



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE  
DEVELOPMENT BOARD**

**Financial Statements**

**For The Year Ended June 30, 2011**

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
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For The Year Ended June 30, 2011**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Eastern Area Workforce Development Board  
and  
Mr. Hector H. Balderas, State Auditor

We were engaged to audit the accompanying financial statements of the governmental activities and the major fund and the major fund budgetary comparison of the Eastern Area Workforce Development Board (EAWDB) as of and for the year ended June 30, 2011, which collectively comprises the EAWDB's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the EAWDB'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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. 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 EAWDB's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 EAWDB's system of internal control over financial reporting has caused significant doubt that all possible material misstatements could be detected by our audit procedures. Furthermore, evidence supporting historical costs of capital assets maintained by the EAWDB was not available. Because of the magnitude of the possible misstatement of the financial statements that could remain undetected, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of the governmental activities and the major fund and the major fund budgetary comparison as of and for the year ended June 30, 2011, as listed in the

table of contents.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 3, 2012 on our consideration of the EAWDB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The EAWDB 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 part of the basic financial statements.

We were engaged to conduct an audit for the purpose of forming opinions of the EAWDB's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*. 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 the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.



Hinkle + Landers, PC  
August 3, 2012

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
(GOVERNMENT-WIDE)  
STATEMENT OF NET ASSETS  
As of June 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 6,641
Grant receivables	<u>279,750</u>
Total current assets	<u>286,391</u>
Non-current assets:	
Capital assets	<u>208,189</u>
Total assets	<u><u>\$ 494,580</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 368,441
Due to other governments	118,081
Note payables	<u>(9,900)</u>
Total current liabilities	<u>476,622</u>
<b>NET ASSETS</b>	
Investment in capital assets	208,189
Unrestricted	<u>(190,231)</u>
Total net assets	<u>17,958</u>
Total liabilities and net assets	<u><u>\$ 494,580</u></u>

See independent auditors' report  
The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
(GOVERNMENT-WIDE)  
STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2011**

<b>Functions/Programs</b>	<b><u>Expenses</u></b>	<b><u>Program Operating Grants and Contributions</u></b>	<b><u>Net (Expense) Revenue and Changes in Net Assets for Governmental Activities</u></b>
<b>Governmental activities:</b>			
Workforce Investment Act program:			
Adult	\$ 715,500	449,261	(266,239)
Dislocated Worker	267,480	204,687	(62,793)
Youth	627,733	530,456	(97,277)
Administration	130,005	125,914	(4,091)
Other	(19,684)	163,966	183,650
One-Stop offices	169,534	150,325	(19,209)
TANF	129,487	523,982	394,495
Depreciation	113,691	-	(113,691)
	<u>\$ 2,133,746</u>	<u>2,148,591</u>	<u>14,845</u>
General revenues:			
Interest income			<u>370</u>
Change in net assets			<u>15,215</u>
Net assets, beginning of year			(172,434)
Restatement			175,177
Beginning net assets, as restated			<u>2,743</u>
Net assets, end of year			<u><u>\$ 17,958</u></u>

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**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
As of June 30, 2011**

		<b>General Fund Workforce Investment Act</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$	6,641
Grant receivables		<u>279,750</u>
Total assets	\$	<u><u>286,391</u></u>
<b>LIABILITIES:</b>		
Accounts payable	\$	368,441
Due to other governments		118,081
Notes payable		<u>(9,900)</u>
Total liabilities		<u>476,622</u>
<b>FUND BALANCE:</b>		
Unassigned		<u>(190,231)</u>
Total fund balance		<u>(190,231)</u>
Total liabilities and fund balance	\$	<u><u>286,391</u></u>
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Total fund balances - Governmental Funds	\$	(190,231)
Capital assets used in governmental activities are not financial resources and therefore, are not reported		<u>208,189</u>
Net assets of governmental activities	\$	<u><u>17,958</u></u>

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**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
For The Year Ended June 30, 2011**

		<b>General Fund Workforce Investment Act</b>
<b>Revenues:</b>		
Federal grants	\$	1,998,265
Interest income		370
Other income		150,325
		2,148,960
<b>Expenditures:</b>		
Employment services:		
Formula Program Year funds		
Adult		559,370
Dislocated Worker		166,569
Youth		627,733
Administration		95,555
Other		255
American Recovery and Reinvestment Act		
Adult		156,131
Dislocated Worker		100,910
Administration		34,450
Other		(19,939)
One Stop offices		169,534
TANF		129,487
Total Expenditures		2,020,055
Net change in fund balance		128,905
Beginning fund balance		(345,305)
Restatement		26,169
Beginning fund balance, as restated		(319,136)
Ending fund balance	\$	(190,231)

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

Net change fund balance in governmental funds	\$	128,905
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Depreciation expense		(113,691)
Rounding		1
Change in net assets of governmental activities	\$	15,215

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**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET (MODIFIED ACCRUAL BASIS)  
AND ACTUAL (MODIFIED ACCRUAL BASIS)  
For The Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Grants	\$ 3,575,358	3,586,444	1,998,265	(1,588,179)
Interest	-	-	370	370
Other revenue	-	-	150,325	150,325
Total revenues	<u>3,575,358</u>	<u>3,586,444</u>	<u>2,148,960</u>	<u>(1,437,484)</u>
<b>Expenditures:</b>				
Current:				
Employment services:				
American Recovery and Reinvestment Act				
Adult	345,722	370,722	156,131	214,591
Dislocated Worker	251,035	226,035	100,910	125,125
Youth	800,483	800,483	-	800,483
Administration	155,250	155,250	14,511	140,739
PY 10 and FY 11				
Adult	801,815	801,815	559,370	242,445
Dislocated Worker	410,828	410,828	166,569	244,259
Youth	642,452	653,538	627,733	25,805
Administration	167,773	167,773	95,810	71,963
One Stop offices	-	-	169,534	(169,534)
TANF	-	-	129,487	(129,487)
Total general governmental	<u>3,575,358</u>	<u>3,586,444</u>	<u>2,020,055</u>	<u>1,566,389</u>
Change in fund balance	-	-	128,905	128,905
Fund balance, beginning of year	-	-	(345,305)	(345,305)
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>(216,400)</u>	<u>(216,400)</u>

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**STATE OF NEW MEXICO**  
**EASTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2011**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***A. Description of Entity***

The purpose of these financial statements is to present the financial position and the changes in financial position of the Eastern Area Workforce Development Board. The Eastern Area Workforce Development Board operates three programs, WIA, TANF and the American Recovery and Reinvestment Act.

The Eastern Area Workforce Development Board (EAWDB) of the State of New Mexico is established in accordance with 29 U.S.C § 2832 of the federal Workforce Investment Act of 1998 (WIA), 29 U.S.C. § 2801 et seq., and Section 50-14-5, NMSA 1978 Compilation of the New Mexico Workforce Development Act (WDA), Section 50-14-1 et seq., NMSA 1978 Compilation.

The Eastern Area Workforce Development Board of the State of New Mexico was created on April 5, 2000, by the Chief Elected Officials of the Local Governments of the Eastern Plains Council of Governments and the Southeastern New Mexico Economic Development District/Council of Governments.

The day to day operations and fiscal management of the activities of EAWDB are managed by the Eastern Plains Council of Governments (EPCOG) in Clovis, New Mexico. As such, the financial information of EAWDB is reported as an agency fund on the in the financial statements of EPCOG.

It shall be the purpose of the EAWDB to set policy for and provide operational oversight of the local workforce investment system geographically comprised of the counties of Union, Harding, Quay, Guadalupe, Curry, De Baca, Roosevelt, Chaves, Lincoln, Otero, Eddy, and Lea, of the State of New Mexico.

The objective of the EAWDB is to carry out its duties and responsibilities according to the federal WIA, the TANF program, the New Mexico WDA, and all federal and New Mexico regulations duly promulgated under those acts.

