



# Schutte & Hilgendorf pllc - CPA's

Solving Accounting, Audit & Tax Puzzles

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## INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors of  
ICR Water Users Association  
Prescott, Arizona

We have examined ICR Water Users Association's internal control over financial reporting as of August 31, 2017 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) or other acceptable framework decided by Management. ICR Water Users Association's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on whether ICR Water Users Association maintained effective internal control over financial reporting based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ICR Water Users Association maintained, in all material respects, effective internal control over financial reporting as of August 31, 2017, based on the criteria noted above.

A handwritten signature in cursive script that reads "Schutte &amp; Hilgendorf".

Schutte & Hilgendorf, PLLC  
Prescott, Arizona  
August 31, 2017

## Summary of Examination Procedures and Findings

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, 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 **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.

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Given these limitations, during our examination **we did not identify any deficiencies in internal control that we consider to be material weaknesses**. However, material weaknesses may exist that have not been identified.

We considered the COSO Framework in evaluating the Internal Controls of ICR Water Users Association. A summary of the procedures and findings follow:

### Control Environment – Principles:

- The entity demonstrates a commitment to integrity and ethical values.
- The board of directors demonstrates independence from management in exercising oversight of the development and performance of internal control.
- With board oversight, management establishes structures, reporting lines, and appropriate authorities and responsibilities to achieve objectives.
- The entity demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- The entity holds individuals accountable for their internal control responsibilities.

### Relevant ICRWUA Comments:

- The Association has a well-defined structure with a Board of Directors elected annually.
- An outside accounting firm utilized to enforce objectivity, independence, and oversight
- The Association and its Board operate with the utmost transparency, posted all Association information, including history, board documents, reports, forms, rates, policies and FAQ on the website for public inspection
- The Association hires a water consultant who provides reports, and findings on a regular basis.

### Recommendations:

Consider adopting a code of conduct or ethics within the Board of Directors

## **Risk Assessment – Principles:**

- The entity specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- The entity identifies risks to achieving its objectives and analyzes risks to determine how the risks should be managed.
- The entity considers the potential for fraud in assessing risks to the achievement of objectives.
- The entity identifies and assesses changes that could significantly impact the system of internal control.

## **Relevant ICRWUA Comments:**

- Perform regular self-audits of water meters
- Voluntarily hire audit firm to evaluate internal controls to determine if sufficient.
- Hires outside professional firms to conduct monthly accounting, prepare tax returns, water operations, and hydrology – uses professionals with the expertise to identify issues/risks
- No history of violation by regulating agencies (ACC, ADOR, ADEQ)
- A sufficient backup plan exists at outside accountant to ensure security and restoration of financial information, in the event of a disaster or misappropriation.

## **Recommendations:**

Consider adding 2<sup>nd</sup> signature requirement for large expenditures (i.e. over \$2,000 or \$5,000).

## **Information and Communication:**

- The entity obtains or generates and uses relevant, quality information to support the functioning of internal control over the subject matter.
- The entity internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control over the subject matter.
- The entity communicates with external parties regarding matters affecting the functioning of internal control.

## **Relevant ICRWUA Comments:**

- Board of directors list available on website with contact information.
- Board holds meetings quarterly (was monthly) open to public and membership. Board minutes are published in a timely manner on website for public inspection.
- All information about the Association, including history, board documents, reports, forms, rates, policies and FAQ are on website for public access.
- Outside accountant emails board members with any unusual transactions or requests, approvals and questions (we looked at email correspondence examples).
- Hires outside professionals to ensure quality information and reports findings in monthly board meetings. Reports all available on website.

## **Recommendations:**

Consider reiterating ACC Rules & Regulations regarding, deposits, advances, service termination, billing and collection, late fees and complaint handling on website.

## Monitoring:

- The entity selects, develops, and performs ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning.
- The entity evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

## Relevant ICRWUA Comments:

- Monthly bank reconciliations prepared by outside accountant
- Financial reports (BS and Income Stmt compared to prior year and budget, month and YTD) are prepared monthly by outside accounting firm. Given to board treasurer who prepares summaries from this information. All financial information is reviewed by Treasurer monthly and full board every other month at meetings.
- ADEQ reports filed quarterly by outside water consultant and posted on website for members
- ACC filings are done annually by outside accountant and made available to users upon request.
- The Association conducts self audits in accordance with Best Management Practices
- The Board hired an outside audit firm to evaluate internal controls.
- All work performed by Cheryl Ibbotson reviewed by Cynthia Wallace (two different accounting entities – one used for monthly billings and accounting, the other used for tax prep and consultation.
- Rates are control by Arizona Corporation Commission and require rate case for adjustment.

## Recommendations:

Consider having a formal reserve study done for major repairs and replacements every 2-5 years.

Consider having the Treasurer review detailed general ledger activity or bank statements on a monthly basis – there lacks a procedure to review detailed transactions posted to the general ledger or to bank statements by a member of the board. This could potentially catch mis-posted, unauthorized or missing transactions.