



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

Financial Statements

For The Year Ended June 30, 2012

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
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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 have audited 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, 2012, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the 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 beginning net assets, revenues, expenditures, contracts, grants, and other agreements completely and accurately in their financial statements. The amount by which this departure would affect the fund balance, expenses, and revenues of the financial statements is not reasonably determinable.

The accompanying financial statements have been prepared assuming that the EAWDB will continue as a going concern. As discussed in Note 11 to the financial statements, the EAWDB has failed to follow WIA regulations by entering into a lease to purchase contract (capital lease) for its One-Stop facility located in Clovis, NM. As a result, the USDOL has determined there is \$369,789 in questioned costs that if the EAWDB is ultimately required to repay, raises substantial doubt about the EAWDB's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, except for the effects of not designing, implementing or monitoring the policies and procedures needed to capture, record and present beginning net assets, revenues, expenditures, contracts, grants, and other agreements completely and accurately in their financial statements as described in the

preceding paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the EAWDB, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 4, 2013 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 omitted the Management and Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the major fund budgetary comparison. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of not designing, implementing or monitoring the policies and procedures needed to capture, record and present beginning net assets, revenues, expenditures, contracts, grants, and other agreements completely and accurately in their financial statements, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Hinkle & Landers, P.C.

Hinkle + Landers, PC
January 4, 2013

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
(GOVERNMENT-WIDE)
STATEMENT OF NET ASSETS
As of June 30, 2012**

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 80,373
Grant receivables	<u>377,298</u>
Total current assets	<u>457,671</u>
Non-current assets:	
Capital assets	<u>113,479</u>
Total assets	<u>\$ 571,150</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 417,489
Deferred revenue	9,391
Note payables	<u>17,347</u>
Total current liabilities	<u>444,227</u>
NET ASSETS	
Investment in capital assets	113,479
Unrestricted	<u>13,444</u>
Total net assets	<u>126,923</u>
Total liabilities and net assets	<u>\$ 571,150</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, 2012**

Functions/Programs	<u>Expenses</u>	<u>Program Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets for Governmental Activities</u>
Governmental activities:			
Workforce Investment Act program:			
Adult	\$ 928,379	961,270	32,891
Dislocated Worker	346,312	320,499	(25,813)
Youth	453,270	493,554	40,284
Administration	227,353	229,868	2,515
Other	(370)	55,574	55,944
American Recovery and Reinvestment Act:			
SESP	280,788	273,145	(7,643)
One-Stop offices	199,782	300,497	100,715
TANF	(10,792)	-	10,792
Depreciation	101,111	-	(101,111)
	<u>\$ 2,525,833</u>	<u>2,634,407</u>	<u>108,574</u>
General revenues:			
Interest income			<u>391</u>
Change in net assets			108,965
Net assets, beginning of year			<u>17,958</u>
Net assets, end of year			<u>\$ <u>126,923</u></u>

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**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2012**

		General Fund Workforce Investment Act
ASSETS:		
Cash and cash equivalents	\$	80,373
Grant receivables		<u>377,298</u>
Total assets	\$	<u><u>457,671</u></u>
LIABILITIES:		
Accounts payable	\$	417,489
Deferred revenue		9,391
Notes payable		<u>17,347</u>
Total liabilities		<u>444,227</u>
FUND BALANCE:		
Unassigned		<u>13,444</u>
Total fund balance		<u>13,444</u>
Total liabilities and fund balance	\$	<u><u>457,671</u></u>
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances - Governmental Funds	\$	13,444
Capital assets used in governmental activities are not financial resources and therefore, are not reported		<u>113,479</u>
Net assets of governmental activities	\$	<u><u>126,923</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, 2012**