The basic activities authorized by the State of New Mexico (50-14-5, NMSA, 1978) to be carried out by the local board are as follows:

- 1) Advise the state board on issues relating to regional and local workforce development needs;
- 2) Develop and submit to the state board and governor a local five-year workforce plan that shall be updated and revised annually in accordance with the requirements of the federal Workforce Investment Act of 1998;
- 3) Designate or certify one-stop program operators in accordance with the federal Workforce Investment Act of 1998;
- 4) Terminate, for cause, the eligibility of the one-stop operator;
- 5) Select and provide grants to youth activity providers in accordance with the Workforce Investment Act of 1998;
- 6) Identify eligible training and intensive service providers in accordance with Workforce Investment Act of 1998;
- 7) Develop a budget subject to approval of the chief elected official;

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- 8) Develop and negotiate local performance measurements as described in the Workforce Investment Act of 1998 with the chief elected official and the governor;
- 9) Assist in development of an employment statistics system;
- 10) Ensure linkages with economic development activities;
- 11) Encourage employer participation and assist employers in meeting hiring needs;
- 12) In partnership with the chief elected officials, conduct oversight of local programs of youth activities authorized pursuant to the federal Workforce Investment Act of 1998 and employment and training activities authorized pursuant to that act, and conduct oversight of the one-stop delivery system in the local area;
- 13) Establish as a subgroup, a youth council, appointed by the local board in cooperation with the chief elected official, and
- 14) Prior to submission of the local plan, provide information regarding the following:
  - a) the local plan
  - b) membership
  - c) designation and certification of one-stop operators and
  - d) the award of grants or contracts to eligible providers of youth activities

Specifically, as set forth in the HSD, the EAWDB shall:

- 1) EAWDB - TANF Program must approve all sub-contractors
  - a) Must ensure that Work Program Services are being delivered as provided in the scope of work.
  - b) Provide timely plans, reports and billing invoices.
  - c) Meet specific FSP, E&T, and TANF/NMW outcomes.
  - d) Meet specific TANF/NMW performance measures.
- 2) EAWDB - TANF Program must ensure range of services intended to assist persons receiving assistance under Temporary Assistance to Needy Families (TANF), New Mexico Works program (NMW) and the Food Stamp Program (FSP), and the Employment and Training program (E&T) to become more employable as well as become employed.
- 3) EAWDB - TANF Program must ensure integrated participant services are comprehensive and business driven. The services must comply with Federal and State regulations and plans for the TANF, FSP, and the E&T programs as indicated in the Personal Responsibility Work Opportunity Reconciliation Act (PRWORA), NMW Act, TANF State Plan, Food Stamp Act, FSP/E&T State Plan, the New Mexico Administrative Code (NMAC), and the Work Verification Plan (WVP).
- 4) EAWDB - TANF Program designates a contract manager for the TANF program. The EAWDB may appoint another agency, contract representative, or successor to perform this function.
- 5) Encourage employer participation and assist employers in meeting hiring needs.
- 6) EAWDB - TANF Program in partnership with the chief elected officials (CEO's) of the eastern area, conduct oversight of local programs.

The local board shall be appointed in accordance with criteria established by the governor. The EAWDB's board is required to be made up of at least fifty-one percent of its members coming from the private sector and shall include representation of education, labor, government, economic development and community-based

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organizations, and others as appropriate and shall be appointed or ratified by the local chief public official.

In evaluating how to define the Board, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the election of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the EAWDB and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Board is able to exercise oversight responsibility. Based on the application of these criteria, there are no component units included in the reporting entity.

***B. Basic Financial Statements – Government-Wide Statements***

The EAWDB's basic financial statements include both government-wide (based on the EAWDB as a whole) and fund financial statements. Both the government-wide and fund financial statements (Within the basic statement) categorize primary activities as either governmental or business type. The EAWDB is a single purpose government entity and has no business-type activities. The government-wide financial statements, the statement of net assets and the statement of activities report information on all non-fiduciary activities of an agency.

In the government-wide statement of net assets, the governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. The EAWDB's net assets are reported in three parts -invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (employment services) which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (public safety). Program revenues include 1) charges to applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements for a particular function or segment.

When applicable, the effect of interfund activity is removed from the statement of net assets and the statement of activities in order to avoid a grossing-up effect on the assets, liabilities, revenues and expenditures.

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The net cost by function is normally covered by general revenue. The EAWDB allocates its indirect costs to each of its programs based on an indirect cost allocation plan. The government-wide focus is more on the sustainability of the EAWDB as an entity and the change in the EAWDB's net assets resulting from the current year's activities.

***C. Basic Financial Statements -Fund Financial Statements***

The governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the EAWDB's actual experience conforms with the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented with each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The financial transactions of the EAWDB are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

This model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section. Currently, all EAWDB sub-funds are reported as a single General Fund.

The following fund type is used by the EAWDB:

*Governmental Funds*

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Revenues are available if collected within the current period or soon enough afterwards to pay liabilities of the current period. The EAWDB considers revenues to be available if collected within sixty days of the end of the fiscal year. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by

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noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

The EAWDB presents the following type of governmental funds.

- *General Fund* – The General Fund is the general operating fund of the EAWDB. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is comprised of multiple sub-funds associated with separate revenue sources. The General Fund is funded primarily from operating grants from the U.S. Department of Labor passed through the New Mexico Department of Workforce Solutions.

***D. Basis of Accounting***

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented on an accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenditures are recognized when incurred. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual. That is when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements

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including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

The financial statements of the EAWDB are prepared in accordance with Generally Accepted Accounting Principles generally accepted in the United States of America (GAAP). The EAWDB applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds, similar component units, and the government-wide financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

***E. Net Assets***

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted, and unrestricted.

*Invested in Capital Assets (net of related debt)* – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. There was no related debt as of fiscal year-end.

*Restricted Assets* – are liquid assets (generated from revenues and not bond proceeds), with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. These are assets which have a legally enforceable third-party (statutory or granting agency) limitation on their use. Legally enforceable means that a government can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation. Generally the enforceability of an enabling legislation restriction is determined by professional judgment. If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net assets should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation.

*Unrestricted Assets* – represent unrestricted liquid assets. These are comprised off all net assets that are not otherwise classified as restricted or invested in capital assets.

The EAWDB allocates expenses to restricted or unrestricted resources based on the budgeted source of funds. It is the EAWDB's practice to apply restricted resources prior to unrestricted funds when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.



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***F. Fund Balance – Governmental Funds***

GASB Statement No. 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The new hierarchical fund balance classifications are based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds. GASB Statement No. 54 was implemented in the current fiscal year. Details of the EAWDB's fund balance classifications and policies follows.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). The Board's fund balance is classified under the following GASB Statement No. 54 components:

- *Non-spendable*: Non-spendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The EAWDB does not have any non-spendable fund balance for the year ended June 30, 2011.
- *Restricted*: Restricted fund balance represents includes amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government). The EAWDB does not have any restricted fund balance for the year ended June 30, 2011.
- *Committed*: Committed fund balance is constrained to specific purposes by the highest level of decision-making authority (the New Mexico Legislature and Governor). The EAWDB does not have any committed fund balance for the year ended June 30, 2011.
- *Assigned*: Assigned fund balance is constrained by the Legislature and Executive branch's intent to be used by the government for specific purposes or in some cases by legislation. Intent can be expressed by the governing body or an official or body to which the governing body delegates authority. The EAWDB does not have any assigned fund balance for the year ended June 30, 2011.
- *Unassigned*: Unassigned fund balance is the residual classification for the general fund. The EAWDB does not currently have a minimum fund balance policy. The EAWDB has an unassigned fund balance deficit totaling \$(190,231) for the year ended June 30, 2011.

Spending policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the EAWDB considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the EAWDB considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

**STATE OF NEW MEXICO**  
**EASTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2011**

***G. Budgets***

The EAWDB prepares a budget by funding stream based upon the allocation by the State Workforce Development Board to be approved by the EAWDB's Board. The State Workforce Development Board provides the EAWDB with a breakdown of the funds allocated to that region each year for adult, dislocated worker, state set aside, youth and administration activities. Those allocations are based upon the State Workforce Development Board's approved state plan. The EAWDB cannot exceed expenditures by adult, dislocated worker, youth, state set aside, or administration funding streams. Allocated funds not drawn in the first year may be drawn in the next year.

