

OFFICE OF THE STATE AUDITOR



City of Jal

**Consulting Services Report
Water Utility Billing Practices**

For the Period of January 1, 2008 through December 31, 2016

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CITY OF JAL OFFICIAL ROSTER

Cheryl Chance

Mayor

CITY COUNCIL

Amelia Trevino

Mayor Pro Tem

JoAn Chesser

Councilor

Jim Ellison

Councilor

Dewayne Jennings

Councilor

Mike Orr

Councilor

Melody Beckham

Councilor

CITY OFFICIALS

Bob Gallagher

City Manager

Jenny Edwards

City Clerk/Treasurer

I. EXECUTIVE SUMMARY

The Office of the State Auditor (“OSA”) received information through our special investigations process suggesting that water utility credits were provided to a private entity in violation of the Constitution of the State of New Mexico. The OSA determined that the matters raised were appropriate for review.

In September 2016, the OSA began conducting fact-finding procedures. Subsequently, on December 2, 2016, the OSA designated the City of Jal (“City”) for a special audit pursuant to Section 12-6-3 (C) NMSA 1978 of the Audit Act and 2.2.2.15 NMAC of the Audit Rule. On February 14, 2017, the OSA entered into an agreement with the City of Jal to provide audit consulting services in accordance with the American Institute of Certified Public Accountants (“AICPA”).

The purpose of the engagement was to address the City’s compliance with applicable laws, regulations, policies and procedures relevant to the City’s water utility. This report resulted from the OSA’s fact finding and consulting services engagement. The OSA appreciates the cooperation of City personnel.

The OSA tested a sample of customer accounts for compliance with established rates, application of credits, and to identify any irregularities. The total incorrect adjustments and billings noted in the findings is \$660,960, which can be summarized as follows:

- Of about 1,000 total accounts, OSA reviewed the monthly billings of 80 accounts and noted 66 billing issues amounting to \$8,690 in questionable adjustments.
- OSA judgmentally selected 17 credits for testing that were applied to one specific industrial water customer’s (Consumer) account (Account #1) and found that a total of \$606,679 in credits lacked adequate supporting documentation.
- OSA judgmentally selected 12 credits for testing that were applied to the Customer’s related residential account (Account #2) and found that a total of \$12,168 lacked adequate supporting documentation.
- OSA tested one additional large credit to Account #1 that was incorrectly calculated, resulting in an excess credit of \$33,033.
- One sale of industrial water (Account #3) in the amount of \$390 was made after the City adopted a resolution ceasing industrial water sales.

Some background is helpful to understand these findings. Based on the information gathered and testing performed, it is OSA’s understanding that during the timeframe of August 20, 2012 through April 2, 2014 credits were applied to reduce the water charges for a consumer’s industrial account (Account #1). The billing adjustments resulted from a meeting in July 2012 between the Customer and the former City Manager that reduced the amount charged to Account #1 in consideration of right-of-way access that the Customer had been providing to the City’s West Field water wells. The City maintenance crews must enter the property to maintain access to the City’s water towers. The

Customer contends that the Mayor was present at the meeting, which is inconsistent with the Mayor's account. It is also unclear whether the Public Works Director was involved in the initial discussion with the Customer as OSA received conflicting information. However, the Public Works Director was aware that credits were being applied to Accounts #1 and #2 and signed off on several of these adjustments.

The OSA has been informed by the City that the agreement was intended to keep Account #1's industrial water rate at 35 cents per barrel after the rate was increased to 75 cents per barrel. OSA noted that during the period when industrial water rates were at 75 cents per barrel, Account #1 was billed an effective average rate of 40 cents per barrel, and during the period when the industrial water rate was subsequently raised to \$1.00 per barrel, Account #1 was billed an effective average rate of 60 cents per barrel. Beginning in August 2012, the former City Manager directed the Utility Clerk to disregard the monthly billing system calculation and credit Account #1 in an amount equal to the difference between the amount paid by the customer and the amount billed. This resulted in a lower effective water rate than the rate established in City Ordinances. Overall, between August 2012 and April 2014, this resulted in undocumented credits amounting to \$606,679 to Account #1.

