

**STATE OF NEW MEXICO  
CITY OF JAL**

**Financial Statements  
With Independent Auditor's Report Thereon  
June 30, 2009**



**STATE OF NEW MEXICO  
CITY OF JAL  
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June 30, 2009**

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**STATE OF NEW MEXICO  
CITY OF JAL  
Official Roster  
June 30, 2009**

**CITY COUNCIL**

Alton Dunn  
Wanliss Armstrong  
Dennis Allen  
Jack Fletcher  
Amelia Trevino  
Claydean Clayborne  
Dewayne Jennings

Mayor  
Councilor  
Councilor  
Councilor  
Councilor  
Councilor  
Councilor

**ADMINISTRATIVE OFFICIALS**

Eva Sanchez  
Bobbie Sue Bennett  
Michael N. May  
Michael Duplichain  
PJ Parker  
Larry Burns

City Manager  
City Clerk-Treasurer  
Municipal Judge  
Public Works Director  
Special Projects Coordinator  
Police Chief

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, City Council,  
The City of Jal  
and  
Hector H. Balderas  
New Mexico State Auditor

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the respective budgetary comparisons, and the aggregate remaining fund information of the State of New Mexico, City of Jal (the "City"), as of and for the year ended June 30, 2009 which collectively comprise the City's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements of each of the City's nonmajor governmental funds and all budgetary comparisons presented as other supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

The City of Jal's accounting records were not sufficient to audit. Accounting records were not available to substantiate balances reported for assets, liabilities, revenues, expenses, or expenditures for any fund. Therefore, due to limited accounting records, we were unable to apply generally accepted auditing procedures and were unable to apply auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States to cash, fund balance, revenues or expenses. The amount by which these departures would affect the assets, liabilities, revenues, and expenditures of the funds is not reasonably determined.

Because of the City's insufficient accounting records as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the governmental activities, the business-type activities, each major fund, the respective budgetary comparisons, and the aggregate remaining fund information of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. In addition, because of the City's insufficient accounting records, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the nonmajor governmental funds and all budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements of the City of Jal as of and for the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual fund financial statements and budgetary comparisons presented as supplemental information. The accompanying financial information listed as other supplemental data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion regarding whether other supplemental data are fairly stated, in all material respects, in relation to the basic financial statements and the remaining nonmajor governmental fund financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Miller & Associates, C.P.A, P.C.  
September 16, 2011



## **BASIC FINANCIAL STATEMENTS**

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**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Net Assets**  
**Government -Wide**  
**June 30, 2009**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note II)	\$ 1,428,193	\$ 285,935	\$ 1,714,128
Accounts receivable	131,088	101,076	232,164
Total current assets	<u>1,559,281</u>	<u>387,011</u>	<u>1,946,292</u>
Noncurrent assets:			
Restricted assets:			
Cash	-	55,268	55,268
Capital assets, net of depreciation (Note III)			
Land	53,712	15,768	69,480
Buildings and improvements	275,733	78,196	353,929
Equipment	183,588	81,750	265,338
Infrastructure	143,235	860,188	1,003,423
Loan costs	3,375	-	3,375
Total noncurrent assets	<u>659,643</u>	<u>1,091,170</u>	<u>1,750,813</u>
Total assets	<u>\$ 2,218,924</u>	<u>\$ 1,478,181</u>	<u>\$ 3,697,105</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 36,354	\$ 15,598	\$ 51,952
Accrued interest	-	-	-
Water meter deposits	-	55,268	55,268
Accrued compensated absences - current	-	8,537	8,537
Total current liabilities	<u>36,354</u>	<u>79,403</u>	<u>115,757</u>
Noncurrent liabilities:			
Notes payable (Note IV)	228,375	-	228,375
Accrued compensated absences (Note IV)	25,291	-	25,291
Total noncurrent liabilities	<u>253,666</u>	<u>-</u>	<u>253,666</u>
Total liabilities	<u>290,020</u>	<u>79,403</u>	<u>369,423</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	431,268	1,035,902	1,467,170
Unrestricted	1,497,636	362,876	1,860,512
Total net assets	<u>1,928,904</u>	<u>1,398,778</u>	<u>3,327,682</u>
Total liabilities and net assets	<u>\$ 2,218,924</u>	<u>\$ 1,478,181</u>	<u>\$ 3,697,105</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Activities**  
**Government -Wide**  
**For the Year Ended June 30, 2009**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Governmental activities:</b>				
General government	\$ 376,301	\$ 22,100	\$ 960,224	\$ -
Public safety	744,879	83,343	304,187	97,555
Culture and recreation	82,574	7,390	12,117	-
Public works	1,345,783	-	-	-
Health and welfare	130,087	35,230	52,304	-
Total governmental activities	<u>2,679,624</u>	<u>148,063</u>	<u>1,328,832</u>	<u>97,555</u>
<b>Business-type activities:</b>				
Water management	597,866	501,868	-	-
Wastewater management	52,171	139,195	-	-
Solid waste management	341,217	334,664	-	-
Total business-type activities	<u>991,254</u>	<u>975,727</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 3,670,878</u>	<u>\$ 1,123,790</u>	<u>\$ 1,328,832</u>	<u>\$ 97,555</u>

General revenues:

- Property taxes
- Gross receipt taxes
- Franchise taxes
- Gas taxes
- Cigarette taxes
- Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of these financial statements.

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ 606,023	\$ -	\$ 606,023
(259,794)	-	(259,794)
(63,067)	-	(63,067)
(1,345,783)	-	(1,345,783)
(42,553)	-	(42,553)
(1,105,174)	-	(1,105,174)
-	(95,998)	(95,998)
-	87,024	87,024
-	(6,553)	(6,553)
-	(15,527)	(15,527)
(1,105,174)	(15,527)	(1,120,701)
73,603	-	73,603
844,433	42,134	886,567
2,699	-	2,699
34,194	-	34,194
7,557	-	7,557
109,933	3,107	113,040
1,072,419	45,241	1,117,660
(32,755)	29,714	(3,041)
1,961,659	1,369,064	3,330,723
\$ 1,928,904	\$ 1,398,778	\$ 3,327,682

The accompanying notes are an integral part of these financial statements.

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## **FUND FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
CITY OF JAL  
Balance Sheet  
Governmental Funds  
June 30, 2009**

	<b>General Fund</b>	<b>Youth and Aged Fund</b>	<b>State Fire Fund</b>	<b>Other Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 864,062	\$ 40,692	\$ 219,086	\$ 304,353	\$ 1,428,193
Taxes receivable	110,838	10,329	-	9,921	131,088
<b>Total assets</b>	<b>\$ 974,900</b>	<b>\$ 51,021</b>	<b>\$ 219,086</b>	<b>\$ 314,274</b>	<b>\$ 1,559,281</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 11,278	\$ 18,077	\$ 83	\$ 6,916	\$ 36,354
Deferred revenue	4,974	-	-	-	4,974
<b>Total liabilities</b>	<b>16,252</b>	<b>18,077</b>	<b>83</b>	<b>6,916</b>	<b>41,328</b>
<b>Fund balances:</b>					
<b>Unreserved, designated for:</b>					
General fund	958,648	-	-	-	958,648
Youth and aged fund	-	32,944	-	-	32,944
Law enforcement fund	-	-	-	9,226	9,226
Correction fund	-	-	-	36,853	36,853
Cemetery fund	-	-	-	27,245	27,245
Street fund	-	-	-	155,833	155,833
Recreation fund	-	-	-	3,815	3,815
EMS fund	-	-	-	2,190	2,190
State fire fund	-	-	219,003	-	219,003
Environmental fund	-	-	-	72,723	72,723
Intergovernmental fund	-	-	-	(527)	(527)
<b>Total fund balances</b>	<b>958,648</b>	<b>32,944</b>	<b>219,003</b>	<b>307,358</b>	<b>1,517,953</b>
<b>Total liabilities and fund balances</b>	<b>\$ 974,900</b>	<b>\$ 51,021</b>	<b>\$ 219,086</b>	<b>\$ 314,274</b>	<b>\$ 1,559,281</b>

The accompanying notes are an integral part of these financial statements.



**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2009**

Total fund balances - governmental funds \$ 1,517,953

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 53,712	
Building and improvements	1,433,848	
Equipment	1,609,374	
Infrastructure	169,206	
Loan costs	3,375	
Accumulated depreciation	<u>(2,609,872)</u>	
Total capital assets		659,643

Deferred revenue 4,974

Compensated absences are not due and payable in the current period and therefore are not reported in the funds. (25,291)

Long-term liabilities including loans payable are not due and payable in the current period and therefore are not reported in the funds. (228,375)

Net assets of governmental activities \$ 1,928,904

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**

	<b>General Fund</b>	<b>Youth and Aged Fund</b>
<b>REVENUES</b>		
General taxes	\$ 546,844	\$ -
State shared taxes	295,342	80,310
Licenses and permits	1,905	-
Intergovernmental	1,153,632	46,299
Charges for services	32,396	35,230
Fines and forfeits	41,676	-
Miscellaneous	68,803	31,432
Interest income	7,118	24
Total revenues	2,147,716	193,295
<b>EXPENDITURES</b>		
Current:		
General government	354,477	-
Public safety	622,790	-
Culture and recreation	-	66,330
Public works	1,333,027	-
Health and welfare	-	126,000
Total expenditures	2,310,294	192,330
Excess (deficiency) of revenues over expenditures	(162,578)	965
<b>OTHER FINANCING SOURCES (USES)</b>		
Loan proceeds	-	-
Total other financing sources (uses)	-	-
Fund balances - beginning of the year	1,121,226	31,979
Fund balances - end of the year	\$ 958,648	\$ 32,944

The accompanying notes are an integral part of these financial statements.

<b>State Fire Fund</b>	<b>Other Major Funds</b>	<b>Non-</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 546,844
-	-	56,331	431,983
-	-	-	1,905
66,549	151,193	-	1,417,673
-	7,390	-	75,016
-	19,042	-	60,718
-	8,337	-	108,572
22	145	-	7,309
<u>66,571</u>	<u>242,438</u>		<u>2,650,020</u>
-	-	-	354,477
79,201	41,801	-	743,792
-	28,428	-	94,758
-	-	-	1,333,027
-	4,087	-	130,087
<u>79,201</u>	<u>74,316</u>		<u>2,656,141</u>
(12,630)	168,122		(6,121)
225,000	-	-	225,000
<u>225,000</u>	<u>-</u>		<u>225,000</u>
6,633	139,236		1,299,074
<u>\$ 219,003</u>	<u>\$ 307,358</u>		<u>\$ 1,517,953</u>

The accompanying notes are an integral part of these financial statements.

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**STATE OF NEW MEXICO  
CITY OF JAL  
Reconciliation of Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2009**

Net change in fund balances - total governmental funds \$ (6,121)

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	\$ 61,026	
Depreciation expense	<u>(74,869)</u>	
Excess of depreciation over capital outlay		(13,843)

Deferred revenue 3,304

Compensated absences reported in the Statement of Activities require the use of current financial resources and therefore are not reportable as expenditures in governmental funds. (16,095)

Revenue from acquiring long-term debt is reclassified as a liability at the government-wide level and is reportable as revenue in governmental funds. (225,000)

Change in net assets of governmental activities \$ (257,755)

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local effort taxes	\$ 429,515	\$ 429,515	\$ 593,656	\$ 164,141
State shared taxes	340,295	340,295	383,982	43,687
Licenses and permits	2,066	2,066	1,905	(161)
Charges for services	58,293	58,293	31,168	(27,125)
Fines and forfeits	48,000	48,000	41,676	(6,324)
Miscellaneous	60,320	60,320	75,921	15,601
Intergovernmental revenues	544,088	544,088	1,008,633	464,545
	1,482,577	1,482,577	2,136,941	654,364
<b>EXPENDITURES</b>				
Legislative	92,021	92,021	93,707	(1,686)
Judicial	19,736	19,736	27,291	(7,555)
Financial administration	228,004	228,004	224,868	3,136
Police	417,496	417,496	392,000	25,496
Fire	223,961	223,961	343,779	(119,818)
Ambulance	-	-	1,108	(1,108)
Public works	866,500	1,452,750	1,294,426	158,324
	1,847,718	2,433,968	2,377,179	56,789
Excess (deficiency) of revenues over expenditures	(365,141)	(951,391)	\$ (240,238)	\$ 711,153
Prior year cash balance	1,100,998	1,100,998		
End of the year cash balance	\$ 735,857	\$ 149,607		

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Youth and Aged Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Gross receipts tax	\$ 62,115	\$ 62,115	\$ 79,302	\$ 17,187
Miscellaneous	-	-	31,433	31,433
Meal fees	34,300	34,300	35,230	930
Interest	3,829	3,829	24	(3,805)
State grant	30,000	30,000	28,085	(1,915)
Federal CILC	12,000	12,000	6,664	(5,336)
NSIP	-	-	10,547	10,547
Federal IIC2	-	-	1,003	1,003
	142,244	142,244	192,288	50,044
<b>EXPENDITURES</b>				
Senior citizens - transportation	1,500	1,500	1,174	326
Maintenance and repairs	7,500	7,500	3,062	4,438
Summer program	15,000	15,000	15,000	-
Maintenance and repairs - little league	7,000	7,000	530	6,470
Maintenance and repairs - girls softball	4,532	4,532	2,005	2,527
Senior citizens - contract services	79,000	79,000	114,701	(35,701)
Community center	-	-	25,102	(25,102)
Miscellaneous	5,000	5,000	610	4,390
Communications	300	300	357	(57)
Utilities	25,000	25,000	12,235	12,765
Senior citizens - vehicle insurance	1,200	1,200	-	1,200
Park improvements	-	-	1,140	(1,140)
	146,032	146,032	175,916	(29,884)
Excess (deficiency) of revenues over expenditures	(3,788)	(3,788)	\$ 16,372	\$ 20,160
Prior year cash balance	24,321	24,321		
End of the year cash balance	\$ 20,533	\$ 20,533		
<b>RECONCILIATION TO GAAP</b>				
Prior year accounts receivable			(9,321)	
Prior year accounts payable			1,662	
Accounts receivable			10,329	
Accounts payable			(18,077)	
Excess (deficiency) of revenues over expenditures			\$ 965	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**State Fire Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State grant	\$ 60,000	\$ 60,000	\$ 377,286	\$ 317,286
Interest	2,446	2,446	22	(2,424)
	62,446	62,446	377,308	314,862
<b>EXPENDITURES</b>				
Training/Mileage	-	-	432	(432)
Training	5,500	5,500	4,737	763
Transportation	7,854	7,854	4,949	2,905
Fire Substation	-	120,000	94,249	25,751
Maintenance and repairs	8,000	8,000	29,182	(21,182)
Supplies	5,000	5,000	8,017	(3,017)
Operating	15,000	15,000	7,078	7,922
Insurance	10,200	10,200	10,494	(294)
Postage	500	500	200	300
Dues and Subscriptions	-	-	715	(715)
Communications	3,200	3,200	2,431	769
Utilities	7,000	7,000	4,727	2,273
	62,254	182,254	167,211	15,043
Excess (deficiency) of revenues over expenditures	192	(119,808)	210,097	\$ 329,905
Prior year cash balance	8,989	8,989		
End of the year cash balance	\$ 9,181	\$ (110,819)		
<b>RECONCILIATION TO GAAP</b>				
Prior year accounts payable			2,356	
Accounts payable			(83)	
Excess (deficiency) of revenues over expenditures			\$ 212,370	

The accompanying notes are an integral part of these financial statements.



