

**STATE OF NEW MEXICO  
VILLAGE OF RUIDOSO  
REGIONAL WASTEWATER TREATMENT PLANT**

**A COMPONENT UNIT OF  
THE VILLAGE OF RUIDOSO, NEW MEXICO**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2009**

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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
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June 30, 2009

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**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Official Roster  
June 30, 2009

**Joint Utility Board Members**

Lonnie R. Nunley	Chairman
William P. Morris	Member
Carol Virden	Member
Tom Armstrong	Member
Dave Parks	Member

**Administrative Officials**

Debbie Lee	Village Manager
Nancy Klingman	Director of Finance

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**FINANCIAL SECTION**

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Accounting & Consulting Group, LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico  
and  
Joint Utility Board Members  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
Ruidoso, New Mexico

We were engaged to audit the accompanying financial statements of the business-type activities of the Village of Ruidoso, Regional Wastewater Treatment Plant (the "Plant"), a component unit of the Village of Ruidoso, New Mexico (the "Village"), as of and for the year ended June 30, 2009, which collectively comprise the Village of Ruidoso, Regional Wastewater Treatment Plant's basic financial statements as listed in the table of contents. We were also engaged to audit the budgetary comparison for the year ended June 30, 2009 listed as supplementary information in the table of contents. These financial statements are the responsibility of the Plant'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 agency'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 Plant'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 business-type activities of the Plant and the budgetary comparison presented as supplementary information as of and for the year ended June 30, 2009, as listed in the table of contents.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2011 on our consideration of the Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Village of Ruidoso, Regional Wastewater Treatment Plant 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 basic financial statements.

We were engaged to conduct an audit for the purpose of forming opinions on the financial statements that comprise the basic financial statements and the budgetary comparison. The accompanying financial information listed as supporting Schedules I and II in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion regarding whether Schedules I and II are fairly stated, in all material respects, in relation to the basic 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, L.L.P.*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
May 12, 2011

**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Statement of Net Assets  
June 30, 2009

Exhibit A-1

	Total
<b>ASSETS</b>	
<i>Current assets:</i>	
Investments	\$ 3,542,198
Customer receivables (net of allowance for doubtful accounts)	359,838
Other receivables	1,697
<i>Total current assets</i>	3,903,733
<i>Noncurrent assets:</i>	
Capital assets	11,649,272
Accumulated depreciation	(6,808,317)
Bond issuance costs, net of accumulated amortization of \$65,071	-
<i>Total noncurrent assets</i>	4,840,955
<i>Total assets</i>	\$ 8,744,688
<b>LIABILITIES AND NET ASSETS</b>	
<i>Current liabilities:</i>	
Cash deficit	\$ 1,047,204
Accounts payable	21,548
Accrued interest	-
Notes and bonds payable, current portion	68,758
<i>Total current liabilities</i>	1,137,510
<i>Non-current liabilities :</i>	
Notes and bonds payable	1,120,307
<i>Total liabilities</i>	2,257,817
<i>Net assets:</i>	
Invested in capital assets, net of related debt	3,651,890
Unrestricted	2,834,981
<i>Total net assets</i>	6,486,871
<i>Total liabilities and net assets</i>	\$ 8,744,688

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2009

Exhibit A-2

<i>Operating revenues:</i>	
Charges for services	\$ 3,563,348
<i>Total operating revenues</i>	<u>3,563,348</u>
<i>Operating expenses:</i>	
General and administrative	197,594
Personnel services	495,267
Contractual services	264,069
Supplies and purchased power	6,043
Maintenance and materials	40,313
Utilities	301,087
Depreciation	381,381
Amortization	3,615
<i>Total operating expenses</i>	<u>1,689,369</u>
<i>Operating income (loss)</i>	<u>1,873,979</u>
<i>Non-operating revenues (expenses):</i>	
Operating grants	30,000
Interest income	1,432
Interest expense	(40,795)
Gross receipts tax expense	(142,240)
Miscellaneous income	92,556
<i>Total non-operating revenues (expenses)</i>	<u>(59,047)</u>
Capital grants	-
Transfers out	(343,614)
<i>Total capital grants and net transfers</i>	<u>(343,614)</u>
<i>Change in net assets</i>	1,471,318
<i>Net assets - beginning of year</i>	<u>5,015,553</u>
<i>Total net assets - end of year</i>	<u>\$ 6,486,871</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Statement of Cash Flows  
For the Year Ended June 30, 2009

<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 3,499,948
Cash payments to employees for services	(513,314)
Cash payments to suppliers for goods and services	(785,638)
<i>Net cash provided (used) by operating activities</i>	<u>2,200,996</u>
<i>Cash flows from noncapital financing activities:</i>	
Operating grants	30,000
Gross receipts tax expenses	(142,240)
Miscellaneous income	92,556
Change in other receivables	572,168
Change in noncurrent accrued compensated absences	(98,283)
Internal transfers and loans	(343,614)
<i>Net cash provided (used) by noncapital financing activities</i>	<u>110,587</u>
<i>Cash flows from capital and related financing activities:</i>	
Capital grants	-
Acquisition of capital assets	-
Principal paid on capital debt	(99,840)
Interest paid on capital debt	(42,889)
Bond issuance costs	(3,615)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(146,344)</u>
<i>Cash flows from investing activities:</i>	
Interest on investments	1,432
Acquisition of investments	(3,145,198)
<i>Net cash provided (used) by investing activities</i>	<u>(3,143,766)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(978,527)
<i>Cash and cash equivalents - beginning of year</i>	<u>(68,677)</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ (1,047,204)</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 1,873,979
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	381,381
Amortization	3,615
Changes in assets and liabilities	
Customer receivables	(63,400)
Inventory	1,920
Accounts payable	21,548
Accrued payroll expenses	(18,047)
<i>Net cash provided (used) by operating activities</i>	<u>\$ 2,200,996</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Regional Wastewater Treatment Plant (Plant) was established on July 3, 1974 with Plant from a joint powers agreement (JPA) between the Village of Ruidoso, and the City of Ruidoso Downs. The JPA created a Joint Use Board for the implementation of planning, construction, and regional control of wastewater treatment facilities for the Village of Ruidoso, the City of Ruidoso Downs and the surrounding area.

The Joint Use Board consists of five members and a clerk. The five members consist of the two mayors (or mayor pro-tem); a representative of the county commission (Lincoln County) confirmed by the council of each municipality, and two additional members, one each nominated by the mayor and confirmed by the council of each respective municipality. The terms of the mayor and members shall be coincident with their term in office. The term of the representative of the county commission shall be coincident with the term of the county commission. The term of the two additional members, nominated by the mayor and confirmed by the council of each respective municipality, shall be coincident with the terms of the nominating mayors. The Board's clerk shall be the fiscal agent for the cooperating Village. The clerk's duties shall be subject to the advice and consent of the Board.

For financial purposes only, the Plant is a discretely presented component unit of the Village of Ruidoso. The Plant was created to plan, construct, and operate a wastewater treatment plant.

The financial statements of the Plant have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements and notes are the representation of the Plant's management who is responsible for their integrity and objectivity. The more significant of the government's accounting policies are described below.

The Village of Ruidoso adopted ordinance 2007-11 on November 27, 2007, amending the municipal code of ordinances, specifically Appendix A, the fee schedule to incorporate wastewater rate fees. The wastewater fee charges were effective and billing began January 2008. These fees will be utilized to defray a portion of the costs of improvements to the wastewater system.

***A. Financial Reporting Entity***

In evaluating how to define the reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. The most primary standard for including or excluding a potential component unit with 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 Plant, 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, or whether the activity is conducted within the geographical boundaries of the government and is generally available to its citizens.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***A. Financial Reporting Entity (continued)***

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 Plant is able to exercise oversight responsibilities. Based upon the application of these criteria, the Plant has no component units; however, the Plant is a component unit of the Village of Ruidoso.

***B. Basis of Accounting and Measurement Focus***

The Plant's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting, the Plant has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB Pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this limitation. The Plant has elected not to follow subsequent private-sector guidance.

The accounts of this Plant are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Plant's assets, liabilities, net assets, revenues and expenses.

Enterprise funds account for activities: (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulation that the activity's cost of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs, such as depreciation or debt service. The Plant distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Plant's ongoing operation. The principal operating revenues are charges for services. Operating expenses include the cost of rental operations, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The accounting and financial reporting treatment applied to the Plant is determined by its measurement focus. The transactions of the Plant are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets such as total assets net of total liabilities, are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components. The Plant's operating statement presents increases (revenues) and decreases (expenses) in net total assets.



**STATE OF NEW MEXICO**  
Village of Ruidoso  
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A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. *Assets, Liabilities, and Net Assets***

**Deposits and Investments**

The Plant is authorized under the provision of 6-10-10 NMSA 1978, as amended, to deposit its money in banks, savings and loan association and/or credit unions whose accounts are insured by an Agency of the United States. The Plant'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.

Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to Section 6-10-10.1 NMSA 1978, as amended, the local public body finance official shall notify and make such funds available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the state treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.