The terms of the purported agreement were neither documented nor were they approved by the City Council. Additionally, there was no information indicating that the value of the right-of-way access or any other benefit to be provided to the City was assessed in light of the reduced water charges. No other customers received similar treatment. It was communicated to the OSA that one of the rationales for the adjustments in water charges was because the customer provided unspecified contributions to the City of Jal. For example, it was noted through a series of interviews that the City was without water in December 2013 for five days. The outage was a result of a major water pump failure and the Customer provided water to the City to aid in re-opening the schools. However, no documentation was provided indicating that the adjustments to Account #1 were in any relation to the water provided to the City during that period.

As the credits began to be applied, the Utility Clerk requested documentation from the former City Manager and Public Works Director to support the billing adjustments. No written agreements to support any type of adjustments could be provided. The Utility Clerk then proceeded to request documentation from the City Clerk/Treasurer, who also approached the former City Manager. The continued lack of documentation led the Utility Clerk and City Clerk/Treasurer to request that the Public Works Director provide signed approval for water credits. Although the OSA identified written approval from the Public Works Director for \$68,237 of the \$606,679 in credits, these credits still lacked adequate documentation demonstrating the justification for the adjustments. The credits continued to be applied until April 2014 and the City ceased the sale of water for hydraulic fracturing in September 2014.

Additionally, in January 2014, the City applied a single credit to Account #1 in the amount of \$657,033. This credit was supported by a memo from a utility consulting company hired by the City. The memo states that the meter reading entered into the billing system for November of 2013 was clearly incorrect resulting in erroneous billing that could only be corrected through the application of a credit. The OSA relied upon the analysis from the consultant to support the application of the credit, however, the OSA's recalculation indicates the City applied \$33,033 in excess of what was due.

Between January 21, 2011 and May 15, 2013, unsupported credits totaling \$12,168 were also applied to the Customer’s related residential account (Account #2). No justification for these adjustments could be provided and the credits began well before the purported July 2012 agreement regarding industrial Account #1.

In summary, the OSA’s findings highlight a total of \$651,880 in inappropriate water credits to a single customer (Accounts #1 and Account #2). As a result, the City likely violated Article IX, Section 14 of the New Mexico Constitution (Anti-Donation Clause). This report also highlights various internal control, policy and general oversight deficiencies, which make the City susceptible to fraud, waste and abuse, if left unaddressed. There is an immediate need to develop clear policies, procedures and internal controls related to the City’s water utility billing operations to safeguard public funds and ensure compliance with applicable laws, rules and regulations. During this process, the City should review the Risk Advisory the OSA issued in July 2016 regarding municipal utility billings practices and appropriate internal controls.

This report was developed based on information obtained 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 areas 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
2017-001	Inappropriate Water Bill Credits, Lack of Policies, and Probable Violations of the Anti-Donation Clause
2017-002	Billing and Meter Read Adjustments Lacking Supporting Documentation
2017-003	Noncompliance with City Resolutions

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

- The City should develop policies and procedures for appropriately documenting and approving any utility billing adjustments, and the City should train employees about the anti-donation provisions of the State of New Mexico Constitution.
- The City should evaluate legal processes for recouping any lost funds as well as assess whether any employee disciplinary actions are appropriate.
- The City should develop policies and procedures for monthly review of utility billing statements, so all necessary adjustments, if any, are made timely, and the City should train employees on the importance of exercising good internal controls to ensure billing accuracy and document retention.

- The City should review the City’s ordinances and council resolutions related to the water utility and clarify the sale of industrial water. The City should promptly update employees about ordinance requirements.

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

II. BACKGROUND

The City of Jal was incorporated on March 24, 1950. The City is a municipal corporation governed by an elected mayor and six-member council. The City’s major operations include public safety (police, ambulance, and fire), streets, sanitation, health and social services, culture and recreation, education, public improvements, and general administration.

During the scope of audit, the City of Jal utilized two water billing systems. The “Assist” water billing system was utilized by the City from 2008 through December 2015. On December 7, 2015, the City transitioned to new accounting system, “Caselle.” The City did not have policies and procedures in place for water billing during the scope of the audit. However, the City utilized water rates approved through City Ordinances.

The Mayor is elected by the public and serves by statute as the chief executive officer. The City Council is elected by the public and has the authority to make decisions, appoint the City Manager, and significantly influence the operations. The City Council also has primary accountability for fiscal matters.

