

**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, 2010**

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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, 2010

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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, 2010

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, 2010, 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, 2010 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, 2010, 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 Schedule I 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 is 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, 2010

Exhibit A-1

	Total
ASSETS	
<i>Current assets:</i>	
Cash and cash equivalents	\$ -
Investments	1,057,744
Customer receivables (net of allowance for doubtful accounts)	261,338
Other receivables	-
Inventory	7,962
	<u>1,327,044</u>
<i>Total current assets</i>	
<i>Noncurrent assets:</i>	
Restricted cash and cash equivalents	-
Capital assets	11,649,272
Accumulated depreciation	(7,189,698)
Bond issuance costs, net of accumulated amortization of \$65,071	-
	<u>-</u>
<i>Total noncurrent assets</i>	
	<u>4,459,574</u>
<i>Total assets</i>	
	<u>\$ 5,786,618</u>
 LIABILITIES AND NET ASSETS	
<i>Current liabilities:</i>	
Accounts payable	\$ 15,904
Accrued payroll expenses	932
Accrued compensated absences	10,698
Accrued interest	-
Notes and bonds payable, current portion	356,596
	<u>384,130</u>
<i>Total current liabilities</i>	
<i>Non-current liabilities :</i>	
Accrued compensated absences	1,917
Notes and bonds payable	9,518,711
	<u>9,520,628</u>
<i>Total noncurrent liabilities</i>	
	<u>9,904,758</u>
<i>Net assets:</i>	
Invested in capital assets, net of related debt	(5,415,733)
Unrestricted	1,297,593
	<u>(4,118,140)</u>
<i>Total net assets</i>	
	<u>\$ 5,786,618</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 Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010

Exhibit A-2

<i>Operating revenues:</i>	
Charges for services	\$ 4,316,670
	<u>4,316,670</u>
<i>Total operating revenues</i>	<u>4,316,670</u>
 <i>Operating expenses:</i>	
General and administrative	107,894
Personnel services	4,965,082
Contractual services	4,645,254
Supplies and purchased power	2,447
Maintenance and materials	35,807
Utilities	1,681,630
Depreciation	381,381
Amortization	-
	<u>-</u>
<i>Total operating expenses</i>	<u>11,819,495</u>
<i>Operating income (loss)</i>	<u>(7,502,825)</u>
 <i>Non-operating revenues (expenses):</i>	
Operating grants	-
Interest income	12,293
Interest expense	-
Gross receipts tax expense	(172,231)
Miscellaneous income	1,183
	<u>1,183</u>
<i>Total non-operating revenues (expenses)</i>	<u>(158,755)</u>
Capital grants	-
Transfers in	-
Transfers out	(446,684)
	<u>(446,684)</u>
<i>Total capital grants and net transfers</i>	<u>(446,684)</u>
<i>Change in net assets</i>	<u>(8,108,264)</u>
<i>Net assets - beginning of year</i>	6,486,871
<i>Restatement</i>	(2,496,747)
Net assets - beginning of year, as restated	<u>3,990,124</u>
<i>Total net assets - end of year</i>	<u><u>\$ (4,118,140)</u></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, 2010

<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 4,415,170
Cash payments to employees for services	(4,953,452)
Cash payments to suppliers for goods and services	(6,486,638)
<i>Net cash provided (used) by operating activities</i>	<u>(7,024,920)</u>
<i>Cash flows from noncapital financing activities:</i>	
Operating grants	-
Gross receipts tax expenses	(172,231)
Miscellaneous income	1,183
Change in other receivables	1,697
Change in noncurrent accrued compensated absences	1,917
Internal transfers and loans	(446,684)
<i>Net cash provided (used) by noncapital financing activities</i>	<u>(614,118)</u>
<i>Cash flows from capital and related financing activities:</i>	
Capital grants	-
Acquisition of capital assets	-
Proceeds from issuance of capital debt	8,755,000
Principal paid on capital debt	(68,758)
Interest paid on capital debt	-
Bond issuance costs	-
<i>Net cash provided (used) by capital and related financing activities</i>	<u>8,686,242</u>
<i>Cash flows from investing activities:</i>	
Interest on investments	12,293
Purchase of investments	(12,293)
<i>Net cash provided (used) by investing activities</i>	<u>-</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	1,047,204
<i>Cash and cash equivalents - beginning of year</i>	<u>(1,047,204)</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ -</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (7,502,825)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	381,381
Amortization	-
Changes in assets and liabilities	
Customer receivables	98,500
Inventory	(7,962)
Accounts payable	(5,644)
Accrued payroll expenses	932
Current accrued compensated absences	10,698
<i>Net cash provided (used) by operating activities</i>	<u>\$ (7,024,920)</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, 2010

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 manifestations 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, 2010

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
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Notes to the Financial Statements
For the Year Ended June 30, 2010

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, 2010

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, 2010

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, 2010

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 1st to the New Mexico Department of Finance and Administration's Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1st 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, 2010.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the 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, 2010

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, 2010, \$0 of the Plant’s deposits of \$0 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.

