

# **Accounting & Auditing Services, LLC**

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

**Ya-Tah-Hey Water and Sanitation District**

**Independent Accountant's Report on Applying Agreed-Upon Procedures**

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

**Ya-Ta-Hey Water and Sanitation District  
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For the Fiscal Year Ending June 30, 2016**

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Ya-Tah-Hey Water and Sanitation District  
Official Roster  
June 30, 2016

**Board of Directors**

•  
Stephen Rogers, President

Vacant, Vice-President

Loline Hathaway, Secretary/Treasurer

Leo Torrez, Director

**Administrative Staff**

None

## Independent Accountant's Report on Applying Agreed-Upon Procedures

Stephen Rogers, President  
Ya-Tah-Hey Water and Sanitation District  
and  
Tim Keller  
New Mexico State Auditor

I have performed the procedures enumerated below for the Ya-Tah-Hey Water and Sanitation District (District) for the fiscal year ended June 30, 2016, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the District through the New Mexico Office of the State Auditor. The District's management is responsible for its accounting records and the subject matter. 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. 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 "Tiered System Reporting Main Page."

Based on a review of the District's general ledger, total revenues for the fiscal year ending June 30, 2016 were \$81,192 and the District did not receive a capital outlay appropriation. Based on this information, the District was properly determined to be a Tier 4 entity for FY16 since their total revenues were between \$50,000 and \$250,000 and they did not receive a capital outlay appropriation.

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.

The District has three bank accounts (Wells Fargo Checking, US Bank Money Market, and US Bank Escrow). All of the bank statements for the fiscal year were complete

and on hand. However, the bank reconciliations for all accounts were not performed in a timely manner. See Finding No. 2016-001 on p. 6.

- 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.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the general ledger and supporting documentation.

- 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.

The bank account balances (including the money market and escrow accounts) of the District were fully insured by the FDIC. Pledged collateral was not required since the District's bank balances were below \$250,000 during the fiscal year.

### 3. Capital Assets

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

The District did not perform a capital asset inventory for the fiscal year ending June 30, 2016. See Finding No. 2016-002 on p. 7.

### 4. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The major revenue sources of the District consist of water and sewer charges, administrative fees and rental income. The variances between budgeted revenues and actual revenues were reasonably explained by management. No unusual or unexplained variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
  - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts were judgmentally selected and tested which amounted to 41.5% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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 basis, or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger.

## 5. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:
  - i. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of cash disbursements were tested which amounted to 85% of total expenses. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The District does not use purchase order forms and does not receive canceled checks from Wells Fargo Bank.

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

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- iii. 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), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code, Purchasing Regulations and the Per Diem and Mileage Act, as applicable.

## 6. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- i. Journal entries appear reasonable and have supporting documentation.

The District posted three adjusting journal entries to its general ledger during the fiscal year: 1) a \$16,027.50 journal entry to set up the loan balance due to the New Mexico Environment Department; 2) a \$294.01 journal entry to record a prior year gross receipts tax liability and expense; and 3) a \$26,230.07 to record the retained earnings balance as of 7/1/15. The District has adequate documentation and explanations to support the journal entries.

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

The District has procedures in place that require management's review and approval of non-routine journal entries. The Board of Directors approved the journal entries noted above.

## 7. Budgets

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- i. 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.

The minutes of the meetings showed that the Board of Directors adopted the original budget on February 8, 2016. However, the original budget was not approved by DFA-LGD. See Finding No. 2016-003 on p. 8. There were no budget adjustments during the fiscal year.

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

Total expenses exceeded the final approved budget by \$38,303. See Exhibit 1 on p. 13 and Finding 2016-005 on p. 11.

- iii. 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 Exhibit 1 on p. 13.

## 8. Other

- a. 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.

See Finding 2016-004 on p. 10.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and others with the District, the New Mexico State Auditor, the 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 these specified parties.

*Accounting & Auditing Services, LLC*

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

September 22, 2016



**Ya-Tah-Hey Water and Sanitation District  
Schedule of Findings and Responses  
For the Fiscal Year Ending June 30, 2016**

**Status of Prior Year Findings**

Finding 2010-001 – Bank Reconciliations – Modified and Repeated.

Finding 2004-001 – Budget Approval and Quarterly Reporting – Modified and Repeated.

Finding 2004-005 – No Capital Asset Inventory Listing and No Board Certification of Inventory and Fiscal Year-End – Modified and Repeated.

Finding 2004-006 – Late Agreed-Upon Procedures Report and IPA Recommendation – Resolved.

