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AZ CORP COMMISSION  
DOCKET CONTROL

Mount Tipton Water Company

Docket No. W-02105A-04-0880

Docket NO. W-02105A-03-0303, 67162 and 66732

November 19, 2007

RE: Performance audit performed. "The Company's witness testified that the Company planned to share the results of the audit with Staff".

Please find the performance audit attached. If more detailed information is required, please contact me.

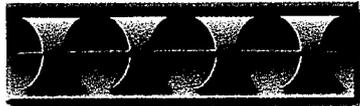
Judy Morgan,  
Office Manager

Arizona Corporation Commission

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HENRY & HORNE, P.L.C.  
Advisors to Business

June 24, 2004

Board Members  
Mt. Tipton Water Company  
Dolan Springs, Arizona

At the request of the Board members and to comply with ACC requirements, we were engaged to provide certain consulting procedures and inquiries in order to help Mt. Tipton Water Company better manage its fiscal operations. Our procedures focused on the Company's internal controls and accounting processes. We are still working with the GM to finalize the proper use of the accounting software. The follow is a summary of our findings and recommendations:

### **GENERAL**

We noted that those in positions if fiscal responsibility are not required to be bonded. We suggest the Company consider possible bonding of the Treasurer and General Manager.

Computer backups should be done to an outside media such as tape or zip to prevent data loss. Weekly backups should be stored until month end at which time a monthly can be stored indefinitely.

Water load count sheets should have a place for customer account number and should be signed by user to prevent any allegation that the user didn't actually take the water and a slip was forged in their name.

We noted that Sue has decided not to take the health insurance coverage for which she qualifies. We suggest she take the health insurance coverage due to her even though she doesn't feel right about it given the financial position of the Company. The Company would be in worse position if something happened to Sue and she couldn't get treatment due to lack of insurance.

We noted that attempts at reconciling water usage to sales are made monthly which report high variances. We believe these variances are due in a large part to the way the reconciliations are completed. We recommend monthly water usage is reconciled by comparing the total flow thru well meters to the total flow thru customer meters and water load counts. This will have to be done by reading all meters on one day and by writing down the month end tank storage amounts.

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The change in tank storage will have to be used to adjust the well meters to come to the true amount sold. The current figures on the monthly directors' report appear to be in error, as there is no tank activity considered.

We observed that the funds received from line hook ups are deposited in the general operating account. We recommend that the revenues from line hook ups that need to be reserved be deposited in a separate bank account.

We noted that unused check stock and undeposited checks are accessible to anyone with a little effort. We recommend that a fireproof floor safe be installed and used to store check stock, undeposited funds kept overnight and computer back up disks. This will help to safeguard the Company assets.

We recommend that H&H look at the accounts annually to help determine if things are operating smoothly.

### **CASH RECEIPTS**

We observed that all employees have common access to the cash register. We feel that cash register key codes should be set up for each employee to account for activity by person. These codes should be set by the Board Treasurer and not shared by employees. This will facilitate a trail of transactions by employee.

All checks as well as cash should be run through the cash register to facilitate a complete trail and another reconciliation tool. The cash ~~register~~ tape should reconcile to the total deposit.

All checks should be stamped "for deposit only" when received. All checks and cash should be maintained in the cash register until pulled for deposit. This will provide for a better safeguard over the receipts and a better trail for accountability.

Cash register receipts should be provided to all customers. A sign should be placed on the counter indicating that customers should ask for their receipt if not given one. This will help ensure that all transactions are being entered in the system.

The "Deposit Tape" report should be coded by g/l account for posting before actually being posted to QuickBooks. Although Sue knows all the accounts by heart and she doesn't need the coding for herself, this should be a policy to provide for a better trail and to facilitate a more turnkey operation in the event that Sue may not be available.

The rental property generates a monthly cash payment that should be set up in QuickBooks as a recurring entry as a flag to prevent any missed/delinquent payments.

A deposit report showing account postings should be generated from QuickBooks and compared to the deposit slip by a board member to facilitate a segregated check of the account postings.

*Items of note that likely cannot be implemented due to lack of staff:*

*Cashier and bookkeeper segregated*

*Mail opened by two individuals*

### **CASH DISBURSEMENTS**

Employee reimbursements are simply done by handing in a receipt and getting cash out of the bank bag. A reimbursement form should be filled out with receipts attached and submitted for approval and check reimbursement.

When bills are submitted to the board, the Secretary should initial each invoice as approved. This will help prevent any invoices that are not approved from being paid.

Invoices should be coded as to account before presentation to the board so that they are approving the account coding as well.

Invoices should be date stamped when received.

Invoices should be cancelled when posted to QuickBooks. This will help prevent double payment.

We noted that payroll is run through the general operating account. We recommend that there should be a separate imprest payroll account to ease any reconciliation issues and provide a clean audit trail.

We noted the bank is only sending copies of the front portion of cancelled checks. The backside of the checks should be copied and delivered by the bank as well as the front side in order to be able to verify endorsements.

We recommend that the check number used to make payment be indicated on paid invoice.

The bank statement should be mailed to and opened by the Treasurer. The Treasurer should examine the check copies and look for unusual items.

## ACCOUNTS RECEIVABLE

Monthly statements should be reviewed and mailed by board member. This will help prevent kiting and/or preference to customers.

Total monthly A/R credits should be reconciled to monthly cash receipts.

A/R per RVS should be reconciled monthly to QuickBooks (an entry should be posted at least monthly from RVS to QuickBooks to record A/R).

*Items of note that likely cannot be implemented due to lack of staff:*

*Accounts receivable maintained by someone other than bookkeeper.*

*Someone other than bookkeeper/accounts receivable person should handle customer complaints.*

## PROPERTY

There is currently no policy on property and equipment. The client does not recognize additions nor are disposals identified. We recommend that a capitalization policy be implemented.

Since the entity does not add or delete many items. It would likely be sufficient to retain your current CPA or H&H to do a proactive maintenance of the fixed assets and depreciation and provide appropriate entries to the Company. It would likely not be cost efficient for the client to purchase depreciation software.

## PAYROLL

The individual employee files are currently accessible by anyone in the office. Only Sue and the board president should have access to these files in order to maintain the highest possible level of confidentiality.

Employee files should be updated at least annually. These updates should include verification of approved hourly rates to what is actually paid to employees as well as new W-4 and A4 forms signed by the employees. The Treasurer should do unannounced spot checks of these files throughout the year.

We suggest that simple background and credit checks be done on potential employees and board members before their position is finalized. The candidate would have to approve in writing that these checks may be completed. There is not a great deal of hiring taking place at the Company and the costs of these checks are minimal. We believe these checks can provide additional insight into a candidate before a final decision is made.

It appears that the area of paid leave (vacation and sick time) may be open to potential abuse. We recommend that a board member periodically review the accruals for this time and be sure that the appropriate calculations are made.

The quarterly and annual payroll reports, including W-2's, should be reconciled to the books.

### OTHER

As a result of our engagement procedures and inquiries, we noted that there were certain transactions conducted under the management of the former contract consultant and the former board that could be and have been called into question. These include certain projects that were started, partially paid for or paid for and left unfinished and mismanagement of funds that are restricted. As noted earlier we did not perform an audit of these transactions and cannot state any potential losses that may have been incurred by the Company. However, we believe that with a new board and management in place and with the implementation of the above recommendations the Company will be able to mitigate and protect itself from being placed in a similar situation.

We will be pleased to discuss these items in further detail or help with any implementation issues. Please contact us at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Henry & Horne, PLC". The signature is written in a cursive, flowing style.

Henry & Horne, PLC  
Chuck Goodmiller, CPA, Director