Investments

The Plant’s investments at June 30, 2010 include the following:

Investments	Rated	Weighted Average Maturity	Fair Market Value
Wells Fargo Securities	Unknown	Unknown	\$ 1,057,744

Interest Rate Risk – Investments. The Plant’s policy related to interest rate risk with investments is to comply with the state as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

NOTE 3. ACCOUNTS RECEIVABLE

The Plant’s receivables as of June 30, 2010 are shown as follows:

Customer receivables	\$ 275,748
Allowance for doubtful accounts	(14,410)
Net accounts receivable	\$ 261,338

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, 2010

NOTE 4. CAPITAL ASSETS

	Balance, June 30, 2009	Additions	Deletions	Balance, June 30, 2010
Regional Wastewater Treatment Plant				
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	677,226	-	-	677,226
Total	<u>10,756,549</u>	<u>-</u>	<u>-</u>	<u>10,756,549</u>
Less accumulated depreciation:				
Buildings and improvements	5,885,251	269,277	-	6,154,528
Utility system	229,881	68,135	-	298,016
Equipment	693,185	43,969	-	737,154
Total	<u>6,808,317</u>	<u>381,381</u>	<u>-</u>	<u>7,189,698</u>
Total capital assets, net of depreciation	<u>\$ 4,840,955</u>	<u>\$ (381,381)</u>	<u>\$ -</u>	<u>\$ 4,459,574</u>

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, 2010, totaled \$381,381.

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, 2010

NOTE 5. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2010.

	Balance, June 30, 2009	Additions	Retirements	Balance, June 30, 2010	Due Within One Year
Bonds payable	\$ -	\$ 8,755,000	\$ -	\$ 8,755,000	\$ 286,462
Notes payable	1,189,065	-	68,758	1,120,307	70,134
Compensated absences	-	12,615	-	12,615	10,698
Totals	\$ 1,189,065	\$ 8,767,615	\$ 68,758	\$ 9,887,922	\$ 367,294

Bonds Payable

On October 7, 2009, the Plant issued their Series 2009 Wastewater System Improvement Revenue Bonds in the amount of \$8,755,000 to the United States Department of Agriculture (USDA) for the purpose of improving and extending the Plant's wastewater system. Principal and interest are paid annually. The bonds are 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, 2010
Series 2009 Wastewater Improvement	\$ 8,755,000	10/1/2029	4.25%	<u>\$ 8,755,000</u>

Debt service requirements on notes payable for the Plant at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Debt Service
2011	\$ 286,462	\$ 372,088	\$ 658,550
2012	298,637	359,913	658,550
2013	311,329	347,221	658,550
2014	324,560	333,990	658,550
2015	338,354	320,196	658,550
2016-2020	1,920,091	1,372,660	3,292,751
2021-2025	2,364,297	928,451	3,292,748
2026-2030	2,911,270	381,478	3,292,748
Total	\$ 8,755,000	\$ 4,415,997	\$ 13,170,997

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, 2010

NOTE 5. LONG-TERM LIABILITIES (continued)

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, 2010
2004 NMED Wastewater Construction	\$ 1,513,154	5/1/2023	2.00%	<u>\$ 1,120,307</u>

Debt service requirements on notes payable for the Plant at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Debt Service
2011	\$ 70,134	\$ 22,406	\$ 92,540
2012	71,536	21,003	92,539
2013	72,967	19,573	92,540
2014	74,426	18,113	92,539
2015	75,915	16,625	92,540
2016-2020	402,964	59,734	462,698
2021-2025	<u>352,365</u>	<u>17,793</u>	<u>370,158</u>
Total	<u>\$ 1,120,307</u>	<u>\$ 175,247</u>	<u>\$ 1,295,554</u>

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.

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Village of Ruidoso
Regional Wastewater Treatment Plant
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Notes to the Financial Statements
For the Year Ended June 30, 2010

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.

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, 2010, 2009 and 2008 were \$38,726, \$40,772, and \$42,634, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. COMMITMENTS

The following is a summary of construction in progress as of June 30, 2010:

<u>Description</u>	<u>Contractor</u>	<u>Commitments</u>	<u>Contract Date</u>
RWWTP Phase 1B	RMCI	\$ 10,787,926	7/15/2009
Ruidoso Convention Center	Jack Wayte	591,681	10/9/2009

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, 2010

NOTE 12. NET ASSETS RESTATEMENT

The Plant has restated beginning net assets in the Plant's financial statements as a result of the following:

- Investments in the Plant's 2009 financial statements included amounts that actually belonged to the Ruidoso Flood Special Revenue Fund.

