An Audit Report on

The La Joya Water Supply Corporation

July 2005

Report No. 05-046

State Auditor's Office
John Keel, CPA
State Auditor

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Overall Conclusion

The La Joya Water Supply Corporation (Corporation) has significant deficiencies in the management of its finances and its operations. The Corporation does not safeguard assets or keep adequate or accurate fiscal records, and it misused funds. Most significantly, the Corporation does not have accurate information about its financial status, and it does not have sufficient resources to cover current liabilities; it could be short by as much as $1.4 million. This situation is compounded by (1) the Corporation's not billing for approximately $618,000 from customers for water usage over a two-year period and (2) its lack of a fiscally responsible procurement process. Furthermore, the Corporation's most recent board election violated portions of its bylaws and the Texas Water Code. If the Corporation's financial situation does not improve, it has the potential to prevent the Corporation from meeting its customers' long-term water needs.

The State Auditor's Office is unable to provide absolute assurance that amounts in this report are complete because the Corporation was not able to provide complete and reliable information. Prior to January 2005, the Corporation did not have adequate controls in place to ensure that it documented its business activities. For example, the Corporation was not able to provide receipts for funds collected (including funds placed in escrow), supporting documentation for funds spent, or an accurate list of its assets and liabilities.

With its approaching conversion to a special utility district (see text box), the Corporation is at a critical juncture and must make a determined effort to correct the deficiencies in its operations. If left uncorrected, they will continue to hinder the Corporation's ability to adequately manage its financial operations and provide services. The Corporation's immediate actions should include implementing sound management practices, such as those recommended in this report.

La Joya Water Supply Corporation

About the Corporation

The La Joya Water Supply Corporation (Corporation) provides water to at least 50,000 rural customers and businesses through approximately 12,000 connections in South Texas.

About Management of the Corporation

The Corporation hired new management in December 2004. The new management implemented some business processes to improve the operations of the Corporation before leaving in May 2005. As of June 2005, the Corporation does not have a general manager. Prior to December 2004, the Corporation had the same management team for 17 years. The Board of Directors demoted part of the team in July 2004 and terminated the team in April 2005. It subsequently contracted with the former management team to provide consulting services in April 2005.

Changes to the Corporation

As of September 1, 2005, House Bill 1358 (79th Legislature, Regular Session) will convert the Corporation from a non-profit corporation to a special utility district subject to the jurisdiction of the Texas Commission on Environmental Quality.

As a special utility district, the Corporation must comply with Chapters 49 and 65 of the Texas Water Code. Improving its financial position and operating procedures will be essential for the Corporation to comply with the Code's regulations.

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This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

For more information regarding this report, please contact Verma Elliott, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

Key Points

The Corporation does not have accurate information about its financial status, and it does not have sufficient resources to cover current liabilities.

The Corporation has at least \$2.4 million in current liabilities and has at most only \$997,000 to cover them.

The Corporation's assets and liabilities are materially misstated in its general ledger, or primary accounting records, as of April 30, 2005. Accounts that are misstated include accounts payable, developers' advances, and deferred revenue.

The Corporation also has approximately \$2 million in liabilities for infrastructure, meters, and membership fees that developers and customers have paid to the Corporation for equipment and services that the Corporation has not yet provided. The Corporation's escrow account, which should contain sufficient funds to cover these prepaid services, contains only \$42,000 as of May 2005. This escrow shortfall occurred because the Corporation spent funds collected for prepaid services on maintenance and operating expenditures.

Numerous weaknesses in the Corporation's process for billing customers have decreased the Corporation's revenue.

Because of significant deficiencies in the Corporation's process for billing and collecting for metered water sales prior to 2005, state auditors cannot determine exactly how much revenue has been lost. Deficiencies include a lack of controls and documentation.

The deficiencies identified are as follows:

- The Corporation does not account for all of the money it collects to ensure that the money is retained by the Corporation. For example, the Corporation did not deposit into the bank at least \$170,000 that it collected from customers for metered water sales over approximately six months.
- The Corporation does not bill accounts correctly. Because of this, the Corporation has not collected at least \$618,000 from customers over the past two years.
- The Corporation does not bill all active accounts. A test of meters listed as "inactive" in the Corporation's billing system identified that as much as 30 percent of these meters were actually receiving water. State auditors estimate that this resulted in lost revenue of approximately \$10,050 in March 2005.

In addition, the Corporation does not accurately determine water loss. Doing so could help it identify problems in its billing process such as those listed above.

The Corporation does not have a fiscally responsible procurement process.

The Corporation's process for procuring goods and services lacks controls to ensure that Corporation employees spend funds prudently and on business-related expenditures. Because the majority of expenditures recorded in the Corporation's records were not supported with documentation such as receipts or invoices, state auditors could not determine exact amounts of expenditures. The lack of policies, procedures, and controls over expenditures creates opportunities for fraud and misuse of Corporation funds. It also contributes, in part, to the Corporation's not being able to cover its current liabilities (as discussed above).

For example, approximately $37,600 appears to have been used for personal expenditures from September 2001 to March 2005. The expenditures were for tools and airplane tickets. The vendor selling the tools indicated that funds were paid from the Corporation; however, the tools were delivered to a personal address. Airplane tickets were purchased with Corporation funds for individuals who were not employees or board members. The Corporation could not provide evidence that it received reimbursement for these expenditures.

Summary of Management's Response

The Corporation generally agrees with the State Auditor's Office's findings. However, the Corporation disagrees with the finding regarding the funds available to cover its current liability (Chapter 1-A).

The information provided by the Corporation does not change the State Auditor's Office's findings and recommendations. The Corporation's response suggests that its accounts receivable of $844,000 will be available to offset current liabilities. However, there is no assurance that the Corporation will collect the funds. At the end of fiscal year 2004, the Corporation reduced its accounts receivable by over $700,000 due to adjustments and allowance for doubtful accounts.

Additionally, the State Auditor's Office would like to reiterate that auditors are unable to provide absolute assurance that amounts in this report are complete because the Corporation was not able to provide complete and reliable information. As a result, the Corporation should research to determine the complete amounts before entering amounts into its books.

Summary of Information Technology Review

The Corporation uses three major computer systems: (1) a new customer billing system, (2) a payroll system, and (3) an old billing system, which is used to maintain records of inventory and expenditures.

These systems are located on one server in the Corporation's headquarters. The physical security and back-up procedures for this server are not adequate to safeguard the Corporation's financial data. These issues are discussed further in Chapter 2-B.