III. SCOPE AND PROCEDURES

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

1. Obtain and review all relevant policies and procedures, ordinances, and resolutions relevant to the City’s water utilities for the period from January 1, 2008 through December 31, 2016.
2. Gain an understanding of the processes for meter reading, billing, and adjusting accounts, through observation and interviews. Including old and new systems.
3. Test 100% of industrial water utility accounts from January 1, 2008 through December 31, 2016 for compliance with established water rates, tax rates, and for mathematical accuracy. Review supporting documentation and approvals for adjustment or credits to accounts.
4. Sample non-industrial water utility accounts from January 1, 2008 through December 31, 2016 and test for compliance with established water rates, tax rates, and for mathematical accuracy. Review supporting documentation and approvals for adjustment or credits to accounts.

OSA auditors met with the City's Mayor, City Councilors and key City employees. During these meetings, the City informed the OSA that they had no supporting documentation for utility credits applied during the period under review. The OSA also spoke with the Consumer for Account #1 and Account #2.

IV. GENERAL OBSERVATIONS

Our procedures highlight internal control deficiencies, which may make the City susceptible to fraud, waste and abuse. The City was adjusting water billing without a documented basis for doing so and without a proper approval process. As a result of the lack of safeguards and past practices, the City lost revenue that is critical for meeting the needs of the community.

In addition, during the course of the audit the OSA became aware of significant risks facing the City's water supply. The water system that supports the approximately 2,000 City residents is supplied by wells located in the Jal Basin, which is part of the larger Pecos Alluvial Aquifer. Most of the Pecos Alluvial Aquifer is located in Texas. As there are no surface water sources to develop, the City is entirely reliant on ground water. Since 2013, the City of Midland, Texas has been drawing large amounts of water from the basin, primarily through production at the T-Bar Ranch, which threatens the long-term sustainability of the City's water supply.

In October 2012, the Customer associated with City Accounts #1 and #2 filed an application with the Office of the State Engineer (OSE) to appropriate 1,520 acre-feet of water each year (one acre-foot is equal to 325,851 gallons of water) for commercial purposes. It is our understanding that the water was primarily intended to be sold for hydraulic fracturing related to oil and gas production (one acre-foot of water in the basin can sell for between \$8,000 and \$16,000). The City initially filed a protest with the OSE citing concerns regarding the impact the wells would have on the City's water supply. However, the City and the applicant subsequently reached an agreement, which was unanimously approved by the City Council on January 21, 2013. Under the agreement, the City would withdraw its protest to OSE, the amount of water requested would be reduced to 500 acre-feet per annum and the wells would serve as an emergency backup for the City water supply for a period up to seven days (any water used by the City would be credited to the applicant). Furthermore, the parties mutually expressed serious concerns about the impact of the City of Midland's water use and strongly urged the OSE to close the Jal Basin from further appropriations by others. A copy of the letter agreement is included herein.

Citing the lack of water, the OSE closed the Jal Basin to new water appropriations on January 25, 2013, and subsequently denied the application on February 15, 2013. On September 8, 2014, the City Council enacted a resolution prohibiting the sale of fresh water for fracking and industrial use for resale. However, when the applicant appealed OSE's denial to District Court, the next day, on December 2, 2014, the City wrote a letter to OSE reiterating its support of the 500 acre-foot applications consistent with the previous January 2013 agreement. As a result of the City's protest being withdrawn, the District Court dismissed the case (El Paso Natural Gas had also protested the applications but withdrew its protest in February 2013 believing that the Jal Basin had been closed and no new appropriations would be made).

On March 28, 2017, the OSE provided final approval of the applications for 500 acre-feet per annum, despite the fact the Jal Basin technically remains closed. In approving the applications, the OSE noted that the proposed division of water only adds a small amount to the projected drawdown of a hypothetical well over a 40 year period (a difference of 10 months in a hypothetical well being dewatered). Moreover, since the drawdown is likely to occur anyway due to the magnitude of the pumping from Midland, Texas, and the new appropriations would have a small impact on overall well life, the OSE reasoned that it was appropriate to allow for the economic benefit of the proposed wells in New Mexico.

It is important to note that the OSA found no correlation between the credits that were applied to Account #1 between 2012 and 2014 and the terms agreed to by the parties in 2013. Moving forward, if an emergency water situation does occur and the new wells are used as a City backup to supply water, the City must appropriately track and account for this water use so that any credits can be applied at the correct rate. Additionally, the City should closely monitor its water resources and carefully evaluate the impact of its support of any additional wells in the Jal Basin that could have an adverse impact on the City’s water supply.