The restatement was a decrease of \$2,496,747 in investments and beginning net assets presented in the Plant's statement of revenues, expenses and changes in net assets.

NOTE 13. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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

- A. Deficit fund balance of individual fund. The following fund reflected a deficit fund balance as of June 30, 2010:

Regional Wastewater Treatment Plant	<u><u>\$ (4,118,140)</u></u>
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This fund has a deficit fund balance because expenditures were in excess of revenues and available cash and there were not sufficient transfers to cover the deficit.

- B. Excess of expenditures over appropriations. The following fund exceeded approved budgetary authority for the year ended June 30, 2010:

Regional Wastewater Treatment Plant	<u><u>\$ (10,106,628)</u></u>
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In the future the Plant plans to monitor its budget more closely and make necessary adjustments with approval from those charged with governance and the Department of Finance and Administration.

- C. Designated cash appropriations exceeded prior year available balances. There were not any funds which had designated cash appropriations in excess of available balances for the year ended June 30, 2010.

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ 3,641,515	\$ 3,641,515	\$ 4,316,670	\$ 675,155
<i>Total operating revenues</i>	<u>3,641,515</u>	<u>3,641,515</u>	<u>4,316,670</u>	<u>675,155</u>
<i>Operating expenses:</i>				
General and administrative	242,485	243,590	107,894	135,696
Personnel services	546,277	546,277	4,965,082	(4,418,805)
Contractual services	385,000	385,000	4,645,254	(4,260,254)
Supplies and purchased power	4,450	4,450	2,447	2,003
Maintenance and materials	67,000	67,000	35,807	31,193
Utilities	257,400	257,400	1,681,630	(1,424,230)
<i>Total operating expenses</i>	<u>1,502,612</u>	<u>1,503,717</u>	<u>11,438,114</u>	<u>(9,934,397)</u>
<i>Operating income (loss)</i>	<u>2,138,903</u>	<u>2,137,798</u>	<u>(7,121,444)</u>	<u>(9,259,242)</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	-	-	-	-
Interest income	-	-	12,293	12,293
Interest expense	-	-	-	-
Gross receipts tax expense	-	(20,000)	(172,231)	(152,231)
Miscellaneous income	-	2,000	1,183	(817)
<i>Total non-operating revenues (expenses)</i>	<u>-</u>	<u>(18,000)</u>	<u>(158,755)</u>	<u>(140,755)</u>
Capital grants	-	-	-	-
Transfers out	(386,176)	(386,176)	(446,684)	(60,508)
<i>Total capital grants and net transfers</i>	<u>(386,176)</u>	<u>(386,176)</u>	<u>(446,684)</u>	<u>(60,508)</u>
<i>Change in net assets</i>	<u>1,752,727</u>	<u>1,733,622</u>	<u>(7,726,883)</u>	<u>(9,460,505)</u>
Designated cash (budgeted increase in cash)	(1,752,727)	(1,733,622)	-	(1,733,622)
<i>Total net assets, beginning of year</i>	-	-	6,486,871	6,486,871
<i>Total net assets, restatement</i>	-	-	(2,496,747)	(2,496,747)
<i>Total net assets, beginning of year, as restated</i>	-	-	3,990,124	3,990,124
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,736,759)</u>	<u>\$ (7,204,003)</u>
<i>Change in net assets, above</i>			\$ (7,726,883)	
Adjustments for depreciation and amortization			(381,381)	
<i>Change in net assets (Exhibit A-2)</i>			<u>\$ (8,108,264)</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, 2010

Schedule I

Bank Account Type/Name	Investments Wells Fargo Securities	Totals
Investments	\$ 1,057,744	\$ 1,057,744
Reconciling items	-	-
Reconciled balance	\$ 1,057,744	\$ 1,057,744
Unrestricted cash and cash equivalents per Exhibit A-1		\$ -
Investments per Exhibit A-1		1,057,744
Total deposits and investments		\$ 1,057,744

See accompanying independent auditors' report

COMPLIANCE SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

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

Hector 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, 2010, 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, 2010 as listed in the table of contents. We disclaimed our opinion because we were unable to apply auditing procedures to cash, assets, liabilities, net assets, revenues, expenses, federal awards, capital assets, accumulated depreciation, and depreciation expenses 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS2005-1, FS2005-2, FS2005-7, FS2005-11, FS2007-7, FS2007-11, FS2008-2, FS2008-3, FS2009-1 through FS2009-124, inclusive, and FS2010-1 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Village'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 Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the New Mexico Legislature, the New Mexico Department of Finance and Administration, the Office of the State Auditor, 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, 2010

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 Responses

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 Responses (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 Responses (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 Responses (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 1st. 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.*

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, 2010

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Section II – Financial Statement Findings and Responses (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
June 30, 2010

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Section II – Financial Statement Findings and Responses (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
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 Responses (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 Responses (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, 2010.