A number of significant billing deficiencies were noted in which the Corporation either did not bill all accounts or did not bill all accounts correctly. These deficiencies, which are discussed in detail in Chapter 2, are due in part to the Corporation's staff's limited knowledge on how to use the new customer billing system.

Summary of Objectives, Scope, and Methodology

The objectives of the audit were:

- To determine whether the Corporation's controls over the acquisition and use of grants, contracts, and loans associated with the Economically Distressed Areas Program (EDAP) and the Colonias Waste Water Treatments Assistance Program (CWTAP) are adequate.
- To determine whether the Corporation has controls to provide reasonable assurance that (1) funds are used to accomplish stated objectives and (2) expenditures of funds comply with applicable rules, laws, regulations, contract terms, and best practices.

The audit scope included all aspects of the financial processes of the Corporation, customer billing, procurement of goods and services, procurement of grants and contracts, and board elections.

A large amount of documentation and data was missing from the Corporation's records. As a result, we could not fully identify or validate any of the financial, billing, procurement, or contracting data for the Corporation.

The audit methodology consisted of collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of the tests; and conducting interviews with Corporation management, staff, and vendors.

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Detailed Results

Chapter 1

The Corporation Does Not Have Accurate Information about Its Financial Status and Does Not Have Sufficient Resources to Cover Current Liabilities

The La Joya Water Supply Corporation (Corporation) does not have sufficient financial resources available to cover its current liabilities and address future financial needs. The Corporation could be short by as much as $1.4 million. Additionally, the Corporation's assets and liabilities are materially misstated in its general ledger, which is its primary accounting record, as of April 30, 2005. Accounts that are misstated include accounts payable, developers' advances, and deferred revenue.

The State Auditor's Office is unable to provide absolute assurance that amounts in this report are complete because the Corporation was not able to provide complete and reliable information. Prior to January 2005, the Corporation did not have adequate controls in place to ensure that it documented its business activities. For example, the Corporation was not able to provide receipts for funds collected (including funds placed in escrow), supporting documentation for funds spent, or an accurate list of its assets and liabilities.

The Corporation hired new management in December 2004. The new management implemented some business processes to improve the operations of the Corporation before leaving in May 2005. As of June 2005, the Corporation does not have a general manager. Prior to December 2004, the Corporation had the same management team for 17 years. The Corporation's Board of Directors demoted part of the team in July 2004 and terminated the team in April 2005. It subsequently contracted with the former management team to provide consulting services in April 2005.

Chapter 1-A

The Corporation Does Not Have Sufficient Financial Resources Available to Cover Its Current Liabilities

The Corporation had at least $2.4 million in current liabilities as of April 30, 2005; however, the Corporation has at most $997,000 available to cover them. The Corporation's long-term and other liabilities total $7.4 million. Current, long-term, and other liabilities were approximately $9.8 million as of April 30, 2005. (The Corporation's general ledger as of April 30, 2005, incorrectly listed liabilities of $15.5 million. See Chapter 1-B for more information.)

The Corporation's current liabilities consist of the following:

- At least $1 million in invoices that the Corporation received from contractors who worked on the design of the wastewater facility project. The project has been canceled, and the Corporation will not receive any additional funds to cover these amounts.
- Approximately $784,000 collected from developers in calendar year 2004 to install infrastructure for new subdivisions. These funds should be in the Corporation's escrow account but are not because they were used for operating purposes. (The Corporation's mismanagement of funds collected for prepaid services is discussed in Chapter 1-C.) This liability could become current during July 2005 because, according to the Corporation, that is when it will complete the pipeline that will allow it to transport water from the cities of McAllen and Mission.
- Approximately $628,000, which includes accounts payable, the current portion of long-term debt, and accrued sick leave.

The funds that the Corporation had as of April 30, 2005, to cover these current liabilities consist of the following:

- $118,000 in operating cash
- $42,000 in escrow
- $542,000 in other accounts and certificates of deposit
- $295,000 in funds from the Water Development Board, which the Corporation may be able to use to pay for eligible wastewater project expenditures with approval from the Water Development Board

The Corporation's $7.4 million in long-term and other liabilities are as follows:

- Approximately $6.2 million in loans obtained by the Corporation for a water expansion project and wastewater projects.
- Approximately $1.2 million owed for membership fees and meters that have been paid for but not installed. This amount was not included in the Corporation's general ledger.

Recommendations

The Corporation should:

- Identify methods to conserve funds so that it can pay its current liabilities.

- Establish and implement appropriate accounting and reporting functions to more accurately report its financial activities and conditions.
- Establish a process to ensure that any additional obligations can be supported by operations before they are incurred.

Management's Response

Recommendations are acknowledged and steps will be taken to incorporate those into the daily operations of the WSC. The Corporation agrees with most of the findings and will take action to correct the problems as follows:

- *The $1,028,372 due waste water contractors have been recorded.*
- *Developers' deposits of $783,612 have been recorded. $276,503 of above amount, was previously listed are Deferred Revenues.*
- *RE: The 1.2 million in Members Certificates, uninstalled meters and contracts with HCID #6, 16 and City of Mission and McAllen.*

  $257,140 was included in the Equity Section before and will be reclassified; the $95,332 contract with HCID #6; the $75,000 contract with HCID #16 and the $19,642 owed to City of Mission and McAllen will be recorded but will have an offset effect. The above amounts totaling $189,964 will be recorded as Prepaid Expenses since the amounts involved are for future obligations. Will need to follow up on the $752,000 in your report regarding meters paid but not installed. The amounts paid to the H.C.I.D. #6, 16, City of Mission and McAllen are paid with monthly Operational Revenues and are included as Water Costs.

However, the Corporation would like to note:

- *Accounts Receivable at April 30, 2005 were $844,409. Average Operating Expenses plus principal payments on notes were 346,766 thru May 2005. This is a 2.4 to 1 Ratio. Inventory, as observed by your office, total 292,428. Inventory includes substantial pipe and materials to be used in fulfilling Corporation's obligation to the developers who have advanced monies and are included in the $783,612 amount included in Current Liabilities.*
- *$60,338 included in Prepaid Insurance had also been reflected in the original Accounts Payable of $210,033 as of April 30, 2005.*
- *Therefore, while we agree on the $2,440,225 Current Liability on your Report, consideration should be given to the $844,409 in Accounts Receivables, $292,428 in inventory and $60,338 in Prepaid Insurance in*

assessing the Corporation's Financial Resources to cover its Current Liabilities. The above Current Assets total $1,197,175. Total funds in bank as of April 30, 2005 were $997,000 (as per your findings). Total Current Assets available to cover Current Liabilities total $2,194,175.