State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit, be collateralized by the depository thrift or banking institution. Currently, state statutes require that a minimum of fifty percent (50%) of balances on deposit with any one institution must be collateralized, with higher requirements up to one hundred percent (100%) for financially troubled institutions. If the securities pledged are United States government securities, they are pledged at market value, if they are New Mexico municipal bonds, they are pledged at par value.

**Accounts Receivable**

All trade receivables are shown net of an allowance for doubtful accounts. The allowance is comprised of all accounts receivable which management estimates to be uncollectible.

**Inventory**

The inventory held consists of expendable supplies held for consumption and recorded at cost. The cost is recorded as an expenditure at the time of consumption. Inventory for the Plant is valued at cost using the First In, First Out Method.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Capital assets, which include property, plant, and equipment, are defined by the Plant 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 historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). Contributed capital assets are recorded at estimated fair market value at the date of donation.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, Liabilities, and Net Assets (continued)**

**Capital Assets (continued)**

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.

Depreciation is recorded using the straight-line method based on the estimated useful life of the asset. The following lives are utilized:

<u>Assets</u>	<u>Years</u>
Buildings	40 years
Utility system	5-33 years
Furniture, fixtures and equipment	5 years
Building improvements	40 years
Vehicles	10 years

**Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources is reflected as a liability of the Plant. In accordance with the provisions of the Government Accounting Standards Board, Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Annual leave is earned according to the following schedule:

<u>Length of Employment</u>	<u>Accrual Rate</u>
1 to 12 months	3.39 hrs/pay period
13 to 24 months	3.70 hrs/pay period
25 to 36 months	4.00 hrs/pay period
37 to 48 months	4.31 hrs/pay period
49 to 168 months	4.62 hrs/pay period
169 months and over	6.16 hrs/pay period

Vacation leave balance shall not exceed 240 hours. Accumulated unused vacation is payable upon retirement or termination from employment. The Plant allows 40-hour employees to accumulated unused sick leave at the rate of 3.00 hours per pay period. There is no maximum on sick leave accrual. A percentage of the accumulated unused sick leave is paid upon voluntary termination from employment after the employee's fifth year of continuous full-time employment. Accumulated sick leave will be paid upon retirement.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, Liabilities, and Net Assets (continued)**

**Capital Assets (continued)**

**Deferred Revenue**

The Plant reports deferred revenue in its statement of net assets, when applicable. Deferred revenues arise when the Plant receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met, or when the Plant has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.

**Net Assets**

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components:

- **Invested in Capital Assets, Net of Related Debt** – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – Net assets are reported as restricted when constraints placed on net asset use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – Net assets that do not meet the definition of “restricted” and “Invested in capital assets, net of related debt.”

**Unrestricted and Restricted Revenues**

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

**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 such as the lives of capital assets. Accordingly, actual results could differ from those estimates. Significant estimates in the Plant’s financial statements include depreciation on capital assets, the current portion of accrued compensated absences and the allowance for uncollectible accounts.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***D. Budgets***

Budgets for all funds are prepared by management and approved by the Commission and the New Mexico Department of Finance and Administration. The Clerk is responsible for preparing the budget. The appropriated budget is prepared by the line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the Joint Use Board for approval by resolution.

The proposed budget is then submitted by June 1<sup>st</sup> to the New Mexico Department of Finance and Administration's Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1<sup>st</sup> with final certifications of the budget by the first Monday of September. Once adopted, the expenditure section of the budget is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

The Plant does not budget depreciation expense; therefore, the budget is not prepared in accordance with generally accepted accounting principles. The budget is a guideline to operations and is not a legally enforceable document. The Plant's level of budgetary control is at the total fund level.

**NOTE 2. DEPOSITS AND INVESTMENTS**

State Statutes authorize the investment of Plant 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 Plant properly followed State investment requirements as of June 30, 2009.

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 Plant. 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.

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. However, on October 14, 2008, the FDIC announced a new Transaction Account Guarantee Program, that provides depositors' with unlimited coverage for noninterest-bearing transaction accounts. With regards to this Transaction Guarantee Program, noninterest-bearing checking accounts include Demand Deposit Accounts (DDA's) and any other transaction accounts that has unlimited withdrawals and that cannot earn interest. Also included in this program are low-interest NOW accounts that cannot earn more than 0.5% interest.

New Mexico State statutes requires collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Plant for at least one-half of the amount on deposit with the institution.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 2. DEPOSITS AND INVESTMENTS (continued)**

**Custodial Credit Risk – Deposits**

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the Plant’s deposits may not be returned to it. The Plant does not have a 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, 2009, none of the Plant’s deposits was exposed to custodial credit risk. \$0 was uninsured and collateralized by securities held by pledging institutions or by its trust department or agent in other than the Plant’s name and \$0 was uninsured and uncollateralized.

	<u>Wells Fargo Bank</u>
Amount of deposits	\$ -
FDIC coverage	-
Total uninsured public funds	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Plant's name	-
Uninsured and uncollateralized	\$ -
Collateral requirement (102% of repurchase agreement)	\$ -
Pledged collateral	-
Over (under) collateralized	\$ -

The collateral pledged is listed on Schedule II of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, city or political subdivision of the State of New Mexico.

**Investments**

The Plant’s investments at June 30, 2009 consisted of the following:

Investments	Rated	Weighted Average Maturity	Fair Market Value
Wells Fargo Securities	Unknown	Unknown	\$ 3,542,198

**STATE OF NEW MEXICO**  
Village of Ruidoso  
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Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 2. DEPOSITS AND INVESTMENTS (continued)**

**Reconciliation to Statement of Net Assets**

The carrying amount of deposits shown above is included in the Plant's statement of net assets as follows:

Cash deficit per Exhibit A-1	\$ (1,047,204)
Add: Outstanding checks and other reconciling items	<u>1,047,204</u>
Bank balance of deposits	<u>\$ -</u>

**NOTE 3. RECEIVABLES**

The Plant's receivables as of June 30, 2009 are shown as follows:

	<u>Plant</u>
Customer receivables	\$ 376,803
Allowance for doubtful accounts	(16,965)
Other receivables:	
Charges for services	<u>1,697</u>
Bank balance of deposits	<u>\$ 361,535</u>

**NOTE 4. CAPITAL ASSETS**

	<u>Balance, June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2009</u>
<b>Regional Wastewater Treatment Plant</b>				
Capital assets not being depreciated:				
Land	\$ 892,723	\$ -	\$ -	\$ 892,723
Total	<u>892,723</u>	<u>-</u>	<u>-</u>	<u>892,723</u>
Capital assets being depreciated:				
Buildings and improvements	9,681,976	-	-	9,681,976
Utility system	397,347	-	-	397,347
Equipment	<u>677,226</u>	<u>-</u>	<u>-</u>	<u>677,226</u>
Total	<u>10,756,549</u>	<u>-</u>	<u>-</u>	<u>10,756,549</u>
Less accumulated depreciation:				
Buildings and improvements	5,615,974	269,277	-	5,885,251
Utility system	161,746	68,135	-	229,881
Equipment	<u>649,216</u>	<u>43,969</u>	<u>-</u>	<u>693,185</u>
Total	<u>6,426,936</u>	<u>381,381</u>	<u>-</u>	<u>6,808,317</u>
Total capital assets, net of depreciation	<u>\$ 5,222,336</u>	<u>\$ (381,381)</u>	<u>\$ -</u>	<u>\$ 4,840,955</u>

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 4. CAPITAL ASSETS (continued)**

The Plant has continued to maintain the cost of its property and equipment and update its depreciation schedule as information becomes available. Depreciation expense for the year ended June 30, 2009 totaled \$381,381.

**NOTE 5. LONG-TERM LIABILITIES**

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2009.

	Balance, June 30, 2008	Additions	Retirements	Balance, June 30, 2009	Due Within One Year
Lease purchase payable	\$ 32,430	\$ -	\$ 32,430	\$ -	\$ -
Notes payable	1,256,475	-	67,410	1,189,065	68,758
Compensated absences	98,283	-	98,283	-	-
Totals	<u>\$ 1,387,188</u>	<u>\$ -</u>	<u>\$ 198,123</u>	<u>\$ 1,189,065</u>	<u>\$ 68,758</u>

**Notes Payable**

In prior years, the Plant borrowed \$1,200,000 from the New Mexico Environment Department (NMED) for the purpose of completing improvements to the wastewater treatment plant. On June 30, 2004, the Plant refinanced the note with NMED in the amount of \$1,513,154. Principal and interest are paid annually. The note is secured by and payable from the net revenues of the Regional Wastewater Treatment Plant.

Outstanding notes payable at the end of the year for the Plant are as follows:

Description	Original Issue	Final Maturity	Interest Rate	Balance, June 30, 2009
2004 NMED Wastewater Construction	\$ 1,513,154	5/1/2023	2.00%	<u>\$ 1,189,065</u>

Debt service requirements on notes payable for the Plant at June 30, 2009 are as follows:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Debt Service
2010	\$ 68,758	\$ 23,781	\$ 92,539
2011	70,133	22,406	92,539
2012	71,536	21,003	92,539
2013	72,967	19,573	92,540
2014	74,426	18,113	92,539
2015-2019	395,063	67,635	462,698
2020-2024	436,182	26,516	462,698
Total	<u>\$ 1,189,065</u>	<u>\$ 199,027</u>	<u>\$ 1,388,092</u>

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 6. CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Plant expects such amounts, if any, to be immaterial.