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.*

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Section II – Financial Statement Findings and Responses (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 2 instances out of 5 when the Village did not have a completed purchase order before the purchase was made.

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 Responses (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 Responses (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.

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

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

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

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

Auditors’ Recommendation: The 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 Responses (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 Responses (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 Responses (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, in 4 out of the 5 bids tested, 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 Responses (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 \$589.38, 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 Responses (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.

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Section II – Financial Statement Findings and Responses (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, 2010, 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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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.

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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 Responses (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.

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

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place 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 Responses (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.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place 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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 3rd 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 Responses (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 Responses (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 Responses (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 3rd 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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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:

- 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 Responses (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:

- Bank reconciliations are kept current and reviewed and signed off by upper management.
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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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 3rd 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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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.

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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.

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 Responses (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.

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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: 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.*

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Village of Ruidoso
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Section II – Financial Statement Findings and Responses (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.

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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: 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 Responses (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.

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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: 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 Responses (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.

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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: 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 Responses (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.

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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.

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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 Responses (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 Responses (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.

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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: 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 Responses (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.

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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.

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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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 Responses (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, 2010

Section II – Financial Statement Findings and Responses (continued)

A. Financial Statement Findings (continued)

FS2010-1 Expenditures in Excess of Budget

Condition: The Plant over expended its budget in the following fund:

Regional Wastewater Treatment Plant	<u>\$ (10,106,628)</u>
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Criteria: Section 6-6-6 NMSA, 1978 requires that the Plant keep expenditures within the budgeted amounts.

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

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

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

Agency Response: The Village's Finance Director reviews monthly all budget to actual reports to ensure that budgets are not exceeded.

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, 2010

Section III - Schedule of Prior Year Audit Findings

FS 2005-1	Information System Disaster Recovery Policy	Revised and Repeated
FS 2005-2	Accounting Policies and Procedures Manual	Revised and Repeated
FS 2005-7	Regional Wastewater Treatment Plant	Revised and Repeated
FS 2005-11	Audit Report Submission to the New Mexico State Auditor and A-133 Data Collection Form	Revised and Repeated
FS 2007-7	Monitoring Grants	Revised and Repeated
FS 2007-11	Auditor Prepared Financial Statements	Revised and Repeated
FS 2008-2	Bank Reconciliations	Revised and Repeated
FS 2008-3	Inventories	Revised and Repeated
FS 2009-1	Lack of Adequate Documentation for Expenditures	Revised and Repeated
FS 2009-2	Segregation of Duties – Cash Disbursements	Revised and Repeated
FS 2009-3	Deficiencies in Internal Control Structure Design, Operation and Oversight - Cash Disbursements	Revised and Repeated
FS 2009-4	Segregation of Duties – Cash Receipts	Revised and Repeated
FS 2009-5	Deficiencies in Internal Control Structure Design, Operation and Oversight - Cash Receipts	Revised and Repeated
FS 2009-6	Noncompliance with the Procurement Code	Revised and Repeated
FS 2009-7	Lack of Adequate Documentation for Credit Card Expenditures	Revised and Repeated
FS 2009-8	PERA Reports and General Ledger	Revised and Repeated
FS 2009-9	Capital Assets	Revised and Repeated
FS 2009-10	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-11	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-12	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-13	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-14	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-15	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-16	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-17	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-18	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-19	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-20	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-21	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-22	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-23	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-24	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-25	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-26	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-27	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-28	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-29	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-30	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-31	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-32	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-33	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-34	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-35	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-36	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-37	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-38	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated

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, 2010

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

FS 2009-88	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-89	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-90	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-91	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-92	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-93	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-94	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-95	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-96	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-97	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-98	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-99	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-100	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-101	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-102	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-103	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-104	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-105	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-106	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-107	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-108	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-109	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-110	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-111	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-112	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-113	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-114	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-115	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-116	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-117	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-118	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-119	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-120	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-121	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-122	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-123	Deficiencies in Internal Control Structure Design, Operation and Oversight – P-Cards	Revised and Repeated
FS 2009-124	Deficiencies in Internal Control Structure Design, Operation and Oversight – Airport Supporting Documentation	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, 2010

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