

**STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT**

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**Independent Accountants' Report  
On Applying Agreed-Upon Procedures  
June 30, 2012**



**Aspirion** \*Forensics/Valuation

Accountants | Consultants | Auditors

3916 Juan Tabo NE

Albuquerque, NM 87111

STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
Table of Contents  
For the year ended June 30, 2012

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Official Roster	1
Independent Accountants' Report on Applying Agreed-Upon Procedures	2-5
Schedule of Revenues and Expenditures (Budget and Actual)	6
Schedule of Findings	7-13
Original DFA Filing	14-15
Exit Conference	16

STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
Official Roster  
For the year ended June 30, 2012

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President/Director	Karman Kleinschmidt
Vice-President/Director	Mike Michael
Secretary/Director	Tony Quintana
Director	William Bonney
Director	Joseph Roybal*
Office Administrator	Deborah Montoya

\*Mr. Roybal resigned his position in July 2012. The position has not yet been filled.



**Independent Accountants' Report on Applying Agreed-Upon Procedures**

Honorable Hector Balderas, New Mexico State Auditor  
Ms. Karman Kleinschmidt, Board President  
Members of the Board of Directors  
State of New Mexico  
Pena Blanca Water & Sanitation District  
Pena Blanca, New Mexico 87041

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and Management of Pena Blanca Water & Sanitation District, solely for the purpose of reporting to the Board of directors of Pena Blanca Water & Sanitation District and the New Mexico State Auditor and the New Mexico State Legislature as of and for the year ended June 30, 2012. 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 the 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.

The procedures and the associated findings are as follows:

**GENERAL**

1. We verified the Pena Blanca Water & Sanitation District's revenue calculation and tier determination using the OSA's "Form for Determining Type of Reporting Requirements" and determined that the entity required a Tier 4 engagement. General revenues were \$96,540 and no capital projects were started or completed.

**CASH**

2. 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 were examined. Savings account statements for the periods November 2011 through June 2012 were also examined.

- a. We performed a test of banks reconciliations for accuracy and traced the ending balances to the general ledger for all bank statements and savings accounts reconciliations. We determined that the District, in attempting to conform its cash basis financial statements to the budgetary basis for comparison purposes, would reclassify certain cash transactions, usually payroll and one vendor paid on a monthly basis after the date of the bank reconciliation. In and 7 out of 12 reconciliations of the operating account, this adjustment caused the bank reconciliation not to agree with the general ledger balance. All differences between the bank reconciliation and the general ledger were reconcilable by moving certain transactions to the appropriate accounting period. See finding 01 – 2012.
- b. 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 not required.

### CAPITAL ASSETS

3. We inquired as to whether or not the Pena Blanca Water & Sanitation District is performing a yearly inventory as required by section 12 – 6 – 10 NMSA 1978. The majority of the sanitation districts assets are in the water system and water tank most of which, are 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. Thus those Sanitation District is constantly aware of the status of its fixed assets. Other assets include the building which houses the District’s offices. Office equipment consists of a used desk, a used computer, printer, 2 folding chairs, and a plastic worktable. An inventory of this basic equipment is not maintained. See finding 02 – 2012.

### REVENUE

4. We performed an analytical review of each type of revenue and compared each type of revenue to the budget, rate schedules, and the number of participants in both the water system and sanitation district. We noted that when the activities of the water system were consolidated with the sanitation district, the amounts entered as balance forward from the water system accounts receivable were charged to revenue rather than unrestricted net assets. The amount of this overstatement of income in the books was \$3,478. An adjustment was recommended to the District. See finding 03 – 2012.

- a. We traced amounts recorded in the deposit books to the general ledger and to amounts reflected on the bank statements for the months of July and August 2011 and April, May and June 2012. No exceptions were noted.
- b. We reviewed the same transactions for proper classification amount, and period per review of the deposit books and invoice activity on the modified accrual basis of accounting. No exceptions were noted.

### EXPENDITURES

5. We selected a sample of cash disbursements based on auditor judgment and tested that sample as follows:
  - c. We 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.
  - d. We determined that the cash disbursements were not properly authorized and approved in accordance with budget, legal requirements and established policies and procedures. All disbursements selected in the sample did not have authorization to pay nor were invoices, once paid, properly canceled. The vendor files and employee timesheet files contained the documentation required in terms of backup materials, however as noted above, none of the invoices were canceled or approved for payment by the approving official. See finding 04 – 2012.
  - e. 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.