		General Fund Workforce Investment Act
Revenues:		
Federal grants	\$	2,333,910
Interest income		391
Other income		300,497
Total revenue		<u>2,634,798</u>
Expenditures:		
Employment services:		
Formula Program Year funds		
Adult		928,379
Dislocated Worker		346,312
Youth		453,270
Administration		224,577
Other		(558)
American Recovery and Reinvestment Act		
SESP		280,788
Administration		2,777
Other		187
One Stop offices		199,782
TANF		(10,792)
Capital outlay		6,401
Total expenditures		<u>2,431,123</u>
Net change in fund balance		203,675
Beginning fund balance		(190,231)
Ending fund balance	\$	<u><u>13,444</u></u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change fund balance in governmental funds	\$	203,675
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		(101,111)
Capital outlay		6,401
Change in net assets of governmental activities	\$	<u><u>108,965</u></u>

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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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Grants	\$ 3,042,299	3,335,008	2,333,910	(1,001,098)
Interest	-	-	391	391
Other revenue	-	-	300,497	300,497
Total revenues	<u>3,042,299</u>	<u>3,335,008</u>	<u>2,634,798</u>	<u>(700,210)</u>
Expenditures:				
Current:				
Employment services:				
FIFO American Recovery and Reinvestment Act				
Administration	2,964	2,964	2,964	-
PY 10 and FY 11				
Adult	193,447	193,447	193,447	-
Dislocated Worker	268,238	268,238	268,238	-
Youth	175,678	175,678	175,678	-
Administration	70,851	70,851	70,851	-
SESP carry in	440,990	540,990	280,252	260,738
PY 11 and FY 12				
Adult	602,987	809,029	734,932	74,097
Dislocated Worker	511,049	305,007	78,052	226,955
Youth	586,532	586,532	277,592	308,940
Administration	189,563	189,563	153,726	35,837
One Stop offices	-	192,709	199,782	(7,073)
TANF	-	-	(10,792)	10,792
Capital Outlay	-	-	6,401	(6,401)
Total general governmental	<u>3,042,299</u>	<u>3,335,008</u>	<u>2,431,123</u>	<u>903,885</u>
Change in fund balance	-	-	203,675	203,675
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>(190,231)</u>	<u>(190,231)</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>13,444</u>	<u>13,444</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
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

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, SESP, 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 were 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 Eastern Area Board 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 Eastern Area Board is to carry out its duties and responsibilities according to the federal WIA, SESP, 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

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 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

STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

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.

The net cost by function is normally covered by general revenue. Since the EAWDB only has one program, it does not employ indirect cost allocation. 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.

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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 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. EAWDB of Labor passed through the New Mexico EAWDB 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*, which was adopted by the EAWDB as of July 1, 2000.

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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 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.

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.

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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.

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, 2012.
- ***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, 2012.
- ***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, 2012.
- ***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, 2012.
- ***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 unassigned fund balance for the year ended June 30, 2012 consists of amounts stemming from start-up costs for the Clovis and NMWFC-Chavez County one-stop offices.

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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.

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 yearend represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred

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For The Year Ended June 30, 2012**

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 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 awarding 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

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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.

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, 2012, none of the government's bank balance of \$194,591 was exposed to custodial risk.

Deposits as of June 30, 2012 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, 2012, the carrying amount of the EAWDB's deposits was \$80,373.

The following is a listing of deposits of public money held by the EAWDB, by the depositing financial institutions as of June 30, 2012:

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<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	\$ 2,777	-	2,777
TANF*	Demand Deposit	62,717	-	62,717
Operating*	Demand Deposit	104,466	(109,658)	(5,192)
NMWFC	Demand Deposit	10,577	(2,647)	7,930
One Stop	Demand Deposit	13,981	(1,840)	12,141
Total Citizens Bank		194,519	(114,146)	80,373
FDIC insurance		(250,000)		
Amount uninsured		\$ -		

* denotes interest bearing

There were no remaining uninsured and collateralized deposits exposed to custodial credit risk. As of June 30, 2012, 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>
--	-----------------------

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 \$377,298 as of June 30, 2012.