Auditor's Follow-Up Comment

The Corporation's response suggests that its accounts receivable will be available to offset current liabilities. However, there is no assurance that the Corporation will collect the funds. At the end of fiscal year 2004, the Corporation reduced its accounts receivable by over $700,000 in adjustments and allowance for doubtful accounts.

Additionally, the State Auditor's Office would like to reiterate that auditors are unable to provide absolute assurance that amounts in this report are complete because the Corporation was not able to provide complete and reliable information. As a result, the Corporation should research to determine the complete amounts before entering amounts into its books.

Chapter 1-B

The Corporation's General Ledger as of April 30, 2005, Was Materially Misstated

The Corporation's general ledger as of April 30, 2005, was materially misstated because it listed total liabilities of $15.5 million. As detailed in Chapter 1-A, the correct amount of liabilities is approximately $9.8 million, which means the general ledger was overstated by $5.7 million (37 percent). This overstatement is the net effect of $2.7 million in understated liabilities and $8.4 million in overstated liabilities.

The general ledger was also misstated because $25.2 million in assets recorded as of April 30, 2005, was overstated by $11.3 million (45 percent). The $11.3 million overstatement was the net effect of an overstatement of $12.7 million in assets and an understatement of $1.4 million in assets. These misstatements give a false impression of the Corporation's financial viability.

The Corporation incorrectly omitted $2.7 million in liabilities. The omitted liabilities included the following:

- $1 million in accounts payable related to the canceled wastewater project. This current liability is also discussed in Chapter 1-A.
- $507,000 in funds that the Corporation collected from developers in calendar year 2004 to install infrastructure for new subdivisions. As discussed in Chapter 1-A, the Corporation has a current liability of approximately $784,000 that it owes developers. Of this amount, only $277,000 was recorded in the general ledger.

- Approximately $1.2 million in long-term liabilities consisting of (1) funds that the Corporation collected from developers and customers for meters the Corporation has not yet installed and (2) membership fees that the Corporation's customers, or members, have to pay when they open an account. These funds should be in the escrow account but are not because the funds were used for operations (see Chapter 1-C).

The Corporation incorrectly included $8.4 million in liabilities. The Corporation should have taken this liability off its records when two grants were canceled in March.

The Corporation incorrectly included $12.7 million in assets. The assets include the following (all amounts are approximate):

- $6.7 million recorded in construction-in-progress accounts for the wastewater project that was terminated by the Water Development Board

- $5.3 million recorded in construction-in-progress accounts for the water expansion project that was terminated by the U.S. Department of Agriculture

- $157,000 in vehicles that the Corporation disposed of and did not remove from its financial records

- Materials purchased and valued at $506,000 that were booked directly into infrastructure rather than being booked as inventory first and then either expensed or capitalized as the disbursements occurred

- $97,000 in inventoried items that the Corporation does not possess (The lack of inventory controls is discussed below.)

Assets are misstated in part because the Corporation does not have controls to safeguard them. For example:

- The Corporation disposed of equipment without having any record to document the reason for or approval of the disposal. According to the Corporation, it disposed of seven computers; however, there is no documentation to prove this assertion. In addition, the Corporation reports that it has disposed of 13 trucks since 1987, but these trucks are still included in its fleet valuation and there is no documentation to support that they were disposed.

- The Corporation does not tag or inventory any of its office equipment. One former employee kept a personal digital assistant (PDA) device for four months after his termination. The Corporation was not aware that this asset was missing until auditors identified it through inventory testing.

- Materials and parts are also not safeguarded. These items are not tagged and are in some cases kept in the Corporation office's yard with no security. The Corporation stated that the automated inventory system had not been updated for five months. Additionally, most of the Corporation's distribution crew members have keys to the warehouse. The distributors are supposed to write down any parts they take, but when the warehouse clerk is absent, no one in the warehouse ensures that this happens.

The Corporation incorrectly omitted $1.4 million in assets. This is because the Corporation did not record its Subdivision Infrastructure (Restricted Assets) as an asset for fiscal years 2003 and 2004. Documentation was not available for auditors to determine whether infrastructure was properly recorded in prior years.

Recommendations

The Corporation should:

- Establish and implement appropriate accounting and reporting functions to more accurately report its financial activities and conditions.
- Consider hiring an in-house bookkeeper or accountant to assist with the reporting and recording of its operations.
- Develop procedures to safeguard assets. Specifically, tag all inventoried items including office equipment, conduct regular inventories, develop a process to disburse inventoried items, and document the disposal of any items.

Management's Response

RE: Incorrectly omitted 2.7 million in liabilities

- *$1,028,372 due waste water contractors have been booked.*
- *Net of $507,109 from developers has been booked.*
- *Membership certificates of 257,140 have been reclassified from Equity section to Liability section.*
- *$189,964 on contracts for 2nd half of year will be booked with respective Prepaid Current Asset account. Effect on statements is zero.*
- *$752,000 for meters on lots not yet installed will be booked, if applicable, on further review of data.*

RE: Incorrect exclusion of 8,404,713 in Liabilities

- *Advances from related agencies for projects terminated were previously listed as a Liability. Since project was terminated in March 2005, these amounts will be reclassified as Revenues.*

Corporation incorrectly included 12.7 million in Assets.

- *Agree on $9,126,830. $3,583,678.60 included in report are costs associated with the completed (2003) Havana Expansion Plant for which the Corporation started paying Rural Urban Utilities two notes in November of 2003. The 9,126,830 represent costs for projects terminated in March 2005. $55,639 and $136,468 paid to Dannebaum and included in original amount of $3,775,786 are being reclassified.*

In summary of 2 & 3 above $722,117 will be classified as an Extraordinary Expense for 2005. WSC will check into matter of reimbursement of monies for terminated project in light of the fact that local monies were used to advance payment to vendors.

Corporation incorrectly omitted 1.4 million in Assets.

- *Adjustment to correct this matter will be recorded via Prior Period Adjustment category since this amount represents related Developer Infrastructure deposits netted with related costs in prior years.*

Recommendations are acknowledged.

- *Individual with accounting experience to be the in-house accountant is very likely to be hired soon. Working together with staff and external CPA, procedures and policies will be implemented to correct the deficiencies noted.*

As you are aware, projects were terminated in March of 2005. Your comments are effective as of April 2005. While your Comments regarding the 8.4 in Liabilities and 9.1 million (as corrected) is an accurate statement it is reasonable to expect that these amounts were to be recorded appropriately by the WSC before any Financial Statements would have been issued to a third party. These amounts have now been appropriately reflected as of June 30, 2005. We respectfully request that $722,117 be reflected on your report as such and not as stated. Your comments regarding these amounts give the impression that the WSC was intentionally overstating those amounts when it essence these amounts represent monies received and expenditures incurred for the terminated projects which are being reflected accordingly on Corporation's Financials as of June 30, 2005.