**NOTE 7. RISK MANAGEMENT**

The Plant is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Plant (through the commingling of funds with the Village of Ruidoso) has joined together with other local governments in the State and obtained insurance through the New Mexico Self-Insurer's Fund, a public entity risk pool currently operating as common risk management and insurance program for local governments. The Plant (through the commingling of funds with the Village of Ruidoso) pays an annual premium to the New Mexico Self-Insurer's Fund for its general insurance coverage, and all risk of loss is transferred.

**NOTE 8. DEFERRED COMPENSATION PLAN**

The Plant offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. International City Manager Association (ICMA) administers the Plan. The assets and liabilities are held in trust by ICMA.

**NOTE 9. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments of out-of-pocket payments of eligible retirees. As authorized under Section 9D of Chapter 6, Laws of 1990, the Plant has elected not to participate in the program by adoption of an ordinance.

**NOTE 10. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Plan Description.** Substantially all of the Plant'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 benefits, 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 for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

**Funding Policy.** Plan members are required to contribute 4.75% of their gross salary. The Plant is required to contribute 13.55% of the gross covered salary. The contribution requirements of plan members and the Plant are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Plant's contributions to PERA for the fiscal years ending June 30, 2009, 2008 and 2007 were \$40,772, \$42,634, and \$43,452, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE 11. COMMITMENTS**

The Plant does not have any commitments at June 30, 2009.



**SUPPLEMENTARY INFORMATION**

## STATE OF NEW MEXICO

Statement A-1

Village of Ruidoso

Regional Wastewater Treatment Plant

A Component Unit of the Village of Ruidoso

Statement of Revenues, Expenses and Changes in Net Assets

Budget (GAAP Basis) and Actual

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ 1,606,055	\$ 1,606,055	\$ 3,563,348	\$ 1,957,293
<i>Total operating revenues</i>	<u>1,606,055</u>	<u>1,606,055</u>	<u>3,563,348</u>	<u>1,957,293</u>
<i>Operating expenses:</i>				
General and administrative	202,032	203,432	197,594	5,838
Personnel services	605,752	605,752	495,267	110,485
Contractual services	360,334	330,880	264,069	66,811
Supplies and purchased power	14,200	14,200	6,043	8,157
Maintenance and materials	60,900	59,500	40,313	19,187
Utilities	234,000	234,000	301,087	(67,087)
<i>Total operating expenses</i>	<u>1,477,218</u>	<u>1,447,764</u>	<u>1,304,373</u>	<u>143,391</u>
<i>Operating income (loss)</i>	<u>128,837</u>	<u>158,291</u>	<u>2,258,975</u>	<u>2,100,684</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	-	-	30,000	30,000
Interest income	10,000	10,000	1,432	(8,568)
Interest expense	-	-	(40,795)	(40,795)
Gross receipts tax expense	(46,297)	(46,297)	(142,240)	(95,943)
Miscellaneous income	-	-	92,556	92,556
<i>Total non-operating revenues (expenses)</i>	<u>(36,297)</u>	<u>(36,297)</u>	<u>(59,047)</u>	<u>(22,750)</u>
Capital grants	-	-	-	-
Transfers out	-	(205,349)	(343,614)	(138,265)
<i>Total capital grants and net transfers</i>	<u>-</u>	<u>(205,349)</u>	<u>(343,614)</u>	<u>(138,265)</u>
<i>Change in net assets</i>	92,540	(83,355)	1,856,314	1,939,669
Designated cash (budgeted increase in cash)	(92,540)	83,355	-	(83,355)
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>5,015,553</u>	<u>5,015,553</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,871,867</u>	<u>\$ 6,871,867</u>
<i>Change in net assets, above</i>			\$ 1,856,314	
Adjustments for depreciation and amortization			(384,996)	
<i>Change in net assets (Exhibit A-2)</i>			<u>\$ 1,471,318</u>	

The accompanying notes are an integral part of these financial statements

**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Schedule of Deposit and Investment Accounts  
For the Year Ended June 30, 2009

Schedule I

<u>Bank Account Type/Name</u>	<u>Deposits</u>	<u>Investments</u>	<u>Totals</u>
	<u>Wells Fargo Bank</u>	<u>Wells Fargo Securities</u>	
WWTP - Checking	\$ -	\$ -	\$ -
Investments	-	3,542,198	3,542,198
Total on deposit	-	3,542,198	3,542,198
Reconciling items	(1,047,204)	-	(1,047,204)
Reconciled balance	<u>\$ (1,047,204)</u>	<u>\$ 3,542,198</u>	<u>\$ 2,494,994</u>
Cash deficit per Exhibit A-1			\$ (1,047,204)
Investments per Exhibit A-1			<u>3,542,198</u>
Total deposits and investments			<u>\$ 2,494,994</u>

See accompanying independent auditors' report

**STATE OF NEW MEXICO**

Schedule II

Village of Ruidoso  
 Regional Wastewater Treatment Plant  
 A Component Unit of the Village of Ruidoso  
 Collateral Pledged by Depository for Public Funds  
 For the Year Ended June 30, 2009

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value</u>	
				<u>June 30, 2010</u>	<u>Location of Safekeeper</u>
Wells Fargo Bank	FGIOHOH00887	6/1/1937	3128MS7G9	\$ 165,740	San Francisco, California
	FGIOHOH00930	6/1/1937	31371NNV3	870,860	San Francisco, California
	FNCL 869705	4/1/1936	31409V3L5	716,232	San Francisco, California
	FNCL 953910	11/3/1937	31410SA80	5,085,183	San Francisco, California
	FNCL 671618	12/1/1932	31391NDX6	6,716,074	San Francisco, California
	FNCL 867385	4/1/1936	31409CUJ2	<u>2,617,874</u>	San Francisco, California
	Total Wells Fargo Bank			<u>\$ 16,171,963</u>	
	Village of Ruidoso - Primary Government			\$ 16,171,963	
	Village of Ruidoso - Component Unit			<u>-</u>	
	Total Pledged Collateral			<u>\$ 16,171,963</u>	

See accompanying independent auditors' report

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**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  
Village Manager, Mayor  
Village Council Members  
Village of Ruidoso  
Ruidoso, New Mexico

We were engaged to audit the accompanying financial statements of the business-type activities of the Village of Ruidoso, Regional Wastewater Treatment Plant (the “Plant”), a component unit of the Village of Ruidoso, New Mexico (the “Village”), as of and for the year ended June 30, 2009, which collectively comprise the Village of Ruidoso, Regional Wastewater Treatment Plant’s basic financial statements as listed in the table of contents and have issued our report thereon dated May 12, 2011. We were also engaged to audit the budgetary comparisons presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2009 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, expenses, 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 Plant’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 Plant’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plant’s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the 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 questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Plant’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 questioned costs as items FS2005-2, FS2005-11, FS2007-7, FS2007-11, FS2008-2, FS2008-3, and FS2009-1 through FS2009-124, inclusive, to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and, which are described in the accompanying schedule of findings and questioned costs as items FS2005-7 and FS2005-11.

The Plant's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Village'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, Village Council, the Office of the State Auditor, the New Mexico State Legislature, Department of Finance and Administration, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Consulting Group, L.L.P.*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
May 12, 2011

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Schedule of Findings and Responses  
June 30, 2009

**Section I – Summary of Audit Results**

*Financial Statements:*

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

**Section II – Financial Statement Findings and Questioned Costs**

**A. Financial Statement Findings**

**FS2005-1 Information System Disaster Recovery Policy – General Government and Component Unit**

*Condition:* The Village and the Regional Waste Water Treatment Plant (Plant) do not have an approved information system disaster recovery of technology plan. There are information system manuals, but they have not been reviewed and approved by the administration, Village council, or finance committee members, and the Plant board, and formally placed in service by administrative policy.

*Criteria:* Information system controls require that a comprehensive plan and procedures be documented in a place for computer system recovery in the eventuality of emergencies and/or natural disasters. The information system plan is a generally accepted tool to help ensure the best results in connection with the planning function, budgeting, training and maximizing strategic productivity for computer systems.

*Effect:* System usage could be impaired or rendered useless for a significant period of time, which could severely impact the Village's and the Plant's ability to conduct daily operations. Additionally, productivity and effectiveness may be increased with sound information system and technology planning.

*Cause:* The Village and Plant have not placed a high priority to adopting the formal disaster recovery or technology plan.

*Auditors' Recommendation:* The Village and Plant should adopt a disaster recovery plan that would provide procedures and processes for appropriate computer locations. The plan should address items not limited to: system redundancy, data storage, system firewall monitoring, back-up systems, restoration, contact personnel, and vendors. The adopted plan should be tested and communicated to all necessary parties. Annually, the plan should be assessed by information system personnel for content and revised with approvals when appropriate or necessary.