**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2009**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Total Proprietary Funds</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 271,354	\$ 14,581	\$ 285,935
Accounts receivable	74,873	26,203	101,076
Total current assets	<u>346,227</u>	<u>40,784</u>	<u>387,011</u>
Noncurrent assets:			
Restricted assets:			
Cash	55,268	-	55,268
Capital assets, net of depreciation (Note III)	1,035,902	-	1,035,902
Total noncurrent assets	<u>1,091,170</u>	<u>-</u>	<u>1,091,170</u>
Total assets	<u>\$ 1,437,397</u>	<u>\$ 40,784</u>	<u>\$ 1,478,181</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 14,750	\$ -	\$ 14,750
Accrued payroll	411	437	848
Water meter deposits	55,268	-	55,268
Accrued compensated absences - current	8,537	-	8,537
Total current liabilities	<u>78,966</u>	<u>437</u>	<u>79,403</u>
Total liabilities	<u>78,966</u>	<u>437</u>	<u>79,403</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,035,902	-	1,035,902
Unrestricted	322,529	40,347	362,876
Total net assets	<u>1,358,431</u>	<u>40,347</u>	<u>1,398,778</u>
Total liabilities and net assets	<u>\$ 1,437,397</u>	<u>\$ 40,784</u>	<u>\$ 1,478,181</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2009**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Total Proprietary Funds</b>
<b>OPERATING REVENUES</b>			
Sales and service	\$ 637,763	\$ 334,664	\$ 972,427
Connections	3,300	-	3,300
Gross receipts tax	27,608	14,526	42,134
Miscellaneous	218	2,889	3,107
Total operating revenues	<u>668,889</u>	<u>352,079</u>	<u>1,020,968</u>
<b>OPERATING EXPENDITURES</b>			
Salaries, wages and benefits	161,290	52,644	213,934
Utilities	133,572	-	133,572
Repairs and maintenance	200,857	646	201,503
Supplies	12,699	-	12,699
Capital outlay - inventory exempt	16,246	-	16,246
Depreciation	80,772	-	80,772
Gross receipts tax	28,864	14,062	42,926
Miscellaneous	15,737	273,865	289,602
Total operating expenditures	<u>650,037</u>	<u>341,217</u>	<u>991,254</u>
Operating income (loss)	<u>18,852</u>	<u>10,862</u>	<u>29,714</u>
Change in net assets	18,852	10,862	29,714
Net assets - beginning of the year	<u>1,339,579</u>	<u>29,485</u>	<u>1,369,064</u>
Net assets - end of the year	<u>\$ 1,358,431</u>	<u>\$ 40,347</u>	<u>\$ 1,398,778</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2009**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Total Proprietary Funds</b>
Cash flows from operating activities:			
Cash received from customers	\$ 656,581	\$ 352,079	\$ 1,008,660
Cash payments to suppliers for goods and services	(417,578)	(290,089)	(707,667)
Cash payments to employees for services	(156,888)	(52,644)	(209,532)
Net cash provided by operating activities	<u>82,115</u>	<u>9,346</u>	<u>91,461</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(36,986)	-	(36,986)
Net cash used for capital and related financing activities	<u>(36,986)</u>	<u>-</u>	<u>(36,986)</u>
Net increase in cash and cash equivalents	45,129	9,346	54,475
Cash and cash equivalents at the beginning of the year	<u>281,493</u>	<u>5,235</u>	<u>286,728</u>
Cash and cash equivalents at the end of the year	<u>\$ 326,622</u>	<u>\$ 14,581</u>	<u>\$ 341,203</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 18,852	\$ 10,862	\$ 29,714
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	80,772	-	80,772
Change in assets and liabilities:			
(Increase) in accounts receivable	(12,009)	-	(12,009)
(Decrease) in accounts payable	(9,603)	(1,516)	(11,119)
(Decrease) in accrued payroll	(986)	-	(986)
Increase in compensated absences	5,388	-	5,388
(Decrease) in water meter deposits	(299)	-	(299)
Net cash provided by operating activities	<u>\$ 82,115</u>	<u>\$ 9,346</u>	<u>\$ 91,461</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2009**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,879
<b>LIABILITIES</b>	
Accounts payable	\$ 2,879

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

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**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The City of Jal, NM (the “City”), was incorporated on March 24, 1950. The City is a municipal corporation governed by an elected mayor and a six-member council. The City’s major operations include public safety (police, ambulance and fire), streets, sanitation, health and social services, culture-recreation, education, public improvements, and general administrative services. The City has no blended component units that are legally separate entities but still, in substance, part of the government’s operations.

The City’s basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City’s reporting entity, as set forth in Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization’s board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Jal has no component units.

The City’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Government Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*. The City elected to implement the general provisions of the Statement as of June 30, 2004 and does not plan to retroactively report infrastructure (infrastructure assets acquired prior to 7/1/03).

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basic financial statements – government-wide statements**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's public safety (police, ambulance and fire), streets, health and social services, culture-recreation, education, and general administrative services are classified as governmental activities. The City's water, sewer and solid waste services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Fiduciary funds and component units that are fiduciary in nature are not included in the government-wide financial statements. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (property and sales taxes), and certain inter-governmental revenues (fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

**C. Basic financial statements – fund financial statements**

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

**1. Governmental funds:**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:



**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basic financial statements – fund financial statements (Continued)**

- a) **General fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b) **Special revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The City reports the following major governmental funds:

- a) The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b) The youth & aged fund accounts for the receipts and expenditures of the Senior Citizens. Financing is provided by the State Agency on Aging, Taxation and Revenue, and federal and state grants.
- c) The state fire fund accounts for the operations and maintenance of the fire department. The operations are financed by an allotment from the annual fire grant from the State of New Mexico. (NMSA 59A-53-1)

**2. Proprietary funds:**

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

- a) **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The City reports the following major proprietary funds:

- a) Water and sewer fund is utilized to account for the provisions of the water and sewer services to the residents of the City.
- b) Solid waste fund accounts for the disposal of solid waste for the residents of the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

**STATE OF NEW MEXICO  
CITY OF JAL  
Notes to the Financial Statements  
June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basic financial statements – fund financial statements (Continued)**

principal operating revenues of the water and sewer, and solid waste funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**3. Fiduciary funds:**

Fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds.

The City's fiduciary fund is presented in the fiduciary fund financial statements. This fund accounts for the collection and payment to the State of New Mexico motor vehicle fees collected by the City on the state's behalf and the collection and payment to the Game and Fish Department for fees collected on their behalf. The Fund cannot be used to address activities or obligations of the government. Therefore, the funds are not incorporated into the government-wide statements.

**D. Measurement focus and basis of accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**Measurement focus**

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Measurement focus and basis of accounting (Continued)**

- b) The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c) Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

**Basis of accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Property taxes, cigarette taxes, gas taxes, franchise fees, and sales tax associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The government-wide full accrual basis property taxes receivable recognizes net of estimated refunds and uncollectible amounts, in the period for which the taxes are levied, even if they are not available.

Property taxes are levied and collected by the Lea County treasurer on behalf of the City. The taxes are levied in November and payable in two installments, November 10<sup>th</sup> and April 10<sup>th</sup>. The county remits to the city a percentage of the collections made during the month. Taxes are considered delinquent and subject to lien, penalty and interest, 30 days after the date on which they are due.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary control**

Budgetary control is at the line item level. The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Clerk-Treasurer submits to the City Council a proposed operating budget for the fiscal year commencing the following July. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at the City Hall to obtain the taxpayer's input. Prior to July 1 of each year, the budget is legally enacted through an ordinance.
2. The City-Clerk Treasurer is authorized to transfer budgeted amounts between departments within any fund. Any revisions that alter the total expenditures of the funds must be approved by the City Council and New Mexico State Department of Finance, Division of Local Governments.
3. Budgeted amounts are as originally adopted or as amended by the City Council and New Mexico State Department of Finance, Division of Local Governments. Individual amendments were not material in relation to the original appropriations, which were adopted.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
5. Encumbrances are not reported in the budgets or financial statements.
6. Budgets for the General and Special Revenue Funds are adopted on a basis not consistent with generally accepted accounting principles. Throughout the year, the accounting records are kept on a non-GAAP cash basis. Accordingly, revenues and the related assets are recorded when received and expenditures are recorded when paid. The budgetary comparisons are presented on non-GAAP budgetary basis and actual (cash basis).

**F. Cash and cash equivalents**

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand accounts and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include demand accounts only.

**G. Accounts receivable**

Accounts receivable balances in the enterprise funds represent amounts due for water, sewer, and solid waste services and receivables in the governmental funds represent amounts due for sales tax, property taxes, franchise fees, etc. collected and due to the City. Bad debt is reserved for in the financial statements when deemed necessary by management.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Capital assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. The City defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The City has not retroactively capitalized its governmental funds' infrastructure and has no plans to capitalize infrastructure in subsequent years.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	25-50 years
Equipment (including software)	5-10 years
Infrastructure	20 years

*Fund financial statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**I. Compensated absences**

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Equity classifications**

*Government-wide statements*

Equity is classified as net assets in three components:

- a) Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City first uses restricted resources then unrestricted resources.

*Fund statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Designated funds are for subsequent year expenditures. Proprietary fund equity is classified the same as in the governmental-wide statements.

**K. Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

**L. Long-term debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Long-term debt (Continued)**

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists of compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

**M. Interfund receivables and payables**

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and due from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. There were no amounts due to or due from funds during the year ended June 30, 2009.

**II. CASH AND CASH EQUIVALENTS**

The collateral pledged is listed on Page 67 of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the City. Time deposits, savings deposits and interest bearing Now accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. However, on October 14, 2008, the FDIC announced a new Transaction Account Guarantee Program, that provides depositors’ with unlimited coverage for noninterest-bearing transaction accounts. With regards to this Transaction Guarantee Program, noninterest-bearing checking accounts include Demand Deposit Accounts (DDA’s) and any other transaction accounts that has unlimited withdrawals and that cannot earn interest. Also included in this program, are low-interest NOW accounts that cannot earn more than 0.5% interest. This program is schedule to end December 31, 2009.

**Custodial Credit Risk – Deposits** Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City of Jal does not have a deposit policy for custodial credit risk. As of June 30, 2009, \$125,000 of the City’s bank balance of \$1,630,230 was exposed to custodial credit risk. The entire balance is collateralized by securities held in the City of Jal’s name.

**STATE OF NEW MEXICO  
CITY OF JAL  
Notes to the Financial Statements  
June 30, 2009**

**II. CASH AND CASH EQUIVALENTS (Continued)**

	<b>Wells Fargo Demand</b>	<b>Wells Fargo CD's</b>	<b>Total</b>
Total amount in bank	\$ 1,255,230	\$ 375,000	\$ 1,630,230
Less: FDIC insurance	(1,255,230)	(250,000)	(1,505,230)
Total uninsured public funds	-	125,000	125,000
50% collateral requirement	-	62,500	62,500
Pledged collateral held by the pledging financial institution	387,664	62,500	450,164
Uninsured and uncollateralized	\$ -	\$ -	\$ -

**III. CAPITAL ASSETS**

Capital assets as of and for the year ended June 30, 2009, were as follows:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2009</u>
Governmental activities:				
Capital Assets, not being depreciated:				
Land	\$ 53,712	\$ -	\$ -	\$ 53,712
Capital Assets, being depreciated:				
Buildings and improvements	1,433,848	-	-	1,433,848
Equipment	1,548,348	61,026	-	1,609,374
Infrastructure	169,206	-	-	169,206
Loan costs	-	3,375	-	3,375
Total at historical cost	<u>3,205,114</u>	<u>64,401</u>	<u>-</u>	<u>3,269,515</u>
Less accumulated depreciation				
Buildings and improvements	1,142,308	15,807	-	1,158,115
Equipment	1,373,937	51,849	-	1,425,786
Infrastructure	18,758	7,213	-	25,971
Total accumulated depreciation	<u>2,535,003</u>	<u>74,869</u>	<u>-</u>	<u>2,609,872</u>
Governmental capital assets, net	<u>\$ 670,111</u>	<u>\$ (10,468)</u>	<u>\$ -</u>	<u>\$ 659,643</u>



**STATE OF NEW MEXICO  
CITY OF JAL  
Notes to the Financial Statements  
June 30, 2009**

**III. CAPITAL ASSETS (Continued)**

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2009</u>
Business-type activities:				
Capital Assets, not being depreciated:				
Land	\$ 15,768	\$ -	\$ -	\$ 15,768
Capital Assets, being depreciated:				
Buildings and improvements	399,478	-	-	399,478
Equipment	116,885	36,986	-	153,871
Infrastructure	13,171,401	-	-	13,171,401
Total at historical cost	<u>13,703,532</u>	<u>36,986</u>	<u>-</u>	<u>13,740,518</u>
Less accumulated depreciation				
Buildings and improvements	316,829	4,453	-	321,282
Equipment	61,474	10,647	-	72,121
Infrastructure	12,245,541	65,672	-	12,311,213
Total accumulated depreciation	<u>12,623,844</u>	<u>80,772</u>	<u>-</u>	<u>12,704,616</u>
Business-type capital assets, net	<u>\$ 1,079,688</u>	<u>\$ (43,786)</u>	<u>\$ -</u>	<u>\$ 1,035,902</u>

Depreciation expense was charged to governmental and business type activities as follows:

General government	\$ 37,457	Water Management	\$ 40,386
Public safety and judiciary	9,415	Wastewater Management	24,232
Public Works	13,817	Solid Waste Management	16,154
Cultural and recreation	14,180	Total depreciation expense	<u>\$ 80,772</u>
Total depreciation expense	<u>\$ 74,869</u>		

**IV. LONG TERM DEBT**

The City's long-term debt is segregated between the amount to be repaid from governmental activities and amounts to be repaid from business-type activities. The general fund has typically been used in prior years to liquidate compensated absences.