Auditor's Follow-Up Comment

The Corporation's response states that the Havana Expansion project was completed; however, Corporation personnel noted during fieldwork that the expansion project was never completed.

Chapter 1-C

Inadequate Management of Funds Collected for Prepaid Services May Prevent the Corporation from Meeting Its Fiduciary and Service Obligations to Customers

The Corporation has received approximately $2 million for infrastructure, meters, and membership fees from developers and customers, but it has not yet provided the services. As discussed in Chapters 1-A, $784,000 of this is a current liability and $1.2 million is a long-term liability. The Corporation's escrow account (see text box), which should contain sufficient funds to cover prepaid services, contained approximately $42,000 as of May 2005.

Escrow Account

Funds paid by developers and customers for the water rights, meter, and membership fees to the Corporation should be deposited into the escrow account. These funds are for installing the infrastructure (materials and labor) to deliver water, purchasing water rights, and refunding membership fees when customers leave the Corporation's service area.

This escrow shortfall occurred because the Corporation spent funds collected for prepaid services on maintenance and operating expenditures, even though these funds should be used for materials and services the Corporation owes customers and developers. Specifically, between January 1, 2003, and May 3, 2005, the Corporation spent $1.5 million (36 percent) of the $4 million identified as deposited in escrow for maintenance and operating expenditures. Additionally, the Corporation deposited at least $96,000 of $168,000 in payments received from a customer for water improvements between 2002 and 2004 into its operating account instead of the escrow account.

The State Auditor's Office was not able to establish with certainty the total amount that was paid to the Corporation by developers and customers or the total liability that the Corporation owes. In addition to using funds collected for prepaid services as operating funds, the Corporation does not have a system for collecting, posting, and safeguarding these funds. Receipts issued for payment are not numbered, and payments made for the sale of water rights, meters, and membership fees are not consistently posted to customer accounts. The Corporation could not provide any receipts for payments from developers or individual customers issued prior to January 2005.

Recommendation

The Corporation should establish and implement processes to ensure that funds collected for non-operating purposes are appropriately accounted for and used as intended. These processes should include documenting receipts, posting payments to customer accounts, and reconciling receipts to customer accounts and bank deposits.

Management's Response

In agreement.

Plan to implement system whereby an Escrow Bank Account will be opened specifically for each developer's deposits. Authorized expenditures will be made from respective Bank Accounts and the recognition of Revenues will be made when project is terminated at which time Escrow Account will be closed and balance which would represent fees for meter, rights, etc. will be deposited to Operating Account. Appropriate controls will be implemented to ensure that contract is in file and related expenditures are properly accounted for.

Chapter 1-D

The Corporation's Financial Statements for the Fiscal Year Ended December 31, 2004, Received an Unqualified Opinion

The Corporation's financial statements are prepared by an outside contractor. The Corporation provides information to the contractor on a monthly basis; however, due to the Corporation's lack of accounting expertise and its miscommunications, this information is not always complete and accurate. For example, the accounts receivable information provided to the contractor did not include material adjustments that the Corporation had made.

The Corporation's annual financial report as of December 31, 2004, received an unqualified opinion, which means the auditor who performed the work found that the statements fairly presented the Corporation's financial position. However, the Corporation did not have controls over its financial processes and could not provide state auditors with the documentation to support financial transactions. Additionally, the auditor who issued the unqualified opinion did not provide his working papers to the State Auditor's Office's for review.

Furthermore, the format of the Statement of Activities for the period ending December 31, 2004, did not conform with generally accepted accounting principles related to nonprofit corporations. Additionally, although the Corporation's audit claimed that the Corporation uses accrual basis accounting, testing found that the expenditures were booked only when paid. This treatment is typically considered cash-basis accounting.

The financial statements are used by the Corporation to provide information to its customers as well as to obtain grants and loans.

Recommendation

The Corporation should consider obtaining in-house knowledge regarding accounting policies, principles, and methodologies to assist with the financial transactions and communications with external contractors.

Management’s Response

By the Corporation’s intend to hire an experienced in-house Accountant information and communication’s with external CPA will address this deficiency. As you are also aware, marked improvement is noticeable with the current WSC staff individuals who have been assigned to handle the financial affairs in 2005.

Obviously, the WSC will be soliciting RFP with a new CPA firm experienced with entities such as the WSC.

Chapter 2

Numerous Weaknesses in the Corporation's Process for Billing Customers Have Resulted in Revenue Loss

Because of significant deficiencies in the Corporation's process for billing and collecting for metered water sales prior to 2005, state auditors cannot determine exactly how much revenue has been lost. Deficiencies include a lack of controls and documentation. Based on the available documentation, state auditors estimate that the Corporation did not bill for approximately $618,000.

> **Corporation Revenue**
>
> The largest source of revenue for the Corporation, according to the financial statements, is metered water sales. Metered water sales accounted for more than 80 percent of revenue in each of the last three years. The Corporation collects payment for metered water sales at its offices, over the phone, and through the mail.

In addition, the Corporation is not sufficiently safeguarding its electronic billing data. It does not have sufficient physical security over the server that processes this data or a sufficient process for backing it up.

Chapter 2-A

The Corporation's Billing Process Contains Numerous Weaknesses

Testing identified deficiencies in the Corporation's billing processes that had affected the Corporation's revenue. The weaknesses identified are as follows:

- The Corporation does not account for all of the money it collects to ensure that the money is retained by the Corporation.
- The Corporation does not bill all active accounts.
- The Corporation does not bill accounts correctly.
- The Corporation does not accurately determine water loss, and doing so would assist in measuring the Corporation's operations.

The Corporation has not collected the amount of revenue it should have collected. Additionally, because of some of these deficiencies, the Corporation has a potential liability as a result of an Attorney General lawsuit against it for deceptive billing practices. Each violation carries a potential $20,000 fine.

The Corporation does not account for all of the money it collects to ensure that it is retained by the Corporation. The Corporation did not deposit into its bank accounts at least **$170,000** that it collected from customers paying for metered water sales over approximately six months (June 29 to December 31, 2004). State auditors determined this by reconciling the Corporation's record of payments to its bank statements.

The shortage occurred because, prior to January 2005, the Corporation did not have a sound process or written procedures for safeguarding incoming payments made with cash and checks. There was evidence that daily reconciliations were performed for only a month and a half during 2004; however, there was not sufficient documentation to verify the reconciliation or to ensure that the funds reconciled were all deposited into the Corporation's bank accounts.