*Agency Response:* The Village of Ruidoso is in the process of reviewing the information system manuals for the RWWTP and upon completion will submit for Council approval. Additionally an off-site server will be installed for data storage.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2005-2 Accounting Policies and Procedures Manual – General Government and Component Unit**

*Condition:* During the prior year audit, it was noted that the Village and the Regional Waste Water Treatment Plant (Plant) did not have a formal accounting policies and procedures manual. The Village and Plant have procedures established by each department; however, the procedures have not been compiled into one accounting policies and procedures manual that has been approved by the governing board of the Village and the Plant board as of fiscal year end June 30, 2009.

*Criteria:* Elements of an effective internal control system includes guidelines on whom, how and when the more significant accounting transactions should be authorized, recorded and reconciled during the accounting cycle. Formal documented accounting procedures increases the likelihood transactions are executed in accordance with management's intentions and recorded in accordance with accounting policies established by the federal and state governments along with generally accepted accounting principles.

*Effect:* Not documenting formal accounting policies and procedures could allow employees to incorrectly reflect transactions that have occurred. Incorrect transactions could allow misstatement of financial data prepared by the finance department.

*Cause:* The ongoing changes in the Village's and Plant's policies, information systems and related financial reporting and accounting principles applicable to local governments have not been reduced to a specific accounting manual approved by management, the Village Council and the Plant board.

*Auditors' Recommendation:* The Village should review all of the procedures from each department, make the appropriate changes, and adopt an accounting manual that is approved by management, the Village Council and the Plant board.

*Agency Response:* The Village of Ruidoso does have an Accounting & Financial Policies Manual approved by Council 5/1/2009. Presently we are expanding on the scope of internal controls which will include all departments.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

STATE OF NEW MEXICO  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Schedule of Findings and Responses  
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**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2005-7 Regional Wastewater Treatment Plant – General Government and Component Unit**

*Condition:* The Village of Ruidoso and the Village of Ruidoso Downs have entered into a joint powers agreement to create a separate entity to operate a Regional Wastewater Treatment Plant (RWWTP). The agreement was executed on July 3, 1974. A board that is composed of members of each government governs the RWWTP.

The Village performs all administrative functions for the RWWTP including all accounting functions. Each government contributes funds to maintain and operate the facility.

The Village has created a separate fund within their general ledger to account for all revenues and expenditures. The cash belonging to the RWWTP is pooled with the Village's other cash. All costs and expenses related to the payroll function are charged to the RWWTP fund; however, the employees who provide services for the RWWTP have been treated as a department of the Village.

The intention of the agreement was to create a separate entity; however the Village has not treated the RWWTP as a separate entity, rather the RWWTP has been treated as a department of the Village.

*Criteria:* The RWWTP was created with authority of the Joint Powers Agreement Act as defined in New Mexico State Statutes. According to Section 11-1-5B NMSA 1978, the administering agency under any such agreement shall be considered under the provision of this Joint Powers Agreements Act (11-1-1 to 11-1-7 NMSA 1978) as an entity separate from the parties to such agreement.

*Effect:* By treating the RWWTP as a department rather than a separate legal entity, the Village has misreported financial information to various other governments. For example, the payroll reports reported to the Internal Revenue Service contain the wages of employees who provided services to the RWWTP. All payroll activity has been reported to the Internal Revenue Service, New Mexico Taxation and Revenue Department, and the New Mexico Public Employee Retirement Association as activity belonging to the Village. The employees have accrued vacation and sick leave based on the policies established by the Village rather than the RWWTP.

*Cause:* In order to streamline operations, prior Village administrations and the current Village administration has accounted for the RWWTP as a department rather than as a separate entity.

*Auditors' Recommendation:* We recommend that the RWWTP be dissolved as a separate entity and be treated as an enterprise fund of the Village.

*Agency Response:* The Village of Ruidoso is pursuing legal action to either dissolve or proceed into mediation to rectify the accounting issue presented to us in this finding.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Schedule of Findings and Responses  
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**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2005-11 Audit Report Submission to the New Mexico State Auditor and A-133 Data Collection Form – General Government and Component Unit**

*Condition:* The required submission date of the audit report for the fiscal year ended June 30, 2009, to the New Mexico State Auditor was December 1, 2009. The audit report was not submitted until May 13, 2011. In addition, the report was due to the Federal Clearing House no later than 9 months after the end of the fiscal year.

*Criteria:* Section 2.2.2.9 A of the State Audit Rule set the due date for audit reports for municipalities as December 1<sup>st</sup>. Per OMB Circular A-133 the single audit data collection form was to be submitted no later than 9 months after the end of the fiscal year.

*Effect:* Noncompliance with section 2.2.2.9 A of the State Audit Rule and with OMB Circular A-133. Late audit reports and financial statements could also impact funding from federal and state sources.

*Cause:* The Village had substantial turnover during the performance of the audit. New Village employees could not find or locate information needed for the audit.

*Auditors' Recommendation:* The Village should submit the audit report each year on a timely basis.

*Agency Response:* The Village of Ruidoso has realized the importance of timely audits. We now have a fully staffed Finance department that has prioritized annual audits and is knowledgeable in the State Audit Rule.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2007-7 Monitoring Grants**

*Condition:* Grants are not being properly monitored and grant reimbursement requests are not being maintained and followed up on to make sure all funds are being received on a timely basis.

*Criteria:* Section 6-5-1 through 6-5-6 NMSA, 1978 require internal accounting controls designed to prevent accounting errors and violations of state and federal laws and rules related to financial matters.

*Effect:* The Village is not managing grants. Without a monitoring process, grant funds remain unreimbursed or improperly accounted for.

*Cause:* Due to turnover in various Village departments, grants are not being properly monitored and reports are not being maintained in an available location.

*Auditors' Recommendation:* The Village should designate an individual to monitor all grants for proper reimbursement requests.

*Agency Response:* In Fiscal Year 2011 we have employed a Capital Project Administrator that will be responsible for compiling and reviewing all grant documents into an electronic format. Departments apply for grants and budget the expected monies in their current budget. The finance department follows through with monitoring if grant is received. The budget reflects the grant revenue and offsetting expenditure.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.



**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Schedule of Findings and Responses  
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**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2007-11 Auditor Prepared Financial Statements**

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

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

*Effect:* The Village 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 Village's financial statements.

*Cause:* Village 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 Village of Ruidoso Finance Department will obtain training to prepare GASB 34 Government Wide Financial Statements.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
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**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2008-2 Bank Reconciliations**

*Condition:* The Village has not been reconciling their bank to their general ledger.

*Criteria:* Section 6-6-3 NMSA, 1978 discusses the need for the Village to keep all the books, records and accounts in their respective office in the form prescribed by the local government division and conform to the rules and regulations adopted by the local government division. Good accounting practices require that bank reconciliations be performed monthly to ensure that cash receipts and cash disbursements are recorded in a correct and timely manner and that differences or errors be followed up and corrected in a timely manner.

*Effect:* Without reconciled bank statements, the Village has no assurance that all revenues and disbursements have been recorded.

*Cause:* The turnover in the accounting department has transpired without the new employees being trained which resulted in a lapse of duties and proper training. This turnover has also created a situation in which there is a backlog of work, making it difficult for current employees to catch-up.

*Auditors' Recommendation:* The Village's Accounting Policies and Procedures manual should contain explicit instructions for all accounting related matters, as well as detailed instructions on the storage of monthly schedules used for reconciliation purposes.

*Agency Response:* Bank reconciliations were completed to date and are currently done each month. All adjustments are corrected in a timely manner. Internal controls are in place by Finance Director and Village Manager signing off on completed documentation for each monthly bank reconciliation.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

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**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2008-3 Inventories**

*Condition:* Village inventories were not available for all departments for the fiscal year ending June 30, 2009.

*Criteria:* Section 6-6-3 NMSA, 1978 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:* Without proper inventory controls, Village departments cannot be sure about what inventory they have on hand in case of an emergency.

*Cause:* The turnover in the accounting department has transpired without the new employees being trained which resulted in a lapse of duties and proper training. This turnover has also created a situation in which there is a backlog of work, making it difficult for current employees to catch-up.

*Auditors' Recommendation:* Each department should, at a minimum, complete a year end inventory.

*Agency Response:* Steps are in place for each department to complete a year-end inventory to be recorded in our financial software. A fixed asset inventory was completed by Finance Department in FY 11.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-1 Lack of Adequate Documentation for Expenditures**

*Condition:* The Village policy is to have a purchase order for all nonrecurring purchases, however, during our disbursements test work we noted 4 instances out of 14 when the Village did not have a completed purchase order before the purchase was made. It is also required by the Village for transfers between financial institutions to be approved by the proper management; however, 2 instances out of 14 tested were not properly approved by management.

*Criteria:* Section 6.20.2.17 of NMAC requires the Town to establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 at seq., NMSA 1978.

*Effect:* Having lack of authorization for purchases made increases the risk for misappropriation, budget over expending, or fraudulent activities.

*Cause:* There was an oversight in the internal control process, and items were not authorized through a purchase order or proper approval before the purchase was made.