Governmental activities:

Accrued compensated absences:

Current portion	\$ -
Non-current portion	<u>25,291</u>

Total governmental activity debt \$ 25,291

Business-type activities:

Accrued compensated absences:

Current portion	\$ 8,537
Non-current portion	<u>-</u>

Total business-type activity debt \$ 8,537

**STATE OF NEW MEXICO  
CITY OF JAL  
Notes to the Financial Statements  
June 30, 2009**

**IV. LONG TERM DEBT (Continued)**

Long-term debt activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Notes payable	\$ -	\$ 228,375	\$ -	\$ 228,375	\$ -
Compensated Absences	9,196	25,840	9,745	25,291	-
	<u>\$ 9,196</u>	<u>\$ 254,215</u>	<u>\$ 9,745</u>	<u>\$ 253,666</u>	<u>\$ -</u>
<b>Business-type Activities:</b>					
Compensated Absences	\$ 3,149	\$ 5,388	\$ -	\$ 8,537	\$ 8,537
	<u>\$ 3,149</u>	<u>\$ 5,388</u>	<u>\$ -</u>	<u>\$ 8,537</u>	<u>\$ 8,537</u>

**V. PERA RETIREMENT PLAN**

Substantially all of the City of Jal's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123.

*Funding Policy*

Plan members are required to contribute 13.15% of their gross salary, and law enforcement members are required to contribute 7% of their gross salary. The City is required to contribute 10% for law enforcement employees and 9.15% for all other employees. The contribution requirements of plan members and the City are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The City's contributions to PERA for the years ending June 30, 2009, 2008, and 2007 were \$63,126, \$61,516, and \$118,509, respectively, equal to the amount of the required contributions for each year.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**VI. RETIREE HEALTH CARE ACT CONTRIBUTION**

The Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees. Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Association (PERA), Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act. Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires on or before July 1, 1995, in which event the time period for contribution becomes the time between July 1, 1990 and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years. Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund a contribution equal to .65% of the employee's salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars (\$5.00) if the eligible participant retired prior to July 1, 1990 or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree) and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, NM 87107.

For the years ended June 30, 2009, 2008, and 2007, the City remitted \$7,417, \$7,383, and \$7,044, in employer contributions and \$4,137, \$3,691, and \$3,522, respectively, in employee contributions to the Retiree Health Care Authority.

**STATE OF NEW MEXICO  
CITY OF JAL  
Notes to the Financial Statements  
June 30, 2009**

**VII. RISKS OF LOSS**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City has obtained insurance through the Self Insurers Fund operating as a common risk management and insurance program. The City pays an annual premium to the New Mexico Self Insurers Fund and Titan Indemnity Company for its general insurance coverage. The City contributed \$100,931 to the fund during the year ended June 30, 2009.

**VIII. DEFERRED COMPENSATION**

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all State employees and those local government and school district employees whose employers have elected participation in the plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

There are no employees that are making contributions to a Deferred Compensation Plan. Neither the City of Jal nor the State of New Mexico make any contributions to the Deferred Compensation Plan.

**IX. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP**

Budget basis revenues and expenditures differ from revenues and expenses for generally accepted accounting principles (GAAP). Revenues and expenditures on the budget basis are cash basis. Revenues and expenses on a GAAP basis include accounts receivable and accounts payable.

A reconciliation of revenues and expenditures on the budgetary basis of revenues and expenses on a GAAP basis for the fiscal year ended June 30, 2009 follows:

	General Fund
Revenues:	
Budgetary basis	\$ 2,136,941
Prior year accounts receivable accrual	(100,063)
Accounts receivable	110,838
GAAP basis	2,147,716
 Expenditures:	
Budgetary basis	2,377,179
Prior year accounts payable	(78,163)
Accounts payable	11,278
GAAP basis	2,310,294
Net change in fund balance	\$ (162,578)

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**X. ACCOUNTING STANDARDS**

In August 2005, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for financial statements for periods beginning after June 30, 2007. The statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, with modifications to reflect differences between pension plans and OPEB plans. The City believes it will have no significant effect on the financial statements for the upcoming year.

In August 2005, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 is effective for financial statements for the periods beginning after June 30, 2007. This statement establishes standards for the measurement, recognition, and display of OPEB, expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The City believes it will have no significant effect on the financial statements for the upcoming year.

In September 2006, the Governmental Accounting Standards Board (GASB) issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues*. This statement is effective for financial statements for the periods beginning after December 15, 2006. This statement establishes the criteria that governments will use to determine whether the proceeds received from the sale or pledge of receivables and future revenue should be reported as revenue or as a liability. The transaction will be treated as collateralized borrowing unless the criteria indicating a sale has taken place are met. The statements stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The City is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In December 2006, the Governmental Accounting Standards Board (GASB) issued Statement No. 49, *Pollution Remedial Obligations*. This statement is effective for financial statements for the periods beginning after December 15, 2007. This statement establishes accounting standards for the recognition and reporting of liabilities related to environmental clean-up efforts. The City believes it will have no significant effect on the financial statements for the upcoming year.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Notes to the Financial Statements**  
**June 30, 2009**

**XI. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The following funds reflected a deficit fund balance as of June 30, 2009:

Intergovernmental Special Revenue Fund	\$ 527
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- B. Excess of expenditures over appropriations. The following funds exceeded approved budgetary authority for the year ended June 30, 2009.

Youth and Aged Special Revenue Fund	\$ 29,884
Water and Sewer Proprietary Fund	42,679
Solid Waste Proprietary Fund	82,766

## **OTHER SUPPLEMENTAL DATA**

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**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Fund Descriptions**  
**June 30, 2009**

**Special revenue funds:**

*Law enforcement fund*

Accounts for the receipts and expenditures of a special state grant for the police department. The grant may be used only for the operations of the police department. (NMSA 29-13-4)

*Corrections fund*

Accounts for the operational and maintenance of the public holding cells and corrections facilities. Finances are provided by an assessment on all traffic violations within the city limits. (NMSA 35-14-11)

*Cemetery fund*

Accounts for the operations and maintenance of the cemetery. Financing is provided by the sale of burial permits and contributions. (NMSA 3-40-1)

*Street fund*

Accounts for the collection of one half of one percent gross receipts tax for the purpose of improving the City's streets. (NMSA 7-1-69)

*Recreation fund*

Accounts for the operation and maintenance of recreational facilities in the City. Financing is provided by a specific annual cigarette tax levy. (NMSA 7-12-15)

*Emergency medical services (EMS) fund*

Accounts for the acquisition of emergency medical equipment and the operation of the equipment financed through a grant from the State of New Mexico. (NMSA 24-10A-1)

*Environmental fund*

Accounts for receipts and expenditures for the acquisition, construction, operation and maintenance of solid waste facilities, water facilities, wastewater facilities, sewer systems, and related facilities. Financing is provided by an increase in gross receipts tax. (City Ordinance)

*Intergovernmental fund*

Accounts for intergovernmental grant revenue. (City Ordinance)

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Combining Balance Sheet**  
**Non-Major Special Revenue Governmental Funds**  
**June 30, 2009**

	<b>Law Enforcement Fund</b>	<b>Corrections Fund</b>	<b>Cemetery Fund</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 13,920	\$ 36,853	\$ 27,245
Taxes receivable	-	-	-
Total assets	<u>\$ 13,920</u>	<u>\$ 36,853</u>	<u>\$ 27,245</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	<u>\$ 4,694</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>4,694</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved, designated for:			
Law enforcement fund	9,226	-	-
Corrections fund	-	36,853	-
Cemetery fund	-	-	27,245
Street fund	-	-	-
Recreation fund	-	-	-
EMS fund	-	-	-
Environmental fund	-	-	-
Intergovernmental fund	-	-	-
Total fund balances	<u>9,226</u>	<u>36,853</u>	<u>27,245</u>
Total liabilities and fund balances	<u>\$ 13,920</u>	<u>\$ 36,853</u>	<u>\$ 27,245</u>

The accompanying notes are an integral part of these financial statements.

<b>Street Fund</b>	<b>Recreation Fund</b>	<b>EMS Fund</b>	<b>Environmental Fund</b>	<b>Intergovernmental Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 148,509	\$ 3,366	\$ 2,590	\$ 70,575	\$ 1,295	\$ 304,353
7,324	449	-	2,148	-	9,921
<u>\$ 155,833</u>	<u>\$ 3,815</u>	<u>\$ 2,590</u>	<u>\$ 72,723</u>	<u>\$ 1,295</u>	<u>\$ 314,274</u>
\$ -	\$ -	\$ 400	\$ -	\$ 1,822	\$ 6,916
-	-	400	-	1,822	6,916
-	-	-	-	-	9,226
-	-	-	-	-	36,853
-	-	-	-	-	27,245
155,833	-	-	-	-	155,833
-	3,815	-	-	-	3,815
-	-	2,190	-	-	2,190
-	-	-	72,723	-	72,723
-	-	-	-	(527)	(527)
<u>155,833</u>	<u>3,815</u>	<u>2,190</u>	<u>72,723</u>	<u>(527)</u>	<u>307,358</u>
<u>\$ 155,833</u>	<u>\$ 3,815</u>	<u>\$ 2,590</u>	<u>\$ 72,723</u>	<u>\$ 1,295</u>	<u>\$ 314,274</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Special Revenue Governmental Funds**  
**For the Year Ended June 30, 2009**

	<b>Law Enforcement Fund</b>	<b>Corrections Fund</b>	<b>Cemetery Fund</b>
<b>REVENUES</b>			
State shared taxes	\$ -	\$ -	\$ -
Intergovernmental	21,800	-	-
Charges for sales and services	-	-	7,390
Fines and forfeits	-	19,042	-
Miscellaneous	6,455	1,882	-
Interest income	9	22	19
Total revenues	<u>28,264</u>	<u>20,946</u>	<u>7,409</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	19,039	7,429	-
Culture and recreation	-	-	1,921
Health and welfare	-	-	-
Total expenditures	<u>19,039</u>	<u>7,429</u>	<u>1,921</u>
Excess (deficiency) of revenues over expenditures	9,225	13,517	5,488
Fund balances - beginning of the year	<u>1</u>	<u>23,336</u>	<u>21,757</u>
Fund balances - end of the year	<u>\$ 9,226</u>	<u>\$ 36,853</u>	<u>\$ 27,245</u>

The accompanying notes are an integral part of these financial statements.

<b>Street Fund</b>	<b>Recreation Fund</b>	<b>EMS Fund</b>	<b>Environmental Fund</b>	<b>Intergovernmental Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 34,194	\$ 2,364	\$ -	\$ 19,773	\$ -	\$ 56,331
97,555	-	6,000	-	25,838	151,193
-	-	-	-	-	7,390
-	-	-	-	-	19,042
-	-	-	-	-	8,337
44	3	5	43	-	145
<u>131,793</u>	<u>2,367</u>	<u>6,005</u>	<u>19,816</u>	<u>25,838</u>	<u>242,438</u>
15,283	-	-	50	-	41,801
-	142	-	-	26,365	28,428
-	-	4,087	-	-	4,087
<u>15,283</u>	<u>142</u>	<u>4,087</u>	<u>50</u>	<u>26,365</u>	<u>74,316</u>
116,510	2,225	1,918	19,766	(527)	168,122
39,323	1,590	272	52,957	-	139,236
<u>\$ 155,833</u>	<u>\$ 3,815</u>	<u>\$ 2,190</u>	<u>\$ 72,723</u>	<u>\$ (527)</u>	<u>\$ 307,358</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Law Enforcement Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State grants	\$ 22,496	\$ 22,496	\$ 21,800	\$ (696)
Miscellaneous	-	-	580	580
Interest	-	-	9	9
	22,496	22,496	22,389	(107)
<b>EXPENDITURES</b>				
Training	3,000	3,000	1,207	1,793
Maintenance and repairs	2,700	2,700	4,486	(1,786)
Supplies	2,500	2,500	2,428	72
Capital outlay	14,000	14,000	349	13,651
	22,200	22,200	8,470	79
Excess (deficiency) of revenues over expenditures	296	296	13,919	\$ (28)
Prior year cash balance	1	1		
End of the year cash balance	\$ 297	\$ 297		
<b>RECONCILIATION TO GAAP</b>				
Current year accounts payable			(4,694)	
Excess (deficiency) of revenues over expenditures			\$ 9,225	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Corrections Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Corrections fees	\$ 8,421	\$ 8,421	\$ 19,042	\$ 10,621
Miscellaneous	-	-	1,882	1,882
Interest	-	-	22	22
	8,421	8,421	20,946	12,525
<b>EXPENDITURES</b>				
Operating	2,096	2,096	929	1,167
Prisoner food and accommodations	7,000	7,000	6,047	953
Capital outlay	-	-	1,032	(1,032)
	9,096	9,096	8,008	1,088
Excess (deficiency) of revenues over expenditures	(675)	(675)	12,938	\$ 13,613
Prior year cash balance	23,915	23,915		
End of the year cash balance	\$ 23,240	\$ 23,240		
<b>RECONCILIATION TO GAAP</b>				
Prior year accounts payable			579	
Excess (deficiency) of revenues over expenditures			\$ 13,517	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Cemetery Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Lot sales	\$ 10,635	\$ 10,635	\$ 7,390	\$ (3,245)
Interest	350	350	19	(331)
	10,985	10,985	7,409	(3,576)
<b>EXPENDITURES</b>				
Maintenance and repairs	-	-	1,689	(1,689)
Supplies	16,877	16,877	325	16,552
	16,877	16,877	2,014	14,863
Excess (deficiency) of revenues over expenditures	(5,892)	(5,892)	5,395	\$ 11,287
Prior year cash balance	21,850	21,850		
End of the year cash balance	\$ 15,958	\$ 15,958		
<b>RECONCILIATION TO GAAP</b>				
Prior year accounts payable			93	
Excess (deficiency) of revenues over expenditures			\$ 5,488	

The accompanying notes are an integral part of these financial statements.



