

Accounting & Consulting Group, LLP

Certified Public Accountants

State of New Mexico
City of Jal
Annual Financial Report
June 30, 2010



STATE OF NEW MEXICO
CITY OF JAL
ANNUAL FINANCIAL REPORT
JUNE 30, 2010

INTRODUCTORY SECTION

STATE OF NEW MEXICO
City of Jal
Table of Contents
For the Year Ended June 30, 2010

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		4-5
Official Roster		6
FINANCIAL SECTION		
Independent Auditors' Report		9-10
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements		
Statement of Net Assets	A-1	12-13
Statement of Activities	A-2	14-15
Fund Financial Statements		
Balance Sheet – Governmental Funds	B-1	16-17
Reconciliation of the Balance Sheet to the Statement of Net Assets		19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	B-2	20-21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities		23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual		
General Fund	C-1	24
State Fire Special Revenue Fund	C-2	25
Street Special Revenue Fund	C-3	26
Intergovernmental Grants Special Revenue Fund	C-4	27
Statement of Net Assets-Proprietary Funds	D-1	28
Statement of Revenues, Expenses, and Changes in Fund Net Assets-Proprietary Funds	D-2	29
Statement of Cash Flows –Proprietary Funds	D-3	30
Statement of Fiduciary Assets and Liabilities – Agency Funds	E-1	31
NOTES TO THE FINANCIAL STATEMENTS		33-51
SUPPLEMENTARY INFORMATION		
Nonmajor Governmental Fund Descriptions	<u>Statement</u>	55
Combining and Individual Fund Statements and Schedules		
Combining Balance Sheet – Nonmajor Governmental Funds	A-1	56-57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	A-2	58-59
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual		
EMS Special Revenue Fund	B-1	60
Recreation Special Revenue Fund	B-2	61
Cemetery Special Revenue Fund	B-3	62
Corrections Special Revenue Fund	B-4	63
Law Enforcement Special Revenue Fund	B-5	64
Youth and Aged Special Revenue Fund	B-6	65
Environmental Special Revenue Fund	B-7	66

STATE OF NEW MEXICO
City of Jal
Table of Contents
For the Year Ended June 30, 2010

	<u>Statement</u>	<u>Page</u>
Combining and Individual Fund Statements and Schedules (continued)		
Statement of Revenues, Expenditures, and Changes in Net Assets –		
Budget (GAAP Basis) and Actual -		
Water and Sewer Fund	C-1	67
Solid Waste Fund	C-2	68
	<u>Schedule</u>	
SUPPORTING SCHEDULES		
Schedule of Deposit and Investment Accounts	I	70
Schedule of Collateral Pledged By Depository for Public Funds	II	71
Schedule of Changes in Fiduciary Assets and Liabilities-Agency Funds	III	72
COMPLIANCE SECTION		
Report on Internal Control Over Financial Reporting and on Compliance		
and Other Matters Based on an Audit of Financial Statements		
Performed in Accordance with <i>Government Auditing Standards</i>		75-76
Schedule of Findings and Responses	IV	77-188
OTHER DISCLOSURES		189

STATE OF NEW MEXICO

City of Jal
Official Roster
June 30, 2010

<u>Name</u>	<u>City Council</u>	<u>Title</u>
Cheryl Chance		Mayor
Dennis Allen		Councilor
Dewayne Jennings		Councilor
Jack Fletcher		Councilor
Amelia Trevino		Councilor
Phillip Little		Councilor
Johnny Owen II		Councilor
	<u>Administration</u>	
Eva Sanchez Bruce		City Manager
Jenny Edwards		City Clerk/Treasurer

FINANCIAL SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector Balderas
New Mexico State Auditor
The U.S. Office of Management and Budget and
To the Honorable Mayor and
City Council Members
City of Jal
Jal, New Mexico

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund, state fire fund, street fund, and intergovernmental grants fund and the aggregate remaining fund information of the City of Jal, New Mexico (City) as of and for the year ended June 30, 2010, 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, the budgetary comparisons for the proprietary funds and the remaining nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not designed, implemented or monitored the policies and procedures needed to capture, record and present revenues, expenditures, contracts, grants, other agreements, and budgetary information completely and accurately in their financial statements. The severity and pervasiveness of the material weaknesses in the City's system of internal control over financial reporting has caused significant doubt that all possible material misstatements could be detected by our audit procedures. Because of the magnitude of the possible misstatement of the financial statements that could remain undetected, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund, state fire fund, street fund and intergovernmental grants fund, and the aggregate remaining fund information, the financial statements of each of the City's nonmajor governmental and budgetary comparisons for each of the City's nonmajor governmental funds and proprietary funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents.

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, 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.

We were engaged to conduct an audit for the purpose of forming opinions on the City's basis financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying information listed as supporting schedules I through III in the table of contents are presented for purposes of additional analysis and are 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 schedules I through III 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.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
September 16, 2011

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

City of Jal

Statement of Net Assets

June 30, 2010

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Current assets			
Cash and cash equivalents	\$ 1,208,465	\$ 584,441	\$ 1,792,906
Property taxes receivable	5,413	-	5,413
Other taxes receivable	113,139	-	113,139
Customer receivables	-	128,145	128,145
Other receivables	42,441	-	42,441
Total current assets	<u>1,369,458</u>	<u>712,586</u>	<u>2,082,044</u>
Noncurrent assets			
Restricted cash and cash equivalents	225,000	-	225,000
Capital assets	3,657,326	13,740,518	17,397,844
Less: accumulated depreciation	<u>(2,684,741)</u>	<u>(12,785,388)</u>	<u>(15,470,129)</u>
Total noncurrent assets	<u>1,197,585</u>	<u>955,130</u>	<u>2,152,715</u>
Total assets	<u><u>\$ 2,567,043</u></u>	<u><u>\$ 1,667,716</u></u>	<u><u>\$ 4,234,759</u></u>

The accompanying notes are an integral part of these financial statements

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Liabilities			
Current liabilities			
Accounts payable	\$ 25,104	\$ 12,654	\$ 37,758
Accrued payroll expenses	10,577	1,969	12,546
Meter deposits	-	49,046	49,046
Accrued interest	6,107	-	6,107
Current portion of loans and notes payable	15,064	-	15,064
Total current liabilities	56,852	63,669	120,521
Noncurrent liabilities			
Accrued compensated absences	5,276	6,229	11,505
Loans and notes payable	213,311	-	213,311
Total noncurrent liabilities	218,587	6,229	224,816
Total liabilities	275,439	69,898	345,337
Net Assets			
Invested in capital assets, net of related debt	744,210	955,130	1,699,340
Restricted for:			
Special revenue	1,553,646	-	1,553,646
Unrestricted	(6,252)	642,688	636,436
Total net assets	2,291,604	1,597,818	3,889,422
Total liabilities and net assets	\$ 2,567,043	\$ 1,667,716	\$ 4,234,759

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Jal
Statement of Activities
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
General government	\$ 827,032	\$ 26,304	\$ 1,153,384	\$ -
Public safety	764,506	-	181,988	-
Public works	417,124	-	14,723	-
Culture and recreation	196,965	-	58,109	-
Health and welfare	40,060	-	5,839	-
Interest on long-term debt	9,482	-	-	-
<i>Total governmental activities</i>	<u>2,255,169</u>	<u>26,304</u>	<u>1,414,043</u>	<u>-</u>
Business-type Activities:				
Water and sewer	630,298	807,332	-	-
Solid waste	327,215	263,684	-	-
<i>Total business-type activities</i>	<u>957,513</u>	<u>1,071,016</u>	<u>-</u>	<u>-</u>
<i>Total</i>	<u>\$ 3,212,682</u>	<u>\$ 1,097,320</u>	<u>\$ 1,414,043</u>	<u>\$ -</u>

General Revenues:

Taxes
Property taxes, levied for general purposes
Gross receipts taxes
Gasoline and motor vehicle taxes
Franchise taxes
Cigarette and lodger's taxes
Licenses and fees
Investment income
Miscellaneous revenue
Donations

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ 352,656	\$ -	\$ 352,656
(582,518)	-	(582,518)
(402,401)	-	(402,401)
(138,856)	-	(138,856)
(34,221)	-	(34,221)
(9,482)	-	(9,482)
<u>(814,822)</u>	<u>-</u>	<u>(814,822)</u>
-	177,034	177,034
-	(63,531)	(63,531)
<u>-</u>	<u>113,503</u>	<u>113,503</u>
<u>(814,822)</u>	<u>113,503</u>	<u>(701,319)</u>
89,781	-	89,781
633,688	45,952	679,640
63,382	-	63,382
41,901	-	41,901
5,322	-	5,322
84,095	-	84,095
2,248	13	2,261
107,105	39,572	146,677
150,000	-	150,000
<u>1,177,522</u>	<u>85,537</u>	<u>1,263,059</u>
362,700	199,040	561,740
<u>1,928,904</u>	<u>1,398,778</u>	<u>3,327,682</u>
<u>\$ 2,291,604</u>	<u>\$ 1,597,818</u>	<u>\$ 3,889,422</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

City of Jal
Balance Sheet
Governmental Funds
June 30, 2010

	<u>General Fund</u>	<u>State Fire</u>	<u>Street</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 293,654	\$ 288,370	\$ 142,165
Receivables:			
Property taxes	5,413	-	-
Other taxes	100,317	-	-
Other receivables	<u>37,935</u>	<u>-</u>	<u>-</u>
<i>Total assets</i>	<u>\$ 437,319</u>	<u>\$ 288,370</u>	<u>\$ 142,165</u>
<i>Liabilities and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 13,001	\$ 1,436	\$ 8,838
Accrued payroll expenses	10,577	-	-
Deferred revenue	<u>5,131</u>	<u>-</u>	<u>-</u>
<i>Total liabilities</i>	<u>28,709</u>	<u>1,436</u>	<u>8,838</u>
<i>Fund balances</i>			
Unreserved, reported in:			
General	408,610	-	-
Special revenue	<u>-</u>	<u>286,934</u>	<u>133,327</u>
<i>Total fund balances</i>	<u>408,610</u>	<u>286,934</u>	<u>133,327</u>
<i>Total liabilities and fund balances</i>	<u>\$ 437,319</u>	<u>\$ 288,370</u>	<u>\$ 142,165</u>

