2016**

**Finding 2016-003 – No Supporting Documentation Provided for Procurement**

Condition:

The District did not provide supporting documentation for Procurement that other providers were considered for the project.

Criteria:

Per the Regulations Governing the Procurement Code Regulations (1.4.1.1 NMAC) the District should be requesting “Request for proposals” or “Invitation for Bid” from multiple providers and considering “Best obtainable price,” “Bidder” along with capability and other considerations of the provider.

Cause:

The District was not aware of the State Purchasing regulations.

Effect:

Because the District is not compliant with the Regulations Governing the Procurement Code Regulations (1.4.4.1 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 complying with the Procurement Code Regulations along with strengthening the review and approval process.

Management’s Response:

The District will become more knowledgeable with the Procurement Code Regulations along with strengthening the review and approval process, and the Office Administrator will provide the supporting documentation to the board for a quality review and approval. The Office Administrator is responsible for meeting the deadline as required.

**PENA BLANCA WATER AND SANITATION DISTRICT**  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2016

The report contents were discussed at an exit conference held on December 9, 2016 with the following in attendance:

**Pena Blanca Water and Sanitation District**

Sandra Gutierrez  
John Compton

Office Administrator  
Secretary/Treasurer

**Assurance Tax Accounting PC**

Johnny Mangu, MBA, CPA, CGFM, CGMA

Principal