**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Street Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Gas tax	\$ 27,381	\$ 27,381	\$ 32,200	\$ 4,819
State grant	25,000	561,700	97,555	(464,145)
Interest	428	428	44	(384)
	52,809	589,509	129,799	(459,710)
<b>EXPENDITURES</b>				
General street repair	12,250	12,250	5,525	6,725
Supplies	9,000	9,000	148	8,852
Operating	14,400	14,400	972	13,428
Co-op city match	-	300	-	300
Local road fund 1	-	16,750	-	16,750
Local road fund 2	-	134,000	-	134,000
Capital outlay	35,000	35,000	8,638	26,362
	70,650	221,700	15,283	206,417
Excess (deficiency) of revenues over expenditures	(17,841)	367,809	114,516	\$ (253,293)
Prior year cash balance	33,993	33,993		
End of the year cash balance	\$ 16,152	\$ 401,802		
<b>RECONCILIATION TO GAAP</b>				
Prior year accounts receivable			(5,330)	
Accounts receivable			7,324	
Excess (deficiency) of revenues over expenditures			\$ 116,510	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Recreation Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Cigarette tax	\$ 1,223	\$ 1,223	\$ 2,308	\$ 1,085
Interest	154	154	4	(150)
	1,377	1,377	2,312	935
<b>EXPENDITURES</b>				
Operating	1,800	1,800	22	1,778
Utilities	-	-	121	(121)
	1,800	1,800	143	1,657
Excess (deficiency) of revenues over expenditures	(423)	(423)	2,169	\$ 2,592
Prior year cash balance	1,197	1,197		
End of the year cash balance	\$ 774	\$ 774		
<b>RECONCILIATION TO GAAP</b>				
Prior year accounts receivable			(393)	
Accounts receivable			449	
Excess (deficiency) of revenues over expenditures			\$ 2,225	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**EMS Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
EMS grant	\$ 5,872	\$ 5,872	\$ 6,000	\$ 128
Interest	1,079	1,079	5	(1,074)
	6,951	6,951	6,005	(946)
<b>EXPENDITURES</b>				
Training	3,000	3,000	1,426	1,574
Maintenance and repairs	-	-	486	(486)
Supplies	3,845	3,845	2,175	1,670
	6,845	6,845	4,087	2,758
Excess (deficiency) of revenues over expenditures	106	106	1,918	\$ 1,812
Prior year cash balance	272	272		
End of the year cash balance	\$ 378	\$ 378		
<b>RECONCILIATION TO GAAP</b>				
No adjustments			-	
Excess (deficiency) of revenues over expenditures			\$ 1,918	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Environmental Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Environmental gross receipts	\$ 13,658	\$ 13,658	\$ 19,520	\$ 5,862
Interest	762	762	43	(719)
	14,420	14,420	19,563	5,143
<b>EXPENDITURES</b>				
Water user's association	10,000	10,000	-	10,000
Contractual services	10,000	10,000	50	9,950
	20,000	20,000	50	19,950
Excess (deficiency) of revenues over expenditures	(5,580)	(5,580)	19,513	\$ 25,093
Prior year cash balance	51,062	51,062		
End of the year cash balance	\$ 45,482	\$ 45,482		
<b>RECONCILIATION TO GAAP</b>				
Prior year accounts receivable			(1,895)	
Accounts receivable			2,148	
Excess (deficiency) of revenues over expenditures			\$ 19,766	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Intergovernmental Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State grant	\$ -	\$ 170,900	\$ 22,179	\$ (148,721)
	-	170,900	22,179	(148,721)
<b>EXPENDITURES</b>				
Jr. High building	-	50,000	21,680	28,320
NM Clean & Beautiful	-	-	1,026	(1,026)
	-	50,000	22,706	27,294
Excess (deficiency) of revenues over expenditures	-	120,900	(527)	<u>\$ (121,427)</u>
Prior year cash balance	-	-		
End of the year cash balance	<u>\$ -</u>	<u>\$ 120,900</u>		
<b>RECONCILIATION TO GAAP</b>				
No adjustments			<u>-</u>	
Excess (deficiency) of revenues over expenditures			<u>\$ (527)</u>	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Water and Sewer Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Sales and services	\$ 566,192	\$ 566,192	\$ 618,179	\$ 51,987
Connections	2,114	2,114	460	(1,654)
Governmental gross receipts	17,438	17,438	27,608	10,170
Penalties	1,474	1,474	7,575	6,101
Miscellaneous	13,700	13,700	-	(13,700)
Interest	4,343	4,343	218	(4,125)
	605,261	605,261	654,040	48,779
<b>EXPENDITURES</b>				
Salaries and wages	139,217	139,217	111,047	28,170
Benefits	29,637	29,637	16,965	12,672
Training	7,000	7,000	2,935	4,065
Water billing - drafts	24,000	24,000	-	24,000
Transportation	12,000	12,000	6,487	5,513
Training/Reg.	-	-	500	(500)
Maintenance and repairs	212,000	212,000	206,299	5,701
Performance agreement	-	-	1,636	(1,636)
Contractual services	-	-	7,182	(7,182)
Supplies	10,000	10,000	10,740	(740)
Operating	9,879	9,879	11,814	(1,935)
Gross receipts tax	5,700	5,700	28,864	(23,164)
Insurance	23,500	23,500	29,455	(5,955)
Machine rental and postage	3,000	3,000	1,225	1,775
Communications	75,000	75,000	129,868	(54,868)
Utilities	15,000	15,000	16,974	(1,974)
Sewer monitoring	-	-	2,733	(2,733)
Water conservation	-	-	7,642	(7,642)
Capital outlay	-	-	16,246	(16,246)
	565,933	565,933	608,612	(42,679)
Excess (deficiency) of revenues over expenditures	39,328	39,328	45,428	\$ 6,100

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Water and Sewer Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Prior year cash balance	281,493	281,493		
End of the year cash balance	\$ 320,821	\$ 320,821		
<b>RECONCILIATION TO GAAP</b>				
Change in accounts receivable			12,009	
Change in accrued payroll			986	
Change in accounts payable			9,603	
Change in compensated absences			(5,388)	
Capital outlay			36,986	
Depreciation			(80,772)	
Excess (deficiency) of revenues over expenditures			<u>\$ 18,852</u>	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Basis) and Actual**  
**Solid Waste Fund**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Convenience center coupon	\$ -	\$ -	\$ 547	\$ 547
Sales of service	253,909	253,909	334,117	80,208
Misc.	-	-	2,890	2,890
Interest	1,348	1,348	32	(1,316)
Governmental gross receipts	11,979	11,979	14,526	2,547
	267,236	267,236	352,112	84,876
<b>EXPENDITURES</b>				
Salaries and wages	29,024	29,024	39,928	(10,904)
Benefits	10,084	10,084	5,716	4,368
Transportation	4,000	4,000	351	3,649
Maintenance and repairs	5,000	5,000	646	4,354
Contractual services	189,892	189,892	275,030	(85,138)
Supplies	3,000	3,000	-	3,000
Operating	1,000	1,000	-	1,000
Gross receipts tax	13,000	13,000	14,062	(1,062)
Insurance	5,000	5,000	7,000	(2,000)
Capital outlay	-	-	33	(33)
	260,000	260,000	342,766	(82,766)
Excess (deficiency) of revenues over expenditures	7,236	7,236	9,346	\$ 2,110
Prior year cash balance	5,235	5,235		
End of the year cash balance	\$ 12,471	\$ 12,471		
<b>RECONCILIATION TO GAAP</b>				
Change in accounts payable			1,516	
Excess (deficiency) of revenues over expenditures			\$ 10,862	

The accompanying notes are an integral part of these financial statements.



## **OTHER SUPPLEMENTARY INFORMATION SECTION**

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Schedule of Changes in Assets and Liabilities - Agency Fund**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2009**

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
<b>ASSETS</b>				
Cash	\$ 3,198	\$ 12,203	\$ 12,522	\$ 2,879
	<u>\$ 3,198</u>	<u>\$ 12,203</u>	<u>\$ 12,522</u>	<u>\$ 2,879</u>
 <b>LIABILITIES</b>				
Due to other taxing units	\$ 3,198	\$ 12,203	\$ 12,522	\$ 2,879
	<u>\$ 3,198</u>	<u>\$ 12,203</u>	<u>\$ 12,522</u>	<u>\$ 2,879</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Depository Collateral  
For the Year Ended June 30, 2009**

	<b>Wells Fargo Demand</b>	<b>Wells Fargo CD's</b>	<b>Total</b>
Total amount in bank	\$ 1,255,230	\$ 375,000	\$ 1,630,230
Less: FDIC insurance	(1,255,230)	(250,000)	(1,505,230)
Total uninsured public funds	-	125,000	125,000
50% collateral requirement	-	62,500	62,500
Pledged security	387,664	62,500	450,164
Over (under) collateralized	<u>\$ 387,664</u>	<u>\$ -</u>	<u>\$ 387,664</u>

<b>Type</b>	<b>Security Number</b>	<b>CUSIP Number</b>	<b>Maturity Date</b>	<b>FMV</b>
Bond	002146	31407HXH4	04/01/36	\$ 72,066
Bond	021165	31407HZN9	05/01/36	378,098
				<u>\$ 450,164</u>

The pledged collateral above is held in trust for the City of Jal in the San Francisco, CA branch of Wells Fargo.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Schedule of Individual Deposit Accounts and Investments**  
**For the Year Ended June 30, 2009**

	<u>Type of Account</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
<i><b>Wells Fargo</b></i>			
Interfund	Checking	\$ 1,220,669	\$ 1,394,396
Payroll	Checking	34,561	-
CD	CD	300,000	300,000
CD	CD	75,000	75,000
Total Wells Fargo		<u>\$ 1,630,230</u>	<u>\$ 1,769,396</u>
Cash and cash equivalents per Statement of Net Assets			\$ 1,714,128
Restricted cash per Statement of Net Assets			55,268
Total cash per Statement of Net Assets			<u>\$ 1,769,396</u>

See the accompanying independent auditor's report.

**STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Joint Powers Agreements  
For the Year Ended June 30, 2009**

**LEA COUNTY WATER USERS ASSOCIATION - JOINT POWERS AGREEMENT**

Participants:	City of Jal Lea County	City of Hobbs City of Eunice	City of Lovington Town of Tatum
Responsible party:	City of Jal Lea County	City of Hobbs City of Eunice	City of Lovington Town of Tatum
Description:	To create the Lea County Water Users Association.		
Dates of agreement:	Beginning Ending	11/18/1997 Automatic renewal of two years.	
Estimated amount of project:	\$240,000		
Agency contribution:	4.20%		
Fiscal agent:	Lea County		
Audit responsibility:	Water User Board		

**LEA COUNTY SOLID WASTE AUTHORITY - JOINT POWERS AGREEMENT**

Participants:	City of Jal Lea County	City of Hobbs City of Eunice	City of Lovington Town of Tatum
Responsible party:	City of Jal Lea County	City of Hobbs City of Eunice	City of Lovington Town of Tatum
Description:	To create the Lea County Solid Waste Authority		
Dates of agreement:	Beginning Ending	12/12/1994 Automatic renewal of two years.	
Estimated amount of project:	Unknown		
Agency contribution:	The City of Jal's cost of trash removal.		
Fiscal agent:	Lea County		
Audit responsibility:	Solid Waste Authority		

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Schedule of Joint Powers Agreements**  
**For the Year Ended June 30, 2009**

LEA COUNTY WATER USERS ASSOCIATION - JOINT POWERS AGREEMENT

Participants:	City of Jal Energy, Minerals and Natural Resources Department
Responsible party:	City of Jal Energy, Minerals and Natural Resources Department
Description:	Wildland Fire Protection and Suppression
Dates of agreement:	Beginning                      4/1/2008 Ending                              Upon written termination
Estimated amount of project:	Unknown
Agency contribution:	N/A
Fiscal agent:	Energy, Minerals and Natural Resources Department
Audit responsibility:	City of Jal

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Schedule of Memorandums of Understanding**  
**For the Year Ended June 30, 2009**

VIKKI BELL - MEMORANDUM OF UNDERSTANDING

Participants:	Lea County Municipalities Vikki Bell
Responsible party:	Lea County
Description:	Professional services contract
Dates of agreement:	Beginning                      7/1/2004 Ending                              06/30/08 unless extended by parties
Estimated amount of project:	Unknown
Agency contribution:	N/A
Fiscal agent:	Lea County
Audit responsibility:	Lea County

NMEDD - MEMORANDUM OF UNDERSTANDING

Participants:	City of Jal New Mexico Economic Development Department
Responsible party:	City of Jal
Description:	To promote economic development within and outside the municipal city limits
Dates of agreement:	Beginning                      03/10/09 Ending                              06/30/11
Estimated amount of project:	\$250,000
Agency contribution:	N/A
Fiscal agent:	City of Jal
Audit responsibility:	NMEDD

See the accompanying independent auditor's report.

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## **COMPLIANCE**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor, City Council,  
The City of Jal  
and  
Hector H. Balderas  
New Mexico State Auditor

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, the respective budgetary comparisons and the aggregate remaining fund information of the State of New Mexico, City of Jal (the “City”) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 16, 2011. We were also engaged to audit the financial statements of each of the City’s nonmajor governmental funds and all the budgetary comparisons presented as other supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2009.

The City of Jal's accounting records were not sufficient to audit. Accounting records were not available to substantiate balances reported for assets, liabilities, revenues, expenses or expenditures for any fund. Therefore, due to limited accounting records, we were unable to apply generally accepted audit procedures and we were unable to apply auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States to cash, fund balance, revenues and expenses. The amount by which these departures would affect the assets, liabilities, revenues, and expenditures of the funds is not reasonably determined.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can

be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS2008-3 and FS2009-1 through FS2009-102, inclusive, to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items FS2008-3, FS2009-1, FS2009-2, FS2009-6 and FS2009-100.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration, others within the entity, and the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

Miller & Associates, C.P.A, P.C.  
September 16, 2011

**STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Findings and Responses  
June 30, 2009**

**Section I – Summary of Audit Results**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditors' report issued   | Disclaimer |
| 1. Internal control over financial reporting:                                    |            |
| a. Material weaknesses identified?   | Yes        |
| b. Significant deficiencies identified not considered to be material weaknesses? | No         |
| c. Noncompliance material to the financial statements noted?                     | Yes        |

STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Findings and Responses  
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**Section II – Financial Statement Findings**

**FS2008-3 Disaster Recovery Plan**

*Condition:* The City does not have a disaster recovery plan in place for their computer system. In the event of a disaster, such a plan would contain provisions for alternate supplies and hardware necessary to reduce the risk of interruption of critical business functions.

*Criteria:* Statement of Auditing Standard (SAS) 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit* require the evaluation of internal controls related to IT Systems, including the evaluation of disaster recovery plans.

*Effect:* In the event of a disaster, the City would not be able to minimize the interruption of critical business functions.

*Cause:* The City has never considered the need to implement a disaster recovery plan.

*Auditors' Recommendation:* The City should implement a disaster recovery plan to ensure that an approved plan is in place for critical applications. Disaster recovery procedures should be tested periodically to ensure recoverability of computer systems.

*Agency Response:* The City will follow the auditor's recommendation. The new financial/accounting/utility software system that the City purchased and implemented in 2010-2011 provides for disaster recovery.

**STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Findings and Responses  
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**Section II – Financial Statement Findings (continued)**

**FS2009-1 Record Keeping**

*Condition:* Activity for the CDBG and economic development funds and cash held for these funds were not recorded in a general ledger overseen by the City Treasurer.

*Criteria:* Section 6-6-3 of the New Mexico Statutes states that every local public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

*Effect:* The City of Jal's financial statements may not reflect all activity and balances.

*Cause:* The CDBG and economic development funds are maintained by the Special Projects Coordinator throughout the year and this activity is not shared with the City Treasurer.