The accompanying notes are an integral part of these financial statements

Intergovernmental Grants	Other Governmental Funds	Total
\$ 589,106	\$ 122,317	\$ 1,435,612
-	-	5,413
-	12,822	113,139
-	4,506	42,441
<u>\$ 589,106</u>	<u>\$ 139,645</u>	<u>\$ 1,596,605</u>
\$ -	\$ 2,147	\$ 25,422
-	1,829	12,406
-	-	5,131
-	3,976	42,959
-	-	408,610
<u>589,106</u>	<u>135,669</u>	<u>1,145,036</u>
<u>589,106</u>	<u>135,669</u>	<u>1,553,646</u>
<u>\$ 589,106</u>	<u>\$ 139,645</u>	<u>\$ 1,596,605</u>

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STATE OF NEW MEXICO

City of Jal

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2010

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$	1,553,646
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		972,585
Delinquent property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred revenue in the fund financial statements, but are considered revenue in the Statement of Activities		5,131
Certain liabilities, including bonds payable and related components, accrued interest, and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued interest		(6,107)
Long-term portion of accrued compensated absences		(5,276)
Notes payable		(228,375)
Net assets of governmental activities	\$	<u>2,291,604</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 Balances
Governmental Funds
For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>State Fire</u>	<u>Street</u>
<i>Revenues:</i>			
Taxes:			
Property	\$ 84,650	\$ -	\$ -
Gross receipts	559,136	-	-
Gasoline and motor vehicle	37,287	-	26,095
Other	45,444	-	-
Intergovernmental:			
Federal operating grants	-	-	-
State operating grants	147,906	154,902	14,723
Charges for services	26,304	-	-
Licenses and fees	35,929	-	-
Investment income	2,230	1	6
Miscellaneous	60,491	8,512	-
<i>Total revenues</i>	<u>999,377</u>	<u>163,415</u>	<u>40,824</u>
<i>Expenditures:</i>			
Current:			
General government	520,246	-	-
Public safety	604,630	94,582	-
Public works	359,949	-	43,699
Culture and recreation	-	-	-
Health and welfare	32,030	-	-
Capital outlay	182,560	902	19,631
<i>Total expenditures</i>	<u>1,699,415</u>	<u>95,484</u>	<u>63,330</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(700,038)</u>	<u>67,931</u>	<u>(22,506)</u>
<i>Other financing sources (uses)</i>			
Donations	150,000	-	-
<i>Total other financing sources (uses)</i>	<u>150,000</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	(550,038)	67,931	(22,506)
<i>Fund balance - beginning of year</i>	<u>958,648</u>	<u>219,003</u>	<u>155,833</u>
<i>Fund balance - end of year</i>	<u>\$ 408,610</u>	<u>\$ 286,934</u>	<u>\$ 133,327</u>

The accompanying notes are an integral part of these financial statements

Intergovernmental Grants	Other Governmental Funds	Total
\$ -	\$ -	\$ 84,650
-	74,552	633,688
-	-	63,382
-	1,779	47,223
-	24,785	24,785
1,005,478	66,249	1,389,258
-	-	26,304
-	48,166	84,095
-	11	2,248
-	38,663	107,666
<u>1,005,478</u>	<u>254,205</u>	<u>2,463,299</u>
276,732	7,660	804,638
-	55,561	754,773
-	-	403,648
-	182,740	182,740
-	8,030	40,060
139,113	49,541	391,747
<u>415,845</u>	<u>303,532</u>	<u>2,577,606</u>
<u>589,633</u>	<u>(49,327)</u>	<u>(114,307)</u>
-	-	150,000
-	-	150,000
589,633	(49,327)	35,693
(527)	184,996	1,517,953
<u>\$ 589,106</u>	<u>\$ 135,669</u>	<u>\$ 1,553,646</u>

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STATE OF NEW MEXICO

City of Jal

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Exhibit B-2

Page 2 of 2

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

Net change in fund balances - total governmental funds	\$	35,693
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Governmental funds report capital outlays as expenditures. However in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense:

Capital expenditures recorded in capital outlay		391,747
Depreciation expense		(74,869)
Proceeds from sale of capital assets		(561)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenue in the funds:

Decrease in deferred revenue related to property taxes receivable		157
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Expenses in the Statement of Activities that do not require current financial
resources are not reported as expenditures in the funds:

Decrease in accrued compensated absences		20,015
Decrease in accrued interest		(6,107)

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial
resources to governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. Also, governmental funds
report the effect of premiums and similar items when debt is first issued, whereas
these amounts are deferred and amortized in the Statement of Activities:

Removal of bond issuance costs		<u>(3,375)</u>
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Change in net assets of governmental activities	\$	<u><u>362,700</u></u>
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STATE OF NEW MEXICO

Exhibit C-1

City of Jal

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget (Non-GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP	Favorable
			Budgetary Basis)	(Unfavorable)
				Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ 68,000	\$ 71,787	\$ 87,025	\$ 15,238
Gross receipts	750,000	712,000	557,636	(154,364)
Gasoline and motor vehicle	15,500	17,659	32,725	15,066
Other	58,280	58,280	45,812	(12,468)
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	406,064	400,000	147,906	(252,094)
State capital grants	-	-	-	-
Charges for services	26,500	26,500	29,555	3,055
Licenses and fees	42,460	42,460	34,143	(8,317)
Investment income	4,000	4,000	2,230	(1,770)
Miscellaneous	52,500	52,500	43,946	(8,554)
<i>Total revenues</i>	<u>1,423,304</u>	<u>1,385,186</u>	<u>980,978</u>	<u>(404,208)</u>
<i>Expenditures:</i>				
Current:				
General government	626,640	376,640	354,673	21,967
Public safety	635,829	635,829	631,146	4,683
Public works	369,119	369,119	366,546	2,573
Culture and recreation	-	-	-	-
Health and welfare	32,537	32,537	31,646	891
Capital outlay	385,413	602,349	168,207	434,142
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>2,049,538</u>	<u>2,016,474</u>	<u>1,552,218</u>	<u>464,256</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(626,234)</u>	<u>(631,288)</u>	<u>(571,240)</u>	<u>60,048</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	626,234	631,288	-	(631,288)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>626,234</u>	<u>631,288</u>	<u>-</u>	<u>(631,288)</u>
<i>Net change in fund balance</i>	-	-	(571,240)	(571,240)
<i>Fund balance - beginning of year</i>	-	-	855,755	855,755
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 284,515</u>	<u>\$ 284,515</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (571,240)	
Adjustments to revenues for property taxes receivable, other taxes receivable, other receivables and deferred revenue			168,399	
Adjustments to expenditures for accounts payable and accrued payroll			(147,197)	
Net change in fund balance (GAAP)			<u>\$ (550,038)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-2

City of Jal

State Fire Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variations
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	127,890	127,890	154,902	27,012
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	25	25	1	(24)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>127,915</u>	<u>127,915</u>	<u>154,903</u>	<u>26,988</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	99,600	102,198	69,832	32,366
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	28,290	28,290	902	27,388
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>127,890</u>	<u>130,488</u>	<u>70,734</u>	<u>59,754</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>25</u>	<u>(2,573)</u>	<u>84,169</u>	<u>86,742</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(25)	2,573	-	(2,573)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(25)</u>	<u>2,573</u>	<u>-</u>	<u>(2,573)</u>
<i>Net change in fund balance</i>	-	-	84,169	84,169
<i>Fund balance - beginning of year</i>	-	-	(20,799)	(20,799)
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,370</u>	<u>\$ 63,370</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 84,169	
Adjustments to revenues for cash			8,512	
Adjustments to expenditures for accounts payable			(24,750)	
Net change in fund balance (GAAP)			<u>\$ 67,931</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-3

City of Jal

Street Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	41,800	32,300	33,419	1,119
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	142,000	142,000	14,723	(127,277)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	45	6	6	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>183,845</u>	<u>174,306</u>	<u>48,148</u>	<u>(126,158)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	135,000	135,000	34,862	100,138
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	35,500	142,000	19,631	122,369
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>170,500</u>	<u>277,000</u>	<u>54,493</u>	<u>222,507</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>13,345</u>	<u>(102,694)</u>	<u>(6,345)</u>	<u>96,349</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(13,345)	102,694	-	(102,694)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(13,345)</u>	<u>102,694</u>	<u>-</u>	<u>(102,694)</u>
<i>Net change in fund balance</i>	-	-	(6,345)	(6,345)
<i>Fund balance - beginning of year</i>	-	-	-	-
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,345)</u>	<u>\$ (6,345)</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (6,345)	
Adjustments to revenues for other receivables			(7,324)	
Adjustments to expenditures for accounts payable			(8,837)	
Net change in fund balance (GAAP)			<u>\$ (22,506)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-4

City of Jal

Intergovernmental Grants Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	163,697	1,597,476	940,722	(656,754)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>163,697</u>	<u>1,597,476</u>	<u>940,722</u>	<u>(656,754)</u>
<i>Expenditures:</i>				
Current:				
General government	-	278,500	276,732	1,768
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	63,717	1,318,996	139,113	1,179,883
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>63,717</u>	<u>1,597,496</u>	<u>415,845</u>	<u>1,181,651</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>99,980</u>	<u>(20)</u>	<u>524,877</u>	<u>524,897</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(99,980)	20	-	(20)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(99,980)</u>	<u>20</u>	<u>-</u>	<u>(20)</u>
<i>Net change in fund balance</i>	-	-	524,877	524,877
<i>Fund balance - beginning of year</i>	-	-	-	-
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 524,877</u>	<u>\$ 524,877</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 524,877	
Adjustments to revenues for state operating grants			64,756	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ 589,633</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit D-1

