

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

Via Email and U.S. Mail

October 28, 2016

Board of Trustees
Town of Estancia
513 Williams Avenue
Estancia, NM 87016

Dear Mayor and Trustees:

As a result of concerns raised by the Town of Estancia ("Town") and its independent auditor during the fiscal year 2015 annual audit process, the Office of the State Auditor ("OSA") designated the Town for a special audit ("Report") to assess its compliance with accounting standards and applicable laws, regulations and policies during the period of July 1, 2012 through June 30, 2015.

The Report identified significant shortcomings with respect to eighteen different areas, including the lack of written policies and procedures, cash management deficiencies, absence of bank reconciliations, violations of state law and Town ordinances, utility mismanagement, inadequate record retention, poor internal controls and budgetary noncompliance. In response to the problems highlighted in the Report, the OSA has set forth eleven key recommendations (pages 2-3). We urge that the Town promptly implement these corrective actions to safeguard taxpayer money and ensure that Town resources are not unnecessarily susceptible to fraud, waste or abuse.

We appreciate the Town's cooperation and professionalism during the audit process, as well as the recognition that these matters must be addressed. Please let us know if we can be of assistance as the Town works to strengthen its internal controls.

Sincerely,

A handwritten signature in black ink that reads "Timothy M. Keller".

Timothy M. Keller
State Auditor

cc: Melissa R. Santistevan, Precision Accounting, LLC

OFFICE OF THE STATE AUDITOR



Town of Estancia

Independent Accountant's Report

For the Period of July 1, 2012 through June 30, 2015

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

October 28, 2016

Mayor Sylvia Chavez
Town Trustees
Town of Estancia
P.O. Box 166
Estancia, New Mexico 87016

Dear Mayor and Town Trustees:

We have performed consulting services for the Town of Estancia ("Town") for the period of July 1, 2012, through June 30, 2015. This engagement is solely to assist the Town in addressing various concerns regarding the cash balances, the proprietary fund balance, and the interfund balances.

On behalf of the Town, the Mayor agreed to the services. The Town's management is responsible for its accounting records and the subject matter. This consulting services engagement was conducted in accordance with Standards for Consulting Services 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.

Town management is responsible for maintaining the accounting records and for establishing and maintaining effective internal control over compliance with applicable laws, regulations, and procurement policies of the town. We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the consulting service 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. In addition, our consulting procedures do not provide a legal determination of the Town's compliance with applicable laws and regulations.

This report is intended solely for the information and use of management of the Town of Estancia and the New Mexico State Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Please do not hesitate to contact us at (505) 476-3800 if you have any questions regarding this report.

Sincerely,

Office of the State Auditor
Office of the State Auditor

Town of Estancia

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Town of Estancia

OFFICIAL ROSTER

TOWN COUNCIL

Sylvia Chavez	Mayor
Josie Chavez	Mayor Pro Tem
J. Morrow Hall	Trustee
Cory Dryden	Trustee
Stella Chavez	Trustee

TOWN OFFICIALS

Michelle Dunlap	Deputy Clerk/Treasurer
Aurora “Duda” Reese	Billing Clerk

Independent Accountant's Report for Consulting Services For the Period of July 1, 2012 through June 30, 2015

I. EXECUTIVE SUMMARY

On October 23, 2015, the Office of the State Auditor (“OSA”) received a notification letter from the Town of Estancia (“Town”) and the Town’s Independent Public Accountant (“IPA”), Precision Accounting. After discussing the concerns described in the letter with the Mayor and the IPA, the OSA determined that the matters raised were appropriate for review.

In a letter dated May 16, 2016, the OSA designated the Town for a Special Audit pursuant to Section 12-6-3(C) NMSA 1978 (“Audit Act”), which provides that the State Auditor “may cause the financial affairs and transactions of an agency to be audited in whole or in part.” Additionally, in accordance with the Section 2.2.2.15 NMAC (“Audit Rule”), the State Auditor may initiate a Special Audit regarding the financial affairs and transactions of an agency or local public body based on information it receives.

The designation was made in order to address the Town’s concerns regarding the fiscal year 2015 financial audit findings 2015-003 and 2015-004 as well as compliance with applicable laws, regulations, policies and procedures. On May 9, 2016, the Town and the OSA executed a contract for consulting services. This report resulted from the OSA’s designation and consulting service engagement. The OSA appreciates the Town’s personnel for their cooperation and professionalism.

In summary, the OSA’s findings focus on the problematic lack of clear policies and procedures and internal controls related to the Town’s daily operations. Promptly establishing these controls will safeguard public funds and ensure compliance with applicable rules going forward. Once these are implemented, training will be critical to ensuring that they are followed by staff and monitored by management.

Specifically, the OSA identified shortcomings with respect to eighteen different written policies and procedures, cash management, bank reconciliation, state law compliance, utility billing, general ledger entries, the anti-donation clause, records retention, and budgetary compliance. The report highlights various internal control, policy, and general oversight deficiencies, which make the Town susceptible to fraud, waste and abuse, if left unaddressed. The policy, procedure and oversight issues identified in this report relate to approximately \$1,600,000 in funds managed by the Town.

This report was developed based on information from interviews, observations of processes, and our review of selected documentation and records. Based on the samples tested and the limited procedures performed, the OSA was not able to determine if the findings and issues of non-compliance were the result of intentional wrongdoing. However, had additional procedures been performed, other matters may have become known that would have been reported.