The Corporation's procedures consisted of cashiers removing all but $200 from their cash boxes at the ends of their shifts, without counting the funds, and either placing the funds in the safe or turning the cash over to a different Corporation employee. As noted above, there is documentation that an employee reconciled the funds from the cash boxes to daily collection reports for a month and a half during 2004. (Corporation employees provided conflicting information about whether the reconciliations were performed at any other time. Regardless, documentation to substantiate an ongoing reconciliation process was either not prepared or not retained.) This person then placed the funds in a safe that remained unlocked during the day until another employee obtained the funds from the safe and prepared documentation for deposit. There was no reconciliation of the cash collected to (1) the cash placed in the safe or (2) the bank deposits to ensure that all collected funds were deposited.

Additionally, the cashiers used funds from their cash boxes that included the customer payments to reimburse employees for expenses such as gas for company cars or office supplies. The Corporation does not have documentation of these expenses.

In January 2005, the Corporation began conducting reconciliations of cash to the daily reports and using a petty cash box. As a result of these new controls, state auditors were able to verify that the Corporation deposited the cash received for payments into the Corporation's bank accounts. State auditors reconciled the posted payments and bank deposits from January 3, 2005, through April 14, 2005. During this time, the Corporation's deposits exceeded the amount that its system listed as collected. (The additional funds include money that the Corporation collected for reconnect fees and meter installations that are not captured in the billing system.)

Although controls were implemented, weaknesses remain. For example:

- Cash is not counted at the end of day when cashiers close out. It is counted the following day, which creates an opportunity for funds to be misappropriated. Additionally, the Corporation does not take any action when the cashiers' balances do not match the daily reports.

- There is also no segregation of duties for the receipt of mail payments. One employee opens the mail, posts payments received to the billing system, reconciles collections, and prepares the deposits. By allowing one person to perform all these functions, the Corporation creates an opportunity for this person to divert mailed payments without being detected.

The Corporation does not bill all active accounts. For example:

- Using an average billing rate, state auditors estimate that $10,050 was not collected because as many as 345 meters listed as inactive in the billing system as of March 2005 could have actually been active. Thirty percent of the inactive meters tested were actually receiving water. When this error rate is projected to the total population of meters listed as inactive in the billing system, it indicates that as many as 345 "inactive" meters could be active.

- Approximately 97 new customers who signed up for service between December 2004 and March 2005 were not charged for water usage during this time because the Corporation did not enter any of them into its billing system. Using an average billing rate, state auditors estimate that the potential lost revenue for these accounts totals $4,900. According to its rules, the Corporation cannot back-bill a customer for more than four months of prior water usage. Every succeeding month the customer is not billed results in revenue that the Corporation cannot collect.

- Seventeen of 50 active water meters (34 percent) in four subdivisions tested were not in the Corporation's billing system.

The Corporation does not bill accounts correctly. Because of this, the Corporation has not collected at least **$618,000** from customers over the past two years. For example:

- The Corporation did not collect an estimated $385,000 for 1,322 monthly billings from April 2003 through March 2005. This is because the billing system had gaps in the individual billing records for more than four months. Active customers who used water and received bills were incorrectly recorded as not using any water during this time. The Corporation could not bill at least $190,000 of the $385,000 because the date of the water usage fell beyond the four-month billing limit established in the Corporation's rules. For example, a review of school billing history indicated that schools were billed only four times over a period of nine months from August 2004 to May 2005.

- The Corporation did not collect an estimated $233,000 from 9,822 monthly customer billings from June 2004 to mid-April 2005. The

Corporation charged these customers only the minimum amount, which is the charge for owning a meter, rather than charging for a meter plus water usage. Auditors estimated water usage by determining the average charge for each class of customer and rate code and multiplying it by the number of customers. According to the Corporation, 94 percent of the meters in the billing system were billed for water usage in May 2005.

The Corporation does not accurately determine water loss, which is necessary to identify loss due to leaks and incorrect billings. The Corporation does not accurately calculate its water loss percentage because it uses incorrect and incomplete data. The Corporation incorrectly calculated a 13 percent water loss for 2004. State auditors calculated water loss of 24 percent, which represents 34 million gallons, or more than 1 million gallons per day, for March 2005 based on available data and estimated March billings that were not included in the Corporation's calculation.

Water loss is the difference between the amount of treated water disbursed from the treatment plant and the amount of water for which bills were issued. When reasonably accurate, the water loss percentage can help the Corporation evaluate the efficiency of its operations.

Recommendations

The Corporation should:

- Develop an effective process to handle receipt of funds. This process should include (1) reconciling funds from each cashier's cash box while the cashier is present each day, (2) researching reasons that cash boxes do not match the daily reports, (3) documenting reasons for shortages/ overages and implementing a consequence for the shortages/overages, (4) reconciling the bank statements to the deposits and payment records, and (5) placing funds in a locked safe.
- Continue to use petty cash accounts rather than reimbursing employees' expenses from the cash box.
- Implement a process to track the revenue from reconnect fees, meter installations, and other revenue not tracked in the billing system.
- Develop a process that segregates duties for the receipt of mail payments. Two employees should open the mail. The employees who deposit the funds should not be the same ones who post the payments or open the mail.
- Develop a process and a quality control system to ensure that all customers and meters are included in the Corporation's computer system.

- Develop a process to ensure that all active meters are noted as such.
- Walk through its service area and count the number of meters. It should then obtain a current reading for the active meters and enter all of the information into the billing system.
- Develop a review process to ensure that customers are billed for water usage each month rather than just for the meter.
- Determine the appropriate way to calculate water loss and conduct an examination to determine the reason for the loss of water.

Management's Response

General agreement with findings

Recommendations by State Auditors are acknowledged and procedures and written policies will be addressed and implemented specifically in the billing, collection, depositing and crediting member accounts.

Major improvements have been made in these areas as stated in your report starting on or about January 2005.

Acknowledge that weaknesses still exist and management is addressing those presently. External Accountant to assist in the policy, procedures and implementation of such.

Management will address the issue of mapping the system and identifying all meters installed in the system.

Billing Department Personnel and Plant Manager will coordinate efforts to determine an accurate water loss percentage.

Chapter 2-B

The Corporation Does Not Adequately Safeguard Its Electronic Billing Data

The Corporation does not adequately safeguard the server that runs its information technology systems: (1) a new customer billing system, (2) a payroll system, and (3) an old billing system. The old billing system is used to maintain records of inventory and expenditures.