City of Jal
Statement of Net Assets
Proprietary Funds
June 30, 2010

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 580,311	\$ 4,130	\$ 584,441
Investments	-	-	-
Accounts receivable	101,238	26,907	128,145
Inventory	-	-	-
Due from other funds	-	-	-
<i>Total current assets</i>	<u>681,549</u>	<u>31,037</u>	<u>712,586</u>
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	-	-
Capital assets	13,740,518	-	13,740,518
Accumulated depreciation	(12,785,388)	-	(12,785,388)
<i>Total noncurrent assets</i>	<u>955,130</u>	<u>-</u>	<u>955,130</u>
<i>Total assets</i>	<u>\$ 1,636,679</u>	<u>\$ 31,037</u>	<u>\$ 1,667,716</u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 10,485	\$ 2,169	\$ 12,654
Accrued payroll expenses	1,359	610	1,969
Accrued compensated absences	-	-	-
Meter deposits	49,046	-	49,046
Due to other funds	-	-	-
Deferred revenue	-	-	-
Accrued interest	-	-	-
Current maturity of loans and notes payable	-	-	-
<i>Total current liabilities</i>	<u>60,890</u>	<u>2,779</u>	<u>63,669</u>
<i>Noncurrent liabilities</i>			
Accrued compensated absences	6,229	-	6,229
Loans and notes payable	-	-	-
<i>Total noncurrent liabilities</i>	<u>6,229</u>	<u>-</u>	<u>6,229</u>
<i>Total liabilities</i>	<u>67,119</u>	<u>2,779</u>	<u>69,898</u>
<i>Net assets</i>			
Invested in capital assets, net of related debt	955,130	-	955,130
Unrestricted, undesignated	614,430	28,258	642,688
<i>Total net assets</i>	<u>1,569,560</u>	<u>28,258</u>	<u>1,597,818</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,636,679</u>	<u>\$ 31,037</u>	<u>\$ 1,667,716</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit D-2

City of Jal

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2010

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Operating revenues:</i>			
Charges for services	\$ 807,332	\$ 263,684	\$ 1,071,016
<i>Total operating revenues</i>	<u>807,332</u>	<u>263,684</u>	<u>1,071,016</u>
<i>Operating expenses:</i>			
Personnel services	180,332	610	180,942
Contractual services	26,331	308,334	334,665
Supplies and purchased power	14,594	97	14,691
Repairs and maintenance	118,846	2,583	121,429
Utilities	100,898	-	100,898
Depreciation	80,772	-	80,772
Other operating expenses	71,817	-	71,817
<i>Total operating expenses</i>	<u>593,590</u>	<u>311,624</u>	<u>905,214</u>
<i>Operating income (loss)</i>	<u>213,742</u>	<u>(47,940)</u>	<u>165,802</u>
<i>Non-operating revenues (expenses):</i>			
Gross receipts tax income	33,864	12,088	45,952
Gross receipts tax expense	(36,708)	(15,591)	(52,299)
Interest income	12	1	13
Interest expense	-	-	-
Miscellaneous income	219	39,353	39,572
<i>Total non-operating revenues (expenses)</i>	<u>(2,613)</u>	<u>35,851</u>	<u>33,238</u>
<i>Income (loss) before contributions and transfers</i>	<u>211,129</u>	<u>(12,089)</u>	<u>199,040</u>
Government contributions	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
<i>Change in net assets</i>	<u>211,129</u>	<u>(12,089)</u>	<u>199,040</u>
<i>Total net assets, beginning of year</i>	<u>1,358,431</u>	<u>40,347</u>	<u>1,398,778</u>
<i>Total net assets, end of year</i>	<u>\$ 1,569,560</u>	<u>\$ 28,258</u>	<u>\$ 1,597,818</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, 2010

Exhibit D-3

	Water and Sewer	Solid Waste	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 780,967	\$ 262,980	\$ 1,043,947
Cash payments to employees for services	(179,384)	(437)	(179,821)
Cash payments to suppliers for goods and services	(342,973)	(308,845)	(651,818)
<i>Net cash provided by operating activities</i>	258,610	(46,302)	212,308
<i>Cash flows from noncapital financing activities:</i>			
Net gross receipts taxes	(2,844)	(3,503)	(6,347)
Miscellaneous income	219	39,353	39,572
Change in noncurrent accrued compensated absences	(2,308)	-	(2,308)
<i>Net cash provided (used) by noncapital financing activities</i>	(4,933)	35,850	30,917
<i>Cash flows from investing activities:</i>			
Interest on investments	12	1	13
<i>Net cash (used) from investing activities</i>	12	1	13
<i>Net increase in cash and cash equivalents</i>	253,689	(10,451)	243,238
<i>Cash and cash equivalents - beginning of year</i>	326,622	14,581	341,203
<i>Cash and cash equivalents - end of year</i>	\$ 580,311	\$ 4,130	\$ 584,441
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>			
Operating income (loss)	\$ 213,742	\$ (47,940)	\$ 165,802
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	80,772	-	80,772
Changes in assets and liabilities			
Receivables	(26,365)	(704)	(27,069)
Accounts payable	(4,265)	2,169	(2,096)
Accrued payroll expenses	948	173	1,121
Meter deposits	(6,222)	-	(6,222)
<i>Net cash provided by operating activities</i>	\$ 258,610	\$ (46,302)	\$ 212,308

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, 2010

Exhibit E-1

<i>Assets</i>	
Cash	<u>\$ 2,474</u>
<i>Total assets</i>	<u><u>\$ 2,474</u></u>
<i>Liabilities</i>	
Due to other entities	<u>\$ 2,474</u>
<i>Total liabilities</i>	<u><u>\$ 2,474</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies

The City of Jal (City) was incorporated on March 24, 1950. The City is a municipal corporation governed by an elected mayor and 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 is a body politic and corporate under the name and form of government selected by its qualified electors. The City may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico;
6. Protect generally the property of its municipality and its inhabitants;
7. Preserve peace and order within the municipality; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of the City is presented to assist in the understanding of the City's financial statements. The financial statements and notes are the representation of the City's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB No. 14 and No. 39. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the City does not have any component units required to be reported under GASB Statements No. 14 and No. 39.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services provided.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

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 recognized all long-term assets and receivables as well as long-term debt and obligations. 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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 instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues, other than property tax revenue, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

C. *Measurement focus, basis of accounting, and financial statement presentation*

Property taxes, franchise taxes, licenses and interest 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. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. The government-wide full accrual basis property tax receivables recognize revenues net of estimated refunds and uncollectible amounts, in the period for which the taxes are levied, even if they are not available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The City does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and are susceptible to accrual when the same criteria have been met.

Governmental funds are used to account for the City's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets and the servicing of general long-term debt.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the City's enterprise fund is charges for services for the City's utilities. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenue. Expenditures include all costs associated with the daily operation of the City except for items included in other funds.

The *State Fire Special Revenue 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. Funding authority is NMSA 59A-53-1.

The *Street Special Revenue Fund* accounts for the collection of one-half of one percent of the gross receipts tax for the purpose of improving the City's streets. Funding authority is NMSA 7-1-69.

The *Intergovernmental Grants Special Revenue Fund* accounts for the collection of various intergovernmental grants from the State of New Mexico. Fund authority is City Council.

The City reports its proprietary funds as major funds. Proprietary funds include:

The *Water and Sewer Fund* accounts for the provisions of the water and sewer services to the residents of the City.

The *Solid Waste Fund* accounts for the disposal of solid waste for the residents of the City.

Additionally, the government reports the following agency fund:

The *Fiduciary Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are used to account for the collection and payment of motor vehicle fees.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments: The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the City are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The City did not have investments at June 30, 2010.

Receivables and Payables: Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied.

Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent and the City may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Lea County and remitted monthly to the City.

Inventory: The City's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the City was a phase III government for purposes of implementation, and accordingly, has prospectively reported infrastructure assets at historical cost as part of the governmental capital assets reported in the government-wide statements as of June 30, 2010. Donated capital assets are recorded at estimated fair market value at the date of donation. The City does not develop any software.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-50
Equipment	5-10
Infrastructure	20

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through June 30, 2010, along with applicable PERA and Retiree Health Care.

Deferred Revenues: There are two types of deferred revenue. Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability for deferred revenue (commonly referred to as unearned revenue). The other type of deferred revenue is “unavailable revenue.” Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. It must also be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue.

Compensated Absences: Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net assets.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond issuance costs are amortized using the straight-line method over the life of the bonds. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, or the straight-line method, if the difference is inconsequential.

Fund Equity: In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt:
Net assets invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted Net Assets:
Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation 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.”

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the City’s financial statements include the allowance for uncollectible accounts in the joint utility and solid waste funds.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets of the City are prepared prior to June 1 and must be approved by resolution of the City Commissioners, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the City Commissioners and the Department of Finance and Administration. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total.

These budgets are prepared on the Non-GAAP budgetary basis, excluding encumbrances, and secure appropriation of funds for only one year. The budgetary information presented in these financial statements has been amended in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
	Budgeted Funds:	
General Fund	\$ (626,234)	\$ (631,288)
State Fire	25	(2,573)
Street	13,345	(102,694)
Intergovernmental Grants	99,980	(20)
Other Governmental Funds	(30,105)	(106,084)
	Change in Net Assets	
Water and Sewer	\$ (496,892)	\$ (496,892)
Solid Waste	6,500	6,500

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Proprietary Funds.

The City is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2010 is presented.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 3. Deposits and Investments

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the City properly followed State investment requirements as of June 30, 2010.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The collateral pledged is listed on Schedule II in 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 Corporation (FDIC), public unit deposits are funds owned by the public unit. 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.

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 does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2010, \$1,764,027 of the City’s bank balances of \$2,014,027 was exposed to custodial credit risk. \$1,764,027 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the City’s name and none of the City’s deposits were uninsured and uncollateralized.