The following table summarizes the OSA’s findings:

Finding #	Description
2016-001	Lack of town policies and procedures
2016-002	Lack of internal controls and improper access controls
2016-003	Mismanagement of pooled cash
2016-004	Bank reconciliations
2016-005	Wasteful spending of taxpayer dollars
2016-006	Timeliness of due to/due from reversals
2016-007	Interfund transfers that do not balance
2016-008	State law compliance governmental gross receipts tax
2016-009	State law compliance anti-donation clause
2016-010	Improper use of procurement cards
2016-011	Comingling of joint utility funds and the general fund
2016-012	Noncompliance with town ordinances
2016-013	Account miscoding
2016-014	State fuel cards
2016-015	Unrecorded transactions
2016-016	Unsubstantiated transactions
2016-017	Record retention
2016-018	Budgetary compliance

In response to the findings, the OSA recommends that the Town promptly take the following actions:

- Develop policy manuals regarding computer use, cash handling, bank reconciliations, procurement, fuel card use, and utility billing. Management is responsible for establishing and maintaining internal controls that include controls for compliance with generally accepted accounting principles (GAAP). In addition the U.S Governmental Accountability Office publication titled Standards for Internal Control in the Federal Government, referred to as the “Green Book,” sets the standards for effective internal control systems for federal agencies and may also be appropriate for adoption by state, local, and quasi-governmental entities, as a framework for an internal control system.
- Immediately create separate login IDs and passwords for each employee and identify methods for appropriately restricted access. Good accounting practices recommend segregation of duties and proper access restriction to limit the Town’s exposure to misappropriation of funds, fraud, or errors.
- Consider creating separate bank accounts to facilitate accurate fund balance reporting.

- Review all utility accounts to ensure any inactive and unused Town accounts are closed and all resident accounts are being properly metered and charged. This will help to eliminate wasteful spending and ensure compliance with the anti-donation clause.
- Immediately contact the utility billing system vendor to request that the system be reconfigured to charge gross receipts tax on late fees and investigate any tax calculation errors. The Town should consider contacting the New Mexico Taxation and Revenue Department to discuss the possibility of entering the managed audit program.
- Cease the use of the Town procurement card until policies and procedures that comply with the state Procurement Code are in place.
- Implement a time reporting policy that requires employees to allocate time spent working on projects between funds on a daily basis. This will ensure that services provided to the customers in the enterprise fund are properly accounted for and are not over- or under-billed.
- Review the Town utility ordinance and make clarifications to late fees, business days or calendar days differentiation, and when utilities will be shut off for non-payment. This will ensure that both the Town and the customers understand the expectations of having these services provided by the Town.
- Assign fuel cards to specific vehicles and maintain updated mileage and maintenance logs to comply with the New Mexico Administrative Code. This will allow the Town to monitor the program more closely for possible fraud, waste and abuse.
- Cease the use of the Library bequest funds until such time that the original bequest documentation is obtained by the Town. Once the documentation is obtained, a legal review should be done to ensure the Town understands the allowable uses of the funds.
- Discontinue the practice of adjusting budgeted revenues and expenditures at year-end to match actuals.

The Town provided responses to each finding. The responses are included in the schedule of findings and responses have not been audited or edited.

II. BACKGROUND

The Town was incorporated in 1909, under provisions of Chapter 3, Article 2, NMSA 1978, as amended and is the county seat for Torrance County, New Mexico. The Town has a population of approximately 1,600 people, is 5.7 square miles and maintains the Torrance County Fairgrounds, Estancia Library, the Estancia Aquatic Center and Arthur Park. Also, located within the town limits is the Torrance County Detention Center, which houses federal, state and county inmates.

The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire); highways and streets; water and sewer services; refuse collection; health and social services; culture-recreation; public

improvements; planning and zoning; and general administrative services.

The Town is a body politic and corporate under the name and form of government selected by its qualified electors. The Mayor is by statute the chief executive officer. The Town Trustees appointed the current Mayor in 2014 and her term expires in 2018, three trustees' terms end in 2018 and one in 2020.

III. SCOPE AND PROCEDURES

The Town engaged the OSA to perform certain procedures to assess the Town's compliance with applicable laws, regulations, policies and procedures in various areas. The following procedures were agreed to:

1. Perform a proof of all cash accounts for FY 2012, FY 2013, FY 2014, and FY 2015.
2. Request all monthly bank statements and monthly bank reconciliations for FY 2012, FY 2013, FY 2014, and FY 2015 and perform the following procedures:
 - a.) Trace the bank balance on the reconciliation to the balance per the bank statement.
 - b.) Trace the book balance (beginning and reconciled) to the general ledger.
 - c.) Test the clerical accuracy of the reconciliation.
 - d.) Tie all deposits on the bank reconciliation to entries in QuickBooks.
 - e.) Tie all deposits in QuickBooks to the bank reconciliation detail.
 - f.) Examine all duplicate check numbers on the reconciliations and obtain supporting documentation.
 - g.) Examine support for stale dated checks (checks older than 6 months) on a reconciliation, and obtain supporting documentation.
3. Tie year-end cash amounts per the QuickBooks general ledger to DFA's trial balance report for FY 2012, FY 2013, FY 2014, and FY 2015. Obtain supporting documentation for any entries made directly to cash accounts.
4. Tie year-end cash amounts per the QuickBooks general ledger and DFA's trial balance to the final audit report submitted to OSA for FY 2012, FY 2013, FY 2014, and FY 2015.
 - a.) If amounts do not tie the following procedures will be required:
 - i. Review prior auditor's workpapers and adjusting entries relating to cash. Trace any adjusting entries to support in the workpapers.
 - ii. Tie prior auditor's year-end cash amounts to the final trial balance, DFA's trial balance, and the amount shown in the final audit report submitted to OSA.
5. Obtain ledger detail for all cash accounts in QuickBooks for FY 2012, FY 2013, FY 2014, and FY 2015.
 - a.) Review ledger detail for any journal entries made directly to cash.
 - b.) Judgmentally sample supporting documentation for journal entries made by any employee directly to cash accounts.
 - c.) Examine ledger detail in combination with the bank statement, and review all outstanding checks for every month. Review any irregularities in the amounts reported in the ledger

detail and the amount of the check that cleared the bank statement and obtain supporting documentation for exceptions.