### JOURNAL ENTRIES

6. Our review determined that only one Journal entry recorded during the fiscal year. That Journal entry was to remove from the books a note due to the water system which was eliminated in the consolidation of the water system with the sanitation district. The Journal entry was properly stated in the note balance was incorporated in unrestricted net assets. No other adjustments were noted.

BUDGET

7. We obtained the fiscal year budget and all budget amendments made throughout fiscal year and perform the following procedures.
  - a. We verified through review of minutes the original budget approved by the local bodies governing body and DFA-LG.
  - b. We determined that the total actual expenditures exceeded the final budget at the level of budgetary control. See finding 05 – 2012.
  - c. We prepared a schedule of revenues and expenditures budget and actual, on the modified accrual basis of accounting for the operating fund. See the attached schedule as noted in the table of contents.

OTHER

8. 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

*Aspin LLL*

**December 31, 2012**

STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
SCHEDULE OF FINDINGS & RESPONSES  
For the Year Ended June 30, 2012

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Current Year Findings:

01-2011 - Repeated – Timeliness of Report

01-2012 - Bank reconciliations do not agree to general ledger

02-2012 - Capital asset inventory not maintained.

03-2012 - Balance forward information recorded as revenue in the current period.

04-2012 - Cash disbursements not properly authorized for payment or invoices canceled.

05-2012 - Expenditures exceeded budgetary authorization.



STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
SCHEDULE OF FINDINGS & RESPONSES, Continued  
For the Year Ended June 30, 2012

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01-2011 Repeated TIMELINESS OF AUDIT REPORT

Statement of Condition:

The New Mexico State Auditor required the special procedures report to be completed and submitted to his office by December 1, 2012. The report is past due.

Criteria:

Governmental entities, agencies, and committees review the reports and prefer to do so in a timely manner. The SAO Rule, NMAC 2.2.2.9 A (1)(d) establishes a due date of December 1 for the tiered reporting system.

Effect:

The report has not been submitted as required by the State Auditor.

Cause:

The agency was unable to complete the contracting process with the State Auditor's office on a timely basis

Recommendation:

The audit delivery date should be complied with.

Response:

The agency will attempt to start the contracting process at an earlier date.

STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
SCHEDULE OF FINDINGS & RESPONSES, Continued  
For the Year Ended June 30, 2012

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01-2012 - BANK RECONCILIATIONS DO NOT AGREE TO GENERAL LEDGER

Statement of Condition:

The bank reconciliations prepared do not reconcile to the general ledger in 7 out of 12 months.

Criteria:

Accounting procedures require that bank reconciliations be prepared on a timely basis reconciling the balance per bank to the balance per books.

Effect:

Accounting transactions could be omitted or erased from the books if reconciliations are not properly prepared and compared to the underlying trial balance to ensure completeness and accuracy in the recording of transactions.

Cause:

Pena Blanca Water & Sanitation District uses the modified accrual basis of accounting to record its revenues from the water system and sanitation district. Monthly charges are invoiced and amounts recorded as accounts receivable. The District records its expenditures including payroll using the cash basis of accounting. Its budget is annualized and then divided into 12 periods.

The financial statements were prepared for presentation to the Board of Directors, who questioned the misalignment between the budget and the actual financial performance. Bank reconciliations were performed on a timely basis and as such the reclassification of these expenses created a timing difference directly affecting the reconciliation of amounts represented in the bank reconciliation versus the general ledger.

Recommendation:

Pena Blanca Water & Sanitation District should utilize the accounts payable system within its QuickBooks accounting system to record expenses as incurred on the modified accrual basis of accounting. Additionally, the District should change its pay dates to the semimonthly basis to ensure that its payroll is paid on the last day of the month and all payroll expenses are captured within that monthly period eliminating the need to reclassify transactions between periods

Response:

The District will utilize its accounts payable subsidiary system and will change the payroll periods to semimonthly so that expenses are more accurately matched with income with the necessity to move transactions.

STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
SCHEDULE OF FINDINGS & RESPONSES, Continued  
For the Year Ended June 30, 2012

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02-2012 - CAPITAL ASSET INVENTORY NOT MAINTAINED.

Statement of Condition:

Pena Blanca Water & Sanitation District does not maintain or perform a yearly inventory is required by section 12-6-10 NMSA 1978.

Criteria:

Section 12-6-10 NMSA 1978 requires that public bodies maintain a list of their assets and perform a yearly inventory and reconciliation.