*Auditors' Recommendation:* The City should implement procedures to ensure that all activity the City is responsible for is properly recorded in the general ledger and subject to the control of the City Treasurer.

*Agency Response:* The City will follow the auditors' recommendation. The City began implementing these procedures in 2010-2011.

**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Schedule of Findings and Responses**  
**June 30, 2009**

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**Section II – Financial Statement Findings (continued)**

**FS2009-2 Capital Asset Listing**

*Condition:* The City does not have a formal capital assets management policy. For the year ended June 30, 2010, the City had not maintained a capital asset listing that was reconciled to the general ledger.

*Criteria:* The City must have a capital assets management policy to provide accountability for the safeguarding of assets in accordance with GASB 34 and NMSA 1978 Section 12-6-10.

*Effect:* Lack of sufficient records results in assets that are not properly safeguarded. Asset identification and location are essential in the prevention of theft and loss of assets due to fraudulent activity. Capital assets cannot be depreciated due to the lack of information that is being maintained. As a result, the financial statements of the City may be materially misstated due to the balances of capital assets and accumulated depreciation being materially misstated.

*Cause:* Capital asset records have not been maintained or updated to ensure accuracy or accountability of the City's assets.

*Auditors' Recommendation:* The City must conduct a physical inventory of its capital assets in accordance with its capitalization policy and update the inventory annually. The inventory report must include asset identification, location and historical cost. This process will also assist the City in the determination of obsolete equipment. Finally, a complete capital assets inventory listing will be required to be completed by the City in order to be in compliance with GASB 34. The inventory report should be reconciled to the general ledger.

*Agency Response:* The City will follow the auditor's recommendation. In 2010-2011, the City developed an Asset Management Plan as part of its CDBG Application and contracted with the firm RCI to develop and implement a Capital Asset Inventory.



**STATE OF NEW MEXICO**  
**CITY OF JAL**  
**Schedule of Findings and Responses**  
**June 30, 2009**

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**Section II – Financial Statement Findings (continued)**

**FS2009-3 Inaccurate Bank Reconciliations**

*Condition:* During the course of our audit we noted that the bank reconciliations were untimely, incomplete, contained numerous errors, and indicated a lack of understanding on the part of the preparer.

*Criteria:* Per the SAS 112 Appendix, failure to perform reconciliations of significant accounts in a timely and accurate manner is a failure in the operation of internal controls..

*Effect:* Failure to reconcile accounts accurately can lead to misstatement of balances.

*Cause:* The inaccurate bank reconciliations are caused by a lack of training and experience as well as improper oversight of the employee or employees preparing the bank reconciliations.

*Auditors' Recommendation:* We recommend that the City properly and accurately perform bank reconciliations to ensure that cash balances per the general ledger are properly stated.

*Agency Response:* The City will follow the auditor's recommendation and ensure that we properly and accurately perform bank reconciliations to ensure that cash balances per the general ledger are properly stated.

**STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Findings and Responses  
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**Section II – Financial Statement Findings (continued)**

**FS2009-4 Segregation of Duties**

*Condition:* During the course of our audit we noted that the City of Jal’s business office has inadequate segregation of duties.

*Criteria:* Segregation of conflicting duties within accounting functions is a basic internal control that mitigates the risk of significant misstatement. Appropriate segregation of duties is required to maintain proper and sufficient internal controls and properly report all revenues and expenditures as required by Section 6-6-3, NMSA 1978.

*Effect:* The lack of segregation of duties could allow the misappropriation of funds to occur without detection.

*Cause:* The lack of segregation of duties is due to the small size of the office.

*Auditors’ Recommendation:* We recommend that there be a segregation of duties whenever possible. We recommend City Council involvement in the review of accounts receivable on a regular basis and that other employees be cross-trained on some of the accounting functions.

*Agency Response:* The City will follow the auditor’s recommendation. The City began to implement these recommendations in 2010-2011.

**STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Findings and Responses  
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**Section II – Financial Statement Findings (continued)**

**FS2009-5 Books Were Not Ready in a Timely Manner**

*Condition:* During the course of our audit we noted that the general ledger changed during the beginning of our field work in November 2009.

*Criteria:* According to 2.2.2.8 NMAC “the agency shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant as requested.”

*Effect:* The effect of changing the books could result in misstatements.

*Cause:* The cause of the books changing is due to the lack of competence and experience by employees in management positions.

*Auditors’ Recommendation:* We recommend management positions are filled with competent and experienced individuals.

*Agency Response:* The City will follow the auditor’s recommendation and ensure that management positions are filled with competent and experienced individuals.

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CITY OF JAL  
Schedule of Findings and Responses  
June 30, 2009**

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**Section II – Financial Statement Findings (continued)**

**FS2009-6 Late Audit Report**

*Condition:* The City's June 30, 2009 audit report was not submitted to the Office of the State Auditor by the December 1, 2009 deadline.

*Criteria:* New Mexico State Auditor Rule 2.2.2 NMAC Section 2.2.2.9 (A) requires that the audit report be filed by December 1<sup>st</sup>.

*Effect:* The City is not in compliance with state requirements and this could have an effect on their funding.

*Cause:* The City's books were not ready in a timely manner.

*Auditors' Recommendation:* The City should implement procedures to ensure that the books are kept in good order to enable auditing procedures to be performed on a timely basis.

*Agency Response:* The City will follow the auditors' recommendation. The City began implementing these procedures in 2010-2011.

**STATE OF NEW MEXICO  
CITY OF JAL  
Schedule of Findings and Responses  
June 30, 2009**

**Section II – Financial Statement Findings (continued)**

**FS2009-7 Expenditures in Excess of Budget**

*Condition:* The City over expended its budget in the following funds:

Youth and Aged	\$ 29,884
Water and Sewer	42,679
Solid Waste	<u>82,766</u>
	<u>\$ 155,329</u>

*Criteria:* Section 6-6-6 NMSA, 1978 requires that the City keep expenditures within the budgeted amounts.

*Effect:* Improper management of budgets can create cash short falls.

*Cause:* High turnover in all departments has created inconsistencies in following City procedures.

*Auditors' Recommendation:* We recommend the City establish policies and procedures governing the budgetary process and monitoring of the budget in order to properly prepare and adjust the budget in order to properly authorize all expenditures.

*Agency Response:* The City will follow the auditors' recommendation. In 2010-2011, the City began to follow budgetary policies and procedures as per the NM Department of Finance & Administration – Local Government Budget Bureau. The governing body began receiving monthly financial reports, and budgetary and financial controls were implemented. The current management personnel has experience in NM local government budgetary policies and financial oversight and controls. The city hopes to retain the current management for the foreseeable future.

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CITY OF JAL  
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**Section II – Financial Statement Findings (continued)**

**FS2009-8 Auditor Prepared Financial Statements**

*Condition:* The financial statements and related disclosures are not being prepared by the City. The City does not have a procedure in place to detect and correct material misstatements in the financial statements.

*Criteria:* A system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The fact that the auditor prepares the financial statements may mean they are correct, but it doesn't eliminate the control deficiency.

*Effect:* The City has a control deficiency since there are not sufficient controls over the preparation of financial statements and related disclosures. The risk of material misstatement of the financial statements is increased by the lack of control procedures over the preparation of the City's financial statements.

*Cause:* City personnel do not have the time and have not been training in the preparation of financial statements and related disclosures.

*Auditors' Recommendation:* We recommend that management and personnel receive training on preparation of financial statements and related disclosures under Generally Accepted Accounting Standards, or contract with a consultant to assist with the preparation and implement procedures to detect and correct misstatements.

*Agency Response:* The City will follow the auditors' recommendations. The City has identified other findings in this report that it will also utilize a consultant to train financial personnel and to assist management in the preparation and implementation of proper policies and procedures. The City will also send financial and management personnel to appropriate training sponsored by NMDFA / NMGFOA.

STATE OF NEW MEXICO  
CITY OF JAL  
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**Section II – Financial Statement Findings (continued)**

**FS 2009-9 Deficiencies in Internal Control Structure Design, Operation, and Oversight – Comprehensive Documentation of Internal Controls**

*Condition:* The City does not have a comprehensive documented internal control structure. We noted the following areas in which the City does not have sufficient key internal controls in place:

- The City does not prepare an accurate accounts payable listing.
- The City does not prepare an accurate accounts receivable listing.
- Material journal entries were required for accounts payable, accounts receivable and accrued payroll.
- The City cannot rely on their reports from their accounting system and was unable to reconcile their PERA, RHC and 941 reports to the general ledger.
- Net asset restrictions and fund balance classifications do not have adequate supporting documentation and are not periodically reviewed by management.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* The City recently had key management turnover and did not have documented policies in place to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 112 to provide effective oversight of internal control and the financial reporting process.

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**Section II – Financial Statement Findings (continued)**

**FS 2009-9 Deficiencies in Internal Control Structure Design, Operation, and Oversight – Comprehensive Documentation of Internal Controls (continued)**

*Auditors' Recommendation:* We recommend that the City of Jal ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process. Management should either maintain a separate fund for the federal grant money or track the federal expenses in a different line item. Management should: (1) maintain the listing of federal awards throughout the year, (2) keep state grants separate from federal grants; and (3) anytime the City receives a new grant, check with the grant contact person to determine whether the grant is federal or state funds.

*Agency Response:* The City will follow the auditors recommendation. The City began implementing the procedures in 2010-2011 with the governing body and the current management personnel providing financial oversight and control. Additional response as that provided for 2009-7.



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**Section II – Financial Statement Findings (continued)**

**FS2009-10 Deficiencies in Internal Control Structure Design, Operation and Oversight – Governing Body Level of Knowledge**

*Condition:* Those charged with governance do not demonstrate a sufficient level of knowledge of accounting and regulatory requirements, industry experience, and entity operations. Those charged with governance are not actively involved and do not have significant influence over the entity’s internal control environment and its financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2009 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The City began to implement these procedures in 2010-2011. Additional response per 2009-7.

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**Section II – Financial Statement Findings (continued)**

**FS2009-11 Deficiencies in Internal Control Structure Design, Operation and Oversight – Planning Process to Evaluate Governing Body**

*Condition:* There is not a succession planning process to continually evaluate the background and experience of those charged with governance in order to provide adequate oversight of the entity. Those charged with governance are not actively involved and do not have significant influence over the entity's internal control environment and its financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors' Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* City will follow the auditors recommendation and began implementing this structure in 2010-2011 with the hiring of the current management structure personnel in December 2010. Additional response as per 2009-7 through 2009-10.

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**Section II – Financial Statement Findings (continued)**

**FS2009-12 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Evaluation of Accounting and Finance Expertise**

*Condition:* The City council does not evaluate the level of accounting and finance expertise of its members. The City does not have an audit committee that includes at least one “financial expert”. Those charged with governance are not actively involved and do not have significant influence over the entity’s internal control environment and its financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendations. The City began implementing this structure in 2010, and the City will have an audit committee comprised of the three members of the governing body, the city treasurer and the city manager, who has the background and experience to serve as the “financial expert.” Additional response as per 2009-7 through 2009-11.

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**Section II – Financial Statement Findings (continued)**

**FS2009-13 Deficiencies in Internal Control Structure Design, Operation and Oversight – Removing Incentive**

*Condition:* Management does not act to remove or reduce incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts. Management, through its attitudes and actions, does not demonstrate character, integrity, and ethical values. Sound integrity and ethical values, particularly of top management, are not developed and do not set the standard of conduct for the organization and financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation and began implementing this structure with the hiring of the current management in 2010-2011 who have a proper financial background with a strong character, integrity, attitude, and ethical values. Additional response as per 2009-7 through 2009-12.

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**Section II – Financial Statement Findings (continued)**

**FS2009-14 Deficiencies in Internal Control Structure Design, Operation and Oversight – Following Ethical Guidelines**

*Condition:* Management does not follow ethical guidelines in dealing with external audiences, including suppliers, citizens, creditors, insurers, etc. Management, through its attitudes and actions, does not demonstrate character, integrity, and ethical values. Sound integrity and ethical values, particularly of top management, are not developed and do not set the standard of conduct for the organization and financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation, and in addition, the response as per 2009-13. Current management has a favorable record and reputation of dealing with external audiences and is active in the local community.

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**Section II – Financial Statement Findings (continued)**

**FS2009-15 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Approval of Changes in Key Relationships**

*Condition:* Management does not approve changes in key relationships with external parties. Management, through its attitudes and actions, does not demonstrate character, integrity, and ethical values. Sound integrity and ethical values, particularly of top management, are not developed and do not set the standard of conduct for the organization and financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Additional response as per 2009-13 and 2009-14.

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**Section II – Financial Statement Findings (continued)**

**FS2009-16 Deficiencies in Internal Control Structure Design, Operation and Oversight – Relationships with Professional Third Parties**

*Condition:* Relationships with professional third parties are not periodically reviewed to ensure the entity maintains association with reputable parties. Management, through its attitudes and actions, does not demonstrate character, integrity, and ethical values. Sound integrity and ethical values, particularly of top management, are not developed and do not set the standard of conduct for the organization and financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors' Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendations. Current management personnel will periodically review the City's relationships, contracts, and agreements with third parties. Additional response as per 2009-13 through 2009-15.

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**Section II – Financial Statement Findings (continued)**

**FS2009-17 Deficiencies in Internal Control Structure Design, Operation and Oversight – Risk Appetite**

*Condition:* “Risk appetite,” or the amount of risk the entity is willing to accept, associated with each new activity is not discussed and influenced by the City’s culture and operating practices. Management’s philosophy and operating style are not consistent with a sound control environment and has a negative pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management hired in 2010-2011 has the appropriate philosophy and operating style that is consistent with a sound control environment and has a positive effect on the City. The City will discuss and assess risk, assess employee turnover, investigate and resolve improper business practices, and adopt appropriate accounting policies with a view of accounting as a means to monitor and control various activities of the City. Additional response as per 2009-7 through 2009-16.



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**Section II – Financial Statement Findings (continued)**

**FS2009-18 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Analyzing New Activities**

*Condition:* Management does not analyze the potential benefits and key risk drivers associated with each of its new activities. Management’s philosophy and operating style are not consistent with a sound control environment and has a negative pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Additional response as per 2009-17.

**Section II – Financial Statement Findings (continued)**

**FS2009-19 Deficiencies in Internal Control Structure Design, Operation and Oversight – Attitudes to Support an Effective Control Environment**

*Condition:* Management does not exemplify attitudes and actions in line with its mission, vision, and values to support an effective control environment. Management’s philosophy and operating style are not consistent with a sound control environment and has a negative pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendations. Current management personnel hired in 2010-2011 will exemplify attitudes and actions to support an effective control environment. Additional response as per 2009-13 through 2009-18.