6. Obtain all payroll cash reconciliations for FY 2012, FY 2013, FY 2014, and FY 2015 and perform the following:
 - a.) Test for clerical accuracy of the reconciliation.
 - b.) Examine all duplicate check numbers on the reconciliations and obtain supporting documentation.
 - c.) Examine support for all stale dated checks (checks older than 6 months) and obtain supporting documentation.
 - d.) Review reconciliation for unusual amounts (i.e., significantly large payroll checks, duplicate checks to the same employee, employee with no tax withholding, checks payable in a rounded amount, etc.) and investigate any unusual amounts noted.
7. Obtain the separate QuickBooks detail for the payroll account for FY 2012, FY 2013, FY 2014, and FY 2015 and perform the following: (The Town has two sets of QuickBooks files: one for the operating account and one for payroll.)
 - a.) Reconcile journal entries between the payroll QuickBooks account and the operating QuickBooks account. Determine whether entries and transfers between ledgers and bank accounts were recorded the same day and in the same amount.
 - b.) Trace bank transfers to journal entries in the payroll QuickBooks ledger detail and to the operating QuickBooks ledger detail journal entries.
 - c.) Judgmentally sample bank statements for bank transfers made at various times in FY 2012, FY 2013, FY 2014, and FY 2015 and investigate any unexpected or unusual transfers. Obtain supporting documentation for any unusual transfers noted.
8. For interfund balances for FY 2012, FY 2013, FY 2014, and FY 2015 perform the following:
 - a.) Obtain supporting documentation of interfund balance amounts at year-end. Investigate any unusual journal entries or transactions noted.
 - b.) Review interfund transfers in/transfers out for accuracy and completeness.
 - c.) Review whether or not interfund balances clear or cancel-out at year-end. Investigate any balances that carry-forward from year to year.
 - d.) Tie year-ended balances (beginning and ending) to supporting detail, to the final trial balance, and to the final audit report submitted to OSA. If amounts do not tie the following procedures will be required:
 - i. Review prior auditor's workpapers and adjusting entries relating to interfund balances.
 - ii. Tie prior auditor's year-end interfund balance amounts to the final trial balance, DFA's trial balance, and the amount shown in the final audit report submitted to OSA.
9. For proprietary fund balances for FY 2012, FY 2013, FY 2014, and FY 2015 perform the following:
 - a.) Obtain supporting documentation of proprietary fund balance amounts at year-end. Investigate any unusual journal entries or transactions.
 - b.) For each year review whether or not each proprietary fund is self-balancing (i.e. debits equal credits). Review revenues and expenses for reasonableness, accuracy, and completeness.

- c.) Roll forward proprietary fund balances checking for reasonableness and large unexplained differences year to year.
- d.) Tie year-ended balances (beginning and ending) to supporting detail, to the final trial balance, to DFA's trial balance, and to the final audit report submitted to OSA. If amounts do not tie the following procedures will be required:
 - i. Review prior auditor's workpapers and adjusting entries relating to proprietary fund balances.
 - ii. Tie prior auditor's year-end proprietary fund balance amounts to the final trial balance, DFA's trial balance, and the amount shown in the final audit report submitted to OSA.

OSA auditors met with the Town's Mayor and Officials. The Town advised the OSA that they had no personnel policies and procedures manual at the time of this report's release.

IV. GENERAL OBSERVATIONS

Our procedures highlight significant and problematic internal control and policy deficiencies, which may make the Town susceptible to fraud, waste and abuse.

TOWN OF ESTANCIA

SCHEDULE OF FINDINGS AND RESPONSES

Findings

2016-001 – Lack of Town Policies and Procedures

Condition:

The Town does not have written policies and procedures for computer use, cash handling, bank reconciliations, procurement and utility billing.

Criteria:

Town management is responsible for establishing and maintaining internal controls that include controls for the generally accepted accounting principles (GAAP) basis financial statements issued by the Town. The “Green Book” sets the standards for effective internal control systems for federal agencies and may also be appropriate for adoption by state, local, and quasi-governmental entities as a framework for an internal control system.

Effect:

The internal control structure is inadequate and not documented which leaves management and staff unsure about what procedures and processes to follow to properly safeguard assets. Internal control weaknesses can allow errors to go undetected and also provide the opportunity for individuals to commit fraudulent activity without detection. Failure to implement effective internal controls increases the Town’s exposure to theft and misappropriation of funds.

Cause:

It is unclear why the Town is missing pertinent policies and procedures; however, the Town has experienced frequent personnel changes at the Town Clerk position which may have impeded the Town from dedicating resources to creating policies and procedures, since the Town’s focus was completing day-to-day duties to keep the Town operating.

Recommendation:

The Town needs to develop a policy manual regarding computer use, cash handling, bank reconciliations, procurement and utility billing.

