

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Las Campanas Water Cooperative

Management Recommendations

December 31, 2020

Board of Directors and Management
Las Campanas Water Cooperative
Santa Fe, New Mexico

In planning and performing our audit of the financial statements of Las Campanas Water Cooperative (Coop) as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Coop's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Coop's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiencies in the entity's internal control to be material weaknesses:

Insufficient Close and Review Procedures

Part of an audit is the review of a closed, balanced, and reconciled trial balance which includes all of the accounts in the financial statements. The financial statement reconciliation and closing procedures should be sufficient to ensure each account is materially correct. During our audit testwork we found that the following accounts were materially incorrect and not reconciled as of December 31, 2020:

- Cash – outstanding checks were misstated by approximately \$92,000 and outstanding deposits were misstated by approximately \$32,000. Outstanding checks included in this figure had dates ranging from June 2019 to September 2020. Any check outstanding more than 60 days should be researched to determine if it is truly outstanding, or if there has been a reconciliation error. Outstanding deposits included in this figure had dates that ranged from November 25th to December 21st, 2020. Any deposit outstanding more than 3 days should be researched to determine if the bank has made an error, if there is a reconciliation error, or if the deposit has been stolen.
- Investment Income – the investment income was recorded to the reserve equity account instead of income. No entries should be posted to equity unless a prior period restatement to correct an error is being made. As a result, reserve income was understated by \$68,237.
- Reserve Expenses – expenses paid from reserves were booked to the reserve equity account instead of reserve expenses. As a result, reserve expenses were understated by \$709,279.
- Accounts receivable – the accounts receivable report was approximately \$5,000 less than the water billing system report.
- Accrued Expenses – the Coop did not have a schedule to prove the balances in accrued expenses. The final balance was \$106,888 greater than the unadjusted balance per the trial balance.

We noted that the reconciliations that were prepared were incorrect. This indicates the person preparing them did not review them sufficiently. We also did not see an indication that the reconciliations were reviewed by someone other than the person preparing them.

We recommend that all accounts on the balance sheet be reconciled monthly. Each reconciliation should be reviewed by the person preparing them, and then reviewed by another person in the Coop to ensure they are correct and agree to the trial balance. Both reviewers should sign the reconciliation indicating they have reviewed. Alternatively, a monthly close schedule may be used so that the reviewers only need to sign once for all reconciliations reviewed.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the entity's internal control to be significant deficiencies:

Documentation of Accounting Policies and Procedures

A draft Accounting Procedures document was prepared by the Coop in 2017. The document was never completed. We recommend that the Coop update its policies and procedures to reflect its current practices and functions. In addition to the accounting and billing functions, this update should include the monthly close procedures as well as reporting and supervision.

This communication is intended solely for the information and use of management, the Board of Directors, and others within Las Campanas Water Cooperative, and is not intended to be, and should not be, used by anyone other than these specified parties.

Porch & Associates, LLC

Albuquerque, New Mexico
June 18, 2021