*Auditors' Recommendations:* It is our recommendation that the internal controls that are in place are followed for all nonrecurring items.

*Agency Response:* This condition is strongly discouraged and only acceptable in emergency situations. We are currently adding disciplinary actions to our purchasing policy manual. Purchase orders are currently not issued if line item has exceeded budgeted amount.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

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**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-2 Segregation of Duties – Cash Disbursements**

*Condition:* During our testwork of cash disbursements we noted the following instances of a lack of appropriate segregation of duties.

In our testwork of cash disbursements, we noted that the Accounts Payable Clerk performs all the duties and functions that are required for the cash disbursements process:

- The Accounts Payable Clerk receives the purchase order and prints the checks;
- The Accounts Payable Clerk has authority to have checks signed by the same system that prints the checks; and
- The Accounts Payable Clerk mails the checks.

*Criteria:* Appropriate segregation of duties in cash disbursements is required to maintain proper and sufficient internal controls and properly report all expenditures as required by Section 6-6-3, NMSA 1978.

*Effect:* Without adequate segregation of duties in key control processes, there is an increased risk of fraudulent activity, and also an increased risk of errors that may not be detected timely.

*Cause:* Due to limited resources, the Village relies on the expertise of one individual to perform many duties. Limited resources in the process noted above appear to result in a lack of segregation of duties.

*Auditors' Recommendation:* Develop a formal review process for the disbursement transaction cycle. Also, implement and document policies and procedures to maintain proper internal controls that include segregation of duties.

*Agency Response:* Upon discovery, New Finance Director implemented an immediate plan of action to review all invoices and amounts prior to payment by Staff Accountant or other qualified employee. Then check register is reviewed by Finance Director and amount is verified from Staff Account that the check run does not exceed the amount reviewed.

Incode software will automate approvals within the system to ensure proper oversight and reduce risk.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-3 Deficiencies in Internal Control Structure Design, Operation and Oversight – Cash Disbursements**

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

- Checks are prenumbered through the software system that is utilized, however, the sequence can be manually altered by the Accounts Payable Clerk without the ability of tracking the check numbers;
- Identified 2 checks that were duplicated and posted in the general ledger; and
- Found 4 checks that were issued that had a related journal entry posted to the general ledger because the issued check was posted for the incorrect amount.

*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 Village 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:* Upon discovery, New Finance Director implemented an immediate plan of action to review all invoices and amounts prior to payment by Staff Accountant or other qualified employee. Then check register is reviewed by Finance Director and amount is verified from Staff Account that the check run does not exceed the amount reviewed.

We also have initiated a positive pay program with Well’s Fargo bank. This process will reduce fraud and eliminate check duplication. Currently all Journal Entries are review and co-signed as part of the internal controls.

Incode software will automate approvals within the system to ensure proper oversight and reduce risk. This new software system will not allow manual alteration of check numbers.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-4 Segregation of Duties – Cash Receipts**

*Condition:* During our testwork of the cash receipts we noted the following instances of a lack of appropriate segregation of duties.

In our testwork of the cash disbursements, we noted that the Finance Clerk performs the majority of duties and functions that are required for the cash receipting process:

- Cashiers will receive money and receipt; and
- Cashiers will turn in the money without balancing their drawers at the end of the day to the receipts generated within the system.
- The Finance Clerk receives the funds from the Cashiers and will deposit the money; and
- The Finance Clerk will also take the funds to be deposited at the bank without the deposits and supporting documentation being reviewed for accuracy.

*Criteria:* Appropriate segregation of duties in cash receipts is required to maintain proper and sufficient internal controls and properly report all revenues as required by Section 6-6-3, NMSA 1978.

*Effect:* Without adequate segregation of duties in key control processes, there is an increased risk of fraudulent activity, and also an increased risk of errors that may not be detected timely.

*Cause:* Due to limited resources, the Village relies on the expertise of one individual to perform many duties. Limited resources in the process noted above, appear to result in a lack of segregation of duties.

*Auditors' Recommendation:* Develop a formal review process for the receipt transaction cycle. Also, implement and document policies and procedures to maintain proper internal controls that include segregation of duties.

*Agency Response:* Currently all cashiers balance their monies to receipts then give to the Finance Clerk. The Finance Clerk prints a system generated report for each cashier. Comparisons of the clerk's deposits to report to check for accuracy are then performed. If in balance the Finance Clerk then will proceed to prepare bank deposit.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-5 Deficiencies in Internal Control Structure Design, Operation and Oversight - Cash Receipts**

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

- No internal controls were established within the Village regarding the cash receipting process.
- 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 of controls.
- Attitudes, actions, values to support an effective control environment appear to be inconsistent. There appears to be a reluctance to take ownership of data including who is authorized or responsible to make and/or modify transactions.

*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 Village 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:* Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-6 Noncompliance with the Procurement Code**

*Condition:* During our test work regarding compliance with the NM Procurement Code, we noted that the Town made purchases over \$5,000, but failed to maintain sufficient records to support the assertion that management complied with the requirement level of documentation for procurement. During our testwork over bids, 3 out of the only 5 bids the client maintained, we were not able to determine which vendor was awarded the contract, the total actual contract price, and other supporting information.

*Criteria:* The New Mexico Procurement Code, Section 13-1-125, NMSA 1978, was amended effective July 1, 2005 to increase the maximum value of small purchases from \$10,000 to \$20,000 in Subsection A; increase the maximum value of professional services from \$20,000 to \$30,000 in Subsection B; and increase the maximum value of purchases at best obtainable prices from \$1,500 to \$5,000 in Subsection C. Therefore, purchases over \$1,500 up to \$5,000 should have three oral quotes documented, and purchases over \$5,000 and up to \$20,000 should have three written quotes documented.

*Effect:* The Village did not comply with the Procurement Code requirement to maintain adequate supporting documentation for purchases over \$5,000. The Village may have paid more than necessary in order to obtain the goods and services that the Village needed.

*Cause:* The Village did not have policies and procedures requiring the proper maintenance of procurement documentation.

*Auditors' Recommendation:* We recommend that the Village adopt procurement policies and procedures that are in compliance with the New Mexico Procurement Code and update them as the laws are amended.

*Agency Response:* The Village of Ruidoso adopted by resolution on October 1, 2009 a Procurement Policies & Procedures Manual. In Chapter 1: General Provisions a statement regarding Consistency with State Procurement Code states that “where this policy or any revision of this policy is inconsistent with the State Procurement Code or Statutes, the State Code and Statutes shall prevail.”

At this time the thresholds had changed regarding at what point 3 quotes (written or verbal) were needed for any purchase over \$5,000. In September of 2009, a memo went out changing the threshold back to \$2,500 to require 3 quotes (written).

The Purchasing Department and Finance Department are working on a supplement for the approved Policies and Procedures to reflect changes in the State Code.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-7 Lack of Adequate Documentation for Credit Card Expenditures**

*Condition:* During our testing of 5 credit card expenditures totaling \$548.21, we noted five instances out of five in which the Village did not have any documentation regarding the purchase. There was no way to know what was purchased on the Village's credit card.

*Criteria:* Per Section 6-6-3, NMSA 1978, cash disbursements are required to be properly authorized and the Village is required to provide supporting documentation.

*Effect:* There could be instances of unauthorized purchases and abuse of public funds and they would go unnoticed.

*Cause:* There is no supporting documentation for the credit card purchase.

*Auditors' Recommendations:* The Village should attach purchase receipts to the payment vouchers. In addition, we recommend that one or two employees be assigned the responsibility to review credit card purchases for compliance.

*Agency Response:* The Village of Ruidoso adopted by resolution on October 1, 2009 a Procurement Policies & Procedures Manual. In Chapter III: Standard Purchasing Procedures Section B deals with the policy of the Village on Procurement card purchases.

At this time, the purchasing agent checks each purchase on each card log and verifies all purchases have receipts attached and what was purchased with the cards and the accounts payable clerk randomly requests copies of receipts monthly to double check that everything is in compliance.

A new internal control will be implemented by the end of FY 11 to require the Accounts Payable Clerk to review and verify all receipts and then the Staff Accountant will do a final review before the check is written.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

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**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-8 PERA Reports and General Ledger**

*Condition:* The amount in the general ledger for employer's contribution to PERA does not tie to the reported amount.

*Criteria:* Per NMAC 2.80.500.8, each state agency or affiliated public employer shall be responsible for deducting the applicable contribution from the salary or wages paid to each member for each payroll period. The total amount of PERA withheld from employees was \$900,320 per the PERA reports, but the general ledger indicated that \$1,186,892 was withheld from employees for PERA.

*Effect:* The amount of PERA being withheld from employee paychecks could be incorrect and not be detected due to the lack of the reconciliation process

*Cause:* The Village does not have a reconciliation process for balancing the amount paid to what is reported to PERA as the Village uses payroll software that does not interface with the existing accounting software causing Village employees to manually post all payroll items to the General Ledger.

*Auditors' Recommendation:* We recommend that the Village implement a process for reconciling amounts sent to PERA and amounts recorded in the general ledger and purchase a fully functional accounting software program that interfaces with the Payroll process to help eliminate errors due to manual posting.