Response:

The Board of Trustees were unaware that these policies and procedures were not in place and understands the importance of policy and procedures for computer use, multi-media, cash handling, bank reconciliation, procurement and utility billing. The Board has recently adopted a comprehensive procurement policy. The Clerk/Treasurer will begin developing policy manuals specifically for computer use, cash handling, bank reconciliation, utility billing and other policies that are required by law and that would be instrumental in the operation of the Town government.

2016-002 – Lack of Internal Controls and Improper Access Controls

Condition:

The Town's accounting system and utility billing system has universal login IDs and passwords with Administrator level access. The universal login IDs and passwords are not changed after an employee leaves the Town which may permit unauthorized access by prior employees. Additionally transactions cannot be traced to individual employees for accountability.

Criteria:

Good accounting practices include segregation of duties and proper access restrictions to limit the Town's exposure to misappropriation of funds, fraud, or errors.

Effect:

Administrator level access gives employees the ability to adjust transactions at any time and delete transactions entirely from the accounting and utility billing systems. The ability to process transactions while having administrative rights is considered a segregation of duties violation as it gives an individual the ability to circumvent controls set up in the accounting and utility billing systems.

Cause:

It is unclear why the Town does not require employees to have separate login IDs and passwords which restrict user access appropriately depending on that employee's job duties and responsibilities.

Recommendation:

The Town has stated that in FY 2017 the Town will move to a new accounting system with greater access controls. However, until such time we recommend the Town immediately create separate login IDs and passwords for each employee. The Town should contact the software vendor and examine the user access levels and identify methods for appropriately restricting access while also allowing personnel to perform their duties.

Response:

Current Administration will begin examining user access levels in the utility and accounting software to restrict user access and to limit the Town's exposure to misappropriation of funds, fraud, or errors. Once the Town moves to its new accounting system, Caselle, there will be internal controls within the software to track what functions employees are performing within the accounting and utility software. Until such time any adjustments made to the utility accounts, monetary or reading adjustments, will be approved by the Clerk or the Deputy Clerk with documentation for backup.

2016-003 – Mismanagement of Pooled Cash

Condition:

The Town's pooled cash system has not been reconciled to cash by fund, creating many year over year variances between audited cash and cash reported to the New Mexico Department of Finance and Administration (DFA). The largest variances appear in the general fund and the joint utility fund.

Criteria:

§6-6-3 (A), (B), (C) NMSA 1978 - Every local public body shall keep all the books, records and accounts in their respective offices, make all reports and conform to the rules and regulations adopted by the local government division.

§3-12-3(A) 3 NMSA 1978 - The governing body of a municipality having a mayor-council form of government shall manage and control the finances and all property, real and personal, belonging to the municipality.

§10-5-2 (B) NMSA 1978 - The secretary of finance and administration may summarily suspend any official of any local public body in all cases where an audit reveals fiscal management of an office resulting in violation of law or willful violation of the fiscal regulations.

Town Ordinance 9-1-4 - The Town Clerk must keep records of all utility bills and receipts provided to customers, and they must collect and deposit all proceeds collected from the utility bills into the appropriate utility fund account.

Effect:

The Town's Board of Trustees approved and certified inaccurate information. The Board may have violated section 6-6-3 NMSA 1978 by continually certifying cash by fund on the fourth quarter report and the final budget that does not materially tie to the audited financial statements. The governing body's certification of incorrect reports may have influenced DFA's Local Government Division's decisions to approve expenditures in excess of actual available cash, projected revenues and required reserves. The Town may or may not have the cash and revenues needed to provide the basic government mandated services required for the safety and health of its residents.

Cause:

It is unclear why the Town does not properly reconcile pooled cash to cash by fund or why the governing body continuously certified unreconciled cash as accurate.

Recommendation:

The Town should develop and implement policies and procedures regarding cash management, account reconciliations and required backup documentation for the governing body. Additionally, the Town may want to consider creating separate bank accounts to facilitate accurate fund accounting. Audited cash should be reconciled to cash certified to DFA at the completion of each annual financial statement audit.

Response:

The Board of Trustees has been given inaccurate information for a number of years. The Board is dependent on the Clerk/Treasurer to provide accurate and balanced financials. With lack of understanding of the financial documents that were being presented to them, the Board of Trustees unknowingly approved unbalanced financial statements. In November 2014 the Board of Trustees appointed the current mayor, Sylvia Chavez. Mayor Chavez chose not to reappoint the Clerk/Treasurer. The Town hired a CPA to begin addressing the Town's inaccurate financial information. The current Clerk/Treasurer was appointed in December, 2015. The cash and investments reported in the 2014-15 audit, which was performed by Precision Accounting LLC, and the approved 2015-16 approved budget were the numbers used as beginning cash balances by fund for fiscal year 2015-16. The ending balances have been brought forward as beginning cash balances in the new 2016-17 budget. Monthly and quarterly reports will be reviewed with the Board so that they are kept informed of the Town's financial position.

2016-004 – Bank Reconciliations

Condition:

The Town has several bank accounts which have never been reconciled. The Town had several payroll bank reconciliations where the ending cash amount did not match the amount in the general ledger. Additionally, bank reconciliations are not being reviewed consistently throughout the year.

Criteria:

2.2.2.10.D NMAC – The financial statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States of America.

§6-10-2 NMSA 1978 – A cash record must be maintained listing all items of receipts and disbursements of public money. The cash record must also be balanced daily to show the balance of public money on hand at the close of each business day.

Effect:

The Town is not maintaining adequate controls over cash to safeguard cash or facilitating prompt and accurate reporting.

Cause:

It is unclear why employees are not reconciling all bank accounts timely or accurately; however, it is most likely the result of staff shortages, turnover, and lack of training.