Budgets are prepared on the modified accrual basis of accounting. The Board and the Department of Finance and Administration exercise legal level budget control at the fund level for general government functions. The budgets of all individual funds may not be legally over expended. Any adjustments to the State Board's allocations made by the EAWDB must be first approved by the State Workforce Development Board but are not required to be approved by the Department of Finance and Administration.

Any federal funds that have been used for any purpose not within the purposes of the Workforce Investment Act shall be reimbursed to the State Workforce Investment Board. Also, any funds allocated not used within two years of the original allocation date revert back and are not allowed to be drawn down after that period.

***H. Cash and Cash Equivalents***

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase.

***I. Receivables***

In accordance with Article IV Section 32 of the New Mexico Constitution [Remission of debts due state or municipalities], the EAWDB does not write-off amounts owed to it by any individual, association, company, or other agency. The EAWDB maintains a list of all amounts owed to it to ensure no amounts are erroneously written off.

***J. Federal Grants Receivable (Deferred Revenue)***

All federal grants are on a reimbursement basis. Various reimbursement procedures are used for federal awards received by the EAWDB. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred revenue balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period.

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2011**

federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed.

***K. Allowances***

The EAWDB expects to receive the full amount of grants receivables for funds requested from the Office of Workforce Development and Training and others and, therefore, had not set up any allowance for any uncollectible receivables.

***L. Capital Assets and Depreciation***

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the EAWDB as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and are capitalized on the government-wide financial statements. The valuation bases for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Sub-grantees purchasing equipment by sub-grant made by the EAWDB to other agencies is accounted for in capital assets. Purchased capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date of donation. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

<u>Type of Asset</u>	<u>Estimated Useful Life</u>
Leasehold improvements	5 years
Vehicles	5 years

However, assets over the past years have been purchased by contractors and sub-recipients as budgeted in their contracts and award agreements. These assets have been recorded on the contractors' and sub-recipients' books and depreciation has been recorded on their books accordingly. The contractors and sub-recipients are under the understanding that should the program end or their agreements with the EAWDB end, those assets will need to be returned to the EAWDB's WIA program.

***M. Use of Estimates***

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

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**For The Year Ended June 30, 2011**

**Note 2 – DEPOSIT AND INVESTMENTS**

The EAWDB's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments.

State statutes authorize the investment of the EAWDB funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The EAWDB is also allowed to invest in United States Government obligations. All funds of the EAWDB must follow the above investment policies.

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 EAWDB. 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.

In accordance with Section 6-10-17, NMSA, 1978 Compilation, deposits of public money are required to be collateralized. Pledged collateral is required to have an aggregate value equal to one half of the amount of public money in each account. Securities, which are obligations of the United States, State of New Mexico, its agencies, institutions, counties, municipalities or other subdivisions are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation, or the National Credit Union Administration.

Custodial credit risk is risk that in the event of bank failure, the EAWDB's deposits may not be returned to it. The government does not have a deposit policy for custodial risk. As of June 30, 2011, none of the government's bank balance of \$131,175 was exposed to custodial risk.

Deposits as of June 30, 2011 were held in Citizens Bank of Clovis in the name of the EAWDB. Deposits (cash or cash equivalents) are carried at cost, which approximates market value. As of June 30, 2011, the carrying amount of the EAWDB's deposits was \$6,641.

**STATE OF NEW MEXICO**  
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The following is a listing of deposits of public money held by the EAWDB, by the depositing financial institutions as of June 30, 2011:

<u>Bank/Account Name</u>	<u>Type</u>	<u>Bank Balance</u>	<u>Outstanding Items</u>	<u>Book Balance</u>
Citizens Bank of Clovis				
ARRA	Demand Deposit	\$ 22,663	(53,003)	(30,340)
TANF	Demand Deposit	62,560	(10,725)	51,835
Operating	Demand Deposit	2,285	(59,391)	(57,106)
NMWFC	Demand Deposit	14,711	733	15,444
One Stop	Demand Deposit	28,956	(2,148)	26,808
Total Citizens Bank		131,175	(124,534)	6,641
FDIC insurance		(250,000)		
Amount uninsured		\$ <u><u>-</u></u>		

There were no remaining uninsured and collateralized deposits exposed to custodial credit risk. As of June 30, 2011, the amount of the EAWDB's bank balance of that was exposed to custodial credit risk was as follows:

Uninsured and collateral held by the pledging Bank's trust dept., not in the EAWDB's name	\$ <u><u>-</u></u>
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Due to restriction on Workforce Investment Act funds by the granting agency monies deposited into the account of the EAWDB and any program revenue earned by the EAWDB are not allowed to be invested.

**Note 3 – RECEIVABLES**

The EAWDB had grant receivables from the Department of Workforce Solutions in the amount of \$279,750 as of June 30, 2011.

**Note 4 – CAPITAL ASSETS AND DEPRECIATION**

The following is a summary of changes in capital assets for the year ended June 30, 2011:

	<u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>2011</u>
Capital Assets:					
Leasehold improvements	\$ 412,194	-	-	139,524	551,718
Vehicles	-	-	-	16,739	16,739
Subtotal depreciable assets	412,194	-	-	156,263	568,457
Accumulated Depreciation:					
Leasehold improvements	(239,323)	(110,344)	-	-	(349,667)
Vehicles	-	(3,348)	-	(7,253)	(10,601)
Subtotal accumulated depreciation	(239,323)	(113,692)	-	(7,253)	(360,268)
Total net capital assets	\$ <u><u>172,871</u></u>	<u><u>(113,692)</u></u>	<u><u>-</u></u>	<u><u>149,010</u></u>	<u><u>208,189</u></u>

Current year depreciation expense for the year ended June 30, 2011 was \$113,691. All of the EAWDB's equipment have been purchased under government contracts and are restricted as to their use as designated by granting agencies.

**STATE OF NEW MEXICO**  
**EASTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2011**

A restatement was made during the year ended June 30, 2011 to adjust beginning capital assets based on the client's inventory conducted during the year. The total restatement increased capital assets and total net assets by \$149,010.

**Note 5 – DEFERRED REVENUE**

During the fiscal year ending June 30, 2011, the EAWDB had no deferred revenues.

**Note 6 – RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP BASIS**

Because the EAWDB kept its budgets on the modified accrual basis of accounting during the year ending June 30, 2011, there was no need to reconcile the budget financial statements to fund financial statements.

**Note 7 – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN AND POST EMPLOYMENT BENEFITS**

During the fiscal year ended June 30, 2011, the EAWDB had no employees eligible for retirement benefits and, therefore, had no retirement benefit expenditures during the year.

**Note 8 – RISK MANAGEMENT**

The EAWDB is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which its fiscal agent SCCOG carried commercial insurance in the name of the EAWDB. Settled claims have not exceeded this commercial coverage in the past year.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2011, the EAWDB did not have any probable risk of loss.

**Note 9 – RELATED PARTY TRANSACTIONS**

The EAWDB board members include community leaders who are involved in and concerned with providing opportunities for employment in the areas serviced by the EAWDB. The area partners, one-stop providers, and training providers are required to have representation on the EAWDB Board of directors in accordance with New Mexico State Statutes, 1978, 15-14-4 D. These contracts were consummated at arm's length for each of the activities.

During the year ended June 30, 2011, purchases for goods and services were made by the EAWDB with companies or organizations with which various board members are associated.

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2011**

**Note 10 – RESTATEMENT OF BEGINNING BALANCES**

Beginning balances were restated as follows:

<u>Fund</u>	<u>Purpose/Reason</u>	<u>Amount</u>
General fund	Unknown variance	\$ 26,167
Total general fund		<u>\$ 26,167</u>
Governmental Activities	Prior year capital assets were understated	\$ 149,010
	General fund adjustments from above	26,167
Total governmental activities restatements		<u>\$ 175,177</u>

**Note 11 – SUBSEQUENT EVENTS**

Effective July 1, 2012, the EAWDB changed its administrative entity/fiscal agent to a new provider and no longer will utilize EPCOG for those services. During the year ended June 30, 2012, the EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc.