These systems are located on one server in the Corporation's headquarters. The physical security and backup procedures for this server have the following weaknesses:

- There is no off-site backup of the data on the server. The server contains two hard drives, and the data is backed up periodically from one drive to the other. If the server were to be destroyed, all of the data would be lost.
- The door to the server room was open and unlocked. Any employee gaining access past the external locked doors could either intentionally or unintentionally damage the server.

Recommendations

The Corporation should:

- Implement a formal process that incorporates daily, weekly, and monthly backups of the data to an external storage device. The media containing the weekly and monthly backups should be stored at a secure, off-site storage area.
- Secure the server room by limiting access to those whose job duties require access to the server.

Management's Response

Agree

Recommendations acknowledged and management will review avenues on appropriate safeguard controls for implementation. Contact has been made with computer technician to address this issue.

Chapter 3

The Corporation Does Not Have a Fiscally Responsible Procurement Process

The Corporation's process for procuring goods and services lacks controls to ensure that Corporation employees spend funds prudently and on business-related expenditures. Because the majority of expenditures recorded in the Corporation's records were not supported with documentation such as receipts or invoices, state auditors could not determine the nature of the expenses.

The Corporation spent $4.1 million during fiscal year 2004, according to its fiscal year-end financial statements (see Appendix 3 for a summary of the Corporation's expenditures). The lack of policies, procedures, and controls over expenditures creates opportunities for fraud and misuse of Corporation funds, including potential conflicts of interest. It also contributes, in part, to the Corporation's not being able to cover its current liabilities as discussed in Chapter 1.

The Corporation does not require that purchases be approved or reviewed to ensure that they are appropriate and business-related. It also does not review vendors' invoices before paying them. The following situations occurred because the Corporation does not have these controls:

- Funds totaling approximately $37,600 appear to have been used for personal expenditures from September 2001 to March 2005. The expenditures were for tools and airplane tickets. The vendor selling the tools indicated that funds were paid from the Corporation; however, the tools were delivered to a personal address. Airplane tickets were purchased with Corporation funds for friends of the Corporation's employees. The Corporation could not provide evidence that it received reimbursement for these expenses.
- The Corporation paid one vendor $9,000 more than it should have because the invoices were not properly reviewed. Also, in two instances, it paid another vendor twice because the vendor submitted the invoices twice.
- Anyone (Corporation employee or not) can charge purchases to the Corporation's account at a local automotive store, and the Corporation pays the invoices without reviewing them. During 2004, the Corporation paid at least $2,800 to this automotive store.

The Corporation does not maintain sufficient documentation of its procurement of goods and services. Inadequate documentation prevents the Corporation from ensuring—and from demonstrating to grantors when needed—that its purchases are appropriate and business related:

- The Corporation spent more than $52,000 on travel with its American Express cards from January 2003 through April 2005. Because there was no documentation—such as travel vouchers, trip descriptions, or receipts—there is no way to determine whether these expenditures are business related. Corporation employees could not explain unusual expenditures such as a charge for $529 for one night in a hotel.

- The Corporation is at risk of having to repay $216,000 to the Water Development Board because it does not have adequate documentation of its procurement of contracted services as required by federal regulations. The Corporation could not provide documentation required by Title 40, Part 31, of the Code of Federal Regulations to show that it competitively procured a contract for the design phase of its wastewater facility, which was paid for with federal funds. As part of the current grant close-out process, the Water Development Board audits the Corporation's use of grant funds.

The Corporation does not have controls to ensure that it uses restricted funds as required. A reconciliation of Economically Distressed Areas Program (EDAP) grant funds to payments made to subcontractors identified that more than $115,000 was misappropriated. The Corporation indicated that it misused these funds when it paid a contractor for expenses deemed ineligible under EDAP grant rules.

The Corporation had a potential conflict of interest for a real estate transaction. A land transaction between the Corporation and the La Joya Independent School District involved a potential conflict of interest because the Corporation's general manager was also a school board member when negotiations and the final transaction took place. The Corporation purchased the land for the new wastewater plant with funds from a federal grant.

The appraisal for the property indicated that the purchase price ($40,000) closely aligned with the appraised value ($39,000). Nevertheless, Title 40 of the Code of Federal Regulations, Part 31.36 (Procurement) requires grantees to have a written code of conduct for employees who are involved in contract administration and includes prohibitions against conflicts of interest. The Corporation has no such written code of conduct or policies and procedures that address potential or perceived conflicts of interest.

Contracts with two former employees are not sound. The contracts state that a certain number of hours have to be worked each year. However, the contractors are paid every two weeks regardless of the number of hours worked. As employees, these individuals worked full time (320 hours per month) and earned combined annual salaries of $102,500 (plus benefits). As contractors, they will earn a combined minimum of $95,400 during the first year for 960 hours of work (80 hours per month).

Additionally, the contractors received payments of more than $5,500 before the contract was signed and without producing any of the reports required by the contract. The Corporation will pay $3,000 per year for liability insurance for these two employees, which defeats the purpose of having contract employees and could jeopardize their status as contractors per Internal Revenue Service regulations.

There is also a potential conflict of interest regarding the contractors and the Corporation's board. At least four board members are employed at the La Joya Independent School District, where one of the contractors is on the Board of Trustees.

There are no written procedures to govern the Corporation's car allowance and mileage reimbursement program. As a result, state auditors cannot determine whether these expenditures are necessary and business related. The Corporation paid more than $21,000 in car allowances and mileage reimbursement to the same employees during fiscal year 2004. In addition, it owns a fleet of 13 cars that employees use on a daily basis. The Corporation spent at least $49,530 during fiscal year 2004 on vehicle maintenance. The vehicle maintenance included purchases of at least 39 new tires between January and September 2004 and payments for routine maintenance such as oil changes, brake repairs, and flat tire repairs. There is no documentation to show whether these repairs were for fleet cars or employees' personal vehicles.

Recommendations

The Corporation should:

- Develop a fiscally responsible process for procuring goods and services. The policies and procedures for this process should include:
    - Controls that will not allow Corporation money to be used for personal expenses, whether or not they are reimbursed.
    - Controls for travel expenditures that would require employees to (1) document the travelers, reasons for travel, and type of travel and (2) submit receipts before being reimbursed.
    - Controls requiring that invoices be reviewed before they are paid to ensure that the invoices are accurate, that the goods or services were actually purchased by the Corporation, and that the goods or services have been received.
    - Controls over the car allowance program. Analyses should be performed to determine who should participate in the program. Purchases of tires and car maintenance should be reviewed to ensure

  that the Corporation is paying for these items on approved vehicles only.