	Wells Fargo Bank
Amount of deposits	\$ 2,014,027
FDIC Coverage	(250,000)
Total uninsured public funds	<u>1,764,027</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	<u>1,764,027</u>
Uninsured and uncollateralized	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	\$ 882,014
Pledged Collateral	<u>1,857,985</u>
Over (Under) collateralized	<u>\$ 975,971</u>

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 3. Deposits and Investments (continued)

As of June 30, 2010, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Treasury MM Mutual Funds	<360 days	\$ 225,000	AAA

Custodial Credit Risk - Investments For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy related to investments is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). The carrying value of the City's investments at June 30, 2010 was \$225,000.

The investments are listed on Schedule I of this report. They are considered cash equivalents for financial statement purposes.

Reconciliation to the Statements of Net Assets

The carrying amount of deposits and investments shown above are included in the City's Statement of Net Assets as follows:

Cash and cash equivalents per Exhibit A-1	\$1,792,906
Restricted cash and cash equivalents per Exhibit A-1	225,000
Agency funds cash per Exhibit E-1	<u>2,474</u>
Total cash and cash equivalents	<u>2,020,380</u>
Plus: outstanding checks and other reconciling items	218,747
Less: U.S. Treasury Money Market Mutual Fund	(225,000)
Less: petty cash	<u>(100)</u>
Bank balance of deposits	<u><u>\$2,014,027</u></u>

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 4. Receivables

Receivables as of June 30, 2010 are as follows:

Governmental Activities:

	General	Total Nonmajor Funds	Total
Property taxes	\$ 10,544	\$ -	\$ 10,544
Other taxes:			
Gross receipts taxes	96,451	12,658	109,109
Gasoline and oil taxes	3,866	164	4,030
Other receivables:			
Miscellaneous	37,935	4,506	42,441
Net receivables	<u>\$ 148,796</u>	<u>\$ 17,328</u>	<u>\$ 166,124</u>

In accordance with GASB No. 33, the property tax revenues that were not collected within the period of availability, \$5,131, have been reclassified as deferred revenue in the governmental fund financial statements. The above receivables are deemed 100% collectible

Business-Type Activities:

	Water and Sewer	Solid Waste	Total
Customer receivables	<u>\$ 101,238</u>	<u>\$ 26,907</u>	<u>\$ 128,145</u>

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 5. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

Governmental Activities:

	Balance June 30, 2009	Additions	Deletions	Restatement	Balance June 30, 2010
Capital assets not being depreciated:					
Land	\$ 53,712	\$ -	\$ 561	\$ -	\$ 53,151
Capital assets being depreciated:					
Buildings and improvements	1,433,848	-	-	-	1,433,848
Equipment	1,609,374	391,747	-	-	2,001,121
Infrastructure	169,206	-	-	-	169,206
Loan costs	3,375	-	-	(3,375)	-
Total capital assets being depreciated	<u>3,215,803</u>	<u>391,747</u>	<u>-</u>	<u>(3,375)</u>	<u>3,604,175</u>
Accumulated depreciation:					
Buildings and improvements	1,158,115	15,807	-	-	1,173,922
Equipment	1,425,786	51,849	-	-	1,477,635
Infrastructure	25,971	7,213	-	-	33,184
Total accumulated depreciation	<u>2,609,872</u>	<u>74,869</u>	<u>-</u>	<u>-</u>	<u>2,684,741</u>
Total capital assets, net of depreciation	<u>\$ 659,643</u>	<u>\$ 316,878</u>	<u>\$ 561</u>	<u>\$ (3,375)</u>	<u>\$ 972,585</u>

Depreciation expense for the year ended June 30, 2010 was charged to governmental activities as follows:

General government	\$ 37,435
Public safety	9,733
Public works	13,476
Culture and recreation	<u>14,225</u>
Total	<u>\$ 74,869</u>

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 5. Capital Assets (continued)

Business-type Activities:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 15,768	\$ -	\$ -	\$ 15,768
Capital assets being depreciated:				
Buildings and improvements	399,478	-	-	399,478
Equipment	153,871	-	-	153,871
Infrastructure	13,171,401	-	-	13,171,401
Total capital assets being depreciated	<u>13,724,750</u>	<u>-</u>	<u>-</u>	<u>13,724,750</u>
Accumulated depreciation:				
Buildings and improvements	321,282	4,453	-	325,735
Equipment	72,121	10,647	-	82,768
Infrastructure	12,311,213	65,672	-	12,376,885
Total accumulated depreciation	<u>12,704,616</u>	<u>80,772</u>	<u>-</u>	<u>12,785,388</u>
Total capital assets, net of depreciation	<u>\$ 1,035,902</u>	<u>\$ (80,772)</u>	<u>\$ -</u>	<u>\$ 955,130</u>

Depreciation expense charged to business-type activities for the year ended June 30, 2010 was \$80,772.

NOTE 6. Long-term Debt

During the year ended June 30, 2010, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
NMFA Fire Truck Loan	\$ 228,375	\$ -	\$ -	\$ 228,375	\$ 15,064
Compensated Absences	25,291	6,641	26,656	5,276	-
Total long-term liabilities	<u>\$ 253,666</u>	<u>\$ 6,641</u>	<u>\$ 26,656</u>	<u>\$ 233,651</u>	<u>\$ 15,064</u>

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 6. Long-term Debt (continued)

NMFA Loans

On June 19, 2009, the City received a loan from the New Mexico Finance Authority in the amount of \$228,375 for the purchase of a fire truck. The loan is financed over eleven years at 3.55%. The annual requirements to amortize the loan as of June 30, 2010, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 15,064	\$ 10,725	\$ 25,789
2012	21,707	5,614	27,321
2013	22,032	5,290	27,322
2014	22,416	4,906	27,322
2015	22,886	4,434	27,320
2016-2020	<u>124,270</u>	<u>12,337</u>	<u>136,607</u>
	<u>\$ 228,375</u>	<u>\$ 43,306</u>	<u>\$ 271,681</u>

Compensated Absences – Employees of the City are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2010, long-term compensated absences decreased \$20,015 over the prior year accrual.

In prior years, the general fund has typically been used to liquidate long-term liabilities.

Proprietary Funds

During the year ended June 30, 2010, the following changes occurred in the liabilities reported in the proprietary statement of net assets:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
Compensated Absences	<u>\$ 8,537</u>	<u>\$ 4,177</u>	<u>\$ 6,485</u>	<u>\$ 6,229</u>	<u>\$ -</u>

In prior years, the water and sewer proprietary fund has typically been used to liquidate compensated absences.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 7. Risk Management

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The City participates in the New Mexico Self-Insurers' Fund risk pool. The City has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the City which exceeds the insurance coverage, the City would be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage's have not changed significantly from prior years and coverage's are expected to be continued.

At June 30, 2010, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance.

New Mexico Self-Insurers' Fund has not provided information on an entity by entity basis that would allow for a reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year.

NOTE 8. PERA Pension Plan

Plan Description. Substantially all of the City'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 Employee 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, survivor 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, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Municipal general member coverage plan 3 members are required to contribute 13.15% of their gross salary. The City is required to contribute 9.15% of the covered salary for "municipal general member coverage plan 3" members. Municipal police coverage plan 1 members are required to contribute 7.00% of their gross salary. The City is required to contribute 10.00% of the covered salary for "municipal police coverage plan 1" members. The contribution requirements of plan members and the City are established in State statute 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 fiscal years ending June 30, 2010, 2009 and 2008 were \$66,911, \$63,126, and \$61,516.

NOTE 9. Post-Employment Benefits

Plan Description. The City contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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 RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 9. Post-Employment Benefits (continued)

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4, and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]) the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	2.084%	1.042%
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature. The City's contribution to the RHCA for the years ended June 30, 2010, 2009, and 2008 were \$10,417, \$7,417, and \$7,383, respectively, which equal the required contribution for each year.

NOTE 10. Contingent Liabilities

The City is party to various claims and lawsuits in the normal course of business. Management and the City's attorney are unaware of any material pending or threatened litigation, claims or assessments against the City which are not covered by the City's insurance.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 11. Federal and State Grants

In the normal course of operations, the City receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE 12. Joint Powers Agreements and Memorandums of Understanding

Lea County Water Users Association

Participants	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Responsible party	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Description	To create the Lea County Water Users Association.
Term of agreement	Beginning 11/18/1997 Ending Automatic renewal every two years
Amount of project	\$240,000 estimated
City contributions	4.20%
Audit responsibility	Water User Board

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 12. Joint Powers Agreements and Memorandums of Understanding (continued)

Lea County Solid Waste Authority

Participants	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Responsible party	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Description	To create the Lea County Solid Waste Authority.
Term of agreement	Beginning 12/12/1994 Ending Automatic renewal every two years
Amount of project	Unknown
City contributions	The City of Jal's cost of trash removal.
Audit responsibility	Solid Waste Authority

Lea County Water Users Association

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.
Term of agreement	Beginning 4/1/2008 Ending Upon written termination
Amount of project	Unknown
City contributions	N/A
Audit responsibility	City of Jal

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2010

NOTE 12. Joint Powers Agreements and Memorandums of Understanding (continued)

Vikki Bell

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.
Term of agreement	Beginning 3/10/2009 Ending 6/30/2011
Amount of project	\$250,000 estimated
City contributions	N/A
Audit responsibility	New Mexico Economic Development Department

NOTE 13. 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, 2010:

Corrections Special Revenue Fund	\$ 626
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- B. Excess of expenditures over appropriations. The following funds exceeded approved budgetary authority for the year ended June 30, 2010.

Law Enforcement Special Revenue Fund	\$ 46
Youth and Aged Special Revenue Fund	15,680

- C. Designated cash appropriations in excess of available balances. The following funds had designated cash in excess of available balances for the year ended June 30, 2010.