During the year ended June 30, 2011 and in subsequent years, the EAWDB and its administrative entity/fiscal agent became subject to oversight by the United States Department of Labor regarding the administration of the EAWDB's programs. The process is ongoing and the final results and findings of the USDOL's investigation are still pending. Any related liabilities the organization might be subject to as a result of this oversight are currently not known. As a result, no related liabilities for contingencies have been recorded in the accompanying financial statements.

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2011**

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity's Identifying Number</b>	<b>Grant Award Expended</b>
U.S. Department of Labor passed through			
New Mexico Department of Workforce Solutions			
WIA Program			
WIA Adult Program	17.258	PY 10-11	\$ 559,370
WIA Youth Activities	17.259	PY 10-11	627,733
WIA Dislocated Workers	17.260	PY 10-11	166,569
WIA 10% Administration	17.258, 17.259, 17.260	PY 10-11	95,555
Subtotal WIA program			<u>1,449,227</u>
ARRA funding			
WIA Adult Program	17.258	PY 10-11	156,131
WIA Dislocated Workers	17.260	PY 10-11	100,910
WIA 10% Administration	17.258, 17.259, 17.260	PY 10-11	34,450
Subtotal ARRA funding			<u>291,491</u>
Total WIA Cluster			<u>1,740,718</u>
TANF	93.558	PY 10-11	129,487
Total expenditures			<u>\$ 1,870,205</u>

Selected Disclosures

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Eastern Area Workforce Development Board, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

2. The Eastern Area Workforce Development Board did not receive any noncash assistance.

3. Payments to subrecipients

<u>Organization</u>	<u>Amount</u>
Clovis Community College	\$ 38,697
ENMU - Portales	1,484
ENMU - Roswell	84,204
ENMU - Ruidoso	31,786
HELP	311,366
NMSU - Alamogordo	39,171
NMSU - Carlsbad	19,353
Region IX Education Cooperative	137,774
High Plains Community Development Corp	<u>139,122</u>
Total payments to subrecipients	<u>\$ 802,957</u>

See independent auditors' report  
The accompanying notes are an integral part of these financial statements



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

The Board of Directors  
Eastern Area Workforce Development Board  
Clovis, New Mexico and  
Mr. Hector Balderas, State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, the major fund, and the major budgetary comparison of the Eastern Area Workforce Development Board (EAWDB), as of and for the year ended June 30, 2011, and have issued our report thereon dated August 3, 2012. 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 *Governmental 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 EAWDB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EAWDB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EAWDB'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 questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 questioned costs to be material weaknesses: 11-01, 11-02, 11-06, 11-09, 11-10, 11-11, 11-13, and 11-14.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 05-03, 05-04, 10-01, 10-02, 10-03, 10-04, 11-03, 11-04, 11-05, 11-07, 11-08, 11-12, 11-15, 11-16, 11-17, 11-18, and 11-19.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the EAWDB's financial statements are free of material misstatements, 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: 11-01, 11-05, 11-07, 11-08, 11-15, 11-16, and 11-17.

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

This report is intended solely for the information and use of the Eastern Area Workforce Development Board's Board of Directors, the NM Department of Finance and Administration, the NM Legislature, management, others within the organization, federal awarding agencies and pass-through entities and the Office of the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle + Landers, P.C.  
August 3, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors  
Eastern Area Workforce Development Board  
Clovis, New Mexico and  
Mr. Hector Balderas, State Auditor  
Santa Fe, New Mexico

**Compliance**

We have audited the Eastern Area Workforce Development Board's (EAWDB) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the EAWDB's major federal program for the year ended June 30, 2011. The EAWDB's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant applicable to its major federal program is the responsibility of the EAWDB's management. Our responsibility is to express an opinion on the EAWDB's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the EAWDB's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the EAWDB's compliance with those requirements.

As described in items 11-01, 11-05, 11-07, 11-08, 11-15, 11-16, and 11-17 in the accompanying schedule of findings and questioned costs, the EAWDB did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Period of Availability of Federal Funds, Program Income, and Reporting that are applicable to the Workforce Investment Act program. Compliance with such requirements is necessary, in our opinion, for the EAWDB to comply with requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the EAWDB did not comply in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Workforce Investment Act program.

**Internal Control Over Compliance**

Management of the EAWDB is responsible for establishing and maintaining effective internal control

over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the EAWDB's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the EAWDB's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-01, 11-02, 11-06, 11-09, 11-10, 11-11, 11-13, and 11-14 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 05-03, 10-01, 10-02, 10-03, 10-04, 11-03, 11-04, 11-05, 11-07, 11-08, 11-12, 11-15, 11-16, 11-17, 11-18, and 11-19 to be significant deficiencies.

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

This report is intended solely for the information and use of the Eastern Area Workforce Development Board's Board of Directors, the NM Department of Finance and Administration, the NM Legislature, management, others within the organization, federal awarding agencies and pass-through entities and the Office of the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle + Landers, P.C.

August 3, 2012

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2011**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

*Financial Statements:*

Type of auditors' report issued Disclaimer

*Internal Control over financial reporting:*

Material weaknesses identified?	<u>X</u> yes	__ no
Significant deficiencies identified that are not considered to be material weaknesses?	<u>X</u> yes	__ no
Non-compliance material to financial statements noted?	<u>X</u> yes	__ no

*Federal Awards:*

Internal Control

Material weaknesses identified?	<u>X</u> yes	__ no
Significant deficiencies identified that are not considered to be material weaknesses?	<u>X</u> yes	__ no

Type of auditors' report issued on major programs Adverse

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes      \_\_ no

Identification of major program as noted below:

CFDA Numbers Funding Source	Name of Federal Programs	Funding Source
	Workforce Investment Act:	
17.258	Adult	U.S. Dept. of Labor Passed through the New Mexico Dept. of Workforce Solutions
17.259	Youth	
17.260	Dislocated Worker	
17.258	ARRA - Adult	
17.259	ARRA - Youth	
17.260	ARRA - Dislocated Worker	

Dollar threshold use to distinguish between  
A and B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_ yes      X no