Effect:

The District cannot properly account for all its fixed assets and does not know if assets it owns are accounted for.

Cause:

The District believes that its fixed assets cannot be visually inspected but are monitored on a continual basis continual basis and as such do not require an annual inventory. The District also believes that the cost of its office equipment is so minimal that an inventory is not necessary.

Recommendation:

The District should prepare a list of its office equipment and perform an annual inventory.

Response:

The District will prepare a list of its office equipment and will preform an annual inventory as required.

STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
SCHEDULE OF FINDINGS & RESPONSES, Continued  
For the Year Ended June 30, 2012

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03-2012 - BALANCE FORWARD INFORMATION RECORDED AS REVENUE IN THE  
CURRENT PERIOD.

Statement of Condition:

Balance forward information from the water system to be consolidated into the District's financial accounting system was entered as current revenue in the District's current fiscal year, but had already been recognized as income in the water systems prior-year financial statement.

Criteria:

Generally Accepted Accounting Principles that income the recognized in the period earned on the modified accrual basis of accounting.

Effect:

Income was recognized twice, once in the water systems books and again in the consolidated books creating a misunderstanding of what actual revenues were for the period.

Cause:

Accounting staff did not recognize the effect of the invoices being recorded in the financial statements.

Recommendation:

We recommend that the District consult with knowledgeable accountants before proceeding with complex transactions.

Response:

The District will consult with its outside accountants when additional expertise is required in making unusual or one time entries.

STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
SCHEDULE OF FINDINGS & RESPONSES, Continued  
For the Year Ended June 30, 2012

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04-2012 - CASH DISBURSEMENTS NOT PROPERLY AUTHORIZED FOR PAYMENT  
OR INVOICES CANCELED.

Statement of Condition:

Invoices and time sheets are not approved for payment by a supervising official. Once paid, invoices are not canceled to prevent a second presentation of the invoice.

Criteria:

Accounting procedures for accounts payable require that invoices be marked as approved for payment thereby recording the authorization for the payment process to proceed. Timesheets should be reviewed and authorized for payment as well.

Effect:

Timesheets or vendor invoices could be presented for payment a 2<sup>nd</sup> time if procedures are not adequate to prevent this. Expenditures lack the requisite approval for payment and a breakdown in the disbursement process could occur.

Cause:

Accounting personnel are not aware of the correct procedures for authorization and cancellation of invoices as well as timesheets.

Recommendation:

The District should purchase a stamp to be used to cancel all paid invoices. The District should also obtain a stamp which might include a space for authorization as well as a space to add the classification of the expenditure.

Response:

The District will initial all documents evidencing the authorization for payment of all invoices and timesheets. The District will acquire a "paid" stamp and will use that to cancel all invoices and timesheets paid.

STATE OF NEW MEXICO  
 PENA BLANCA WATER & SANITATION DISTRICT  
 SCHEDULE OF FINDINGS & RESPONSES, Continued  
 For the Year Ended June 30, 2012

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05-2012 - EXPENDITURES EXCEEDED BUDGETARY AUTHORIZATION

Statement of Condition:

The Pena Blanca Water & Sanitation District's actual expenditures exceeded the budgeted authority in the following funds:

	Revised Budget	Expenditures	Over spent
Proprietary Fund	\$72,056	84,513	12,457

Criteria:

State Statute, 6-6-6, NMSA 1978 requires the expenditures of public bodies not to exceed budget authority.

Effect:

Violation of State Statute and reflects insufficient control over budget and expenditures.

Cause:

Necessary budget adjustments were not requested on a timely basis.

Recommendation:

Continue monitoring budgets and request needed budget adjustments in a timely manner.

Response:

Budget adjustment requests will be made in a timely manner and budget will be monitored more closely.