SCHEDULE OF FINDINGS AND RESPONSES

2017-001 – Inappropriate Water Bill Credits, Lack of Policies, and Probable Violations of the Anti-Donation Clause

Condition:

The complete population of 25 industrial accounts was tested. Within that population we noted that the City applied 17 credits to one industrial customer account (Account #1) totaling \$606,679. Of the 17 credits applied, 14 were not supported by written justification stating the purpose for the credits and three were supported by written approval of the Public Works Director but contained no written justification stating the purpose of the credits. The 17 credits are attributed to a verbal agreement between the Customer for Account #1 and the former City Manager. It is unclear whether the Public Works Director or the Mayor was involved in the initial discussion with Customer for Accounts #1 and #2, as OSA received conflicting information. However, the Public Works Director was aware that credits were being applied to the two accounts.

Table 1 below details the 17 credits applied to Account #1. Credits listed on lines 15, 16, and 17 were supported by a document bearing the signature of the Public Works Director, however none of the credits contained a calculation for the credits applied, stated justification or documentation of any agreement.

TABLE 1			
Credits Applied Without Supporting Documentation			
	Industrial Customer	Transaction Date	Credit Amount
1	Account #1	8/20/2012	\$ 98,236
2	Account #1	8/27/2012	\$ 13,280
3	Account #1	10/30/2012	\$ 19,577

4	Account #1	1/3/2013	\$	13,072
5	Account #1	3/20/2013	\$	30,207
6	Account #1	4/11/2013	\$	67,504
7	Account #1	5/29/2013	\$	99,482
8	Account #1	6/25/2013	\$	13,800
9	Account #1	7/18/2013	\$	47,304
10	Account #1	7/29/2013	\$	35,393
11	Account #1	9/17/2013	\$	33,623
12	Account #1	12/9/2013	\$	15,690
13	Account #1	1/6/2014	\$	23,319
14	Account #1	4/2/2014	\$	27,865
Subtotal Credits Applied			\$	538,352
Credits Applied with Written Approval by Public Works Director				
15	Account #1	10/15/2012	\$	20,040
16	Account #1	11/28/2012	\$	15,957
17	Account #1	2/4/2013	\$	32,330
Subtotal Credits Applied			\$	68,327
Grand Total Credits Applied Without Supporting Documentation			\$	606,679

In addition to the 17 industrial water credits referenced above, one large credit in the amount of \$657,033 was also applied to Account #1. The City was able to provide support from an outside consultant indicating that a meter reading error had occurred. However, the credit was not supported by any other documents or re-calculations. OSA's recalculation of this particular credit is \$624,000, indicating the City applied \$33,033 in excess credit.

Table 2 below details the 12 credits applied to the residential account (Account #2) associated with the same customer as Account #1. Eleven of the 12 credits were not supported by approvals or justifications. One of the 12 was supported by a document bearing the signature of the Public Works Director, however there was no documentation of the calculation to support the credit applied.

Credits Applied Without Supporting Documentation			
	Residential Customer	Transaction Date	Credit Amount
1	Account #2	1/21/2011	\$ 314
2	Account #2	2/23/2011	\$ 798
3	Account #2	3/17/2011	\$ 1,338
4	Account #2	5/24/2011	\$ 236
5	Account #2	7/21/2011	\$ 1,809
6	Account #2	8/21/2011	\$ 1,049
7	Account #2	9/19/2011	\$ 1,113
8	Account #2	10/26/2011	\$ 802
9	Account #2	11/21/2011	\$ 680
10	Account #2	4/23/2012	\$ 333

11	Account #2	5/15/2013	\$	1,926
Subtotal Credits Applied			\$	10,398
Credits Applied with Written Approval by Public Works Director				
12	Account #2	7/25/2012	\$	1,770
Subtotal Credits Applied			\$	1,770
Grand Total Credits Applied Without Supporting Documentation			\$	12,168

Criteria:

Article IX, Section 14 of the New Mexico Constitution (Anti-Donation Clause) sets forth the requirement that government entities not make any donation to or in aid of any person, association or public or private corporation.

Effect:

The City may have violated the Anti-Donation Clause by providing water services without required compensation.

Cause:

The City lacked internal controls to ensure that the City calculated, applied, and approved credits consistently and with a legal basis to do so.

Recommendation:

The City should develop policies and procedures for appropriately documenting and approving any utility billing adjustments, and the City should train employees about the anti-donation provisions of the State of New Mexico Constitution.