**STATE OF NEW MEXICO  
EASTERN AREA WORKFORCE DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2011**

**SECTION II & III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS**

<b>Reference #</b>	<b>Topic</b>	<b>Status of Current and Prior Year Findings</b>	<b>Financial Statement Finding</b>	<b>Federal Awards Finding</b>	<b>State Audit Rule Finding</b>	<b>Significant Deficiency</b>	<b>Material Weakness</b>
<b>Prior year</b>							
05-03	LATE SUBMISSION OF THE DATA COLLECTION FORM	Modified	Yes	No	No	Yes	No
05-04	LATE AUDIT REPORT	Modified	Yes	No	Yes	Yes	No
10-01	NO RECONCILIATION OF TANF BANK ACCOUNT	Taken to 11-09	Yes	No	No	Yes	No
10-02	BALANCE SHEET ACCOUNTS NOT RECONCILED	Resolved	Yes	No	No	Yes	No
10-03	CASH BALANCE IN ARRA ACCOUNT	Taken to 11-04	Yes	No	No	Yes	No
10-04	DEFICIT FUND BALANCES	Modified	Yes	No	Yes	Yes	No
<b>Current year</b>							
11-01	ACQUISITION OF REAL PROPERTY	Current	Yes	Yes	No	No	Yes
11-02	BUDGETS	Current	Yes	No	Yes	No	Yes
11-03	BUDGET COMPARISON	Current	Yes	No	No	Yes	No
11-04	NEGATIVE CASH BALANCES	Current	Yes	No	No	Yes	No
11-05	GRANT FUNDING	Current	Yes	Yes	No	Yes	No
11-06	ADJUSTMENTS MADE TO FUND BALANCE ACCOUNTS	Current	Yes	No	No	No	Yes
11-07	ALLOCATION OF SHARED COSTS	Current	No	Yes	No	Yes	No
11-08	TIME KEEPING RECORDS FOR FEDERAL RECORDS	Current	No	Yes	No	Yes	No
11-09	BANK RECONCILIATIONS	Current	Yes	No	Yes	No	Yes
11-10	CHECK STOCK	Current	Yes	No	No	No	Yes
11-11	MIP ACCESS	Current	Yes	No	No	No	Yes
11-12	BACKUP DOCUMENTATION MISSING	Current	Yes	No	No	Yes	No
11-13	SEGREGATION OF DUTIES - CASH DISBURSEMENTS	Current	Yes	No	No	No	Yes
11-14	DEFICIENCIES IN INTERNAL CONTROL STRUCTURE DESIGN, OPERATION, AND OVERSIGHT	Current	Yes	No	No	No	Yes
11-15	FINANCIAL GRANT MANAGEMENT	Current	Yes	Yes	No	Yes	No
11-16	REPORTING AND UTILIZING PROGRAM INCOME	Current	No	Yes	No	Yes	No
11-17	ADMINISTRATIVE COSTS	Current	No	Yes	No	Yes	No
11-18	MATCHING OF GRANT REVENUE/ EXPENDITURES	Current	Yes	No	No	Yes	No
11-19	INTRA- AND INTER-ENTITY LOANS	Current	Yes	No	No	Yes	No
11-20	OVERSIGHT OF SERVICE PROVIDER	Current	Yes	No	No	No	Yes

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**PRIOR YEAR FINDINGS – REPEATED/MODIFIED**

**05-03 – LATE SUBMISSION OF THE DATA COLLECTION FORM – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

The data collection for and reporting package will not be submitted to the federal clearinghouse or to federal agencies within nine months of the fiscal year end.

**Criteria**

OMB Circular A-133.320 requires the data collection form and reporting package to be submitted to the federal clearinghouse and federal agencies nine months after the entity's year end for entities receiving federal funding.

**Cause**

EPCOG, the fiscal agent responsible for filing the data collection report for the fiscal year ended June 30, 2011, did not obtain an auditor in time to complete the audit in time for the data collection form within the nine month period.

**Effect**

The data collection form and reporting package will not be submitted by the nine month deadline. Therefore the Department of Labor and Department of Human Services will not have the data available to evaluate subsequent years' needs or to evaluate performance of the program.

**Recommendation**

Auditors should be hired and fieldwork performed with enough time to complete the audit and submit all reports in a timely fashion.

**Management Response**

The Eastern Area Workforce Development Board (EAWDB) is working toward catching up the June 30, 2011 audit year and expects the audit to be complete before August 31, 2012, therefore allowing time to meet the June 30, 2012 audit deadline of December 1, 2012. The EAWDB has contracted with a new fiscal administrator, Economic Employment Information Center of New Mexico, Inc. (EEICNM), who began services on July 1, 2012. The new fiscal administrator will be working to obtain a Federal Tax ID number so that the EAWDB will be able to submit its data collection forms in the future.

**05-04 – LATE AUDIT REPORT – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

The audit report for EAWDB's fiscal year ended June 30, 2011 was not submitted by the December 1, 2011 due date. The audit report was submitted August 6, 2012.

**Criteria**

OSA Rule 2.2.2.10.I.(4) establishes a due date of December 1, 2011 for submission of this audit report to the Office of the State Auditor.

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**Cause**

As stated in findings 10-01 and 10-02 can and other balance sheet accounts were not reconciled, therefore the records were not ready for audit.

**Effect**

The report was not submitted as required. Without the audit report being delivered on time, fund and regulatory agencies as well as legislative committees do not have the financial data available to make funding decisions.

**Recommendation**

An auditor should be hired and engaged in time to complete the planning, fieldwork, and report writing so that the report may be submitted before the state auditor's due date.

**Management Response**

The Eastern Area Workforce Development Board is working toward catching up the June 30, 2011 audit year and expects the audit to be complete before August 31, 2012, therefore allowing time to meet the June 30, 2012 audit deadline of December 1, 2012.

**10-04 – DEFICIT FUND BALANCES – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

The combined fund balance for all programs of the EAWDB was a negative \$190,231.

**Criteria**

Under the programs, deficit fund balances are not allowed. Both programs are reimbursement based. The equity for these programs should be zero as revenues should equal expenditures.

**Cause**

EPCOG staff were not processing both expenditures or reimbursement requests in a timely manner.

**Effect**

First there is an appearance that the EAWDB has spent more than has been received or more than allowed. Second, the EAWDB is not paying its providers in a timely manner.

**Recommendation**

EPCOG staff should complete the reimbursement request to the State agency as the request comes in from providers. Also the reimbursements should be matched to the disbursements to ensure that adequate funds are available.

**Management Response**

Reconciliation of accounts receivables and any payable for the 2011 year are being conducted to ensure account balances are corrected. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure timely draws are made.



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**CURRENT YEAR FINDINGS**

**11-01 – ACQUISITION OF REAL PROPERTY – MATERIAL WEAKNESS**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Labor  
*Titles:* Workforce Investment Act – Cluster  
*CFDA Numbers:* 17.258, 17.259, 17.260  
*Award Period:* 2011

**Statement of Condition**

While reviewing the EAWDB's capital assets, it was observed that the EAWDB entered into a lease to purchase contract for its Clovis One-Stop office. Significant leasehold improvements had been made to the building above and beyond those required to comply with federal ADA requirements.

**Criteria**

20 CFR 667.260 provides that WIA title I funds are not to be spent on construction of the purchase of real property except under specific instances outlined within the Code.

**Cause**

The EAWDB felt that it was in compliance with the law and was not entering into a lease to purchase agreement.

**Effect**

The agency is not in compliance with federal compliance requirements and could be susceptible to a demand for repayment of federal funds spent on the building.

**Recommendation**

EAWDB should abide by the terms of its grant agreement and the applicable compliance requirements regarding capital purchases. The circumstances surrounding the capital improvements related to the Clovis One-Stop office should be investigated and a resolution with the granting agency reached.

**Management Response**

EAWDB is working with the New Mexico Department of Workforce Solutions and NM General Services Division to resolve any questions and ensure that agency funds are correctly used and recorded.

**11-02 – BUDGETS – MATERIAL WEAKNESS**

**Statement of Condition**

While performing the audit, we were unable to obtain sufficient evidence to identify the approved budget for all programs and the EAWDB's compliance with those budgets. Discussion with staff of fiscal agent/administrative entity showed that the expenditure and budget comparisons were approved at each meeting by the Board, however the staff was unable to locate an official signed copy of the budget.

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**Criteria**

Per state statute, the fiscal agent/administrative entity is required to have an approved budget on file. Any changes to the original budget must be appropriately approved. State statute prohibits budgets of Public Entities to be overspent. 22-8-11(B) NMSA 1978.

**Cause**

The fiscal agent/administrative entity had significant turnover in its key financial positions. The final approved budget and any amendments could not be located by current personnel.

**Effect**

The fiscal agent/administrative entity had no mechanism for identifying budget overruns.

**Recommendation**

The EAWDB should ensure approved budgets are maintained by the fiscal agent/administrative entity for all programs and that adequate monitoring of budgets is done to ensure compliance with state statutes.

**Management Response**

The Chief Elected Officials approved the 2010-2011 budget on June 8, 2010, see attached minutes. However, the 2011-2012 budget that was presented in the June 14, 2011 meeting was not approved due to numbers presented being questioned. EPCOG was requested to make changes and email the changes to the CEO's and EAWDB board members, however EPCOG staff did not follow through. During subsequent meetings the revised budget was not formally approved. Minutes from the June 14, 2011 meeting are also attached. The 2012-2013 budget was approved at the June 12, 2012 meeting.