Finding 2005-001 – Lack of Documentation for Disbursements – Resolved.

Finding 2011-005 – Improper Payments for Water Storage Tank Lease Site – Repeated.

**Current Year Findings**

**Finding 2010-001 – Untimely Bank Account Reconciliations**

**Condition**

The District did not perform the bank account reconciliations of its three bank accounts in a timely manner. For the checking account, the bank reconciliations for the months of July to November 2015 were not performed until January 2016. For the money market and escrow accounts, the bank reconciliations for July 2015 to April 2016 were not performed until June 2016.

The District has taken recent corrective action to resolve this finding. The District has provided its accounting contractor (eWaterbilling.com) with internet access to its bank statements to ensure that the bank account reconciliations are performed in a timely manner.

**Criteria**

It is a prudent business practice to perform monthly bank accounts reconciliations to verify that all monetary transactions are accurately recorded and accounted for by the bank and the District.

**Effect**

Recording errors or misappropriation of cash may not be detected and corrected if bank reconciliations are not performed in a timely manner.

**Ya-Tah-Hey Water and Sanitation District  
Schedule of Findings and Responses  
For the Fiscal Year Ending June 30, 2016**

Cause

District management did not submit the bank statements to its accounting contractor as soon as they were available from the bank.

Recommendation

The District's Secretary/Treasurer should implement a procedure to ensure that its accounting contractor receives all the bank statements shortly after they are available from the bank, and the contractor performs the bank account reconciliations no later than 30 days after the statement end date.

Management's Response

As of July 20, 2016, the accounting contractor (eWaterbilling.com) has internet access to the District's bank account statements. Effective September 1, the accounting contractor reconciles bank statements within ten days after the statement end date. Banks statements with reconciliation reports will be submitted to the Board with monthly financials.

**Finding 2004-001. Non-compliance with Budget Laws and Regulations**

Condition

The District did not submit its annual budget for FY16 to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for review and approval. Also, the District did not submit its first three quarterly reports to DFA-LGD as required.

The District has made progress to correct this finding. On July 11, 2016, the District submitted its FY16 4<sup>th</sup> quarter financial report and its FY17 budget to DFA-LGD for approval.

Criteria

Pursuant to Section 6-6-2.A NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year. Also, each local public body is required to submit quarterly financial reports and budget adjustments to DFA-LGD per Section 6-6-2.F and 6.6.2.G NMSA 1978, respectively. Furthermore, per Section 6-6-5 NMSA 1978, upon receipt of any budget approved by DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body.

**Ya-Tah-Hey Water and Sanitation District  
Schedule of Findings and Responses  
For the Fiscal Year Ending June 30, 2016**

Effect

DFA-LGD was unable to perform their oversight duties over the District's financial affairs.

Cause

Management of the District neglected to submit the adopted budget and quarterly reports to DFA-LDG in a timely manner. During two board meetings, management stated that they were unable to convene a quorum of board members to officially adopt the budget in a timely manner.

Recommendation

The District's Board of Directors should adopt and submit its annual budget to DFA-LGD by June 1 of each fiscal year. After the District receives the budget certification letter from DFA-LGD, the District's Board of Directors should make record of the approval in the minutes of its meetings. The District should submit its budget adjustments and quarterly financial reports to DFA-LGD as required. The District should develop and implement written policies and procedures to ensure that the budget laws and regulations are fully complied with in the future.

Management's Response

On July 11, 2016, the accounting contractor with approval from the Board of Directors submitted its FY16 4<sup>th</sup> quarter financial report and its FY17 budget to DFA-LGD for approval. The FY17 budget was approved by DFA-LGD on September 6, 2016. The budget certification letter is on file and will make record at the September 2016 Board Meeting.

The District's Board of Directors will adopt and submit its annual budget and resolution to DFA-LGD by June 1<sup>st</sup> of each fiscal year. The Board of Directors will make record of the budget certification letter in the minutes of the board meeting following receipt of the letter. The accounting contractor will prepare the quarterly reports for the Board's review and submit the reports to DFA-LGD at least 5 days prior to the due date.

**Finding 2004-005 – No Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End**

Condition

For the fiscal year ending June 30, 2016, the District did not perform and document a physical inventory of its capital assets.

**Ya-Tah-Hey Water and Sanitation District  
Schedule of Findings and Responses  
For the Fiscal Year Ending June 30, 2016**

The District made a little progress to correct this finding. During the agreed-upon procedures for FY16, the Secretary/Treasurer stated that the District does not have any movable chattels and equipment that cost \$5,000 or more; however, the District did not formally document this conclusion and the Board of Directors did not certify the correctness of this assertion.