Recommendation:

The Town should perform complete and accurate bank reconciliations for all accounts at month end and assign another member of management the responsibility for reviewing each month's reconciliation. All unusual reconciling items should be investigated and dealt with promptly so errors do not accumulate thereby making the reconciliation more difficult and time consuming.

Response:

Since late October 2014, all bank statements have been and are being reconciled on a monthly basis by a member of management that is not responsible for writing checks and recording revenues and will be responsible for bank reconciliations. This will limit the Town's exposure to misappropriation of funds, fraud, or errors.

2016-005 – Wasteful Spending of Taxpayer Dollars

Condition:

The Town paid a monthly bank fee on numerous occasions for not maintaining the minimum required balance. The Town is paying the minimum water bill to its joint utility fund each month for a separately metered bathroom at Town Hall where the water was shut off years ago.

Criteria:

§3-37-2 (A) NMSA 1978 – The Board of Trustees shall maintain control of the finances and property of the Town.

Principle 8 the United States Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (the Green Book) definition of waste: the act using or expending resources carelessly, extravagantly, or to no purpose.

Effect:

Wasteful, inefficient, or nonessential use of resources is not in the best interest of the Town or its taxpayers and the Town is not fulfilling its responsibilities for prudent fiscal oversight.

Cause:

It is unclear why the Town chose to open a bank account that required a minimum balance or why the Town Clerk never uncovered that the Town was paying unnecessary fees on this account and closed the account sooner. It is unknown why the Town did not close the Town Hall bathroom water utility account immediately after discovering the water had been shut off.

Recommendation:

The Town should monitor all bank fees charged to determine which fees are avoidable. The Town should also close the water utility account for the separately metered Town Hall bathroom.

Response:

The Town of Estancia has one bank and has very limited options. Management will review all bank accounts and monitor minimum balance requirements and bank fees to avoid unnecessary charges.

The staff responsible for utility billing was not notified that the water meter had been closed therefore, allowing for continued monthly charges. Office staff will audit the water, sewer and trash charges on a yearly basis to ensure accurate billing and collections.

2016-006 – Timeliness of Due to/Due From Reversals

Condition:

Several interfund balances on the Town's financial statements have remained unchanged from FY 2012 through FY 2015. Additionally, the Town was unable to provide any documentation for what amounts were actually owed to the joint utility fund or what the repayment terms might be.

Criteria:

Generally Accepted Accounting Principles

Effect:

The Town's financial statements for several years may be inaccurate or misleading. The Town's lack of internal controls and monitoring increase the risk for fraud, waste and abuse of Town resources.

Cause:

It is unclear why the interfund balances have not been reconciled however; it is most likely the result of staffing shortages, turnover, and lack of training.

Recommendation:

We recommend the Town properly train its accounting personnel on accounting practice requirements pertaining to due to/due from reversals.

Response:

Due to/due from reversals will be done during the fiscal year to track accurate accounting of cash by fund balances.

2016-007 – Interfund Transfers That Do Not Balance

Condition:

The Town's governing body approved cash transfers between funds where the total amount of the transfers between funds did not net to \$0.

Criteria:

Governmental Accounting Standards Board Statement 34 paragraph 112 - Interfund transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Good accounting practices require that the amounts transferred between funds should balance.

Effect:

The financial statements are inaccurate and misleading. The Town's governing body may have violated section 10-5-2 NMSA 1978 by approving interfund cash transfers that did not balance. These transfers changed the Town's overall cash balance on DFA's fourth quarter reports.

Cause:

It is unclear why the Town's governing body approved transfers that did not net to \$0.

Recommendation:

We recommend the Town’s governing body review all reports they certify more closely, ask questions about any unusual items noted, and request additional documentation for questionable amounts.

Response:

All quarterly and budget reporting will be balanced before approval by the Board of Trustees and sent to DFA for approval.

2016-008 – State Law Compliance Governmental Gross Receipts Tax

Condition:

The Town’s utility billing system is not consistently calculating governmental gross receipts tax or charging customers the appropriate tax rate.

Criteria:

§7-9-3.2 (A) (5) NMSA 1978 defines “governmental gross receipts” to include receipts from the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the state.

Effect:

The Town does not appear to be collecting the proper amount of governmental gross receipts tax to remit to the New Mexico Taxation and Revenue Department.

Cause:

The utility billing system is not configured to correctly charge gross receipts tax on late charges. The utility billing system does not automatically update the tax amounts after any type of billing adjustment is made. Furthermore, the Town lacks internal control policies to ensure that all adjustments made to the utility billing system are allowable and are calculated and processed correctly.

Recommendation:

The Town has stated that in FY 2017 the Town will move to a new utility billing system. Until such time the Town should immediately contact the utility billing system vendor to request that the system be reconfigured to charge gross receipts tax on late fees and investigate any tax calculation errors. The Town should determine the amount of uncollected gross receipts tax derived from late charges over the years. The Town should consider entering into a managed audit program with New Mexico Taxation and Revenue Department to avoid penalties.

Response:

The Town provides utility services; water, sewer and trash. Governmental gross receipts should be charged for these services. At this time, this has been corrected in the utility program and the correct

tax is being charged and reported to taxation and revenue.

2016-009 – State Law Compliance Anti-donation Clause

Condition:

The Town purchased gift cards on two separate occasions and there was no supporting documentation for these purchases. The Town also wrote off a customer's late fee because of a "death in the family."

Criteria:

Article IX, Section 14, the New Mexico Constitution (Anti-Donation Clause)

Effect:

The Town may have violated the anti-donation clause.