Cemetery Special Revenue Fund	\$ 22,755
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NOTE 14. Restricted Net Assets

The government-wide statement of net assets reports \$1,553,646 of restricted assets, all of which is restricted by enabling legislation. For descriptions of the related enabling legislation for special revenue funds, see pages 37 and 55.

NOTE 15. Construction and Other Significant Commitments

The City has no significant commitments at June 30, 2010.

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SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
City of Jal
June 30, 2010
Nonmajor Governmental Fund Descriptions

Special Revenue Funds

EMS

To account for the acquisition of emergency medical equipment and the operation of the equipment. Financing is provided by a grant from the State of New Mexico. Funding authority is NMSA 24-10A-1.

Recreation

To account for the operation and maintenance of recreational facilities in the City. Financing is provided by a specific annual cigarette tax levy. Funding authority is NMSA 7-12-15.

Cemetery

To account for the operations and maintenance of the cemetery. Financing is provided by the sale of burial permits and contributions. Funding authority is NMSA 3-40-1.

Corrections

To account for the operations and maintenance of the public holding cells and corrections facilities. Financing is provided by an assessment on all traffic violations within the City limits. Funding authority is NMSA 35-14-11.

Law Enforcement

To account for the receipts and expenditures of a special state grant for the police department. The grant may only be used for the operations of the police department. Funding authority is NMSA 29-13-4.

Youth and Aged

To account for the receipts and expenditures of the senior citizens. Financing is provided by the State Agency on Aging, New Mexico Department of Taxation and Revenue, and federal and state grants. This fund is authorized by City Ordinance.

Environmental

To account for the 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. This fund is authorized by City Ordinance.

STATE OF NEW MEXICO
City of Jal
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2010

	Special Revenue			
	EMS	Recreation	Cemetery	Corrections
<i>Assets</i>				
Cash and cash equivalents	\$ -	\$ 5,430	\$ 27,495	\$ -
Investments	-	-	-	-
Receivables:				
Property taxes	-	-	-	-
Other taxes	-	164	-	-
Other receivables	-	-	-	1,167
Inventory	-	-	-	-
Prepaid expenses	-	-	-	-
Due from other funds	-	-	-	-
<i>Total assets</i>	\$ -	\$ 5,594	\$ 27,495	\$ 1,167
<i>Liabilities</i>				
Deficit cash	\$ -	\$ -	\$ -	\$ 1,689
Accounts payable	-	-	51	104
Accrued payroll expenses	-	-	-	-
Accrued compensated absences	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
<i>Total liabilities</i>	-	-	51	1,793
<i>Fund balances</i>				
Unreserved, reported in:				
Special revenue	-	5,594	27,444	(626)
<i>Total fund balances</i>	-	5,594	27,444	(626)
<i>Total liabilities and fund balances</i>	\$ -	\$ 5,594	\$ 27,495	\$ 1,167

<u>Special Revenue</u>			<u>Total Nonmajor Governmental Funds</u>
<u>Law Enforcement</u>	<u>Youth and Aged</u>	<u>Environmental</u>	
\$ 5,996	\$ -	\$ 83,396	\$ 122,317
-	-	-	-
-	-	-	-
-	10,475	2,183	12,822
-	3,339	-	4,506
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 5,996</u>	<u>\$ 13,814</u>	<u>\$ 85,579</u>	<u>\$ 139,645</u>
\$ -	\$ 458	\$ -	\$ 2,147
-	1,674	-	1,829
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>-</u>	<u>2,132</u>	<u>-</u>	<u>3,976</u>
5,996	11,682	85,579	135,669
<u>5,996</u>	<u>11,682</u>	<u>85,579</u>	<u>135,669</u>
<u>\$ 5,996</u>	<u>\$ 13,814</u>	<u>\$ 85,579</u>	<u>\$ 139,645</u>

STATE OF NEW MEXICO
City of Jal
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2010

	Special Revenue			
	EMS	Recreation	Cemetery	Corrections
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	1,779	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	5,839	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	12,553
Investment income	1	-	2	2
Miscellaneous	-	-	7,857	2,051
<i>Total revenues</i>	<u>5,840</u>	<u>1,779</u>	<u>7,859</u>	<u>14,606</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	7,660	-
Public safety	-	-	-	52,085
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	8,030	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>8,030</u>	<u>-</u>	<u>7,660</u>	<u>52,085</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(2,190)</u>	<u>1,779</u>	<u>199</u>	<u>(37,479)</u>
<i>Other financing sources (uses)</i>				
Loan proceeds	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	(2,190)	1,779	199	(37,479)
<i>Fund balances - beginning of year</i>	<u>2,190</u>	<u>3,815</u>	<u>27,245</u>	<u>36,853</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ 5,594</u>	<u>\$ 27,444</u>	<u>\$ (626)</u>

The accompanying notes are an integral part of these financial statements

Special Revenue			Total Nonmajor Governmental Funds
Law Enforcement	Youth and Aged	Environmental	
\$ -	\$ -	\$ -	\$ -
-	61,699	12,853	74,552
-	-	-	-
-	-	-	1,779
-	24,785	-	24,785
-	-	-	-
27,086	33,324	-	66,249
-	-	-	-
-	-	-	-
-	35,613	-	48,166
1	2	3	11
161	28,594	-	38,663
<u>27,248</u>	<u>184,017</u>	<u>12,856</u>	<u>254,205</u>
-	-	-	7,660
3,476	-	-	55,561
-	-	-	-
-	182,740	-	182,740
-	-	-	8,030
27,002	22,539	-	49,541
-	-	-	-
-	-	-	-
<u>30,478</u>	<u>205,279</u>	<u>-</u>	<u>303,532</u>
<u>(3,230)</u>	<u>(21,262)</u>	<u>12,856</u>	<u>(49,327)</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>(3,230)</u>	<u>(21,262)</u>	<u>12,856</u>	<u>(49,327)</u>
<u>9,226</u>	<u>32,944</u>	<u>72,723</u>	<u>184,996</u>
<u>\$ 5,996</u>	<u>\$ 11,682</u>	<u>\$ 85,579</u>	<u>\$ 135,669</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-1

City of Jal

EMS Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	8,603	5,839	5,839	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	65	-	1	1
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>8,668</u>	<u>5,839</u>	<u>5,840</u>	<u>1</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	8,668	8,428	6,909	1,519
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>8,668</u>	<u>8,428</u>	<u>6,909</u>	<u>1,519</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>(2,589)</u>	<u>(1,069)</u>	<u>1,520</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	-	2,589	-	(2,589)
Loan proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>2,589</u>	<u>-</u>	<u>(2,589)</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>(1,069)</u>	<u>(1,069)</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>2,854</u>	<u>2,854</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,785</u>	<u>\$ 1,785</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (1,069)	
No adjustments to revenues			-	
Adjustments to expenditures for accounts payable			(1,121)	
Net change in fund balance (GAAP)			<u>\$ (2,190)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-2

City of Jal

Recreation Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	2,000	2,000	2,064	64
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	10	10	1	(9)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>2,010</u>	<u>2,010</u>	<u>2,065</u>	<u>55</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	1,800	1,800	-	1,800
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>1,800</u>	<u>1,800</u>	<u>-</u>	<u>1,800</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>210</u>	<u>210</u>	<u>2,065</u>	<u>1,855</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(210)	(210)	-	210
Loan proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(210)</u>	<u>(210)</u>	<u>-</u>	<u>210</u>
<i>Net change in fund balance</i>	-	-	2,065	2,065
<i>Fund balance - beginning of year</i>	-	-	3,365	3,365
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,430</u>	<u>\$ 5,430</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 2,065	
Adjustments to revenues for other taxes receivable			(286)	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ 1,779</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-3

City of Jal

Cemetery Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	10	10	2	(8)
Miscellaneous	9,990	9,990	7,857	(2,133)
<i>Total revenues</i>	<u>10,000</u>	<u>10,000</u>	<u>7,859</u>	<u>(2,141)</u>
<i>Expenditures:</i>				
Current:				
General government	60,000	36,000	7,608	28,392
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>60,000</u>	<u>36,000</u>	<u>7,608</u>	<u>28,392</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(50,000)</u>	<u>(26,000)</u>	<u>251</u>	<u>26,251</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	50,000	26,000	-	(26,000)
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>50,000</u>	<u>26,000</u>	<u>-</u>	<u>(26,000)</u>
<i>Net change in fund balance</i>	-	-	251	251
<i>Fund balance - beginning of year</i>	-	-	27,244	27,244
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,495</u>	<u>\$ 27,495</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 251	
No adjustments to revenues			-	
Adjustments to expenditures for accounts payable			(52)	
Net change in fund balance (GAAP)			<u>\$ 199</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-4

City of Jal

Corrections Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	19,000	19,000	11,386	(7,614)
Investment income	150	150	2	(148)
Miscellaneous	150	150	-	(150)
<i>Total revenues</i>	<u>19,300</u>	<u>19,300</u>	<u>11,388</u>	<u>(7,912)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	9,000	9,000	4,470	4,530
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>9,000</u>	<u>9,000</u>	<u>4,470</u>	<u>4,530</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>10,300</u>	<u>10,300</u>	<u>6,918</u>	<u>(3,382)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(10,300)	(10,300)	-	10,300
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(10,300)</u>	<u>(10,300)</u>	<u>-</u>	<u>10,300</u>
<i>Net change in fund balance</i>	-	-	6,918	6,918
<i>Fund balance - beginning of year</i>	-	-	(8,607)	(8,607)
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,689)</u>	<u>\$ (1,689)</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 6,918	
Adjustments to revenues for other receivables			3,218	
Adjustments to expenditures for accounts payable			(47,615)	
Net change in fund balance (GAAP)			<u>\$ (37,479)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-5