**Criteria**

Section 12-6-10.A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness." Section 2.20.1 NMAC requires an annual inventory and establishes standards to properly record, control and account for capital assets acquired by agencies.

**Effect**

The District does not have a complete listing and an established carrying amount for the value of its capital assets as of June 30, 2016 which is useful to properly control, account for and manage its capital assets.

**Cause**

The District neglected to perform and document the physical inventory at the end of the fiscal year and have the Board certify the results.

**Recommendation**

At the end of each fiscal year, the District should perform and document a complete physical inventory of its capital assets in accordance with state laws and regulations. For each capital asset, the description of the asset, date acquired, cost, location, useful life, and ending balance of its capital assets should be recorded on the District's capital asset listing. The results of the inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the District.

**Management's Response**

The District Board of Directors will record in the September 2016 Board meeting minutes that there are no chattels and equipment that cost \$5,000 or more. Effective July 1, 2016, the accounting contractor will make record of chattels and equipment on a separate ledger for yearly review and approval starting with the June 2017 board meeting. The ledger will

**Ya-Tah-Hey Water and Sanitation District  
Schedule of Findings and Responses  
For the Fiscal Year Ending June 30, 2016**

record details of the purchase(s) including lifespan. Assets in the bookkeeping system will be adjusted and approved by the District's board of directors.

**Finding 2011-005 – Improper Payments for Water Storage Tank Lease Site**

Condition

During FY13, there was a payment on the water storage tank lease site for \$250 with check 2572 on 1/28/13; during FY12, there was a payment for \$250 with check 2467 on 1/12/12; and during FY11, there were the following payments: \$2,000 with check 2374 on 12/12/10, \$250 with check 2377 on 1/19/11 and \$6,000 with check 2376 on 1/19/11. The District's Board made these payments to the person that represented himself as the owner of the site where the water storage tank is located. Subsequent to the payments, the Board elected in 2012 realized that the lease should have been signed with the Bureau of Indian Affairs (BIA). The BIA would subsequently not sign the lease claiming that they are not managing the property and that these Indian Trust lands were turned over to the Navajo Nation for management decades earlier. The Navajo Nation does not have the resources to track the transfer of the property and are not responding to the District when attempts were made to have a lease executed with them. The District made improper payments on the storage tank site and currently does not have a lease in place for the storage tank site.

In FY16, management did not make any progress to establish a valid lease for the water storage tank site, but has transferred funds to the escrow account for this purpose.

Criteria

For the water storage tank site, there should be a valid lease in place with the entity managing the trust lands or the valid owners of the property.

Effect

Not having a valid lease on the storage tank site could expose the District to future litigation and catchup payments for the period of time the payments were not made.

Cause

Since the Indian Trust lands in the area are in a transition period, and the entities contacted by the District do not know or do not have the tank site property under management, the District has not been able to exercise a valid lease with the appropriate entity.

**Ya-Tah-Hey Water and Sanitation District  
Schedule of Findings and Responses  
For the Fiscal Year Ending June 30, 2016**

Recommendation

The District was advised by the County Attorney to setup an escrow account and to make current and back lease payments/deposits for the tank site until a valid lease can be exercised with the rightful owners or trust lands management entity.

Management's Response

The Board will repeat attempts to obtain a response from the Navajo Nation to locate/establish clear title and rightful owners or entity managing the trust lands and to exercise a valid lease for the water storage tank site. The Board will continue to make lease payments to the escrow account for the tank site until a valid lease can be executed.

**Finding 2016-001 - Actual Expenses Exceeded the Adopted Budget**

Condition

For the fiscal year ending June 30, 2016, total expenses exceeded the budget by \$38,303.

Criteria

According to state law, Section 6-6-6 NMSA 1978, "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."

Effect

Excessive spending will create financial problems for the District and future rate increases for customers. Claims against the officials of the District could occur for future non-compliance with Section 6-6-6 NMSA 1978.

Cause

Management of the District neglected to submit budget adjustments to the Board of Directors and DFA-LGD for approval as required by state law.

**Ya-Tah-Hey Water and Sanitation District  
Schedule of Findings and Responses  
For the Fiscal Year Ending June 30, 2016**

Recommendation

The District should monitor its actual expenses throughout the fiscal year. The accounting contractor (eWaterbilling.com) should submit budget status reports to management on a periodic basis. If there is the possibility that actual expenses will exceed the budget at the total fund level during the fiscal year, management should prepare a budget adjustment request for the Board's review and approval. If the Board adjusts the original budget, the Board should then submit the budget adjustment request to DFA-LGD for approval.