Cause:

The Town lacks internal controls to ensure that the Town is compliant with laws and regulations.

Recommendation:

The Town needs to develop policies and procedures for permissible utility billing adjustments, if any, and the Town needs to train employees about the anti-donation provisions of the State of New Mexico Constitution.

Response:

The Town sponsors an annual 4th of July celebration and in the past, gift cards were purchased for prizes. Supporting documentation for all purchases will be kept and recorded. All expenditures and voided checks will be recorded in the bank accounts. The Town will follow its utility ordinances and develop policies and procedures for utility billing adjustments if applicable. Employees are being trained of what documentation is needed when billing adjustments are required. Management will begin addressing an internal control policy.

2016-010 – Improper Use of Procurement Cards

Condition:

The Town was missing purchase orders, had purchase orders signed after the fact, had transactions missing receipts entirely, and purchased food for council meetings on numerous procurement card transactions tested. Additionally, the Town has issued two employees procurement cards and allows those same employees to reconcile their own monthly statements.

Criteria:

The Town does not have a procurement policy or procedures for procurement card use. The Town does not qualify for exemptions under the procurement code, and the Town must follow the state

Procurement Code and follow the DFA's guidance on procurement card purchases.

§13-1-1 to 13-1-199 NMSA 1978 - Procurement Code.

§13-1-169 NMSA 1978 - requests for procurement shall contain a statement of need and the general characteristics of the item.

Effect:

The Town may have violated the state Procurement Code. The Town's lack of policies and procedures increases the Town's exposure to employee misappropriation of funds, fraud, waste and abuse.

Cause:

The Town does not have a policy regarding purchases with a procurement card and did not default to the state Procurement Code in violation of the law.

Recommendation:

The Town needs to develop policies and procedures that comply with the state Procurement Code and until such time the use of the procurement card should cease.

Response:

The Board of Trustees has implemented a procurement policy. Credit card purchases will be strictly scrutinized to decrease the Town's exposure to employee misappropriation of funds, fraud, waste and abuse.

2016-011 – Comingling of Joint Utility Funds and the General Fund

Condition:

The Town has not consistently allocated expenditures properly between the joint utility fund and the general fund. The Town has at least three loans that are being paid with the wrong revenue source from the wrong fund. The Town has at least two employees, the maintenance foreman and the billing clerk, whose time is not being properly allocated between the funds or not allocated at all. Both employees' salaries are charged to the joint utility fund; however, their day-to-day tasks include general fund activities and street fund tasks.

Criteria:

Governmental Accounting Standards Board Statement 34 paragraph 67 - The joint utility fund is an enterprise fund and by definition establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Fees for enterprise fund services charged to customers should include the cost of providing the service, amounts to cover associated debt service, and other amounts to set aside for expansion, replacement or long-term upgrades.

Effect:

The joint utility fund expenditures appear overstated, governmental fund expenditures appear

understated, and the financial statements in general are misleading and inaccurate. Loan terms and conditions appear to have been violated which exposes the Town to potential legal ramifications.

Cause:

The Town uses an accounting system designed for small businesses that was not designed for fund accounting. This accounting system does not provide a set of self-balancing accounts that will recognize the separate legal and budgetary identity of each fund. Additionally, because the Town uses a pooled cash system, internal controls are difficult to implement to prevent inadvertent cross fund transactions. Due to the chronic mismanagement of cash, the Town does not have a clear picture of general fund revenues and expenditures or utility fund revenues and expenditures. The Town Clerk also stated that employee salaries would continue to be paid out of the joint utility fund because the general fund did not have sufficient funds.

Recommendation:

The Town should implement a time reporting policy that requires employees to allocate time spent working on projects between funds on a daily basis. The Town should review all outstanding loan documentation and verify the repayment requirements, review all prior loan payments and identify any corrections that should be made between funds.

Response:

Management will review outstanding loan documentation and verify repayment requirements. Loan payments will be paid out of the correct fund.

The Deputy Clerk oversees the utility billing. She is also responsible for accounts payable and other duties for both the utility fund and general fund. Her salary is charged to the utility fund. The Administrative Assistant produces the monthly utility billing and many other functions that are specifically related to the utility fund. The Administrative Assistant's salary is charged to the general fund. The Maintenance Foreman oversees many municipal job duties: water, sewer, parks, and maintenance of roads. His salary is taken out of the water department. If these salaries or a portion were to be charged to the general fund this would jeopardize other necessary general fund life safety services such as police, fire and ambulance.

2016-012 – Noncompliance with Town Ordinances

Condition:

The Town has not consistently applied provisions of their own ordinances to customers in the following ways:

- Town ordinance states water will be charged a late fee after the due date; however, the Town is currently charging late fees on all utility services including sewer and garbage.
- Partial payments are not being charged late fees on outstanding balances.
- Customer bills not paid within 30 days are not having their utilities shut off.

- Late fees are not being consistently charged to accounts that did not pay by the due date.
- In some instances, we noted no late fees were charged for over a year on certain delinquent accounts.
- Delinquent accounts with outstanding balances whose utilities were shut off are getting their utilities turned back on in spite of the debt outstanding and not paying the reconnect fee.
- Meters are not being read for all accounts monthly resulting in some accounts being charged for zero water usage rather than the actual or estimated usage for that month.
- We noted sewer and garbage rates were increased annually, however the Town ordinance only specifies that water will receive a 3 percent increase.

Criteria:

Town Ordinance 9-8-2 - “If water bill is not paid by the 20th of the month in which the bill is received, a late fee of 25% of the total bill will be assessed. An additional 25% will be assessed for each month that the bill remains unpaid.”