**Section II – Financial Statement Findings (continued)**

**FS2009-20 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Emphasis on Appropriate Behavior**

*Condition:* Management does not maintain contact with, or consistently emphasize appropriate behavior across, its operations. Management's philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors' Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management hired in 2010-2011 sets an example of appropriate behavior. It resides full-time in the local community, is active in the local community, and has weekly meetings (and as-needed meetings) with department heads/supervisors to maintain contact with the City and its operations. Additional response as per 2009-13 through 2009-19.

**Section II – Financial Statement Findings (continued)**

**FS2009-21 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Education on the Importance of Internal Controls**

*Condition:* There are no procedures or activities in place to regularly educate and communicate to management and employees the importance of internal controls and to raise their level of understanding controls. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management hired in 2010-2011 regularly attends educational training provided through NMDFA or NMML and communicates the importance of internal controls through budget, financial, and audit review workshops with the governing body and department heads/supervisors. Additional response as per 2009-13 through 2009-20.

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**Section II – Financial Statement Findings (continued)**

**FS2009-22 Deficiencies in Internal Control Structure Design, Operation and Oversight – Risk Identifiers Not Communicated**

*Condition:* The responsibilities and expectations for the City’s activities and the philosophy about identification and acceptance of risk are not clearly communicated to appropriate personnel. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolves improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Additional response as per 2009-17 through 2009-21.

**Section II – Financial Statement Findings (continued)**

**FS2009-23 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Promotion of a Sound Control Environment**

*Condition:* Management does not openly encourage and acknowledge the practices of employees, functions, or operating units that promote a sound control environment even when the practice may be controversial. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolves improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management hired in 2010-2011 openly encourages and acknowledges the practices of employees, functions, or operating units that promote a sound control environment even when the practice may be controversial through monthly governing body meetings and weekly internal communications to the governing body and department heads/supervisors. Additional response as per 2009-17 through 2009-22.

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**Section II – Financial Statement Findings (continued)**

**FS2009-24 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Attention to Known Internal Control Weaknesses**

*Condition:* Management does not give appropriate attention to internal controls or correct any known weaknesses in internal controls on a timely basis. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate, and does not resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Current management and financial personnel give appropriate attention to internal controls and correct any known weaknesses in internal controls on a timely basis. Additional response as per 2009-17 through 2009-23.

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**Section II – Financial Statement Findings (continued)**

**FS2009-25 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Importance Place on the Accounting Function**

*Condition:* Management does not regard the accounting function as a means for monitoring and exercising control over the City’s various activities. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Additional response as per 2009-17 through 2009-24.



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**Section II – Financial Statement Findings (continued)**

**FS2009-26 Deficiencies in Internal Control Structure Design, Operation and Oversight – Central Accounting Function does not have Proper Authority**

*Condition:* The central accounting and financial reporting functions do not have proper authority over decentralized accounting personnel. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolves improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendations. Management will ensure that central accounting and financial reporting functions will have proper authority over decentralized accounting personnel. Additional response as per 2009-17 through 2009-25.

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**Section II – Financial Statement Findings (continued)**

**FS2009-27 Deficiencies in Internal Control Structure Design, Operation and Oversight – Financial Reporting Objectives not Established and Clearly Articulated**

*Condition:* Management does not establish and clearly articulate financial reporting objectives, including goals related to internal control over financial reporting. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendations. Current management will establish and clearly articulate financial reporting objectives including goals related to internal control over financial reporting. Additional response as per 2009-17 through 2009-26.

**Section II – Financial Statement Findings (continued)**

**FS2009-28 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Objective Process in Selecting Accounting Principles**

*Condition:* Management does not follow a disciplined, objective process in selecting accounting principles and developing estimates. Management's philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors' Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Current management will follow a disciplined, objective process in selecting accounting principles and developing estimates. Additional response as per 2009-17 through 2009-27.

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**Section II – Financial Statement Findings (continued)**

**FS2009-29 Deficiencies in Internal Control Structure Design, Operation and Oversight – Tone at the Top**

*Condition:* Management does not set the tone that high-quality and transparent financial reporting is expected. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Current management has and will set the tone that high-quality and transparent financial reporting is expected. Additional response as per 2009-17 through 2009-28.

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**Section II – Financial Statement Findings (continued)**

**FS2009-30 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Establishing Financial Reporting Objectives**

*Condition:* Management does not establish and clearly articulate financial reporting objectives, including goals related to internal control over financial reporting. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Current management will establish and clearly articulate financial reporting objectives, including goals related to internal control over financial reporting. The organizational structure of the City will be appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the City will be present and will provide unfettered influence to effectively run the entity and support effective financial reporting.

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**Section II – Financial Statement Findings (continued)**

**FS2009-31 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Disciplined, Objective Process in Selecting Accounting Principals and Developing Estimates**

*Condition:* Management does not follow a disciplined, objective process in selecting accounting principles and developing estimates. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors' Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Additional response as per 2009-28 and 2009-30.

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**Section II – Financial Statement Findings (continued)**

**FS2009-32 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Evaluation of Organizational Structure**

*Condition:* Management does not periodically evaluate the City’s organizational structure and make necessary changes based on changes in its activities. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Current management has and will periodically evaluate the City’s organizational structure and make necessary changes based on changes in its activities. Additional response as per 2009-30 and 2009-31.

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**Section II – Financial Statement Findings (continued)**

**FS2009-33 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Defining Key Areas of Authority and Responsibility**

*Condition:* The City does not define key areas of authority and responsibility, including management’s responsibility for activities, and how they affect the City as a whole. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The governing body has and will define key areas of authority and responsibility, including management’s responsibility for activities and how they affect the City as a whole. Additional response as per 2009-30 through 2009-32.



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**Section II – Financial Statement Findings (continued)**

**FS2009-34 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Establishing Internal Reporting Responsibilities for Each Department**

*Condition:* The City does not establish internal reporting responsibilities for each department, program, or other function that are consistent with the objective of achieving effective internal control over financial reporting. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The current management has and will establish internal reporting responsibilities for each department, program, or other function that are consistent with the objective of achieving effective internal control over financial reporting. Additional response as per 2009-30 through 2009-33.

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**Section II – Financial Statement Findings (continued)**

**FS2009-35 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Structure for Assigning Ownership of Data**

*Condition:* There is not a structure for assigning ownership of data, including who is authorized to make and/or modify transactions. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The governing body and current management will ensure that there is a structure for assigning ownership of data including who is authorized to make and/or modify transactions. Additional response as per 2009-30 through 2009-34.

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**Section II – Financial Statement Findings (continued)**

**FS2009-36 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Policies that are Adequately Communicated to All Employees**

*Condition:* There are not policies for offering new services, conflicts of interest, and security practices that are adequately communicated to all employees in the organization. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that there are policies, to be developed by our consultant, for offering new services, conflicts of interest, and security practices that are adequately communicated to all City employees. Additional response as per 2009-30 through 2009-35.

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**Section II – Financial Statement Findings (continued)**

**FS2009-37 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Adequate Supervision of Decentralized Operations**

*Condition:* There is not adequate supervision and monitoring of decentralized operations, including accounting personnel and information systems. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that there is adequate supervision and monitoring of decentralized operations including accounting personnel and information systems. Additional response as per 2009-30 through 2009-36.

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**Section II – Financial Statement Findings (continued)**

**FS2009-38 Deficiencies in Internal Control Structure Design, Operation and Oversight – Governing Body does not Oversee Disclosures**

*Condition:* The City council does not oversee the City’s disclosures and the policies under which disclosures are made. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The governing body will oversee the City’s disclosures (subject to the NM Open Records Act) and the policies, to be developed by our consultant, under which disclosures are made. Additional response as per 2009-30 through 2009-37.

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**Section II – Financial Statement Findings (continued)**

**FS2009-39 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Process to Support the Identification, Selection, and Application of Alternate Accounting Treatments**

*Condition:* A process does not exist to support the identification, selection, and application of alternate accounting treatments. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that a process, as per NMDFA-LGFB and developed by our consultant, will support the identification, selection, and application of alternate accounting treatments. Additional response as per 2009-30 through 2009-38.

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**Section II – Financial Statement Findings (continued)**

**FS2009-40 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Process to Discuss Disclosure Laws and Standards**

*Condition:* There is not a process to discuss disclosure laws and standards and establish controls to verify the effectiveness of required disclosures (e.g., accounting checklists). The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that there is a process, to be developed by our consultant, to discuss disclosure laws and standards and establish controls to verify the effectiveness of required disclosures, such as accounting checklists. Additional response as per 2009-30 through 2009-39.

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**Section II – Financial Statement Findings (continued)**

**FS2009-41 Deficiencies in Internal Control Structure Design, Operation and Oversight – Single Individuals Capable of Exerting Substantial Influence over the City’s Affairs**

*Condition:* There are single individuals capable of exerting substantial influence over the City’s affairs. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Through the policies and procedures implemented and to be implemented, the result of these audits, and with the current management structure, the City will be able to mitigate, reduce, and/or eliminate the prior condition of “single individuals capable of exerting substantial influence of the City’s affairs.” Additional response as per 2009-30 through 2009-40.



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**Section II – Financial Statement Findings (continued)**

**FS2009-42 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Human Resource Policies and Procedures that Demonstrate its Commitment to Integrity, Ethical Behavior, and Competence**

*Condition:* Management does not establish human resource policies and procedures that demonstrate its commitment to integrity, ethical behavior, and competence. Human resource policies and procedures do not send messages to employees regarding expected levels of integrity, ethical behavior, and competence.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will establish (through the assistance of our consultant) human resource policies and procedures that demonstrate its commitment to integrity, ethical behavior, and competence. This will send a message to employees regarding expected levels of integrity, ethical behavior, and competence.

**Section II – Financial Statement Findings (continued)**

**FS2009-43 Deficiencies in Internal Control Structure Design, Operation and Oversight – Human Resource Policies Not Clearly Communicated**

*Condition:* Human resource policies and procedures are not clearly communicated to employees and issued, updated, and revised on a timely basis. Human resource policies and procedures do not send messages to employees regarding expected levels of integrity, ethical behavior, and competence.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that human resource policies and procedures (to be updated and revised with the assistance of our consultant) are clearly communicated and issued to employees as well as updated and revised on a timely basis. Additional response as per 2009-42.

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**Section II – Financial Statement Findings (continued)**

**FS2009-44 Deficiencies in Internal Control Structure Design, Operation and Oversight – Recruitment and Retention Practices Not Guided by Principles of Integrity**

*Condition:* Employee recruitment and retention practices for key financial positions are not guided by principles or integrity and by the necessary competencies associated with the positions. Human resource policies and procedures do not send messages to employees regarding expected levels of integrity, ethical behavior, and competence.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. With the hiring of the current management structure, the governing body and management will ensure that employee recruitment practices for key financial positions are guided by principles of integrity and by the necessary competencies associated with the positions. Additional response as per 2009-42 through 2009-43.

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**Section II – Financial Statement Findings (continued)**

**FS2009-45 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Screening Procedures for Job Applicants**

*Condition:* There are no screening procedures for job applicants, particularly for employees in managerial positions or positions with access to assets susceptible to misappropriation. Human resource policies and procedures do not send messages to employees regarding expected levels of integrity, ethical behavior, and competence.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management has and will ensure that there are screening procedures for job applicants, particularly for employees in managerial positions or positions with access to assets susceptible to misappropriation. Additional response as per 2009-42 through 2009-44.

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**Section II – Financial Statement Findings (continued)**

**FS2009-46 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Formal Procedures for the Ongoing Training and Motivation of Employees**

*Condition:* There are no formal procedures for the ongoing training and motivation of employees. Human resource policies and procedures do not send messages to employees regarding expected levels of integrity, ethical behavior, and competence.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that there are formal procedures (to be developed by our consultant) for the ongoing training and motivation of employees. Additional response as per 2009-42 through 2009-45.

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**Section II – Financial Statement Findings (continued)**

**FS2009-47 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Oversight of the Process for Defining Responsibility for Key Financial Reporting Roles by the Governing Body**

*Condition:* The City council does not oversee the City’s process for defining responsibilities for key financial reporting roles. The City does not assign authority and responsibility to provide a basis for accountability and control.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The governing body and management will oversee the City’s process for defining responsibilities for key financial reporting roles and will assign authority and responsibility to provide a basis for accountability and control. Additional response as per 2009-42 through 2009-46.

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**Section II – Financial Statement Findings (continued)**

**FS2009-48 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Establishing Competencies Prior to Hiring of Key Positions**

*Condition:* The City does not establish competencies (knowledge, skills, abilities, and credentials) prior to hiring of key positions. The City is not committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that competencies (knowledge, skills, abilities, and credentials) are established prior to the hiring of key positions. The City will be committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills. Additional response as per 2009-42 and 2009-43.

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**Section II – Financial Statement Findings (continued)**

**FS2009-49 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Appropriate Competencies by Employees**

*Condition:* Employees do not tend to have the competence and training necessary for their assigned level of responsibility or the nature and complexity of the City’s activities. The City is not committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that employees have the competence and training necessary for their assigned level of responsibility and of the nature and complexity of the City’s activities. Additional response as per 2009-48.



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**Section II – Financial Statement Findings (continued)**

**FS2009-50 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Demonstration of a Commitment to Provide Sufficient Accounting and Financial Personnel**

*Condition:* Management does not demonstrate a commitment to provide sufficient accounting and financial personnel to keep pace with the growth and/or complexity of the City’s activities. The City is not committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will demonstrate a commitment to provide sufficient accounting and financial personnel to keep pace with the growth and/or complexity of the City’s activities. Additional response as per 2009-48 and 2009-49.

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**Section II – Financial Statement Findings (continued)**

**FS2009-51 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Supplementing In-House Competencies**

*Condition:* The City does not supplement in-house competencies by establishing outsourcing arrangements with other firms as permitted by regulatory standards. The City is not committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The governing body, through management, has and will supplement in-house competencies by establishing outsourcing arrangements with other firms as permitted by regulatory standards.

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**Section II – Financial Statement Findings (continued)**

**FS2009-52 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Mechanisms to Identify Risks Applicable to the City and Financial Reporting Objectives**

*Condition:* Mechanisms are not in place to identify risks applicable to the City and financial reporting objectives, including (1) changes in operating, economic, and regulatory environments; (2) participation in new programs or activities; (3) new service offerings; (4) communication at various levels of management; (5) application processes; and (6) information technology infrastructure and processes. Management has not established practices for the identification or risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that mechanisms are in place to identify risks applicable to the City and financial reporting objectives, including 1) changes in operating, economic and regulatory environments; 2) participation in new programs or activities; 3) new service offerings; 4) communication at various levels of the City; 5) applications processes; and 6) information technology infrastructure and processes. Management will establish, through our consultant, practices for the identification of risks affecting the city.