*Agency Response:* We currently have a liability account set up for this transaction. At the time we discovered incorrect journalizing of the PERA funds. Our new software will interface with the Payroll system.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-9 Capital Assets**

*Condition:* The Village does not have a formal capital assets management policy. For the year ended June 30, 2009, the Village had not maintained a capital asset listing that was reconciled to the general ledger and was not in compliance with the GASB 34 requirement to capitalize and depreciate infrastructure acquired for years ending in 2004 and thereafter.

*Criteria:* The Village 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 Village will 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 Village's assets.

*Auditors' Recommendation:* The Village 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 Village in the determination of obsolete equipment. Finally, a complete capital assets inventory listing will be required to be completed by the Village in order to be in compliance with GASB 34.

*Agency Response:* The Village has completed a capital asset listing and has begun working on a formal capital assets management policy. The policy will be completed, sent to Council for approval before the end of fiscal year 11.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-10 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The makeup and general construction of the governing body and its committees are not appropriate and adequate given the nature 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 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report.

Council is actively involved in the government financial reporting and financial environment.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-11 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-12 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report.

Council is actively involved in the government financial reporting and financial environment. Internal controls are in place by upper management signing and reviewing financial documents. Example: Bank reconciliations are signed off by Finance Director and Village Manager. Village Manager signs approval for all new hires.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

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

*Condition:* The Village council does not have a way to assess its performance and that of management. 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Council is actively involved in the government financial reporting and financial environment.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-14 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village council does not evaluate the level of accounting and finance expertise of its members. The Village 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 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-15 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village council does not provide input and oversight of the Village’s financial statements, including the application of GAAP and use of accounting judgments. 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-16 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village does not have a committee equivalent to an audit committee that meets directly with management, including the finance director, and external auditors to challenge questions raised with regard to accounting policy and accounting estimates. 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

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

*Condition:* A process does not exist by which the Village council is made aware of key developments that may impact financial reporting. 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-18 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Management, employees, and others are not made familiar with the Village’s policies and practices with regard to ethics, accepted business practices, and positive control environment. 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-19 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Management does not take appropriate disciplinary action in response to departures from approved policies and procedures or violations of the code of conduct. 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-20 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-21 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Rewards, such as bonuses and other incentives, do not foster an appropriate ethical tone. 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-22 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Management does not set realistic financial targets and expectations. 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-23 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-24 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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.

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

*Cause:* For the fiscal year 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-25 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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.

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*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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-26 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

The Village of Ruidoso has hired a Capital Projects Administrator, who has an MBA and 15 years experience in capital projects, to track all Capital Projects and document all expenditures, evaluate risks, and keep management fully informed of activities.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-27 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Management works in cooperation with the HR Department to assess risk and resolve any employment practices.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-28 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Turnover of management and supervisory personnel is not monitored, and the reasons for turnover are not evaluated. 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

The Human Resource Department has a new Director who reports directly to the Village Manager. All personnel issues involving employee replacements or departures are reported and reviewed by Village Manager.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-29 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-30 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

The Human Resource Department has a new Director who reports directly to the Village Manager. All personnel issues involving employee replacements or departures are reported and reviewed by Village Manager.

The Village of Ruidoso has hired a Capital Projects Administrator, who has an MBA and 15 years experience in capital projects, to track all Capital Projects and document all expenditures, evaluate risks, and keep management fully informed of activities.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-31 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-32 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The responsibilities and expectations for the Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-33 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-34 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-35 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Management does not regard the accounting function as a means for monitoring and exercising control over the Village'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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-36 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to eliminate the disconnect of financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village directors and Managers. This software reduces the risk level for all Village of Ruidoso activities.

Financial functions distributed outside the Finance Department are being reviewed and re-assigned to the Finance Department.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-37 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees. The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials. Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village directors and Managers. This software reduces the risk level for all Village of Ruidoso activities.

Financial functions distributed outside the Finance Department are being reviewed and re-assigned to the Finance Department.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-38 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now. The Purchase Policy dictates all purchases include total of all charges. Estimates can be based on historical costs in unique purchase situations.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-39 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-40 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to eliminate the disconnect of financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities.

Financial functions distributed outside the Finance Department are being reviewed and re-assigned to the Finance Department.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-41 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities.

Financial functions distributed outside the Finance Department are being reviewed and re-assigned to the Finance Department.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-42 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The organizational structure is not commensurate with the Village’s 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 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 Village 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:* Capital Project managers are now prioritizing all Capital Projects for completion within a fiscal year. The Village of Ruidoso has hired a Capital Projects Administrator, who has an MBA and 15 years experience in capital projects, to track all Capital Projects and document all expenditures, evaluate risks, and keep management fully informed of activities.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-43 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Management does not periodically evaluate the Village’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 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 Village 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:* Implementation of annual organizational chart review is part of each new budget. The organizational charts are organized by department and reviewed by Village Manager as part of each new budget.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-44 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village does not avoid overly complex structures involving numerous or unusual legal entities, managerial lines of authority, or contractual agreements without apparent purpose. 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 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 Village 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:* New management immediately implemented legal review of all leases and contracts. A directive was sent to all department heads instructing them of the new policy that all leases, contracts must be signed and reviewed either by Village Manager or Mayor.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-45 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village does not define key areas of authority and responsibility, including management’s responsibility for activities, and how they affect the Village 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 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 Village 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:* Village Manager has reorganized all levels of Village Activities and created a Village Wide flow chart which is included in the budget process.

Village Manager compiles a report to Council at each Council meeting containing each department’s areas of responsibility and activities. Human Resource department is reviewing each job description with Village Manager to verify each position level of authority.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-46 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village 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 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 Village 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:* Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities. The Finance Department is fully staffed and implementing responsible reporting procedures.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-47 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities. The Finance Department is fully staffed and implementing responsible reporting procedures. The software will denote who, what, when and where entries are made.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-48 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 Village now has a form containing a 3<sup>rd</sup> party disclosure statement given to each new vendor. The procurement policy requires publishing requests for new vendors as part the Village's purchasing procedures.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-49 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 Village of Ruidoso now has fully staffed accounting department and additional positions have been added to this department. A review of the Villages financial functioning departments have now been incorporated into the finance department such as; Purchasing Department & Capital Projects Administrator.