**Pena Blanca Water & Sanitation District**  
**Balance Sheet**  
As of June 30, 2012

	<u>Jun 30, 12</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
LANB Savings Acct	34,005.49
LANB Checking 0801	3,742.91
Cash on Hand	200.00
Wells Fargo Checking 10963	-8.56
<b>Total Checking/Savings</b>	<u>37,939.84</u>
Accounts Receivable	
Accounts Receivable - Water	1,801.18
Accounts Receivable Sanitation	13,761.68
<b>Total Accounts Receivable</b>	<u>15,562.86</u>
Other Current Assets	
Allow for Uncollectible Amts	-2,594.10
Undeposited Funds	40.00
<b>Total Other Current Assets</b>	<u>-2,554.10</u>
<b>Total Current Assets</b>	<u>50,948.60</u>
<b>Fixed Assets</b>	
Office Equipment	593.60
Accumulated Depreciation	-12,998.10
Building	17,565.00
<b>Total Fixed Assets</b>	<u>5,160.50</u>
<b>TOTAL ASSETS</b>	<u><u>56,109.10</u></u>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Other Current Liabilities	
Gross Receipts Tax Payable	575.25
Payroll Liabilities	852.24
<b>Total Other Current Liabilities</b>	<u>1,427.49</u>
<b>Total Current Liabilities</b>	<u>1,427.49</u>
<b>Total Liabilities</b>	1,427.49
<b>Equity</b>	
Opening Bal Equity	42,667.37
Retained Earnings	-3,502.23
Net Income	15,516.47
<b>Total Equity</b>	<u>54,681.61</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>56,109.10</u></u>

**Pena Blanca Water & Sanitation District**  
**Profit & Loss Budget vs. Actual**  
July 2011 through June 2012

	<u>Jul '11 - Jun 12</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
Sales Income	76,102.37	75,999.96	102.41	100.14%
Customer Finance Charges	1,122.60			
Miscellaneous Credit	21,143.05			
Reimbursed Expenses	1,650.00			
<b>Total Income</b>	<u>100,018.02</u>	<u>75,999.96</u>	<u>24,018.06</u>	<u>131.6%</u>
<b>Gross Profit</b>	100,018.02	75,999.96	24,018.06	131.6%
<b>Expense</b>				
Install New Water Meters	0.00	2,592.00	-2,592.00	0.0%
Advertising	159.32	240.00	-80.68	66.38%
Water Conservation Fee	340.73	420.00	-79.27	81.13%
Water Disinfecting	394.47	300.00	94.47	131.49%
Water Rights Lease	1,332.00	2,220.00	-888.00	60.0%
Water Testing	845.97	600.00	245.97	141.0%
Mileage	1,074.88	480.00	594.88	223.93%
Reconciliation Discrepancies	0.01			
Bad Debt	0.00			
Training	568.75	1,440.00	-871.25	39.5%
Bank Service Charges	94.42	480.00	-385.58	19.67%
Contract Labor	922.00			
Dues and Subscriptions	313.05	300.00	13.05	104.35%
Insurance	2,659.00	2,659.00	0.00	100.0%
Miscellaneous	747.12			
Office Supplies	1,470.59	1,800.00	-329.41	81.7%
Payroll Expenses	34,484.28	30,688.08	3,796.20	112.37%
Postage and Delivery	1,380.69	1,512.00	-131.31	91.32%
Printing and Reproduction	45.00			
Professional Fees	2,140.00	2,500.00	-360.00	85.6%
Program Expense	18,953.09	11,520.00	7,433.09	164.52%
Repairs	11,273.33	7,800.00	3,473.33	144.53%
Utilities	5,314.42	5,796.00	-481.58	91.69%
<b>Total Expense</b>	<u>84,513.12</u>	<u>73,347.08</u>	<u>11,166.04</u>	<u>115.22%</u>
<b>Net Ordinary Income</b>	15,504.90	2,652.88	12,852.02	584.46%
<b>Other Income/Expense</b>				
<b>Other Income</b>				
Interest Income	11.57	30.00	-18.43	38.57%
<b>Total Other Income</b>	<u>11.57</u>	<u>30.00</u>	<u>-18.43</u>	<u>38.57%</u>
<b>Net Other Income</b>	<u>11.57</u>	<u>30.00</u>	<u>-18.43</u>	<u>38.57%</u>
<b>Net Income</b>	<u><u>15,516.47</u></u>	<u><u>2,682.88</u></u>	<u><u>12,833.59</u></u>	<u><u>578.35%</u></u>



STATE OF NEW MEXICO  
PENA BLANCA WATER & SANITATION DISTRICT  
EXIT CONFERENCE  
For the Year Ended June 30, 2012

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An exit conference was held at the offices of the Pena Blanca Water & Sanitation District in Pena Blanca, New Mexico on November 30, 2012.

Present representing Pena Blanca Water & Sanitation District were Karmen Kleinschmidt, Board President, and Deborah Montoya, office administrator.

Present representing Aspirion Accounting & Consulting, LLC was Chris Fogel, CPA/ABV/CFF/CGMA MBA CFE, principal of the firm.