**11-03 – BUDGET COMPARISON – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

The fiscal agent/administrative entity does not have a process in place to compare their budgeted to actual expenditures on a regular basis. Reviewers established that the fiscal agent/administrative entity:

- does not have a budget that is shared with the staff
- does not review its budget on a regular basis
- does not use the budget as a tool to determine fund utilization
- does not have a methodology to capture obligations in a timely manner

**Criteria**

29 CFR 97.20 (b)(4) provides that actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

**Cause**

The fiscal agent/administrative entity did not follow EAWDB policies and procedures in place requiring that budgeted expenditures be compared to actual expenditures on a regular basis.

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**Effect**

Without periodic budget comparisons and the use of daily budget controls, obligations could exceed fund availability or funds could be under-spent.

**Recommendation**

The fiscal agent/administrative entity develops and implements policies and procedures that ensure the program operates within budget and obligations are correctly charged and do not exceed fund availability.

**Management Response**

The EAWDB was provided on a monthly basis a board report that showed budget figures versus expenditures for each month. EAWDB does have a policy in place for budget control, however, we agree that the service provider at the time, EPCOG, did not have an internal budget monitoring system in place that was working effectively. There was significant staff turnover in the organization and lack of experience of newly hired staff that added to the problem. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012.

**11-04 – NEGATIVE CASH BALANCES – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

At year end, two bank accounts had negative cash balances per the general ledger. The operating account had a book balance of \$(57,106) and the ARRA bank account had a book balance of \$(30,340) as of June 30, 2011.

**Criteria**

Unauthorized borrowing between funds typically is a violation of local, state, or federal statute and/or grant restrictions.

**Cause**

Cash reimbursements were not fully transferred from the fiscal agent/administrative entity in a timely manner. All grant associated with the EAWDB are reimbursement grants, so expenditures must be incurred prior to seeking reimbursement.

**Effect**

The EAWDB is potentially over-drawn in two of its accounts and can be susceptible to fees. Cash is not available to pay vendors as they come due.

**Recommendation**

Cash controls should be reviewed to ensure adequate cash is available to pay obligations as they become due.

**Management Response**

There was significant staff turnover in EPCOG and lack of experience of newly hired staff that added to the problem and has made reconciliation of the balance sheet account balances difficult. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc.

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(EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure timely reconciliations and timely cash management.

**11-05 – GRANT FUNDING – SIGNIFICANT DEFICIENCY**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Labor

*Titles:* Workforce Investment Act – Cluster

*CFDA Numbers:* 17.258, 17.259, 17.260

*Award Period:* 2011

**Statement of Condition**

The fiscal agent/administrative entity does not have a process to ensure federal funds are consistently drawn down in a manner to minimize the time elapsing between the transfer of funds from the State and the expenditure of those funds for program purposes.

In addition, it was observed that the fiscal agent/administrative entity made errors in its drawdown requests that resulted in the overdrawing of available ARRA funds. These funds totaled \$39,956, which could be susceptible to return to the granting agency.

**Criteria**

29 CFR 97.20(b)(7) requires minimal time to elapse between the receipt of Federal funds and the disbursement of those funds by the grantee and subrecipient.

**Cause**

The fiscal agent/administrative entity did not have policies and procedures in place to ensure federal funds are consistently drawn down in a manner to minimize the time elapsing between the transfer of funds from the State and the expenditure of those funds for program purposes.

**Effect**

This results in the misrepresentation of the drawdowns and disbursements necessary to support grant activities. In months with high expenditures but little or no Federal cash drawdowns, the grantee is understating the amount of federal funds that were actually needed and that should have been drawn and disbursed to support grant activities during that month. In months with large Federal cash drawdowns, which exceed the reported expenditures for that month, the grantee is overstating the actual drawdowns and disbursements that were necessary to support grant activities during that month.

**Recommendation**

The fiscal agent/administrative entity should develop and implement written policies and procedures ensuring Federal funds are consistently drawn down in a manner to minimize the time elapsing between the transfer of funds from the State and the expenditure of those funds for program purposes.

**Management Response**

The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure timely draws are made and ensure that bills are paid timely.

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**11-06 – ADJUSTMENTS MADE TO FUND BALANCE ACCOUNTS – MATERIAL WEAKNESS**

**Statement of Condition**

It was observed that there was an unexplained variance from the prior year end fund balance for the overall governmental funds of \$26,167. We were not able to perform procedures to determine what the cause of the variance was.

**Criteria**

It is not good accounting practice to post adjustments through a fund balance account. Only substantiated prior period adjustments should be posted to fund balance.

**Cause**

The fiscal agent/administrative entity did not have policies and procedures in place to ensure adjustments made to fund balance were substantiated with supporting documentation.

**Effect**

The balance in fund balance does not roll from one fiscal year to another. Many of the entries were used to clear out payables and receivables without substantiation of the adjustment. The balance sheet does not agree to any detail ledgers and is therefore unreliable.

**Recommendation**

Finance staff should cease making entries to fund balance unless they are valid prior period adjustments.

**Management Response**

The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure entries to fund balance are supported if necessary. The EPCOG is continuing to work with the new provider to reconcile and clear any issues from the previous year.

**11-07 – ALLOCATION OF SHARED COSTS – SIGNIFICANT DEFICIENCY**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Labor

*Titles:* Workforce Investment Act – Cluster

*CFDA Numbers:* 17.258, 17.259, 17.260

*Award Period:* 2011

**Statement of Condition**

The fiscal agent/administrative entity was unable to provide us with adequate documentation that supported allocation of costs to multiple funding sources was based on benefits received. When attempting to verify how administrative staff time was allocated, we noted that staff timesheets do not contain any means of identifying the project or funding sources that staff works on. One of the methods the fiscal agent/administrative entity uses to allocate costs among funding sources is to use the first time sheet of each quarter to base staff time allocations for the remainder of the quarter. This methodology can only work if the exact time a staff person spends working on a funding source activity is being recorded on the time sheet.

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Additionally, the fiscal agent/administrative entity utilizes a different methodology for allocating costs for equipment usage. This methodology requires allocations be based on elements like vehicle mileage, copies made, etc.; however, reviewers found that allocations were often spit equally amongst the funding sources.

**Criteria**

OMB A-87 Attachment A, Subsection C(3)(a) provides that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

**Effect**

This error may have caused a disproportionate amount of costs to be charged to the EAWDB grants.

**Cause**

Although the EAWDB has a Cost Allocation Plan (CAP) that was approved by its Executive Committee, we were unable to find any indication that it was being applied accurately or consistently by the fiscal agent/administrative entity.

**Recommendation**

The fiscal agent/administrative entity should ensure that its CAP is consistent with OMB A-87 and that allocations are completed accurately and consistently.

**Management Response**

EPCOG has changed the method of cost allocation to allocate costs based on the time that staff worked in the programs each month. This went into effect November of 2011. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure entries to fund balance are supported if necessary.

**11-08 – TIME KEEPING RECORDS FOR FEDERAL RECORDS – SIGNIFICANT DEFICIENCY**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Labor

*Titles:* Workforce Investment Act – Cluster

*CFDA Numbers:* 17.258, 17.259, 17.260

*Award Period:* 2011

**Statement of Condition**

The time keeping records for federal programs were inconsistent and did not appear to provide for accurate allocation of time to the associated federal programs. It appeared that in some instances allocations of time spent on the grants were arbitrary in order to use up available grant funds.

**Criteria**

Federal program compliance requires accurate time keeping for those who work on federal programs for the purpose of allocating expenditures.

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**Cause**

The allocation process in place by the fiscal agent/administrative entity was deemed adequate by staff present at the time.

**Effect**

EAWDB is at risk of inaccurate allocation of expenditures and could be out of compliance with federal programs.

**Recommendation**

Allocation of payroll costs should be directly tied to the time spent on a given program. Allocations should be reviewed routinely to ensure they are accurate and in keeping with the requirements of the grant.

**Management Response**

EPCOG had changed the timesheet that employees utilized to reflect the hours work in each funding stream. Also the method of entering time into the accounting system was changed in November 2011 to charged actual time worked on a program to that program and to use those hours from that month to allocated indirect costs to the programs using percentage of time worked on programs. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure entries to fund balance are supported if necessary.