The Village is obtaining a full time airport manager to provide improved supervision. Decentralized offices are going through a reorganization to ensure proper supervision and monitoring of operations are in place.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-50 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village council does not oversee the Village’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 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 Village 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 Village of Ruidoso has implemented full disclosure of financial reports. We now have the budget and all quarterly financial reports on the Village Web site. All audits will be put on the web. All this information is available for public viewing and all reports are given to Ruidoso News at time of Council meetings.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-51 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* A process does not exist to support the identification and disclosure of related party 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 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 Village 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 Village now has a form containing a 3<sup>rd</sup> party disclosure statement given to each new vendor. The procurement policy requires publishing requests for new vendors as part the Village’s purchasing procedures.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-52 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 new software system (Incode) will increase reporting identification, selection, and application of alternate accounting treatments. This software is scheduled for implementation Summer FY 11.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-53 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 Village of Ruidoso has implemented full disclosure of financial reports. We now have the budget and all quarterly financial reports on the Village Web site. All audits will be put on the web. All this information is available for public viewing and all reports are given to Ruidoso News at time of Council meetings.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-54 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* There are single individuals capable of exerting substantial influence over the Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present management took immediate action and implemented basic internal controls and directives that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-55 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* In Fiscal Year 2011 an Internal Personnel Committee was established to revise the personnel policy manual. The committee reviewed and edited each page and submitted to Council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-56 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Human resource policies and procedures are not clearly communicated to employees and issued, updated, and revised on a timely balance. 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 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 Village 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:* Fiscal Year 2011 Internal Personnel Committee was established to revise the personnel policy manual. The committee reviewed and edited each page and submitted to Council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-57 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 Internal Personnel Committee was established to revise the personnel policy manual. The Committee reviewed and edited each page and submitted to Council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-58 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* There are not formal procedures for the hiring (recruiting) and retention 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 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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 Internal Personnel Committee was established to revise the personnel policy manual. The committee reviewed and edited each page and submitted to Council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-59 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Recruiting practices do not include formal in-depth employment interviews that provide a history, culture, and operating style along with attitudes for a good control environment. 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 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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 Internal Personnel Committee was established to revise the Personnel Policy Manual. The Committee reviewed and edited each page and submitted to Council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-60 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* There are not 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 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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 internal personnel committee was established to revise the Personnel Policy Manual. The Committee reviewed and edited each page and submitted to council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-61 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* There are not 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 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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 internal personnel committee was established to revise the Personnel Policy Manual. The Committee reviewed and edited each page and submitted to council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-62 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* There are not formal policies and procedures to evaluate employee performance and compensation. 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 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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 internal personnel committee was established to revise the Personnel Policy Manual. The Committee reviewed and edited each page and submitted to council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-63 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village council does not oversee the Village’s process for defining responsibilities for key financial reporting roles. The Village 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 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 Village 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 Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-64 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Employees are not empowered to correct problems or implement improvements in their assigned processes. The Village 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 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 Village 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 process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 internal personnel committee was established to revise the Personnel Policy Manual. The Committee reviewed and edited each page and submitted to council for approval. The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-65 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Job descriptions, reference manuals, or other forms of communication do not inform personnel of their duties. The Village 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 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 Village 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:* Job descriptions are reviewed and updated as positions are vacated and new hire added. This process will eliminate outdated job descriptions. The process of hiring educated and experienced personnel has been implemented. The review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 internal personnel committee was established to revise the personnel policy manual. The committee reviewed and edited each page and submitted to council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-66 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village does not establish competencies (knowledge, skills, abilities, and credentials) prior to hiring of key positions. The Village 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 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 Village 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 review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 Internal Personnel Committee was established to revise the Personnel Policy Manual. The Committee reviewed and edited each page and submitted to Council for approval.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-67 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village’s activities. The Village 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 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 Village 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 review of potential candidates to match job qualifications follows a weighted scale that ensures only the best qualified are hired by the Village. Fiscal Year 2011 Internal Personnel Committee was established to revise the Personnel Policy Manual. The committee reviewed and edited each page and submitted to Council for approval. All departments are budgeted with training funds, the expenditures of these funds are reviewed by Finance and Village Manager quarterly.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-68 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village does not retain or otherwise utilize individuals who possess the required competencies related to financial reporting. The Village 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 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 Village 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:* This practice no longer exists in this organization. The Human Resource department now aggressively recruits qualified and experienced personnel.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-69 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Job performance and competencies are not periodically evaluated and reviewed with each employee. The Village 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 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 Village 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:* Evaluations for the Village is now considered high priority and serious. Each Department Head is responsible for annual evaluations of their employees. If a Department Head does not comply it is addressed at the time of “their” evaluation.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-70 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* All departments at the Village are not appropriately staffed. The Village 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 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 Village 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:* Implementation of annual organizational chart review is part of each new budget. The organizational charts are organized by department and reviewed by Village Manager as part of each new budget. Through attrition the Village is replacing positions with qualified and experienced personnel therefore resulting in increased work production.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-71 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village's activities. The Village 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 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 Village 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 Village of Ruidoso has recognized this condition and hired an experienced and qualified Finance Director and Staff Accountant, Finance Clerk and Capital Projects Administrator. New Village Management supports and ensures internal control processes are being conducted.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-72 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village does not supplement in-house competencies by establishing outsourcing arrangements with other firms as permitted by regulatory standards. The Village 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 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 Village 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:* Outsourcing arrangements are now being utilized. The new Village Manager began the outsourcing of outstanding bank reconciliation due to lack of skill within the organization at that time. Also currently we have outsourced task as needed. The Village recognizes outsourcing task is more cost effective than hiring additional staff for certain tasks.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-73 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Mechanisms are not in place to identify risks applicable to the Village 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees. The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials. Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

The Village of Ruidoso has hired a Capital Projects Administrator, who has an MBA and 15 years experience in capital projects, to track all Capital Projects and document all expenditures, evaluate risks, tracking grant application process, and keep management fully informed of activities.

Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities. The Finance Department is fully staffed and implementing responsible reporting procedures. The software will denote who, what, when and where entries are made.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-74 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials. .

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-75 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Periodic reviews are not performed to, among other things, anticipate and identify routine events or activities that may affect the Village'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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Monthly department head meetings are mandatory and result in open communication and discussion of performance and activity.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-76 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Monthly department head meetings are mandatory and result in open communication and discussion of performance and activity. Non-routine activities are also discussed at this time.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-77 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-78 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-79 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-80 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* As part of our new internal control process all transactions are reviewed and approved by upper management. Our new software will have an approval process within the system to help with identifying and recording of all financial transactions. The Village now maintains current bank reconciliations and any inappropriate journal transactions address and corrected.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-81 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-82 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

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- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-83 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

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- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-84 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-85 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village council does not understand and exercise oversight of the Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-86 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-87 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 Village of Ruidoso adopted by resolution on October 1, 2009 a Procurement Policies & Procedures Manual. In Chapter 1: General Provisions a statement regarding Consistency with State Procurement Code states that "where this policy or any revision of this policy is inconsistent with the State Procurement Code or Statutes, the State Code and Statutes shall prevail."

The Purchasing Department and Finance Department are working on a supplement for the approved Policies and Procedures to reflect changes in the State Code.

Our Procurement agent and Capital Projects Administrator are collaborating to identify all significant relationships.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-88 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The planning process does not include a broad spectrum of personnel with collective knowledge of all areas of the Village. 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 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 Village 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:* Village Manager has reorganized all levels of Village Activities and created a Village Wide flow chart to assist in the planning process. This has appropriate personnel with collective knowledge in the areas of the Village. The top priority for our GIS employee's is to complete Village mapping and review Utility Billing database. This is our first step to preparation of disaster recovery.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-89 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Processes are not in place to ensure that the accounting department and Village 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 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 Village 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 purchasing department includes the 3<sup>rd</sup> party disclosure document in each and every RFP. The chosen RFP is then taken to council for approval, all documentation is included for their review. Therefore insuring council is aware of any related party transactions.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-90 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-91 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Senior management does not develop plans to mitigate significant identified risks and present them to the Village 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now and as part of that process is to assist each department manager in developing and review their risks.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-92 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now and as part of that process is to assist each department manager in developing and review their risks.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-93 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-94 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 present Finance Director is an active member of the Government Finance Officers Association and receives monthly updates regarding any and all changes in GAAP. The Finance Director also attends the annual Government Finance Officers Association's conference.

Any and all changes in Accounting Principles are reviewed with Village Auditor prior to application.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-95 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Changes to significant accounting policies are not approved by management and are not subject to review by the Village 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

The present Finance Director has a BBA with a Major in Accounting and 30 years accounting experience.

The present Finance Director is an active member of the Government Finance Officers Association and receives monthly updates regarding any and all changes in GAAP. The Finance Director also attends the annual Government Finance Officers Association's conference. Any and all changes in Accounting Principles are reviewed with Village Auditor prior to application. The change of any and all accounting principles is then reported to Manager and Council in the Manager's Report.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-96 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 present Finance Director has a BBA with a Major in Accounting and 30 years accounting experience. The present Finance Director is an active member of the Government Finance Officers Association and receives monthly updates regarding any and all changes in GAAP. The Finance Director also attends the annual Government Finance Officers Association’s conference. Any and all changes in Accounting Principles are reviewed with Village Auditor prior to application. The change of any and all accounting principles is then reported to Manager and Council in the Manager’s Report.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-97 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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 present Finance Director has a BBA with a Major in Accounting and 30 years accounting experience. The present Finance Director is an active member of the Government Finance Officers Association and receives monthly updates regarding any and all changes in GAAP. The Finance Director also attends the annual Government Finance Officers Association’s conference. Any and all changes in Accounting Principles are reviewed with Village Auditor prior to application.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-98 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village 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 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 Village 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:* Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities. The Finance Department is fully staffed and implementing responsible reporting procedures. The software will denote who, what, when and where entries are made.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-99 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village’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 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 Village 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:* Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-100 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Data underlying financial statements are not captured completely, accurately, and timely, in accordance with the Village'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 Village'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 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 Village 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:* Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
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- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-101 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village'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 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 Village 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 present Finance Director has a BBA with a Major in Accounting and 30 years accounting experience. The present Finance Director is an active member of the Government Finance Officers Association and receives monthly updates regarding any and all changes in GAAP. The Finance Director also attends the annual Government Finance Officers Association's conference. Any and all changes in Accounting Principles are reviewed with Village Auditor prior to application. The change of any and all accounting principles is then reported to Manager and Council in the Manager's Report.

Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities. The Finance Department is fully staffed and implementing responsible reporting procedures. The software will denote who, what, when and where entries are made.

The Village of Ruidoso has hired a Capital Projects Administrator, who has an MBA and 15 years experience in capital projects, to track all Capital Projects and document all expenditures, evaluate risks, tracking grant application process, and keep management fully informed of activities.

The Finance Department meets on a regular basis with all Finance Staff and other Department Heads. Monthly review of financial reports with Finance Staff, Village Manager and Department Heads/Managers enables corrections and discussions to maintain an open communication of all financial events.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-102 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village'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 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 Village 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:* Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities. The Finance Department is fully staffed and implementing responsible reporting procedures. The software will denote who, what, when and where entries are made.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-103 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-104 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* An open communications channel does not exist between management and the Village council. Communication does not exist between management and the Village 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-105 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The effectiveness of those charged with governance is not supported by timely communications. Communication does not exist between management and Village 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion. The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-106 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* New Management at the Village immediately set up meetings with all Department Heads and Managers to discuss job responsibilities. The Finance Department established financial reporting that was previously lacking and discussed the importance of Council having full financial information to make informed decisions for the Village.

New Management has involved all employees in the budget process to establish the need for every employee to contribute, complete and execute tasks assigned.