City of Jal

Law Enforcement Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Budgetary Basis)	Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	21,800	21,800	22,400	600
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	20	20	1	(19)
Miscellaneous	580	580	161	(419)
<i>Total revenues</i>	<u>22,400</u>	<u>22,400</u>	<u>22,562</u>	<u>162</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	9,000	9,000	3,484	5,516
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	13,400	21,440	27,002	(5,562)
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>22,400</u>	<u>30,440</u>	<u>30,486</u>	<u>(46)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	(8,040)	(7,924)	116
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	-	8,040	-	(8,040)
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	<u>8,040</u>	-	<u>(8,040)</u>
<i>Net change in fund balance</i>	-	-	(7,924)	(7,924)
<i>Fund balance - beginning of year</i>	-	-	13,920	13,920
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,996</u>	<u>\$ 5,996</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (7,924)	
No adjustments to revenues			-	
Adjustments to expenditures for accounts payable			4,694	
Net change in fund balance (GAAP)			<u>\$ (3,230)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-6

City of Jal

Youth and Aged Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	80,000	80,000	61,553	(18,447)
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	15,550	15,550	24,785	9,235
Federal capital grants	-	-	-	-
State operating grants	40,000	40,000	29,985	(10,015)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	35,000	35,000	35,613	613
Investment income	25	25	2	(23)
Miscellaneous	10,425	10,425	28,594	18,169
<i>Total revenues</i>	<u>181,000</u>	<u>181,000</u>	<u>180,532</u>	<u>(468)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	186,550	206,000	199,141	6,859
Health and welfare	-	-	-	-
Capital outlay	-	-	22,539	(22,539)
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>186,550</u>	<u>206,000</u>	<u>221,680</u>	<u>(15,680)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(5,550)</u>	<u>(25,000)</u>	<u>(41,148)</u>	<u>(16,148)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	5,550	25,000	-	(25,000)
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>5,550</u>	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>
<i>Net change in fund balance</i>	-	-	(41,148)	(41,148)
<i>Fund balance - beginning of year</i>	-	-	40,690	40,690
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (458)</u>	<u>\$ (458)</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (41,148)	
Adjustments to revenues for other taxes receivable and other receivables			3,485	
Adjustments to expenditures for accounts payable			16,401	
Net change in fund balance (GAAP)			<u>\$ (21,262)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-7

City of Jal

Environmental Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Budgetary Basis)	Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	15,000	15,000	12,818	(2,182)
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	35	35	3	(32)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>15,035</u>	<u>15,035</u>	<u>12,821</u>	<u>(2,214)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	100	70,000	-	70,000
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>100</u>	<u>70,000</u>	<u>-</u>	<u>70,000</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>14,935</u>	<u>(54,965)</u>	<u>12,821</u>	<u>67,786</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(14,935)	54,965	-	(54,965)
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(14,935)</u>	<u>54,965</u>	<u>-</u>	<u>(54,965)</u>
<i>Net change in fund balance</i>	-	-	12,821	12,821
<i>Fund balance - beginning of year</i>	-	-	70,575	70,575
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,396</u>	<u>\$ 83,396</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 12,821	
Adjustments to revenues for other taxes receivable			35	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ 12,856</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-1

City of Jal

Statement of Revenues, Expenses and Changes in Net Assets

Budget (GAAP Basis) and Actual

Water and Sewer Fund

For the Year Ended June 30, 2010

	Budget Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
<i>Operating revenues:</i>				
Charges for services	\$ 587,000	\$ 587,000	\$ 807,332	\$ 220,332
<i>Total operating revenues</i>	<u>587,000</u>	<u>587,000</u>	<u>807,332</u>	<u>220,332</u>
<i>Operating expenses:</i>				
Personnel services	185,077	185,077	180,332	4,745
Contractual services	30,500	30,500	26,331	4,169
Supplies and purchased power	205,405	205,405	14,594	190,811
Repairs and maintenance	170,000	170,000	118,846	51,154
Utilities	156,000	156,000	100,898	55,102
Other operating expenses	338,835	338,835	71,817	267,018
<i>Total operating expenses</i>	<u>1,085,817</u>	<u>1,085,817</u>	<u>512,818</u>	<u>572,999</u>
<i>Operating income (loss)</i>	<u>(498,817)</u>	<u>(498,817)</u>	<u>294,514</u>	<u>793,331</u>
<i>Non-operating revenues (expenses):</i>				
Gross receipts tax income	30,080	30,080	33,864	3,784
Gross receipts tax expense	(28,500)	(28,500)	(36,708)	(8,208)
Investment income	345	345	12	(333)
Interest expense	-	-	-	-
Miscellaneous income	-	-	219	219
<i>Total non-operating revenues (expenses)</i>	<u>1,925</u>	<u>1,925</u>	<u>(2,613)</u>	<u>(4,538)</u>
<i>Government contributions and transfers</i>				
Government contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total government contributions and transfers</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	<u>(496,892)</u>	<u>(496,892)</u>	<u>291,901</u>	<u>788,793</u>
Designated cash (budgeted cash increase)	496,892	496,892	-	(496,892)
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,358,431</u>	<u>1,358,431</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,650,332</u>	<u>\$ 1,650,332</u>
<i>Change in net assets, above</i>			\$ 291,901	
Depreciation			<u>(80,772)</u>	
<i>Change in net assets, Exhibit D-2</i>			<u>\$ 211,129</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-2

City of Jal

Statement of Revenues, Expenses and Changes in Net Assets

Budget (GAAP Basis) and Actual

Solid Waste Fund

For the Year Ended June 30, 2010

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ 320,550	\$ 320,550	\$ 263,684	\$ (56,866)
<i>Total operating revenues</i>	<u>320,550</u>	<u>320,550</u>	<u>263,684</u>	<u>(56,866)</u>
<i>Operating expenses:</i>				
Personnel services	-	-	610	(610)
Contractual services	307,000	307,000	308,334	(1,334)
Supplies and purchased power	-	-	97	(97)
Repairs and maintenance	9,000	9,000	2,583	6,417
Utilities	-	-	-	-
Other operating expenses	-	-	-	-
<i>Total operating expenses</i>	<u>316,000</u>	<u>316,000</u>	<u>311,624</u>	<u>4,376</u>
<i>Operating income (loss)</i>	<u>4,550</u>	<u>4,550</u>	<u>(47,940)</u>	<u>(52,490)</u>
<i>Non-operating revenues (expenses):</i>				
Gross receipts tax income	14,860	14,860	12,088	(2,772)
Gross receipts tax expense	(13,000)	(13,000)	(15,591)	(2,591)
Investment income	40	40	1	(39)
Interest expense	-	-	-	-
Miscellaneous income	50	50	39,353	39,303
<i>Total non-operating revenues (expenses)</i>	<u>1,950</u>	<u>1,950</u>	<u>35,851</u>	<u>33,901</u>
<i>Government contributions and transfers</i>				
Government contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total government contributions and transfers</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	6,500	6,500	(12,089)	(18,589)
Designated cash (budgeted cash increase)	(6,500)	(6,500)	-	6,500
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>40,347</u>	<u>40,347</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,258</u>	<u>\$ 28,258</u>
<i>Change in net assets, above</i>			\$ (12,089)	
Depreciation			<u>-</u>	
<i>Change in net assets, Exhibit D-2</i>			<u>\$ (12,089)</u>	

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
City of Jal
Schedule of Deposit and Investment Accounts
June 30, 2010

Schedule I

Bank Account Type/Name	Wells Fargo Bank	Bank of Albuquerque	Totals
Cash and cash equivalents:			
Interfund - Checking	\$ 1,607,010	\$ -	\$ 1,607,010
Payroll - Checking	28,411	-	28,411
Economic Development - Checking	417	-	417
Miscellaneous - Checking	978	-	978
Certificate of Deposit	300,000	-	300,000
Certificate of Deposit	77,211	-	77,211
NMFA - Fire Truck Loan*	-	225,000	225,000
Total	2,014,027	225,000	2,239,027
Reconciling items	(218,747)	-	(218,747)
Reconciled balance	<u>1,795,280</u>	<u>225,000</u>	2,020,280
Petty cash			100
Less: agency funds cash per Exhibit E-1			(2,474)
Less: restricted cash and cash equivalents per Exhibit A-1			<u>(225,000)</u>
Total unrestricted cash and cash equivalents per Exhibit A-1			<u><u>\$ 1,792,906</u></u>

* This cash account is restricted for debt services by the New Mexico Finance Authority

STATE OF NEW MEXICO
City of Jal
Schedule of Collateral Pledged By Depository
For Public Funds
June 30, 2010

Schedule II

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2010
Wells Fargo Bank				
	FNMA 831480	04/01/36	31407HXX4	\$ 384,874
	FNMA 831549	05/01/36	31407HZN9	703,126
	FN919329	05/01/37	31412ALJ1	43,042
	FNMA 969596	11/01/37	31413YRR4	372,854
	FNMA 985111	07/01/38	31415PKY3	36,950
	FNMA 988804	07/01/38	31416RGM0	317,139
	Total Pledged Collateral			<u>\$ 1,857,985</u>

The location of the safekeeper of the above securities is 333 Market Street 17th Floor, San Francisco, CA.

STATE OF NEW MEXICO
City of Jal
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2010

Schedule III

	<u>Balance at June 30, 2009</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance at June 30, 2010</u>
<i>Motor Vehicle</i>				
Assets				
Cash and cash equivalents	\$ 2,879	\$ 32,122	\$ 32,527	\$ 2,474
<i>Total assets</i>	<u>\$ 2,879</u>	<u>\$ 32,122</u>	<u>\$ 32,527</u>	<u>\$ 2,474</u>
Liabilities				
Deposits held in trust for others	\$ 2,879	\$ 32,122	\$ 32,527	\$ 2,474
<i>Total liabilities</i>	<u>\$ 2,879</u>	<u>\$ 32,122</u>	<u>\$ 32,527</u>	<u>\$ 2,474</u>

See accompanying independent auditors' report

COMPLIANCE SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

**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**

Hector Balderas
New Mexico State Auditor
The U.S. Office of Management and Budget and
To the Honorable Mayor and
City Council Members
City of Jal
Jal, New Mexico

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparison for the general fund, state fire fund, street fund, and intergovernmental grants fund and the aggregate remaining fund information of the City of Jal, New Mexico (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents, 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 budgetary comparisons for the proprietary funds and the remaining nonmajor governmental funds, presented as supplementary information in the accompanying combining and individual fund statements as of and for the year ended June 30, 2010 as listed in the table of contents. We disclaimed our opinion because we were unable to apply auditing procedures to cash, assets, liabilities, net assets, revenues, expenditures, federal awards, capital assets, accumulated depreciation and depreciation expense accounts. We conducted our audit in accordance with 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.