Response:

Concerning finding number one, on the last sentence of the first paragraph it should read the former city manager and Mayor. The public works director was not part of the verbal agreement that was made. The city has developed policies and procedures that will regulate any permissible utility billing adjustments, which will require signature of the city manager. All employees have been retrained concerning the anti-donation provisions of the state of New Mexico. These actions occurred during the tenure of the former city manager and all appropriate actions have been taken to prevent this from occurring again.

2017-002 – Billing and Meter Read Adjustments Lacking Supporting Documentation

Condition:

The OSA tested 80 customer water utility accounts comprised of 25 industrial, 11 commercial, four city, and 40 residential customers. We noted 66 billing or meter read adjustments totaling \$8,690

that were applied to various accounts. The following adjustments lacked supporting documentation in the account files:

- Thirty-five transactions amounting to \$3,766 were not billed at the water rate established by City ordinance and no justification or support was noted.
- Eight credit adjustments amounting to \$2,963 had no justification or support noted.
- Twenty-three meter reading adjustments amounting to \$1,961 had no justification or support noted.

We noted one payment for \$59 was applied as a credit. The City misclassified applying a payment and erroneously applied it as a credit. We also noted one account where there was a break in the data between October 22, 2010 and June 22, 2011. No charges were shown in the billing system during this period.

Criteria:

Generally Accepted Accounting Principles (GAAP) require evidence of the correctness and precision of accounting entries. Financial transactions and approvals should be supported by appropriate documentation.

Effect:

The City has not developed the policies and procedures necessary to create and retain evidence supporting billing and meter reading adjustments. Lack of policies and procedures makes the City susceptible to fraud, waste, and abuse, and may result in the loss of funds.

Cause:

The City lacked internal controls to ensure that the City reviews water utility transactions for compliance with applicable City Ordinances and Resolutions. In addition, the City has no policies and procedures in place for documenting billing adjustments.

Recommendation:

The City should develop policies and procedures for a monthly review of utility billing statements, so all necessary adjustments, if any, are made timely, and the City should train employees on the importance of exercising good internal controls to ensure billing accuracy and document retention.

Response:

Concerning finding number two, the city has developed policies and procedures for the review of utility billing statements on a monthly basis. In addition, the city has contracted with Resource Wise an Albuquerque firm who specializes in reviewing utility billing statements. With our new policies and procedures any billing adjustments must be approved in writing by the city manager.

2017-003 - Noncompliance with City Resolutions

Condition:

In one instance out of 25 industrial accounts tested, it was noted that the City did not consistently apply provisions of its own resolutions for industrial sale of water. Specifically, we noted one instance in December 31, 2015 where the industrial water rate was utilized and a customer (Account #3) was billed in the amount of \$390, which was not in compliance with cessation of industrial sales as required by City Resolution 140908-3.

Criteria:

The City adopted a resolution (#140908-3), dated September 8, 2014, stating that the City will not issue any further water taps for fracking and industrial water resale without the approval of the City Council.

Effect:

The Utility department appears to have not been in compliance with the City Resolution ceasing the sale of water for industrial use. This puts the city at risk for possible lawsuits and legal actions.

Cause:

It is unclear why the Utility department did not comply with the resolution.

Recommendation:

The City should review Resolution 140908-3 and make clarifications as needed for the sale of industrial water. The City should promptly update employees about ordinance changes.

Response:

Concerning finding number three, the city will not sell water for industrial purposes unless it is approved by the city Council on a case by case basis. All employees have been updated concerning these new policies and procedures.

EXIT CONFERENCE

On June 12, 2017, the OSA held an exit conference with the following individuals to discuss the results of the consulting services engagement and the findings.

City of Jal

Cheryl Chance, Mayor
Bob Gallagher, City Manager
Michael Newell, City Attorney

Office of the State Auditor

Timothy M. Keller, CFE, State Auditor
Sanjay Bhakta, CPA, CGFM, CFE, CGMA, Deputy State Auditor
Kevin Sourisseau, CPA, Special Investigations Division Director
Jessica Lucero, Audit Supervisor



CITY OF JAL

JAL, NEW MEXICO 88252

PO DRAWER 340
PHONE 395-3340

Mr. Scott Verhines, State Engineer

1900 W. Second Street

Roswell, NM 88201

RE: Agreement Between the City of Jal, New Mexico, and the Beckham Ranch, Inc., RE: Applications No. J-25 and J-26 as Filed by the Beckham Ranch, Inc. to Appropriate the Underground Waters of the Jal Basin

Dear Mr. Verhines:

Please be advised that this letter summarizes the agreement reached between the City of Jal and the Beckham Ranch, Inc., pertaining to Applications J-25 and J-26 as filed by Beckham Ranch, Inc. to appropriate the underground waters of the Jal Basin. This agreement was reached between representatives of the City of Jal and Beckham Ranch, Inc. (as per signatures below) and approved by the Jal City Council, at a special meeting, on January 21, 2013.