  - Controls requiring the maintenance of appropriate documentation of all contracts, including the requests for proposal, vendor responses, bid tabulation sheets, and scoring sheets.

  - Controls to ensure that the Corporation develops contracts that are in its best interests.

- Develop a comprehensive written contract administration process if it intends to continue to obtain federal funding in the future. This process should minimally meet all of the requirements of Title 40 of the Code of Federal Regulations, Part 31, and include a conflict of interest policy.

- Establish and implement a policy to ensure that its business operations do not create any conflicts of interest and are conducted at arm's length.

Management's Response

Generally Agree

Controls will be enhanced from current procedures that will require purchases to be approved and reviewed to ensure that they are appropriate, documented and business related. Current controls in place do have Accounts Payable Clerk reviewing invoices. Purchase order system in place will be enhanced to strengthen control in this segment of the WSC purchase and payment procedures.

Documentation Controls beyond the vendors invoices and purchase orders, which are currently in place, will be discussed, reviewed and implemented to enforce the Internal Control in this area. Regarding the $52,000 on travel, a review of dates for the time period mentioned would shed some light on dates when TRWA and Texas American Water Works held seminars which were attended by Staff and Board. These dates would coincide with payments to vendors. Policy to be implemented in this area will have said documents for future expenditures such as these.

Internal controls will be implemented to insure that policies will be in effect to appropriately account and document all monies and disbursements from State or Federally Funding Agencies.

While there may have been a potential conflict because the general manager of the Corporation was also a school board member of La Joya ISD, such potential conflict was properly addressed. The former manager played absolutely no part in negotiating the purchase. He also signed an affidavit *with La Joya ISD indicating the conflict and he abstained from discussion and voting.*

State law also requires that a school district obtain an appraisal to determine payment of fair market value. The district requested at least $40,000 for the property while the appraisal was for $39,000. Had the Corporation refused the counter, condemnation of the property would have added additional costs to the Corporation.

The Corporation does not pay the two former employees fringe benefits.

Current procedures and forms submitted by employees for mileage reimbursements will be reviewed and upgraded to include additional documentation and description and nature of reimbursement request.

Chapter 4

The Corporation May Not Be Able to Meet Its Customers' Long-Term Water Needs

The Corporation has not purchased enough water rights to meet current and future demands. Because it does not have sufficient water rights, the Corporation has to purchase additional water from other entities such as the cities of Mission and McAllen. In 2004, the Corporation spent at least $500,000 for the purchase of additional water. In 2005, the Corporation will spend at least $462,000 for the purchase of additional water.

> **Definition of Water Rights**
>
> The owner of water rights is entitled to a fixed number of water acre feet as stated in the owner's certificate of adjudication each calendar year.

The Corporation has not purchased any additional water rights since 1987 even though the price it charges for each water meter currently includes $1,900 for the purchase of water rights. The Corporation owns 1,000 acre feet in water rights, but water demands in 2004 required an additional 5,300 acre feet. The Corporation currently has contracts to purchase at least an additional 4,000 acre feet and up to 3 million gallons (approximately 9.2 acre feet) a day of treated water from the city of Mission.

The Corporation indicated that it decided not to purchase water rights several years ago because purchasing water was more cost-effective in the short run than investing in water rights. However, the Corporation has not reconsidered this decision and it has not set aside the funds it has collected for this purpose. The Corporation is now subject to water price increases and water availability because it lacks rights to a sufficient amount of water.

Recommendations

The Corporation should conduct a cost-benefit analysis to determine whether or not it should be purchasing water rights. The Corporation also should segregate and save the funds it collects for the purpose of purchasing water rights.

Management's Response

Corporation has not bought water rights because of the availability of water from Hidalgo County Irrigation Districts #6 and 16. The acquisition cost of water at about$45.00 per acre foot was more economical than getting into debt for water rights at a cost of $1,800 or more per acre. Acquisition of temporary rights have been obtained at less than $35.00 per acre in 2004 and 2005, although these rights have been 1200 acre feet or less.

The Corporation is in agreement that water rights must be acquired especially since customers must now pay $1900.00 per connection for such acquisition. The collection of this fee has been minimal since no new residential subdivisions have been approved.

The Corporation will conduct a cost-benefit analysis to determine whether permanent water rights should be purchased. Water right fees will be escrowed for the specific purchase of permanent water rights. Long-term water rights contracts with District #6 and 16 will be revisited and renegotiated.

The Board's Most Recent Election Violated Portions of the Water Code and Civil Statutes

The February 2005 board election process violated portions of Section 67.007 of the Texas Water Code. The Corporation has no written procedures for the nominations and elections process; for the approval of the proxy ballot to be used; or for the validation of eligible voters, proxies, ballots, and election results. Though not a violation, as of the end of fieldwork (May 2005), the Board Secretary had not signed or dated the tabulations of the votes for current board members.

Texas Water Code

§ 67.007. ANNUAL OR SPECIAL MEETING.

(a) The annual meeting of the members or shareholders of the corporation must be held between January 1 and May 1 at a time specified by the bylaws or the board.

(b) The board shall adopt written procedures for conducting an annual or special meeting of the members or shareholders, which shall include the following:

(1) notification to eligible members or shareholders of the proposed agenda, location, and date of the meeting;

(2) establishment of a quorum consisting of proxies and the votes of members or shareholders present;

(3) nomination and election procedures;

(4) approval of the proxy and ballot form to be used; and

(5) validation of eligible voters, proxies, ballots, and election results.

(c) The board shall adopt an official proxy and ballot form to be used in conducting the business of the corporation at any annual or special meeting. No other proxy or ballot form will be valid. Proxies and ballots from members or shareholders are confidential and are exempted from disclosure by the corporation until after the date of the relevant election.

Audit testing of the available election documentation indicates violations of the Corporation's bylaws, which state that each member (customer) may have only one vote no matter how many water meters the member has. Auditors identified several customers who voted more than once by proxy. This is also a violation of Vernon's Civil Statutes, Chapter 9, Article 1396-2.13.

Recommendation

The Corporation should develop policies and procedures to comply with the Texas Water Code.

Management's Response

The Corporation does not deny or admit any violations of the Water Code and/or Civil Statues as same pertains to the board member election held February 2005. Future elections will be held in strict compliance with §49.103 of Texas Water Code and §141.001 of Texas Election Code as required by House Bill 1358 to be effective September 1, 2005

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of the audit were to determine whether:

- The La Joya Water Supply Corporation's (Corporation) controls over the acquisition and use of grants, contracts, and loans associated with the Economically Distressed Areas Program (EDAP) and the Colonias Waste Water Treatments Assistance Program (CWTAP) are adequate.
- The Corporation has controls to provide reasonable assurance that (1) funds are used to accomplish stated objectives and (2) expenditures of funds comply with applicable rules, laws, regulations, contract terms, and best practices.