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 opinions 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 was not designed to 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS2008-3, FS2009-1, FS2009-2, FS2009-4, FS2009-6 – FS2009-102, and FS2010-1 – 2010-5, 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* which are described in the accompanying schedule of findings and responses as items FS2008-3, FS2009-2, FS2009-6, FS2009-7, FS2010-1, FS2010-2, FS2010-4 and FS2010-5.

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 responses and, accordingly, we express no opinion on them.

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

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
September 16, 2011

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 |

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 auditors recommendation. The new financial/accounting/utility software system that the City purchased and implemented in 2010-2011 provides for disaster recovery.

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.

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.

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.

Section II – Financial Statement Findings (continued)

FS2009-6 Late Audit Report

Condition: The City's June 30, 2010 audit report was not submitted to the Office of the State Auditor by the December 1, 2010 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 1st.

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

Cause: The City's prior year audit was very late getting completed and this delayed the completion of the 2010 audit.

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: 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, 2010

Section II – Financial Statement Findings (continued)

FS2009-7 Expenditures in Excess of Budget

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

Law Enforcement	\$ 46
Youth and Aged	<u>15,680</u>
	<u>\$ 15,726</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 to properly prepare and adjust the budget in order to 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.

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: According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 establish 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 charge with governance (the governing body) will be supported with timely communications. Additional response as per 2009-83.

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.

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.

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.

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.

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.

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.

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.

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.

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 from 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.

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.

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.

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 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 auditors 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.

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 auditors 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.

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 Mantooh for Cemetery Contractual Services in the amount of \$390.
 - Check # 10230 to NM Taxation and Revenue in the amount of \$2,860.46.

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.

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.

Section II – Financial Statement Findings (continued)

FS2010-1 Designated Cash Appropriations Exceeded Prior Year Available Balances

Condition: The City’s budgeted expenditures exceeded the total of budgeted revenues and beginning cash and available receivables balances for the year ended June 30, 2010 in the following funds:

	Designated Cash	Beginning Year Cash & A/R Available	Cash Appropriation in Excess of Available
Cemetery	\$ 50,000	\$ 27,245	\$ 22,755

Criteria: According to State Audit Rule 2.2.2.10 if budgeted expenditures exceed budgeted revenues and the agency budgets cash then that amount must not exceed the beginning fiscal year cash and receivables.

Effect: The City’s expenditures authorized expending nonexistent revenue which is prohibited by Section 6-6-11, NMSA 1978, which limits yearly expenditures to the amount of income.

Cause: Inadequate monitoring of the budget process.

Auditors’ Recommendation: Budgets for future years should be revised to ensure all funds have adequate budget authority for appropriations. Greater attention should be give to the budget preparation and monitoring process.

Agency Response: The City will follow the auditors recommendation. Under the current management structure, greater attention is being given to the budget preparation and monitoring process.

Section II – Financial Statement Findings (continued)

FS2010-2 Noncompliance with the Procurement Code

Condition: During our test work regarding compliance with the NM Procurement Code, we noted that the City was unable to produce a list of bids for the 2010 fiscal year.

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 that the City be able to produce documentation of contracts.

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 good accounting procurement practices.

Cause: Bid files are currently kept with the originating department and no list is kept in the finance department.

Auditors' Recommendation: We recommend that all bids flow through the finance department and documentation be kept there once the project is complete.

Agency Response: The City will follow the auditors recommendation.

Section II – Financial Statement Findings (continued)

FS2010-3 Journal Entries

Condition: During our test work over journal entries we determined that five out of five journal entries tested lacked proof of approval from either the City Manager or the Mayor.

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 approval of journal entries.

Effect: Without approval of journal entries, entries could be made in an effort to hide fraudulent activity.

Cause: A process is not in place to approve journal entries.

Auditors' Recommendation: We recommend that the City institute a policy where journal entries must be reviewed and approved by someone other than the preparer of the entry.

Agency Response: The City will follow the auditors recommendation.

Section II – Financial Statement Findings (continued)

FS2010-4 Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets

Condition: During our audit we noted that there were assets disposed of by the City which were not reported to the State Auditor’s Office prior to the disposition.

Criteria: NM State Auditor Rule 2.2.2.10 requires agencies disposing of assets which have been reported on their inventory listing to notify the State Auditor’s Office 30 days prior to disposition of such assets.

Effect: There were assets disposed of that were not properly reported to the State Auditor. The City of Jal was not in compliance with the NM State Audit Rule.

Cause: Management of the City was unaware that this was a requirement of the State Auditor.

Auditors’ Recommendation: We recommend that the City institute a policy that assets which have been listed on the City’s asset inventory be reported to the State Auditor’s Office 30 days prior to being disposed of.

Agency Response: The City will follow the auditors recommendation.

Section II – Financial Statement Findings (continued)

FS2010-5 PERA and RHC Reconciliations

Condition: The City was unable to provide a reconciliation of total wages paid in fiscal year 2010 to PERA and RHC wages for the same period.

Criteria: Section 2.2.2.10G(7) NMAC requires that total wages paid by a public entity must be reported for the Public Employees Retirement Act and Retiree Health Care.

Effect: Total contributions due to the Public Employees Retirement Fund or Retiree Health Care Fund may not have been accurately reported or remitted.

Cause: Management of the City did not have confidence that their reports were correct.

Auditors' Recommendation: We recommend that the City perform a reconciliation of total wages paid per pay period to the total wages subject to PERA and RHC withholding per pay period.

Agency Response: The City will follow the auditor's recommendation and will perform a reconciliation of total wages paid per pay period to total wages paid subject to PERA and RHC withholding per pay period.

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Responses
June 30, 2010

Section III - Schedule of Prior Year Audit Findings

FS 2008-3	Disaster Recovery Plan	Repeated
FS 2009-1	Record Keeping	Repeated
FS 2009-2	Capital Asset Listing	Repeated
FS 2009-3	Inaccurate Bank Reconciliations	Resolved
FS 2009-4	Segregation of Duties	Repeated
FS 2009-5	Books Were Not Ready in a Timely Manner	Resolved
FS 2009-6	Late Audit Report	Repeated
FS 2009-7	Expenditures in Excess of Budget	Revised and Repeated
FS 2009-8	Auditor Prepared Financial Statements	Repeated
FS 2009-9	Deficiencies in Internal Control Structure Design, Operation, and Oversight Comprehensive Documentation of Internal Controls	Repeated
FS 2009-10	Deficiencies in Internal Control Structure Design, Operation, and Oversight Governing Body Level of Knowledge	Repeated
FS 2009-11	Deficiencies in Internal Control Structure Design, Operation, and Oversight Planning Process to Evaluate Governing Body	Repeated
FS 2009-12	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Evaluation of Accounting and Finance Expertise	Repeated
FS 2009-13	Deficiencies in Internal Control Structure Design, Operation, and Oversight Removing Incentive	Repeated
FS 2009-14	Deficiencies in Internal Control Structure Design, Operation, and Oversight Following Ethical Guidelines	Repeated
FS 2009-15	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Approval of Changes in Key Relationships	Repeated
FS 2009-16	Deficiencies in Internal Control Structure Design, Operation, and Oversight Relationships with Professional Third Parties	Repeated
FS 2009-17	Deficiencies in Internal Control Structure Design, Operation, and Oversight Risk Appetite	Repeated
FS 2009-18	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Analyzing New Activities	Repeated
FS 2009-19	Deficiencies in Internal Control Structure Design, Operation, and Oversight Attitudes to Support an Effective Control Environment	Repeated
FS 2009-20	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Emphasis on Appropriate Behavior	Repeated
FS 2009-21	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Education on the Importance of Internal Controls	Repeated
FS 2009-22	Deficiencies in Internal Control Structure Design, Operation, and Oversight Risk Identifiers Not Communicated	Repeated
FS 2009-23	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Promotion of a Sound Control Environment	Repeated
FS 2009-24	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Attention to Known Internal Control Weaknesses	Repeated
FS 2009-25	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Importance Place on the Accounting Function	Repeated
FS 2009-26	Deficiencies in Internal Control Structure Design, Operation, and Oversight Central Accounting Function does not have Proper Authority	Repeated
FS 2009-27	Deficiencies in Internal Control Structure Design, Operation, and Oversight Financial Reporting Objectives not Established and Clearly Articulated	Repeated
FS 2009-28	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Objective Process in Selecting Accounting Principles	Repeated
FS 2009-29	Deficiencies in Internal Control Structure Design, Operation, and Oversight Tone at the Top	Repeated

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Responses
June 30, 2010

Section III - Schedule of Prior Year Audit Findings (continued)