Town Ordinance 9-1-7 - “The town may, without notice, discontinue utility services to any premises for which charges are delinquent for a period of thirty (30) days.”

Town Ordinance 9-1-3 - The clerk shall keep record of all receipts and records provided to customer, create all bills and collect and deposit all funds into the appropriate utility fund account.

Article IX, Section 14, the New Mexico Constitution (Anti-Donation Clause)

Effect:

The Town does not appear to be complying with ordinances as enacted by the Town’s governing body. The Town may have violated the anti-donation clause by not reading meters of all accounts on a monthly basis and by charging some customers late fees while not charging other customers late fees.

Cause:

It is unclear why employees are not implementing Town Ordinances as intended by the governing body.

Recommendation:

The Town should review ordinances and make clarifications as needed to late fees, business days or calendar days and when utilities will be shut off. The Town should develop procedures for meter reading to include monitoring to ensure that all meters are being read. The Town should properly train all employees on the importance of implementing provisions specified by Town Ordinances.

Response:

The Board will review its utility ordinances and clarify late fees, business days or calendar days, shut off procedures, lien filings, and that the ordinance reflects that late fees are applied to all outstanding balances including water sewer and garbage. The Board will also include in its review, procedures for meter reading to include monitoring that all meters are being read on a monthly basis. The Town will likewise develop policies and procedures for utility billing adjustments, if applicable. The

ordinance will be amended to include the annual 3% increase to include the sewer. The trash will be increased accordingly if the company providing trash service to the town, assess a CPI increase. Since late 2014, it is the practice of the current administration to treat all residents equally and fairly and in accordance to the Town's ordinances.

2016-013 – Account Miscoding

Condition:

The Town has incorrectly coded transactions from the utility billing system into the general ledger. The Town miscoded numerous revenue entries including incorrectly posting unearned revenue as revenue. The Town coded a customer's meter deposit as utility charges and late fee income rather than a liability.

Criteria:

NMAC 2.2.2.10.D - The financial statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States of America.

Effect:

The Town's general ledger and financial statements were misleading and did not accurately reflect income or liabilities.

Cause:

The Town's deputy clerk stated that the previous billing clerk taught her that any unapplied balances of a customer should be booked as water sales income.

Recommendation:

We recommend the Town review utility payment transactions posted to the general ledger to ensure that overpayments by customers are properly booked as a liability until the revenue is earned.

Response:

The current utility software program does not allow for an accurate accounting of unapplied balances. Once the Town migrates to its new utility billing program it should eliminate this problem.

2016-014 – State Fuel Cards

Condition:

The Town issues fuel cards to individual employees. Mileage logs are insufficient and only record the employee name, mileage at time of fill up, and total gas purchased. The Town is not reviewing the miles per gallon report and the Town is not reviewing how often employees fuel up.

Criteria:

1.5.3.11 NMAC, Vehicle Mileage log should include the date, employee name, beginning and ending mileage, destination, purpose of trip, type of fuel purchased, number of gallons purchased, total fuel

cost, other vehicle related purchases, and a place for a supervisor to make verifications.

Effect:

The Town's lack of internal controls and monitoring increase the risk for fraud, waste and abuse of Town resources.

Cause:

The Town's lack of policies and procedures.

Recommendation:

The Town should issue fuel cards to specific vehicles; update the mileage and maintenance logs to comply with the New Mexico Administrative Code, and the Town should create a policy pertaining to the use of fuel cards and the monitoring of the fuel cards.

Response:

Monthly fuel purchases are being reviewed by staff on a monthly basis monitoring for fraud, waste and abuse.

2016-015 – Unrecorded Transactions

Condition:

The Town has not consistently recorded all financial transactions in the general ledger noted in the following ways:

- Bank fees paid by the Town could not be located as expenditures in the general ledger.
- Deposits could not be located for numerous checks issued by the Town to the Town's library fund.
- Merchant processing fees were not recorded as expenditures or amounts were recorded in amounts higher than the statement showed.
- Deposits for numerous loan disbursements to the town could not be located in the general ledger.
- Based on general ledger entries a check payable to an employee for \$6,801 was written by the town the same day the town received an equal payment from a credit card processor. There are no supporting documents for this transaction.
- Numerous cash adjustment resolutions lowering the Town's cash balances were approved by the Town but could not be located as entries in the general ledger.
- A cash transfer from the general fund to the joint utility fund was not recorded in the general ledger and this transfer amount was unsupported by the audit report's cash amount.
- The Town paid off a loan early and the check was written out of the wrong fund and was not recorded in the general ledger.
- Customer payments shown as received in utility billing system do not appear as income in the general ledger. Customer utility deposits per the general ledger do not match payments received in the utility billing system.

Criteria:

2.2.2.10.D NMAC (Audit Rule 2015) - The financial statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States of America.

§6-10-2 NMSA 1978 - A cash record must be maintained listing all items of receipts and disbursements of public money. The cash record must also be balanced daily to show the balance of public money on hand at the close of each business day.

Loan covenants.

Effect:

Amounts not recorded in the general ledger prevent the financial statements from presenting an accurate picture of the financial condition of the Town for the governing body, taxpayers or other concerned entities.

Cause:

The internal control structure is not adequate and documented and therefore management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect misstatements of accounting information.

Recommendation:

We recommend the Town implement procedures to ensure that all financial transactions are recorded in the general ledger in the proper reporting period. The Town should provide additional accounting training to employees to ensure they have an adequate understanding of accounting principles.