Scope

The audit scope included all aspects of the financial processes of the Corporation, customer billing, procurement of goods and services, procurement of grants and contracts, and board elections from January 2002 through May 2005.

A large amount of documentation and data was missing from the Corporation's records. As a result, we could not fully identify or validate any of the financial, billing, procurement, or contracting data for the Corporation.

Methodology

The audit methodology consisted of collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and conducting interviews with Corporation management, staff, and vendors.

Information collected and reviewed included the following:

- Corporation's Articles of Incorporation and bylaws
- Corporation Tariff (policies and procedures)
- Billing information from April 2003 through April 2005
- Operating and escrow expenditures from January 2003 through April 2005

- Bank statements for operating and escrow accounts
- Receipts from some developers for payments made to the Corporation
- Receipts provided by the Corporation for meter payments
- Water rights documentation
- 2004 water sales from the billing system and reported to the bookkeeper
- Available meter payments documentation
- Board minutes from January 2003 through February 2005
- Accounts receivable analysis performed by the bookkeeper on May 2005
- Proxies from the board elections held on February 25, 2005

Project Information

This audit was conducted in accordance with generally accepted government auditing standards. Fieldwork took place from April to May 2005. The following members of the State Auditor's staff performed this audit:

- Angelica Martinez (Project Manager)
- Wei Wang, CIA, CPA (Assistant Project Manager)
- Ileana Barboza, MBA
- Lucien Hughes
- Laura Mansfield, CPA, CIA, MPA
- Dorvin Handrick, CISA, CDP (Information System Audit Team)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Verma L. Elliott, MBA (Audit Manager)

Appendix 2

Summary of Expenditures

The 2004 expenditures reported in the Corporation's financial statements are categorized in Table 1.

Table 1

Category	Amount
Employees and Board	
Salaries and payroll taxes	$1,045,182.18
Insurance	$174,457.33
Travel	$42,589.10
Fringe benefit - retirement	$21,166.31
Education/schooling	$14,488.29
Janitorial services	$3,120.00
Total Employees and Board	**$1,301,003.21**
Office	
Billing cards expense	$48,691.58
Postage-billing cards	$48,214.38
Office supplies	$36,421.13
Rental equipment	$14,679.20
Proxies expense	$12,697.59
Office maintenance	$556.41
Total Office	**$161,260.29**
Vehicles	
Repairs and maintenance	$64,257.53
Truck expense – gasoline	$38,262.03
Car allowance	$21,629.57
Truck maintenance	$11,268.24
Total Vehicles	**$135,417.37**
Professional Services	
Engineering	$61,845.54
Advertising	$39,102.15
Accountant	$34,118.45
Audit	$9,500.00
Legal	$172,399.03
Total Vehicles	**$316,965.17**

Category	Amount
Other	
Water purchases and rights	$558,983.79
Depreciation	$525,265
Utilities	$330,797.09
Financial fees	$274,445.72
Lab and chemicals	$220,019.82
Miscellaneous	$664,208.69
Penalties and fees	$71,141.50
Adjustments	$33,326.87
Telephone	$33,256.53
Subdivisions [a]	$11,472.78
Computers	$5,593.58
Uniforms	$1,292.64
Total Other	**$2,696,477.14**

[a] This is not a complete representation of expenditures for subdivisions.

Source: The Corporation's 2004 financial statements

La Joya Water Supply Corporation Residential Water Rates for 2004

The following three tables show the Corporation's residential water rates for 2004. All the information comes from the Corporation.

Table 2 shows the amount customers are charged for their water meters each month. This charge is in addition to any charges for water usage.

Table 2

Monthly Rates for Meters		
Type of Meter		**Amount Charged**
Residential (¾")	0 Gallons	$9.00[a]
Commercial (¾")	0 Gallons	$20.00
One (1) Inch (Residential or Commercial)	0 Gallons	$30.00
Two (2) Inch (Residential or Commercial)	0 Gallons	$40.00
Four (4) Inch (Residential or Commercial)	0 Gallons	$50.00
Six (6) Inch (Residential or Commercial)	0 Gallons	$60.00

[a] In addition to the $9.00 amount, $0.05 is assessed on every residential meter each month. This is a Texas Workforce Commission fee.

Table 3 shows the residential rates charged for water usage. The rates are tiered according to usage levels. For example, if a customer uses 5,000 gallons in a month, the first 3,000 gallons cost $1.90 per 1,000 gallons and the remaining 2,000 gallons cost $2.11 per 1,000 gallons.

Table 3

Residential Rates for Water Usage		
Level of Usage	**Number of Gallons Used**	**Price per 1,000 Gallons**
Tier 1	1 - 3,000	$1.90
Tier 2	3,001 - 10,000	$2.11
Tier 3	10,001 - 20,000	$2.64
Tier 4	20,001 - 50,000	$3.16
Tier 5	50,001 and over	$4.30

Table 4 combines the meter rate and the water usage rates to give total monthly bills.

Table 4

Total Charges for Meters and Water Usage			
Gallons Used	Monthly Charge	Gallons Used	Monthly Charge
1,000	$10.90	26,000	$74.83
2,000	$12.80	27,000	$77.99
3,000	$14.70	28,000	$81.15
4,000	$16.81	29,000	$84.31
5,000	$18.92	30,000	$87.47
6,000	$21.03	31,000	$90.63
7,000	$23.14	32,000	$93.79
8,000	$25.52	33,000	$96.95
9,000	$27.36	34,000	$100.11
10,000	$29.47	35,000	$103.27
11,000	$32.11	36,000	$106.43
12,000	$34.75	37,000	$109.59
13,000	$37.89	38,000	$112.75
14,000	$40.03	39,000	$115.91
15,000	$42.67	40,000	$119.07
16,000	$45.31	41,000	$122.23
17,000	$47.95	42,000	$125.39
18,000	$50.59	43,000	$128.55
19,000	$53.23	44,000	$131.71
20,000	$55.87	45,000	$134.87
21,000	$59.03	46,000	$138.03
22,000	$62.19	47,000	$141.19
23,000	$65.35	48,000	$144.35
24,000	$68.51	49,000	$147.51
25,000	$71.67	50,000	$150.67

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

La Joya Water Supply Corporation

Mr. Jose Luis Trigo, Board President
Mr. Juan Lino Garza, Board Vice President
Mr. Joe Reyna, Board Secretary