FS 2009-30	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Establishing Financial Reporting Objectives	Repeated
FS 2009-31	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Disciplined, Objective Process in Selecting Accounting Principals and Developing Estimates	Repeated
FS 2009-32	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Evaluation of Organizational Structure	Repeated
FS 2009-33	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Defining Key Areas of Authority and Responsibility	Repeated
FS 2009-34	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Establishing Internal Reporting Responsibilities for Each Department	Repeated
FS 2009-35	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Structure for Assigning Ownership of Data	Repeated
FS 2009-36	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Policies that are Adequately Communicated to All Employees	Repeated
FS 2009-37	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Adequate Supervision of Decentralized Operations	Repeated
FS 2009-38	Deficiencies in Internal Control Structure Design, Operation, and Oversight Governing Body does not Oversee Disclosures	Repeated
FS 2009-39	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Process to Support the Identification, Selection, and Application of Alternate Accounting Treatments	Repeated
FS 2009-40	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Process to Discuss Disclosure Laws and Standards	Repeated
FS 2009-41	Deficiencies in Internal Control Structure Design, Operation, and Oversight Single Individuals Capable of Exerting Substantial Influence over the City's Affairs	Repeated
FS 2009-42	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	Repeated
FS 2009-43	Deficiencies in Internal Control Structure Design, Operation, and Oversight Human Resource Policies Not Clearly Communicated	Repeated
FS 2009-44	Deficiencies in Internal Control Structure Design, Operation, and Oversight Recruitment and Retention Practices Not Guided by Principles of Integrity	Repeated
FS 2009-45	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Screening Procedures for Job Applicants	Repeated
FS 2009-46	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Formal Procedures for the Ongoing Training and Motivation of Employees	Repeated
FS 2009-47	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	Repeated
FS 2009-48	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Establishing Competencies Prior to Hiring of Key Positions	Repeated
FS 2009-49	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Appropriate Competencies by Employees	Repeated
FS 2009-50	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Demonstration of a Commitment to Provide Sufficient Accounting and Financial Personnel	Repeated
FS 2009-51	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Supplementing In-House Competencies	Repeated

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Responses
June 30, 2010

Section III - Schedule of Prior Year Audit Findings (continued)

FS 2009-52	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Mechanisms to Identify Risks Applicable to the City and Financial Reporting Objectives	Repeated
FS 2009-53	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Risk Evaluation	Repeated
FS 2009-54	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	Repeated
FS 2009-55	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Process to Identify Risks Associated with Nonroutine Transactions	Repeated
FS 2009-56	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Identification of Risks Potentially Impacting the Achievement of Financial Reporting Objectives	Repeated
FS 2009-57	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Applying Forward-Looking Mechanisms	Repeated
FS 2009-58	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Identification of Risks Related to Laws or Regulations	Repeated
FS 2009-59	Deficiencies in Internal Control Structure Design, Operation and Oversight Risks Related to Employees are Not Appropriately Identified	Repeated
FS 2009-60	Deficiencies in Internal Control Structure Design, Operation and Oversight Fraud Assessments are Not Part of the Risk Identification Process	Repeated
FS 2009-61	Deficiencies in Internal Control Structure Design, Operation and Oversight Assessment of Fraud Risks Does Not Consider Incentives and Pressures, Attitudes, and Rationalizations, and Opportunity	Repeated
FS 2009-62	Deficiencies in Internal Control Structure Design, Operation and Oversight Assessment of Fraud Risk Does Not Consider Risk Factors Relevant to its Activities	Repeated
FS 2009-63	Deficiencies in Internal Control Structure Design, Operation and Oversight Potential for Fraud in High-Risk Areas is Not Assessed	Repeated
FS 2009-64	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Understanding on the Part of the Governing Body on Fraud Risk	Repeated
FS 2009-65	Deficiencies in Internal Control Structure Design, Operation and Oversight Significance of Potential Fraud Does Not Consider both Quantitative and Qualitative Factors	Repeated
FS 2009-66	Deficiencies in Internal Control Structure Design, Operation and Oversight Management Does Not Identify All Significant Relationships	Repeated
FS 2009-67	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	Repeated
FS 2009-68	Deficiencies in Internal Control Structure Design, Operation and Oversight Governing Body Lacks Significance of Related Party Transactions	Repeated
FS 2009-69	Deficiencies in Internal Control Structure Design, Operation and Oversight Periodic Risk Assessments are Not Reviewed by Management	Repeated
FS 2009-70	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	Repeated
FS 2009-71	Deficiencies in Internal Control Structure Design, Operation and Oversight Controls are Not Examined when Risks are Identified	Repeated
FS 2009-72	Deficiencies in Internal Control Structure Design, Operation and Oversight Identified Fraud Risk Factors are Not Tracked	Repeated
FS 2009-73	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Process to Identify and Address Changes in GAAP	Repeated

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Responses
June 30, 2010

Section III - Schedule of Prior Year Audit Findings (continued)

FS 2009-74	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	Repeated
FS 2009-75	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Process to Identify Changes Within Operating Practices	Repeated
FS 2009-76	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Process to Maintain Current Knowledge of GAAP Principles and Other Relevant Pronouncements	Repeated
FS 2009-77	Deficiencies in Internal Control Structure Design, Operation and Oversight Operating Information does not Serve as a Basis for Reliable Financial Reporting	Repeated
FS 2009-78	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Procedures to Determine when Control Objectives are Met	Repeated
FS 2009-79	Deficiencies in Internal Control Structure Design, Operation and Oversight Data Underlying Financial Statements are not Captured Completely, Accurately, and Timely	Repeated
FS 2009-80	Deficiencies in Internal Control Structure Design, Operation and Oversight Financial Personnel do not Meet with Management to Discuss Operational Results	Repeated
FS 2009-81	Deficiencies in Internal Control Structure Design, Operation and Oversight Financial Personnel do not Receive Detailed Information when Reviewing Financial Results	Repeated
FS 2009-82	Deficiencies in Internal Control Structure Design, Operation and Oversight Established Deadlines do not Exist for Period End Reporting	Repeated
FS 2009-83	Deficiencies in Internal Control Structure Design, Operation and Oversight An Open Communications Channel does not Exist Between Management and the City Council	Repeated
FS 2009-84	Deficiencies in Internal Control Structure Design, Operation and Oversight Effectiveness of Those Charged with Governance is not Supported by Timely Communications	Repeated
FS 2009-85	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Communication Approaches for Dealing with Inappropriate Behavior	Repeated
FS 2009-86	Deficiencies in Internal Control Structure Design, Operation and Oversight Employees do not Receive Adequate Information to Complete their Job Responsibilities	Repeated
FS 2009-87	Deficiencies in Internal Control Structure Design, Operation and Oversight Upstream Communication is not Used by Management to Improve Performance and Enhance Internal Control	Repeated
FS 2009-88	Deficiencies in Internal Control Structure Design, Operation and Oversight Separate Lines of Communication are not in Place in Case Normal Channels are Ineffective	Repeated
FS 2009-89	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Whistleblower Policy	Repeated
FS 2009-90	Deficiencies in Internal Control Structure Design, Operation and Oversight Reported Potential Improprieties are not Reviewed, Investigated, and Resolved in a Timely Manner	Repeated
FS 2009-91	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Process for Tracking Communications from Citizens, Vendors, Regulators, and Other External Parties	Repeated
FS 2009-92	Deficiencies in Internal Control Structure Design, Operation and Oversight Ongoing Monitoring is not Built into Operations Throughout the City	Repeated
FS 2009-93	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	Repeated

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Responses
June 30, 2010

Schedule IV
Page 112 of 112

Section III - Schedule of Prior Year Audit Findings (continued)

FS 2009-94	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	Repeated
FS 2009-95	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Other Quasi-Audit Functions that Report to Management and Affect the Control Environment	Repeated
FS 2009-96	Deficiencies in Internal Control Structure Design, Operation and Oversight Reports from External Sources are not Considered for their Internal Control Implications	Repeated
FS 2009-97	Deficiencies in Internal Control Structure Design, Operation and Oversight Lack of Separate Evaluations of Internal Controls by Management	Repeated
FS 2009-98	Deficiencies in Internal Control Structure Design, Operation and Oversight Findings of Internal Control Deficiencies are not Reported to the Appropriate Level	Repeated
FS 2009-99	Deficiencies in Internal Control Structure Design, Operation and Oversight Deficiencies that Affect Internal Control are not Communicated	Repeated
FS 2009-100	Deficiencies in Internal Control Structure Design, Operation and Oversight Altered Receipts Turned in for Reimbursement	Repeated
FS 2009-101	Deficiencies in Internal Control Structure Design, Operation and Oversight Disbursements	Repeated
FS 2009-102	Deficiencies in Internal Control Structure Design, Operation and Oversight Credit Cards	Repeated

STATE OF NEW MEXICO

City of Jal
Other Disclosures
June 30, 2010

Exit Conference

An exit conference was held on September 16, 2011. In attendance were the following:

Representing the City of Jal:

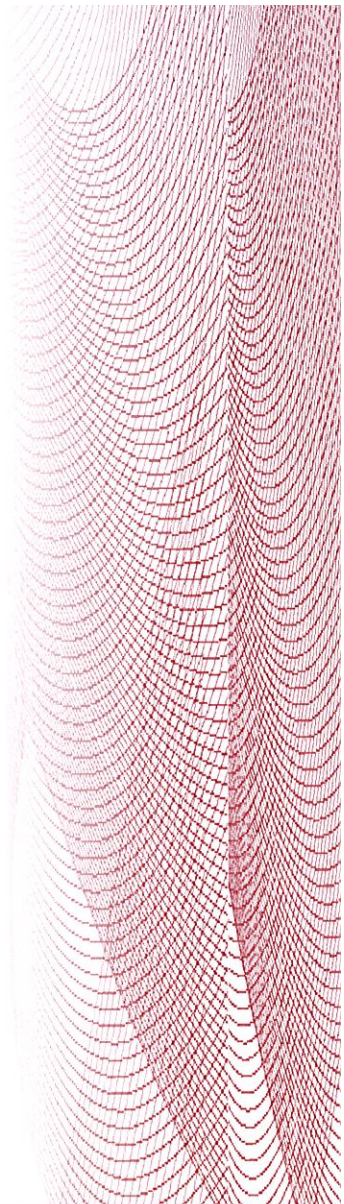
Mike Orr	Councilor
Curtis Schrader	City Manager
Jenny Edwards	City Clerk/Treasurer

Representing Accounting & Consulting Group, LLP:

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 to prepare them. Accounting & Consulting Group, LLP prepared the financial statements of the City of Jal from the original books and records provided to them by the management of the City.



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