Management's Response

The contract accountant will provide monthly financials for the District board's review. If there is a possibility that actual expenses will exceed the budget at the total fund level during the fiscal year, the accounting contractor will prepare a budget adjustment for the Board's review and approval. Upon approval, a budget adjustment request will be submitted to DFA-LGD for approval.

**Ya-Tah-Hey Water Conservation District  
Schedule of Revenues and Expenses  
Budget and Actual (Non-GAAP Cash Basis)  
For the Fiscal Year Ending June 30, 2016**

**Exhibit 1**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Water Usage Charge	\$ 24,000	\$ 24,000	\$ 24,652	\$ 652
Sewer Usage Charge	26,000	26,000	\$ 20,915	(5,085)
Administrative Fees	26,400	26,400	23,380	(3,020)
Rental Income	9,600	9,600	8,624	(976)
Interest	175	175	126	(49)
Other	-	-	3,496	3,496
Total Revenues	<u>\$ 86,175</u>	<u>\$ 86,175</u>	<u>\$ 81,192</u>	<u>\$ (4,983)</u>
<b>Expenses:</b>				
Administration	\$ 28,560	\$ 28,560	\$ 43,387	\$ (14,827)
Operations	25,090	25,090	54,608	(29,518)
Other	6,700	6,700	657	6,043
Rental	360	360	361	(1)
Total Expenses	<u>\$ 60,710</u>	<u>\$ 60,710</u>	<u>\$ 99,013</u>	<u>\$ (38,303)</u>



Ya-Tah-Hey Water and Sanitation District  
 Copy of Year-End Financial Report Submitted to DFA-LGD  
 For the Fiscal Year Ending June 30, 2016

Exhibit 2

Yaltahey Water and Sanitation District  
 4th Quarter Report

	2015- 2016 Final Operating Budget	4th QTR June 30, 2016 Actual	\$ Over Budget (Under)	2016-2017 Final Operating Budget
Total Beginning Balance	\$ 124,238.18	\$ 124,238.18	-	\$ 127,300.28
Water	\$ 24,000.00	\$ 24,652.07	\$ 652.07	\$ 24,000.00
Fees	\$ 3,496.33	\$ 3,496.33	\$ 3,496.33	\$ 21,000.00
Sewer	\$ 26,000.00	\$ 20,915.14	\$ (5,084.86)	\$ 23,000.00
Administrative	\$ 26,400.00	\$ 23,379.59	\$ (3,020.41)	\$ 9,600.00
Rental Income	\$ 9,600.00	\$ 8,623.58	\$ (976.42)	\$ 100.00
Interest Income	\$ 175.00	\$ 125.56	\$ (49.44)	\$ -
Other Income	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 86,175.00	\$ 81,192.27	\$ (4,982.73)	\$ 77,700.00
Administration Expense	\$ 28,560.00	\$ 43,387.15	\$ 14,827.15	\$ 35,000.00
Operations Expense	\$ 25,090.00	\$ 54,607.81	\$ 29,517.81	\$ 30,000.00
Other Expenses	\$ 6,700.00	\$ 657.26	\$ (6,042.74)	\$ 6,700.00
Rental Expenses	\$ 360.00	\$ 360.96	\$ 0.96	\$ 360.00
Total Expenditures	\$ 60,710.00	\$ 99,013.18	\$ 38,303.18	\$ 72,060.00
Net Income Per Balance Sheet	\$ -	\$ (17,820.91)	\$ (17,820.91)	\$ 5,640.00
Change in Cash/Income Statement	\$ 149,703.18	\$ 106,417.27	\$ (43,285.91)	\$ 132,040.28
Less Loan Payment (March)	\$ -	\$ 5,342.50	\$ 5,342.50	\$ 5,342.50
Adjustments	\$ -	\$ 26,225.51	\$ 26,225.51	\$ -
Projected Ending Cash	\$ 149,703.18	\$ 127,300.28	\$ (22,402.90)	\$ 127,597.78

**NOTES**

Accounts Payables	
6.30.15	current
	289,415
	(289,415)
	difference

**Ya-Ta-Hey Water and Sanitation District  
Exit Conference  
For the Fiscal Year Ending June 30, 2016**

On September 22, 2016, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Ya-Tah-Hey Water and Sanitation District

Loline Hathaway, Secretary/Treasurer  
Diane Nunez, Private Contractor, ewaterbilling.com

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager