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**Section II – Financial Statement Findings (continued)**

**FS2009-53 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Risk Evaluation**

*Condition:* Management does not evaluate risks as part of the planning process. Management has not established practices for the identification of risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will evaluate risks as part of the planning process. Additional response as per 2009-52.

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**Section II – Financial Statement Findings (continued)**

**FS2009-54 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Periodic Review to Anticipate and Identify Activities that May Affect the City’s Ability to Achieve its Objectives**

*Condition:* Periodic reviews are not performed to, among other things, anticipate and identify routine events or activities that may affect the City’s ability to achieve its objectives. Management has not established practices for the identification of risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that periodic reviews are performed to, among other things, anticipate and identify routine events or activities that may affect the City’s ability to achieve its objectives. Additional response as per 2009-52 and 2009-53.

**Section II – Financial Statement Findings (continued)**

**FS2009-55 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Process to Identify Risks Associated with Nonroutine Transactions**

*Condition:* Management does not have a process to identify risks associated with nonroutine transactions. Management has not established practices for the identification of risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will develop, through our consultant, a process to identify risks associated with non-routine transactions. Additional response as per 2009-52 through 2009-54.

**Section II – Financial Statement Findings (continued)**

**FS2009-56 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Identification of Risks Potentially Impacting the Achievement of Financial Reporting Objectives**

*Condition:* Risks potentially impacting the achievement of financial reporting objectives are not identified. Management has not established practices for the identification of risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that a process will be developed (through our consultant) so that risks potentially impacting the achievement of financial reporting objectives are identified. Additional response as per 2009-52 through 2009-55.

**Section II – Financial Statement Findings (continued)**

**FS2009-57 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Applying Forward-Looking Mechanisms**

*Condition:* Management does not have forward-looking mechanisms to provide early warning of potential risks relevant to preparation of the financial statements. Management has not established practices for the identification of risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management has, and will have, forward-looking mechanisms to provide early warning of potential risks relevant to preparation of the financial statements. Additional response as per 2009-52 through 2009-56.



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**Section II – Financial Statement Findings (continued)**

**FS2009-58 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Identification of Risks Related to Laws or Regulations**

*Condition:* Management does not identify risks related to laws or regulations that may effect financial reporting. Management has not established practices for the identification of risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management has, and will, identify risks related to laws or regulations that may affect financial reporting. Additional response as per 2009-52 through 2009-57.

**Section II – Financial Statement Findings (continued)**

**FS2009-59 Deficiencies in Internal Control Structure Design, Operation and Oversight – Risks Related to Employees are Not Appropriately Identified**

*Condition:* Risks related to the ability of an employee to initiate and process unauthorized transactions are not appropriately identified. Management has not established practices for the identification of risks affecting the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that risks related to the ability of an employee to initiate and process unauthorized transactions will be appropriately identified. Procedures to be developed through our consultant.

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**Section II – Financial Statement Findings (continued)**

**FS2009-60 Deficiencies in Internal Control Structure Design, Operation and Oversight – Fraud Assessments are Not Part of the Risk Identification Process**

*Condition:* Fraud assessments have not been made an integral part of the risk identification process. Management has not developed an appropriate fraud risk assessment and monitoring process.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Fraud assessments will be made an integral part of the risk identification process. Management will develop (through our consultant) an appropriate fraud risk assessment and monitoring process.

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**Section II – Financial Statement Findings (continued)**

**FS2009-61 Deficiencies in Internal Control Structure Design, Operation and Oversight – Assessment of Fraud Risks Does Not Consider Incentives and Pressures, Attitudes, and Rationalizations, and Opportunity**

*Condition:* The City’s assessment of fraud risks does not consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud. Management has not developed an appropriate fraud risk assessment and monitoring process.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The City’s assessment of fraud risks will consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud. Additional response as per 2009-60.

**Section II – Financial Statement Findings (continued)**

**FS2009-62 Deficiencies in Internal Control Structure Design, Operation and Oversight – Assessment of Fraud Risk Does Not Consider Risk Factors Relevant to its Activities**

*Condition:* The City’s assessment of fraud risk does not consider risk factors relevant to its activities and to the geographic region in which it operates. Management has not developed an appropriate fraud risk assessment and monitoring process.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The City’s assessment of fraud risks will consider risk factors relevant to its activities and to the geographic region in which it operates. Additional response as per 2009-60 and 2009-61.

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**Section II – Financial Statement Findings (continued)**

**FS2009-63 Deficiencies in Internal Control Structure Design, Operation and Oversight – Potential for Fraud in High-Risk Areas is Not Assessed**

*Condition:* The City does not assess the potential for fraud in high-risk areas of the entity, including revenue recognition, management override, accounting estimates, and nonstandard journal entries. Management has not developed an appropriate fraud risk assessment and monitoring process.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The City will assess the potential for fraud in high-risk areas of the entity including revenue recognition, management override, accounting estimates, and non-standard journal entries. Additional response as per 2009-60 through 2009-62.

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**Section II – Financial Statement Findings (continued)**

**FS2009-64 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Understanding on the Part of the Governing Body on Fraud Risk**

*Condition:* The City council does not understand and exercise oversight of the City’s fraud risk assessment process. Management has not developed an appropriate fraud risk assessment and monitoring process.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. The governing body will understand and exercise oversight of the City’s fraud risk assessment process. Additional response as per 2009-60 through 2009-63.

**Section II – Financial Statement Findings (continued)**

**FS2009-65 Deficiencies in Internal Control Structure Design, Operation and Oversight – Significance of Potential Fraud Does Not Consider both Quantitative and Qualitative Factors**

*Condition:* With respect to financial statement accounts and disclosures, the significance of potential fraud based on materiality and risk does not consider both quantitative and qualitative factors. Management has not developed an appropriate fraud risk assessment and monitoring process.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that, with respect to financial statement accounts and disclosures, the significance of potential fraud based on materiality and risk will consider both quantitative and qualitative factors. Additional response as per 2009-60 through 2009-64.



**Section II – Financial Statement Findings (continued)**

**FS2009-66 Deficiencies in Internal Control Structure Design, Operation and Oversight – Management Does Not Identify All Significant Relationships**

*Condition:* Management does not identify all significant relationships including service providers, suppliers, citizen groups, creditors, etc. Management does not consider the entire organization as well as its extended relationships in its risk assessment process.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will identify all significant relationships including service providers, suppliers, citizen groups, creditors, etc. Management will consider the entire organization as well as its extended relationships in its risk assessment process, of which the process will be developed by our consultant.

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**Section II – Financial Statement Findings (continued)**

**FS2009-67 Deficiencies in Internal Control Structure Design, Operation and Oversight – Planning Process Does Not Include a Broad Spectrum of Personnel with Collective Knowledge of All Areas of the City**

*Condition:* The planning process does not include a broad spectrum of personnel with collective knowledge of all areas of the City. Management has not implemented mechanisms to anticipate, identify, and react to changes.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that the planning process includes a broad spectrum of personnel with collective knowledge of all areas of the City. Management will implement mechanisms to anticipate, identify, and react to changes.

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**Section II – Financial Statement Findings (continued)**

**FS2009-68 Deficiencies in Internal Control Structure Design, Operation and Oversight – Governing Body Lacks Significance of Related Party Transactions**

*Condition:* Processes are not in place to ensure that the accounting department and City council are sufficiently aware of significant related party transactions to ensure they are appropriately accounted for and disclosed. Management has not implemented mechanisms to anticipate, identify, and react to changes.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that processes are in place so that the accounting department and the governing body are sufficiently aware of significant related party transactions so that they are properly accounted for and disclosed. Additional response as per 2009-67.

**Section II – Financial Statement Findings (continued)**

**FS2009-69 Deficiencies in Internal Control Structure Design, Operation and Oversight – Periodic Risk Assessments are Not Reviewed by Management**

*Condition:* Periodic risk assessments are not reviewed by management. Management does not evaluate and mitigate risk appropriately.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Periodic risk assessments will be reviewed by management. Management will evaluate and mitigate risk appropriately.

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**Section II – Financial Statement Findings (continued)**

**FS2009-70 Deficiencies in Internal Control Structure Design, Operation and Oversight – Senior Management Does Not Develop Plans to Mitigate Significant Identified Risks and Present them to the City Council**

*Condition:* Senior management does not develop plans to mitigate significant identified risks and present them to the City council. Management does not evaluate and mitigate risk appropriately.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Senior management will develop (through our consultant) plans to mitigate significant identified risks and present them to the governing body. Management will evaluate and mitigate risk appropriately.

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**Section II – Financial Statement Findings (continued)**

**FS2009-71 Deficiencies in Internal Control Structure Design, Operation and Oversight – Controls are Not Examined when Risks are Identified**

*Condition:* When risks are identified, controls are not examined to determine whether there has been a failure in controls and action is not taken to address them. Management does not evaluate and mitigate risk appropriately.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that when risks are identified, controls will be examined to determine whether there has been a failure in controls and action is taken to address them. Additional response as per 2009-70.

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**Section II – Financial Statement Findings (continued)**

**FS2009-72 Deficiencies in Internal Control Structure Design, Operation and Oversight – Identified Fraud Risk Factors are Not Tracked**

*Condition:* Management does not have specific programs or procedures in place to track fraud risk factors identified by management. Management does not evaluate and mitigate risk appropriately.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will have specific programs or procedures (to be developed by our consultant) in place to track identified fraud risk factors. Additional response as per 2009-70 and 2009-71.

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**Section II – Financial Statement Findings (continued)**

**FS2009-73 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Process to Identify and Address Changes in GAAP**

*Condition:* The accounting department does not have a process in place to identify and address changes in GAAP. Accounting principles are not properly applied in the preparation of the financial statements.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that the accounting department has a process (through our consultant) in place to identify and address changes in GAAP and that accounting principles will be properly applied in the preparation of the financial statements.



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**Section II – Financial Statement Findings (continued)**

**FS2009-74 Deficiencies in Internal Control Structure Design, Operation and Oversight – Changes to Significant Accounting Policies are not Approved by Management or Reviewed by the City Council**

*Condition:* Changes to significant accounting policies are not approved by management and are not subject to review by the City council. Accounting principles are not properly applied in the preparation of the financial statements.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Changes to significant accounting policies will be approved by management and subject to review by the governing body. Additional response as per 2009-73.

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**Section II – Financial Statement Findings (continued)**

**FS2009-75 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Process to Identify Changes Within Operating Practices**

*Condition:* A process does not exist to identify changes within operating practices that may affect the method or process or recording transactions and the application of GAAP. Accounting principles are not properly applied in the preparation of the financial statements.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that a process is implemented to identify changes within operating practices that may affect the method or process of recording transactions and the application of GAAP. Additional response as per 2009-73 and 2009-74.

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**Section II – Financial Statement Findings (continued)**

**FS2009-76 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Process to Maintain Current Knowledge of GAAP Principles and Other Relevant Pronouncements**

*Condition:* A process does not exist to maintain current knowledge of GAAP principles and other relevant pronouncements. Accounting principles are not properly applied in the preparation of the financial statements.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure there is a process to maintain current knowledge of GAAP principles and other relevant pronouncements. Additional response as per 2009-73 through 2009-75.

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**Section II – Financial Statement Findings (continued)**

**FS2009-77 Deficiencies in Internal Control Structure Design, Operation and Oversight – Operating Information does not Serve as a Basis for Reliable Financial Reporting**

*Condition:* Operating information used to develop accounting and financial information does not serve as a basis for reliable financial reporting, and operating information is not used as the source of accounting estimates. Information is not identified, captured and used at all levels of the City to support the achievement of financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that operating information used to develop accounting and financial information will serve as a basis for reliable financial reporting, and operating information will be used as the source of accounting estimates. Management will ensure that information will be identified, captured, and used at all levels of the City to support the achievement of financial reporting objectives.

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**Section II – Financial Statement Findings (continued)**

**FS2009-78 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Procedures to Determine when Control Objectives are Met**

*Condition:* Process procedures are not sufficiently formal such that management can determine whether the control objective is met, documentation supporting the procedures is in place, and personnel routinely know the procedures that need to be performed. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the City’s control processes to support the achievement of financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Process procedures will be sufficiently formal such that management can determine whether the control objective is met, documentation supporting the procedures is in place, and personnel routinely know the procedures that need to be performed. Management will ensure that information relevant to financial reporting is identified, captured, processed, and distributed within the parameters established by the City’s control processes to support the achievement of financial reporting objectives.

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**Section II – Financial Statement Findings (continued)**

**FS2009-79 Deficiencies in Internal Control Structure Design, Operation and Oversight – Data Underlying Financial Statements are not Captured Completely, Accurately, and Timely**

*Condition:* Data underlying financial statements are not captured completely, accurately, and timely, in accordance with the City’s policies and procedures and in compliance with laws and regulations. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the City’s control processes to support the achievement of financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that data underlying financial statements is captured completely, accurately, and timely, in accordance with the City’s policies and procedures, and in compliance with laws and regulations. Additional response as per 2009-78.

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**Section II – Financial Statement Findings (continued)**

**FS2009-80 Deficiencies in Internal Control Structure Design, Operation and Oversight – Financial Personnel do not Meet with Management to Discuss Operational Results**

*Condition:* Financial personnel do not meet with line management to discuss operational results. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the City’s control processes to support the achievement of financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that financial personnel meet with line management (department heads/supervisors) to discuss operational results. Additional response as per 2009-78 and 2009-79.

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**Section II – Financial Statement Findings (continued)**

**FS2009-81 Deficiencies in Internal Control Structure Design, Operation and Oversight – Financial Personnel do not Receive Detailed Information when Reviewing Financial Results**

*Condition:* Financial personnel do not receive detailed information when reviewing financial results. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the City’s control processes to support the achievement of financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that financial personnel receive detailed information when reviewing financial results. Additional response as per 2009-78 through 2009-80.



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**Section II – Financial Statement Findings (continued)**

**FS2009-82 Deficiencies in Internal Control Structure Design, Operation and Oversight – Established Deadlines do not Exist for Period End Reporting**

*Condition:* Established and agreed-upon deadlines do not exist for period end reporting which includes review by management and third parties (e.g., attorneys). Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the City’s control processes to support the achievement of financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Established and agreed-upon deadlines will be used for period-end reporting, which includes review by management and third parties (such as attorneys). Additional response as per 2009-78 through 2009-81.

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**Section II – Financial Statement Findings (continued)**

**FS2009-83 Deficiencies in Internal Control Structure Design, Operation and Oversight – An Open Communications Channel does not Exist Between Management and the City Council**

*Condition:* An open communications channel does not exist between management and the City council. Communication does not exist between management and the City council so that both have relevant information to fulfill their roles with respect to governance and to financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. An open communication channel will, and does, exist between management and the governing body. Communication will, and does, exist between management and the governing body so that both have relevant information to fulfill their roles with respect to governance and to financial reporting objectives.