**11-09 – BANK RECONCILIATIONS – MATERIAL WEAKNESS**

**Statement of Condition**

During our review of bank reconciliations, the following weaknesses in internal control were noted:

- The fiscal agent/administrative entity has not been reconciling their bank to their general ledger in a timely manner. The June 2011 statements were reconciled in September 2011.
- The fiscal agent/administrative entity was unable to provide a list to substantiate the outstanding checks on its bank reconciliations
- Adjustments appear to have been made to the cash accounts in the general ledger after the reconciliations were completed, which caused variances between the reconciliation and the general ledger balance.

**Criteria**

Section 6-6-3 NMSA, 1978 discusses the need for the fiscal agent/administrative entity to keep all the books, records and accounts in their respective office as they relate to the EAWDB 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.

**Cause**

The fiscal agent/administrative entity did not have policies and procedures in place to ensure

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bank statements are being reconciled and reviewed in a timely manner.

**Effect**

Without timely reconciled bank statements, the fiscal agent/administrative entity and ultimately the EAWDB have no assurance that all revenues and disbursements have been properly recorded.

**Recommendation**

The fiscal agent/administrative entity'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.

**Management Response**

EPCOG spent time catching up the bank reconciliations to get reconciliation process back on track to comply with EAWDB's policy. There was significant staff turnover in the organization and lack of experience of newly hired staff that added to the problem and has made reconciliation of the balance sheet account balances difficult. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure timely reconciliations and timely cash management.

**11-10 – CHECK STOCK – MATERIAL WEAKNESS**

**Statement of Condition**

The fiscal agent/administrative entity did not take necessary precautions to safeguard its check stock. A review of the general ledger revealed several gaps in check sequence and while performing several blank checks were discovered in desks of former employees. This is especially problematic when considering MIP had open access and check signatures were stored in the system.

**Criteria**

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 115 and its appendix require strong internal controls. SAS 115 requires the auditor to disclose weaknesses to management and the governing board.

**Cause**

The fiscal agent/administrative entity did not have policies and procedures in place to ensure check stock was properly safeguarded.

**Effect**

Having unsecured check stock significantly increases the opportunity for misappropriation of funds and/or for errors to go undetected.

**Recommendation**

Check stock should be kept in a locked location by someone who does not have access to the general ledger or check signing authorization.



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**Management Response**

EPCOG spent time gathering all check stock throughout the offices and has spoiled older check stock in the system and locked checks gathered into one file cabinet. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure timely reconciliations and timely cash management.

**11-11 – MIP ACCESS – MATERIAL WEAKNESS**

**Statement of Condition**

The fiscal agent/administrative entity did not take necessary precautions to appropriately restrict access to its accounting software. This is especially problematic when considering check signatures were stored in the system and check stock was not appropriately safeguarded.

**Criteria**

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 115 and its appendix require strong internal controls. SAS 115 requires the auditor to disclose weaknesses to management and the governing board.

**Cause**

The fiscal agent/administrative entity did not have policies and procedures in place to ensure access to MIP was properly restricted.

**Effect**

Having unrestricted access to the general ledger significantly increases the opportunity for misappropriation of funds and/or for errors to go undetected.

**Recommendation**

Access to the MIP system should be limited to responsible finance employees with secured passwords.

**Management Response**

EPCOG staff access was changed in November 2011 to limit access to areas of MIP based on their duties. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012.

**11-12 – BACKUP DOCUMENTATION MISSING – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

The fiscal agent/administrative entity was unable to provide purchase orders, invoices, or checks for six (6) out of fifty-three (53) disbursements that were requested to test controls and compliance over disbursements related to federal awards.

**Criteria**

Disbursements should be accompanied by proper authorization and supporting documentation.

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**Cause**

The fiscal agent/administrative entity had several individuals pulling checks for review over the past few years which have resulted in some checks being lost. Also, fiscal agent/administrative entity has experienced high turnover rates at positions responsible for tracking disbursement documentation.

**Effect**

It is difficult to determine if the fiscal agent/administrative entity has approved or even reviewed supporting documentation and therefore opportunities may exist for the misappropriation of assets. In addition, problem and errors may not be identified and corrected at the earliest point possible.

**Recommendation**

Policies regarding documentation retention should be reviewed and adhered to.

**Management Response**

The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. . EEICNM plans to follow EAWDB established procedures to ensure supporting documentation is maintained.

**11-13 – SEGREGATION OF DUTIES – CASH DISBURSEMENTS – MATERIAL WEAKNESS**

**Statement of Condition**

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

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.

**Cause**

Due to limited resources, the fiscal agent/administrative entity 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.

**Effect**

Without adequate segregation of duties in key control processes, there is an increased risk of fraudulent activity, as well as increased risk of errors that may not be detected timely.

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**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.

**Management Response**

The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. . EEICNM plans to follow EAWDB established procedures to ensure segregation of duties is maintained.

**11-14 – DEFICIENCIES IN INTERNAL CONTROL STRUCTURE DESIGN, OPERATION AND OVERSIGHT – MATERIAL WEAKNESS**

**Statement of Condition**

Internal control structure design, operation, and design are not appropriate given the nature of the entity.

In addition, processes do not exist by which the EAWDB members are made aware of key developments that may impact financial reporting. There are no procedures or activities in place to regularly educate and communicate to the employees of the fiscal agent/administrative entity and to the Board the importance of internal controls and to raise their level of understanding controls.

Because of the deficiencies in the internal control design, operation, and oversight, there was not sufficient evidence for the auditors to give an opinion on 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. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

**Cause**

For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

**Effect**

Because the internal control structure is inadequate and not documented, management and staff

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are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

**Recommendation**

The fiscal agent/administrative entity should ensure that a comprehensive internal control structure is designed, documented, and implemented. This should include a process for notifying members of the Board of any internal control issues or concerns. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

**Management Response**

The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. Prior audits and monitors by professionals had not exposed problems as referenced in SAS No. 115 and OMB circulars. EEICNM plans to follow EAWDB established procedures to ensure internal control design is adequate.

**11-15 – FINANCIAL GRANT MANAGEMENT – SIGNIFICANT DEFICIENCY**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Labor  
*Titles:* Workforce Investment Act – Cluster  
*CFDA Numbers:* 17.258, 17.259, 17.260  
*Award Period:* 2011

**Statement of Condition**

The fiscal agent/administrative entity fiscal staff does not have a copy of all tools necessary for effective grant management.

Without a copy of applicable Office of Management and Budget (OMB) Circulars, Uniform Administrative Requirements and Cost Principles, fiscal agent/administrative entity staff cannot be aware of the Federal requirements they are compelled by their agreement with EAWDB to follow.

**Criteria**

20 CFR, §667.200 (a) (1) provides that except as provided in paragraphs (a)(3) through(6) of this section, State, local, and Indian tribal government organizations that receive grants or cooperative agreements under WIA title 1 must follow the common rule "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; which is codified at 29 CFR 97.

29 CFR 97.22 (b) provides that for each kind of organization, there is a set of Federal principles for determining allowable costs. Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs. For the costs of a State, local or Indian tribal government, use the principles in OMB Circular A-87 (now codified at 2 CFR 225).

**Cause**

The fiscal agent/administrative entity did not have policies and procedures requiring the proper

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tools for grant management be made available to its employees.

**Effect**

The lack of these tools for effective grant management has contributed to findings in areas such as cost allocation, allowable costs and financial reporting.

**Recommendation**

The fiscal agent/administrative entity should provide copies to appropriate management and staff of all the applicable Federal laws and regulations necessary for effective grant management.

**Management Response**

EPCOG Staff training was conducted on January 6, 2012. All required reference material, policies and procedures are now located on organizational share drive for quick/easy access by all employees when needed. Staff signed a document that they have received information to be able access to these files and have been trained on content of each document. For the 2012-2013 fiscal year the EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012.