The agreement is as follows: Applications J-25 and J-26, as previously mentioned, will be amended to a maximum request of 500 acre/feet, to be divided up by Beckham Ranch, Inc. between quadrants 3 and 4, subject to approval by the State Engineer Office; the City of Jal is to have emergency access to the new Beckham Ranch, Inc. wells within quadrant 3, for not more than 7 days during an emergency (with no electric costs to City), with emergency defined as $\frac{1}{4}$ or more of City wells are down/out of service at the same time, City to pay for piping and related equipment for use during emergency, amount of water used by City during emergency to be credited back to Beckham.

In addition, the City of Jal and Beckham Ranch mutually express our serious concerns regarding the potential impact of the City of Midland T-Bar Wellfield Project, and strongly urge the State to closely monitor the situation and to keep the City and Beckham advised.

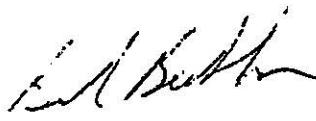
Furthermore, the City of Jal and Beckham Ranch mutually and strongly request that the State close the Jal Basin from further appropriations, as soon as possible.

If I may be of further assistance in this matter, please contact me at the above address, at my cell phone (575)605-4718, or my email citymanager@cityofjal.com.

Thank you for your consideration,



Curtis Schrader
City Manager



Brad Beckham
Beckham Ranch, Inc



CITY OF JAL

JAL, NEW MEXICO 88252

PO DRAWER 540
PHONE 395-3340

December 2, 2014

Chris Lindeen
Office of the State Engineer
Post Office Box 25102
Santa Fe, NM 87504-5102


Re: Beckham Ranch, Inc. — Applications J-25, J26

Mr. Lindeen,

On behalf of the City of Jal, I provide this letter to formally notify you of the City's continued support of Beckham Ranch, Inc.'s Application Nos. J-25 and J-26 to Appropriate Underground Waters of the Jal Basin, under the conditions set forth in the January 21, 2013 letter memorializing the agreement between the City of Jal and Beckham Ranch, Inc. (the "Agreement"), enclosed here for your convenience. It is my understanding that the Applications have been denied and that Beckham Ranch has taken an appeal to the Fifth Judicial District Court. The City of Jal hereby reaffirms its support of the Applications pursuant to the terms of the Agreement and urges the State Engineer to reconsider his denial of the Applications. Granting the Applications will help ensure that the City of Jal has adequate water supply in the future and thus it is imperative that the Applications be approved as quickly as possible.

Please contact me if you have any questions or if I may be of further assistance in this matter.

Thank you for your consideration.



City Manager

Encs.
{00631237-1}

Timothy M. Keller
State Auditor



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

State of New Mexico
OFFICE OF THE STATE AUDITOR

June 12, 2017

Mayor Cheryl Chance
City Councilors
City of Jal
309 S. Main Street
P.O. Drawer 340
Jal, New Mexico 88252

Dear Mayor and City Councilors:

We have performed consulting services on the accounting and financial records related to the City of Jal ("City") for the period of January 1, 2008, through December 31, 2016. This engagement is solely to assist the City in addressing various concerns regarding water utility billing practices.

On behalf of the City, the Mayor agreed to the services. The City's management is responsible for the operation of its water utility and its financial and accounting records. This consulting services engagement was conducted in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants.

City management is responsible for maintaining the accounting records and for establishing and maintaining effective internal control over compliance with applicable laws, regulations, and policies of the City. 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 an ultimate legal determination of the City's compliance with applicable laws and regulations.

This report is intended solely for the information and use of management of the City of Jal 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,

A handwritten signature in blue ink that reads "Office of the State Auditor".

Office of the State Auditor

2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507

Phone (505) 476-3800 * Fax (505) 827-3512

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