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**Section II – Financial Statement Findings (continued)**

**FS2009-84 Deficiencies in Internal Control Structure Design, Operation and Oversight – Effectiveness of Those Charged with Governance is not Supported by Timely Communications**

*Condition:* The effectiveness of those charged with governance is not supported by timely communications. Communication does not exist between management and City council so that both have relevant information to fulfill their roles with respect to governance and to financial reporting objectives.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that the effectiveness of those charged with governance (the governing body) will be supported with timely communications. Additional response as per 2009-83.

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**Section II – Financial Statement Findings (continued)**

**FS2009-85 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Communication Approaches for Dealing with Inappropriate Behavior**

*Condition:* Management has not developed communication approaches that specify individual responsibilities in dealing with inappropriate behavior. All personnel, particularly those in roles affecting financial reporting, are not receiving a clear message from top management that both internal control over financial reporting and individual control responsibilities must be taken seriously.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will develop, and has developed, communication approaches that specify individual responsibilities in dealing with inappropriate behavior. All personnel, particularly those in roles affecting financial reporting, will, and have, receive a clear message from management that both internal control over financial reporting and individual control responsibilities must be taken seriously.

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**Section II – Financial Statement Findings (continued)**

**FS2009-86 Deficiencies in Internal Control Structure Design, Operation and Oversight – Employees do not Receive Adequate Information to Complete their Job Responsibilities**

*Condition:* Employees do not receive adequate information to complete their job responsibilities. All personnel, particularly those in roles affecting financial reporting, are not receiving a clear message from top management that both internal control over financial reporting and individual control responsibilities must be taken seriously.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that employees receive adequate information to complete their job responsibilities. Additional response as per 2009-85.

**Section II – Financial Statement Findings (continued)**

**FS2009-87 Deficiencies in Internal Control Structure Design, Operation and Oversight – Upstream Communication is not Used by Management to Improve Performance and Enhance Internal Control**

*Condition:* Upstream communication is not used by management to improve performance and enhance internal control. Personnel do not have an effective and nonretributive method to communicate significant information upstream in the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Upstream communication will be, and has been, used by management to improve performance and enhance internal control. Personnel will, and do, have an effective and non-retributive method to communicate significant information upstream in the City.

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**Section II – Financial Statement Findings (continued)**

**FS2009-88 Deficiencies in Internal Control Structure Design, Operation and Oversight – Separate Lines of Communication are not in Place in Case Normal Channels are Ineffective**

*Condition:* Separate lines of communication are not in place and do not serve as a “fail-safe” mechanism in case normal channels are inoperative or ineffective. Personnel do not have an effective and nonretributive method to communicate significant information upstream in the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Separate lines of communication will be, and are, in place to serve as a “fail safe” mechanism in case normal channels are inoperative or ineffective. Additional response as per 2009-87.

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**Section II – Financial Statement Findings (continued)**

**FS2009-89 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Whistleblower Policy**

*Condition:* There is no whistleblower process that allows for anonymity for individuals who report possible improprieties. Personnel do not have an effective and nonretributive method to communicate significant information upstream in the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. There will be, and is, a whistleblower process that allows for anonymity for individuals who report possible improprieties. Additional response as per 2009-87 and 2009-88.



**Section II – Financial Statement Findings (continued)**

**FS2009-90 Deficiencies in Internal Control Structure Design, Operation and Oversight – Reported Potential Improprieties are not Reviewed, Investigated, and Resolved in a Timely Manner**

*Condition:* Reported potential improprieties are not reviewed, investigated, and resolved in a timely manner. Personnel do not have an effective and nonretributive method to communicate significant information upstream in the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that reported potential improprieties are reviewed, investigated and resolved in a timely manner. Additional response as per 2009-87 through 2009-89.

**Section II – Financial Statement Findings (continued)**

**FS2009-91 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Process for Tracking Communications from Citizens, Vendors, Regulators, and Other External Parties**

*Condition:* There is not a process for tracking communications from citizens, vendors, regulators, and other external parties. Personnel do not have an effective and nonretributive method to communicate significant information upstream in the entity.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that there is a process for tracking communications from citizens, vendors, regulators, and other external parties. Additional response as per 2009-87 through 2009-90.

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**Section II – Financial Statement Findings (continued)**

**FS2009-92 Deficiencies in Internal Control Structure Design, Operation and Oversight – Ongoing Monitoring is not Built into Operations Throughout the City**

*Condition:* Ongoing monitoring is not built into operations throughout the City and does not include explicit identification of what constitutes a deviation from expected control performance, thereby signaling a need to investigate both potential control problems and changes in risk profiles. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that ongoing monitoring is built into operations throughout the City and will include explicit identification of what constitutes a deviation from expected control performance, thereby signaling a need to investigate both potential control problems and changes in risk profiles. Management will monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

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**Section II – Financial Statement Findings (continued)**

**FS2009-93 Deficiencies in Internal Control Structure Design, Operation and Oversight – Ongoing Monitoring does not Serve as a Primary Indicator of Both Control Operating Effectiveness and of Risk Conditions**

*Condition:* The City’s ongoing monitoring does not serve as a primary indicator of both control operating effectiveness and of risk conditions. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that the City’s ongoing monitoring will serve as a primary indicator of both control operating effectiveness and of risk conditions. Additional response as per 2009-92.

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**Section II – Financial Statement Findings (continued)**

**FS2009-94 Deficiencies in Internal Control Structure Design, Operation and Oversight – Separate Evaluations of Internal Controls are not Performed to Provide an Objective Look at the Overall Internal Control over Financial Reporting**

*Condition:* Separate evaluations of internal controls are not performed to provide an objective look at the overall internal control over financial reporting as of a point in time. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that separate evaluations of internal controls are performed to provide an objective look at the overall internal control over financial reporting as of a point in time. Additional response as per 2009-92 and 2009-93.

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**Section II – Financial Statement Findings (continued)**

**FS2009-95 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Other Quasi-Audit Functions that Report to Management and Affect the Control Environment**

*Condition:* There are no other quasi-audit functions (e.g., grant compliance officer) that report to management and affect the overall control environment. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. There will be, and are, other quasi-audit functions, such as grant compliance officer/special projects, that report to management and affect the overall control environment. Additional response as per 2009-92 through 2009-94.

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**Section II – Financial Statement Findings (continued)**

**FS2009-96 Deficiencies in Internal Control Structure Design, Operation and Oversight – Reports from External Sources are not Considered for their Internal Control Implications**

*Condition:* Reports from external sources (e.g., external auditors, regulators) are not considered for their internal control implications, and timely corrective actions are not identified and taken. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that reports form external sources, such as external auditors and regulators, will be considered for their internal control implications, ongoing monitoring, independent evaluations, and remediation of identified deficiencies. Additional response as per 2009-92 through 2009-95.

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**Section II – Financial Statement Findings (continued)**

**FS2009-97 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Separate Evaluations of Internal Controls by Management**

*Condition:* There are no separate evaluations of internal controls by management. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. There will be separate evaluations of internal controls by management. Additional response as per 2009-92 through 2009-96.



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**Section II – Financial Statement Findings (continued)**

**FS2009-98 Deficiencies in Internal Control Structure Design, Operation and Oversight – Findings of Internal Control Deficiencies are not Reported to the Appropriate Level**

*Condition:* Findings of internal control deficiencies are not reported to (1) the individual who owns the process and control involved and who is in the position to take corrective actions and (2) at least one level of management above the process owner. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

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*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditors recommendation. Management will ensure that findings of internal controls deficiencies are reported to 1) the individual who owns the process and control involved and who is in the positions to take corrective actions, and 2) at least one level of hierarchy above the process owner. Additional response as per 2009-92 through 2009-97.

**Section II – Financial Statement Findings (continued)**

**FS2009-99 Deficiencies in Internal Control Structure Design, Operation and Oversight – Deficiencies that Affect Internal Control are not Communicated**

*Condition:* Deficiencies that affect internal control over financial reporting are not communicated regularly and as necessary to management and those charged with governance. Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditor’s recommendation. Deficiencies that affect internal control over financial reporting will be communicated regularly and as necessary to management and the governing body. Additional response as per 2009-92 through 2009-98.

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**Section II – Financial Statement Findings (continued)**

**FS2009-100 Deficiencies in Internal Control Structure Design, Operation and Oversight – Altered Receipts Turned in for Reimbursement**

*Condition:* During our search for unrecorded liabilities for fiscal year 2009 we came across a check written in fiscal year 2010 in the amount of \$7,500 made payable to the former City Manager for reimbursement of expenses related to a safe Routes for Schools grant. The check did not have any backup attached and a sticky note indicated that the backup would be provided at a later date. When discussing this with the City Clerk, we determined that backup had not yet been received. The City Manager was then contacted to provide the backup and was unable to provide it. As a result of the discovery of this check the City Clerk reviewed all reimbursement requests pertaining to this grant and found receipts that had been turned in for reimbursement that appeared to have been altered based on the real samples she obtained from the store in question. These receipts totaled nearly \$7,500.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

*Effect:* Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2010 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

*Auditors’ Recommendation:* We recommend that the City of Jal ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

*Agency Response:* The City will follow the auditor’s recommendation. The former City Manager is awaiting trial in District Court for pending embezzlement charges (and perhaps other charges) related to her prior employment with the City.

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**Section II – Financial Statement Findings (continued)**

**FS2009-101 Deficiencies in Internal Control Structure Design, Operation and Oversight – Disbursements**

*Condition:* During performance of agreed upon procedures performed to address the risk of fraud we noted the following:

- Six disbursements out of the 110 selected lacked evidence that the disbursements were for city business.
  - Check #11281 to Kay Ritchey for reimbursement for training for the Safe Routes to School Grant in the amount of \$3,500 lacked proof of a conference or other training seminar, attendance and enumeration of expenses amounting to \$3,500.
  - Check #11484 to Kay Ritchey for reimbursement for the purchase of training materials for the Safe Routes to School program in the amount of \$2,989.89 was made on a personal credit card and there is no proof of delivery to the City of Jal of any of the materials listed on the receipt.
  - Check #10976 to Eva Sanchez-Bruce for reimbursement for filing fee in the amount of \$25 did not enumerate why she was being reimbursed for the amount. There was no supporting documentation to back up that this was for city business.
  - Check #11337 to Eva Sanchez-Bruce for the development and writing of the Safe Routes to School Plan in the amount of \$7,500 lacked documentation that this plan was ever given to the City of Jal in exchange for the payment.
  - Check #11515 to Wells Fargo for credit card payments in the amount of \$3,390.38 lacks proof that purchases made on Eva Sanchez-Bruce's card were for City related business.
  - Check # 11385 to Econo Lodge in the amount of \$89.59 lack documentation that this stay was related to city business.
- During disbursement testing for the period of July 1, 2008 to July 29, 2010 we found what appears to be fraudulent receipts from Staples amounting to \$800.26. We believe these are fraudulent receipts due to receipt dates not matching survey dates on the bottom of the receipt, the sums of the items not equaling the total at the bottom of the receipt, and the receipt not matching the sample receipt we received from a Staples store. These items were reimbursed to Kay Ritchey for purchases made on her personal credit card. It is unknown if the City of Jal received any of the items purchased. Reimbursement was made through Check # 11557, which totaled \$2,495.26 and included a tee shirt order and postage.
- During disbursement testwork two out of 110 disbursements lacked supporting documentation.
  - Check # 9710 to Carol Mantooth for Cemetery Contractual Services in the amount of \$390.
  - Check # 10230 to NM Taxation and Revenue in the amount of \$2,860.46.

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**Section II – Financial Statement Findings (continued)**

**FS2009-101 Deficiencies in Internal Control Structure Design, Operation and Oversight – Disbursements (continued)**

*Criteria:* *Auditing Standards* state that the management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Good accounting policies require proper documentation of disbursements in order to assure city funds are spent on items and services received by the City of Jal.

*Effect:* Because the internal controls are inadequate and because of documented fraud perpetrated by members of management, City staff is unsure of the proper policy to document that expenditures were solely for city business. Adequate controls are not in place to prevent, or detect misstatements of accounting information, therefore misstatements and material non-compliance with internal policies, laws and regulations may occur and not be prevented or detected by management or staff.

*Cause:* For the period from July 1, 2008 through July 29 2010 management did not have adequate documented internal control policies, including monitoring and risk assessment policies, in place that would ensure internal controls were designed and operating effectively.

*Auditors' Recommendation:* We recommend that the City of Jal institute a system of checks and balances in regards to expenditures to ensure that all staff are utilizing city funds for city projects only.

*Agency Response:* The City will follow the auditor's recommendation and will institute a system of checks and balances in regards to expenditures to ensure that all staff are utilizing City funds for City projects only.

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**Section II – Financial Statement Findings (continued)**

**FS2009-102 Deficiencies in Internal Control Structure Design, Operation and Oversight – Credit Cards**

*Condition:* During evaluation of credit card statements from the former City Manager’s City of Jal Credit Card, we found nine out of nine instances where supporting documentation was not sufficient to determine if the expenditure was for the City of Jal or for personal items.

*Criteria:* *Auditing Standards* state that the management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements. Good accounting policies require proper documentation of disbursements in order to assure city funds are spent on items and services for the City of Jal.

*Effect:* Without appropriate supporting documentation, the City has no assurance that all revenues and disbursements have been properly authorized and disbursed in accordance with applicable grant agreements and follow proper accounting and procurement practices.

*Cause:* For the period from July 1, 2008 through July 29 2010 management did not have adequate documented internal control policies, including monitoring and risk assessment policies, in place that would ensure internal controls were designed and operating effectively.

*Auditors’ Recommendation:* We recommend that all documents be reviewed and filed with the disbursement prior to payment of the transaction.

*Agency Response:* The City will follow the auditor’s recommendation and all documents will be reviewed and filed with the disbursements prior to payment of the transaction.

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**Section III – Schedule of Prior Year Audit Findings**

2008-1	Personal Use of Agency Vehicles	Resolved
2008-2	Failure to Disclose to New Employees Their Job Is Not Covered by Social Security	Resolved
2008-3	Disaster Recovery Plan	Revised and Repeated
2008-4	Personnel Act	Resolved

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Other Disclosures  
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**Exit Conference**

An exit conference was held on September 16, 2011. In attendance were the following:

**Representing the City of Jal:**

Mike Orr	Councilor
Curtis Schrader	City Manager
Jenny Edwards	City Clerk/Treasurer

**Representing Miller & Associates, CPA, PC:**

Shelley Olson	Senior Accountant
Bethany Benavides	Staff Accountant

**Auditor Prepared Financial Statements**

Although it would be preferred and desirable for the City to prepare its own financial statements, the City's personnel did not have the time or training necessary to prepare them. Miller & Associates, CPA, PC prepared the financial statements of the City of Jal from the original books and records provided to them by the management of the City.