**11-16 – REPORTING AND UTILIZING PROGRAM INCOME – SIGNIFICANT DEFICIENCY**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Labor  
*Titles:* Workforce Investment Act – Cluster  
*CFDA Numbers:* 17.258, 17.259, 17.260  
*Award Period:* 2011

**Statement of Condition**

The fiscal agent/administrative entity is not treating interest earned from regular formula grant funds as program income. In addition, no program income was reported through the financial reporting system and there is no documentation supporting that the interest income was used for grant activities

**Criteria**

20 CFR 667.200 provides that interest income earned on funds received under WIA Title I must be included in program income and that program income be expended prior to the request for additional grant funds.

**Cause**

The fiscal agent/administrative entity was unaware of the requirement.

**Effect**

The EAWDB and the fiscal agent/administrative entity may have to make financial adjustments to its accounting records or refund any questioned costs of the grant

**Recommendation**

The fiscal agent/administrative entity should ensure program income is reported and expended appropriately.

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**Management Response**

EPCOG reconciled interest earned over the past 8 years and reported program income to NM Department of Workforce solutions in December 2011 and has continued to report interest income through June 30, 2012.

For the 2012-2013 fiscal year the EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012.

**11-17 – ADMINISTRATIVE COSTS – SIGNIFICANT DEFICIENCY**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Labor

*Titles:* Workforce Investment Act – Cluster

*CFDA Numbers:* 17.258, 17.259, 17.260

*Award Period:* 2011

**Statement of Condition**

The fiscal agent/administrative entity does not have a methodology for capturing actual administrative costs. The current method used is to capture direct administrative costs and then estimate the indirect costs up to the 10% administrative cost cap.

**Criteria**

29 CFR 95.20 (b)(1) requires accurate, current, and complete disclosure of the financial results of financially assisted activities be made in accordance with the financial reporting requirements of the grant or subgrant. 20 CFR §667.220 provides that the cost of administration are those costs associated with general administrative functions which are not related to the direct provision of program services.

**Cause**

The fiscal agent/administrative entity's use of estimates to determine administrative costs does not allow it to ensure that only actual costs that benefit the grant are charged to the grant

**Effect**

The fiscal agent/administrative entity is unable to determine the actual amount of indirect administrative costs because its cost allocation methodologies are not being applied accurately or consistently

**Recommendation**

The fiscal agent/administrative entity should develop and implement a methodology for capturing all administrative costs.

**Management Response**

For the 2012-2013 fiscal year the EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012.

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**11-18 – MATCHING OF GRANT REVENUE/EXPENDITURES – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

Per our review of grant fund revenue and expenditure activity, it was determined that adequate review to ensure the matching concept for grant revenues and expenditures being posted to the proper periods is not taking place.

**Criteria**

Grants handled by the EAWDB are reimbursable and therefore revenue is recognized when expenditures are incurred.

**Effect**

Expenditures for specific grants are not being properly matched to their respective funding source.

**Cause**

The fiscal agent/administrative entity did not have policies and procedures in place to ensure expenditures for specific grants are being properly match to their respective funding source.

**Recommendation**

We recommend a review of individual grant ledgers by funding source be reviewed on a monthly basis to ensure individual grant expenditures match individual grant revenues.

**Management Response**

Reconciliation of accounts receivables/revenues and any payables/expenditures for the 2011 year are being conducted to ensure account balances are corrected. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure timely draws are made.

**11-19 – INTRA- AND INTER-ENTITY LOANS – SIGNIFICANT DEFICIENCY**

**Statement of Condition**

While reviewing the EAWDB's payables and receivables, it was observed that loans were often made to the two One-Stop offices in Clovis and Roswell in order to fund their operations until reimbursement could be received from the tenants. As of June 30, 2011, there was a receivable outstanding of \$9,900 from the fiscal agent/administrative entity. We were unable to obtain sufficient documentation to support this balance and whether it was still valid.

In addition, as of June 30, 2011, the EAWDB showed amounts due from its programs to other intra-entity programs totaling \$118,081. We were not able to obtain sufficient evidence to support these balances. Also, it was observed that there were no corresponding receivables established for any of the programs to indicate where the funds were owed back to.

**Criteria**

Proper internal controls hold that in the event funds are loaned to/from another entity or between programs within the entity, adequate supporting documentation be maintained to

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justify the purpose and specific details of the borrowings. Funds restricted for program specific purposes, should not be used for anything other than those specific purposes.

**Cause**

Due to turnover at the fiscal agent/administrative entity and a lack of adequate oversight, supporting documentation for journal entries was not consistently maintained.

**Effect**

The EAWDB has unsupported balances in its general ledger that could materially misstate the financial statements. In addition, the EAWDB and the fiscal agent/administrative entity are not able to determine the financial obligations of the programs to ensure they are fiscally compliant.

**Recommendation**

We recommend the fiscal agent/administrative entity review its intra- and inter-entity borrowings and determine whether the balances presented are accurate. We also recommend that in the event intra- and inter-entity borrowings are necessary, adequate documentation be maintained to support the transaction.

**Management Response**

Reconciliation of accounts receivables/revenues and any payables/expenditures for the 2011 year are being conducted to ensure account balances are corrected. EPCOG does occasionally need to loan funds to the program in the event a draw is slow to deposit. EPCOG developed a form with support to be attached for such requests. The form is signed by the finance manager making the request and approved by the executive director. The finance manager and accounting staff can no longer make bank transfers. Only the executive director has access. The accounts are then reconciled by the finance manager. The EAWDB issued an RFP for its fiscal and administrative entity services and awarded the contract to Economic Employment Information Center of New Mexico, Inc. (EEICNM), who has begun services on July 1, 2012. EEICNM plans to follow EAWDB established procedures to ensure timely draws are made.

**11-20 – OVERSIGHT OF SERVICE PROVIDER – MATERIAL WEAKNESS**

**Statement of Condition**

The EAWDB has entered into a contract with EPCOG to be the administrative entity and fiscal agent for the Board. Per the agreement, the administrative entity/fiscal agent should properly administer the WIA and TANF grants in compliance with federal requirements. The EAWDB is to provide oversight to ensure the terms of the agreement are met. During the audit it was observed that there had been federal reviews of the administrative entity/fiscal agent indicating deficiencies in how the WIA grant was being administered.

In late 2010, the Board attempted to obtain a new fiscal agent/administrative entity however, the new contracting agency was unable to complete the process, so EPCOG was retained until a new contracting entity could be located.

**Criteria**

In the Statement on Auditing Standards 88, "Service Organizations and Reporting on Consistency, one of the items stated in the standard is that a service organization's services are part of an entity's information system (i.e. internal controls) if they affect the accounting records, supporting information, and specific accounts in the financial statements involved in



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the processing and reporting of the entity's transactions. These controls must be monitored in a timely basis by the entity (EAWDB).

**Cause**

Unknown

**Effect**

Deficiencies in the administration of the WIA program grants could occur and lead to material misstatements of the EAWDB financial statements and to noncompliance with federal grant requirements.

**Recommendation**

It is recommended that the EAWDB seek methods to improve oversight of the administrative entity/fiscal agent agreement and take timely action to address deficiencies should they arise.

**Management Response**

EAWDB has instituted revised procedure to improve oversight of the AE/FA service provider and to take more timely action to address any deficiencies. Those procedures have been and will continue to be used at every board meeting.

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OTHER DISCLOSURES  
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An exit conference was held on August 3, 2012 and the contents of this report were discussed. Present at the exit conference were:

Representing Eastern Area Workforce Development Board:

Jimmie Shearer	Chairman
Larry Smith	Board Member
Sandy Chancey	Executive Director
Odessa Hamilton	Accountant

Representing Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE	President
Erick Robinson, CPA, CFE	Shareholder, Audit manager
Maclen Enriquez	Audit senior

**PREPARATION OF FINANCIAL STATEMENTS**

The accompanying financial statements of the EAWDB have been prepared by Hinkle + Landers, P.C., the organization's independent public auditors, however, the financial statements are the responsibility of management.