Response:

Many accounting principles have not been followed for years. The current Clerk/Treasurer has begun training staff on good accounting practices. The previous administration did not feel it necessary to cross train staff and segregate duties therefore increasing the risk for fraud, waste and abuse of town resources. The current administration understands the importance of good accounting principles, cross training and transparency. The current administration will develop good internal controls to decrease the possibility of fraud, waste and abuse of town resources.

2016-016 – Unsubstantiated Transactions

Condition:

The Town has recorded transactions in the general ledger that are not supported by external documents noted in the following ways:

- The Town cannot reconcile amounts in the meter deposit account to individual customers.
- The Town cannot reconcile general ledger meter deposit amounts to the utility billing system because the customer's name is not recorded in the general ledger.

- The Town sells bulk water but does not retain a copy of the receipt for these transactions.
- The Town's utility billing system had numerous billing and meter read adjustments that did not tie to supporting documentation. Certain customer re-read amounts did not reconcile to the prior re-read amount or any supporting documentation.
- Numerous budget resolutions had no supporting backup documentation.
- Numerous utility billing cash transactions were missing the cash payment vouchers.

Criteria:

2.2.2.10.D NMAC - The financial statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States of America.

Clarified Statements on Auditing Standards (AU-C) Section 200 paragraph .05 - Financial statements are management's responsibility.

Town Ordinance 9-1-7 - "The town may, without notice, discontinue utility services to any premises for which charges are delinquent for a period of thirty (30) days."

Good accounting practices recommend retaining documentation, reconciliations, and any other explanatory items necessary to support financial transactions.

Effect:

The Town does not have the necessary supporting documentation to know whether or not these financial transactions were proper and in agreement with amounts recorded in the general ledger.

Cause:

The internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect misstatements of accounting information.

Recommendation:

We recommend the Town develop policies and procedures for handling the sale of bulk water, document retention, billing and meter read adjustments, utility billing cash transactions, meter deposit reconciliations, and budget resolutions.

Response:

At this time the Town does not sale [SIC] bulk water. The Town does not have the capacity to effectively manage a large dispensing service. All utility billing adjustments will have supporting documentation.

Management will be developing policies and procedures for records retention. All reconciliations will be performed in a timely manner. All budget resolutions will be approved by the Board and DFA. I believe at this time the meter deposit account has be reconciled and is in balance.

2016-017 – Record Retention

Condition:

The Town does not have the documentation for a one million dollar bequest for the library fund. The Town did not have the contract amendment on file for a vendor contract.

Criteria:

2.2.2.10.D NMAC - The financial statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States of America.

Clarified Statements on Auditing Standards (AU-C) Section 200 paragraph .05 – Financial statements are management’s responsibility.

Good accounting practices recommend retaining documentation, reconciliations, and any other explanatory items necessary to support financial transactions.

Effect:

The Town is using bequest funds in a manner that may or may not be allowed per the original bequest. The Town paid a vendor in an amount that may or may not have been approved by the governing body.

Cause:

The Town’s lack of a record retention policy. Further, the Town stated that when the previous mayor left office he took the original bequest documents with him.

Recommendation:

The Town should cease use of the bequest funds until such time that the original bequest documentation is provided to the Town. The Town should develop a retention policy and train employees on the importance of retaining pertinent financial documents.

Response:

No expenditures have been made from the second William’s Bequest. The Town will obtain duplicate documents on the second million dollar bequest left to the Town by the Williams Family. In 2012, the Board of Trustees requested to use a portion of the bequest to pay off a 2005 NMFA loan that that was used to purchase furniture and equipment for the library that was built with the first bequest from the Williams Family. The request was granted and the town paid off the loan in the amount of \$18,227.89. The second bequest was not reduced by that amount. The current cash balance for the bequest reflects the reduction of \$18,227.89.

2016-018 – Budgetary Compliance

Condition:

On numerous occasions, the Town approved resolutions to adjust revenues and expenditures to match the actual expenditures to prevent variances in the reports submitted to DFA.

Criteria:

Good accounting practices include only adjusting the budget as actually necessary to support expenditures.

Effect:

Revenues and expenditures were adjusted to tie to actuals at year-end, which resulted in no variances for the Town. This practice leaves no way for the governing body to review revenue and expenditure trends, unusual or suspicious activities.

Cause:

The Town Clerk stated this practice was a requirement of DFA.

Recommendation:

We recommend the Town discontinue the practice of adjusting revenues and expenditures at year-end to match actuals. Per DFA's Local Government Division (LGD) Bureau Chief this practice has spread due to rumors amongst a few municipalities. However, the LGD Bureau Chief stated there is no requirement by DFA to adjust revenues and expenditures at year-end to match actuals.

Response:

Budget adjustments will be brought to the Board for approval as they arise during the fiscal year, as opposed to year end eliminating the practice of adjusting revenues and expenditures at year-end to match actuals.

Town of Estancia

EXIT CONFERENCE

On June 28, 2016 the OSA held an exit conference with the following individuals to discuss the results of the consulting service engagement and the findings.

Town of Estancia

Sylvia Chavez, Mayor
Manuel Romero, Town Trustee
Stella Chavez, Town Trustee
Tom Marrow, Town Trustee
Debra Kelly, Town Clerk
Michelle Dunlap, Deputy Town Clerk

Office of the State Auditor

Kevin Sourisseau, CPA, Special Investigations Division Director
Kelly Mercer, CFE, Special Investigations Supervisor
Chelsea Martin, CPA CFE, Senior Auditor