Village Manager has an open door policy and has invited any and all employees to come to her office to discuss issues.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-107 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Written job descriptions and reference manuals do not describe the duties of personnel. 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 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 Village 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:* Presently a new Personnel Manual has been completed by Village Manager and Village Staff. It has been presented to Council for their review. The processes of all job descriptions are being updated to contain complete job descriptions.

Village Manager and Staff continue to work on creating and revising reference manuals.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-108 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* New Management has developed and relayed clear communication to Department Heads on their responsibilities towards employees with inappropriate behaviors. Department Heads have been instructed on progressive action and the seriousness of meeting these responsibilities as Leaders.

New Management has transferred employees out of Finance to other non-financial duties and replaced those positions with qualified and experienced employees.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-109 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Presently a new Personnel Manual has been completed by Village Manager and Village Staff. It has been presented to Council for their review. The processes of all job descriptions are being updated to contain complete job descriptions.

New Management is working with the HR department and Department Heads to the process of clear directives to employees.

New Management has transferred employees out of Finance to other non-financial duties and replaced those positions with qualified and experienced employees.

Village Manager has an open door policy and has invited any and all employees to come to her office to discuss issues.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-110 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Presently a new Personnel Manual has been completed by Village Manager and Village Staff. It has been presented to Council for their review. The processes of all job descriptions are being updated to contain complete job descriptions.

New Management is working with the HR department and Department Heads to the process of clear directives to employees.

New Management has transferred employees out of Finance to other non-financial duties and replaced those positions with qualified and experienced employees.

Village Manager has an open door policy and has invited any and all employees to come to her office to discuss issues.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-111 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Presently a new Personnel Manual has been completed by Village Manager and Village Staff. It has been presented to Council for their review. The processes of all job descriptions are being updated to contain complete job descriptions.

New Management is working with the HR department and Department Heads to the process of clear directives to employees.

Village Manager has an open door policy and has invited any and all employees to come to her office to discuss issues.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-112 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Presently a new Personnel Manual has been completed by Village Manager and Village Staff. It has been presented to Council for their review. The processes of all job descriptions are being updated to contain complete job descriptions.

New Management is working with the HR department and Department Heads to the process of clear directives to employees.

Village Manager has an open door policy and has invited any and all employees to come to her office to discuss issues.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-113 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Presently a new Personnel Manual has been completed by Village Manager and Village Staff. It has been presented to Council for their review. The processes of all job descriptions are being updated to contain complete job descriptions.

New Management is working with the HR department and Department Heads to the process of clear directives to employees. HR immediately reports, investigates and resolves all employee and proprieties. HR regards employee issues as serious and consults with legal in many situations.

Village Manager has an open door policy and has invited any and all employees to come to her office to discuss issues.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-114 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Currently the Executive Secretary has created a tracking spreadsheet and follows through with directors if the complaint has been resolved.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-115 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* Ongoing monitoring is not built into operations throughout the Village 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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees. The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials. The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-116 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*Condition:* The Village’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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials. The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-117 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* Present finance personnel took immediate action and implemented basic internal controls that were absent at this time of audit finding. We continue to refine and improve all internal controls. There is an internal control manual in process now.

Our risk is reduced by the following controls:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
- Positive pay implemented through Wells Fargo Bank.
- All invoices and checks reviewed by upper supervision.
- Deposits are verified and reviewed by upper supervision
- Routine Monthly review of all financial reports is done by upper management

Currently we are in the process of implementing a new software system (Incode) that all Village Departments will be using to connect to the financial systems between the Finance Department and other departments. The New software system will allow direct access and entry to the General Ledger and will have an internal control level of approval to Village Directors and Managers. This software system reduces the risk level for all Village of Ruidoso activities. The Finance Department is fully staffed and implementing responsible reporting procedures. The software will denote who, what, when and where entries are made.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*



**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-118 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-119 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

Village Manager and Finance have taken seriously present and past audit findings. We have these findings to address and improve our Villages internal controls.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-120 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

Village Manager and Finance have taken seriously present and past audit findings. We have used these findings to address and improve our Villages internal controls.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-121 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager's reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our "financial expert" beginning of fiscal year 11 who is actively involved with the Village's financials.

The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

Village Manager and Finance have taken seriously present and past audit findings. We have used these findings to address and improve our Villages internal controls. Directors are held accountable to Village Manager and employees involved in inappropriate job performance are subject to progressive action.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-122 Deficiencies in Internal Control Structure Design, Operation and Oversight**

*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 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 Village 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:* We currently are under new Village Management. Village Manager demonstrates character, integrity, and ethical values and actively promotes these values among Village employees.

The Village of Ruidoso has implemented a Finance/Investment Committee to review quarterly financial matters. The Committee is composed of the Finance Director, Village Manager, Mayor, Village Finance Advisor, and a member of the Council. The Council is now receiving a Quarterly Financial Report for review and discussion. Manager’s reports are given to council twice a month to update any key developments. Council is actively involved in the government financial reporting and financial environment. The Village has a new Financial Advisor who is our “financial expert” beginning of fiscal year 11 who is actively involved with the Village’s financials.

The present Finance Department presents timely quarterly reports to Council, Village Manager, and DFA. The present Finance Director has closed out prior accounting years and established continued regular Audits to be conducted in a timely fashion.

The Village Manager presents orally to Council a detailed written report compiled of all department activities at each Council Meeting.

Village Manager and Finance have taken seriously present and past audit findings. We have used these findings to address and improve our Villages internal controls. Directors are held accountable to Village Manager and employees involved in inappropriate job performance are subject to progressive action.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-123 Deficiencies in Internal Control Structure Design, Operation and Oversight – P-Cards**

*Condition:* No reconciliation of P-Card charges was done prior to the bills being paid.

*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 Village 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 Village Purchase Agent now requires all documentation for use of the P-Cards to be submitted to the Agent before payment. Currently our staff accountant reviews all transactions before payment as well. This creates two levels of internal controls.

*Note Disclosure:* *The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.*

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS2009-124 Deficiencies in Internal Control Structure Design, Operation and Oversight – Airport Supporting Documentation**

*Condition:* The Sierra Blanca Regional Airport failed to provide supporting documentation for transactions with the airport mechanic. In reviewing the lease that spanned four years from 2007 through 2011 we determined that during this time period the lease stipulated that the mechanic should be paying the Village lease payments totaling 2% of his gross receipts on a quarterly basis. In the four years the mechanic was contracted the mechanic paid \$6,620 to the Village putting his gross receipts at \$331,000. During this time the Village paid \$76,313 in utilities for the area of the airport the mechanic occupied. A special projects coordinator in charge of the airport stated that the mechanic was paying 2% of his taxable income, not his gross income. We were unable to obtain any documentation supporting the payments that were made to the Village, despite numerous requests. As a result, we were unable to determine if the airport mechanic was in compliance with the lease requirements.

*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 sufficient documentation for deposits to be able to trace them to the receipt and payment detail.

*Auditing Standards* lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." Further, the *Standards* state 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 controls are 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 and ensure compliance with internal policies, laws and regulations. Adequate controls are not in place to prevent or detect misstatements of accounting information, therefore misstatements and non-compliance with internal policies, laws and regulations may occur and not be prevented or detected by management or staff during the course of their normal duties.

*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 Village 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 mechanics lease was terminated and new lease will have a modification of lease agreement to be able generate more revenue and associated cost.

The Village is seeking a new full time Airport Manager to ensure internal controls are met.

*Note Disclosure:* The responders to this finding are Village Manager, employed July 2009 and Finance Director, employed November 2009. We accept full responsibility for rectifying this finding.

**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Schedule of Findings and Responses  
June 30, 2009

**Section III – Schedule of Prior Year Audit Findings**

2005-1	Information System Disaster Recovery Policy	Revised and Repeated
2005-2	Accounting Policies and Procedures Manual	Revised and Repeated
2005-7	Regional Wastewater Treatment Plant	Revised and Repeated
2005-11	Audit Report Submission to the New Mexico State Auditor and A-133 Data Collection Form	Revised and Repeated
2007-7	Monitoring Grants	Revised and Repeated
2007-11	Auditor Prepared Financial Statements	Revised and Repeated
2008-2	Bank Reconciliations	Revised and Repeated
2008-3	Inventories	Revised and Repeated



**STATE OF NEW MEXICO**  
Village of Ruidoso  
Regional Wastewater Treatment Plant  
A Component Unit of the Village of Ruidoso  
Other Disclosures  
For the Year Ended June 30, 2009

**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

Although it would be preferred and desirable for the Plant to prepare its own GAAP-basis financial statements, it is felt that the Plant's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

**B. EXIT CONFERENCE**

The contents of this report were discussed on May 12, 2011. The following individuals were in attendance.

**Regional Wastewater Treatment Plant Officials**

Ray Alborn	Mayor
Denise Dean	Councilor
Don Williams	Councilor
Rafael "Rifle" Salas	Councilor
Gloria Sayers	Councilor
Angel Shaw	Councilor
Debi Lee	Village Manager
Nancy Klingman	Finance Director
Jessica Espinoza	Accountant

**Accounting and Consulting Group, LLP**

Jeff McWhorter	Partner
Shelley Olson	Senior Staff
Bethany Benavides	Staff