Note 4 – CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended June 30, 2012:

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>
Capital Assets:				
Leasehold improvements	\$ 551,718	-	-	551,718
Vehicles	16,739	-	-	16,739
Software	-	6,401	-	6,401
Subtotal depreciable assets	568,457	6,401	-	574,858
Accumulated Depreciation:				
Leasehold improvements	(349,667)	(97,656)	-	(447,323)
Vehicles	(10,601)	(3,348)	-	(13,949)
Software	-	(107)	-	(107)
Subtotal accumulated depreciation	(360,268)	(101,111)	-	(461,379)
Total net capital assets	\$ <u>208,189</u>	<u>(94,710)</u>	<u>-</u>	<u>113,479</u>

Current year depreciation expense for the year ended June 30, 2012 was \$101,111. 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
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Note 5 – DEFERRED REVENUE

During the fiscal year ending June 30, 2012, the EAWDB's deferred revenues totaled \$9,391. This amount consisted entirely of WIA funds returned to the EAWDB to be used in the following period.

Note 6 – CURRENT PORTION OF LONG-TERM DEBT

The current portion of the EAWDB's long-term debt at year end totaled \$17,347. The EAWDB's debt consists of amounts borrowed from the Eastern Plains Council of Governments as start-up costs for both the Clovis Model One-Stop and the NMWFC – Chavez County One-Stop offices. Terms and support for the agreement were not established. Due to the lack of terms and supporting documentation, the amount of the note could be subject to change as the fiscal agent analyzes the note and terms are established. While the current reported amount of the note is not considered to be material to the financial statements, any changes made to it could affect the reported balance and ultimately the reported fund balance.

Note 7 – 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, 2012, there was no need to reconcile the budget financial statements to fund financial statements.

Note 8 – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN AND POST EMPLOYMENT BENEFITS

During the fiscal year ended June 30, 2012, the EAWDB had no employees eligible for retirement benefits and, therefore, had no retirement benefit expenditures during the year.

Note 9 – 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 EPCOG 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, 2012, the EAWDB did not have any probable risk of loss.

Note 10 – 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.

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During the year ended June 30, 2012, purchases for goods and services were made by the EAWDB with companies or organizations with which various board members are associated with as follows:

<u>Board Member</u>	<u>Services</u>	<u>Organization</u>	<u>Amount</u>
Gina Corliss	Youth Provider Contract	Region IV	\$ 416,239
John Hemphill	Adult/DW ITA's	ENMU-Ruidoso	756,123
			<u>80,208</u>
			<u>\$ 1,252,569</u>

Note 11 – GOING CONCERN/CONTINGENCY

The United States Department of Labor (USDOL) has determined that the EAWDB failed to follow WIA regulations by entering into a lease to purchase contract (capital lease) for its One-Stop facility located in Clovis, NM. As a result, the USDOL has determined there is \$369,789 in questioned costs. The questioned costs have not been recorded in the EAWDB's books as June 30, 2012 due to a lack of formal resolution by the EAWDB and the USDOL. In addition, the USDOL has placed the EAWDB on probation to improve and/or correct its many control deficiencies. Failure to do so may prompt the USDOL to seek reimbursement not only for the questioned costs relating to the building but also for any questioned costs due to inadequate allocation of administrative costs.

These factors create an uncertainty about the EAWDB's ability to continue as a going concern. A resolution by the State, EAWDB, and the USDOL is projected for December 31, 2012. The ability of the EAWDB to continue is dependent upon the outcome of the resolution. As of January 4, 2013, the EAWDB is in full operation.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2012**

Federal Grantor/Program Title	Federal CFDA Number	Pass-through Entity's Identifying Number	Grant Award Expended
U.S. Department of Labor passed through			
New Mexico Department of Workforce Solutions			
SESP Program	17.275	GJ-20032-10-60-A-35	\$ 280,788
WIA Program			
WIA Adult Program	17.258	11-002-PY10, FY11, PY11, FY12	928,379
WIA Youth Activities	17.259	11-002-PY10, FY11, PY11, FY12	453,270
WIA Dislocated Workers	17.278	11-002-PY10, FY11, PY11, FY12	345,754
WIA 10% Administration	17.258, 17.259, 17.278	11-002-PY10, FY11, PY11, FY12	<u>224,577</u>
Subtotal WIA program			2,232,768
ARRA funding			
WIA 10% Administration	17.258, 17.259, 17.278	11-002-PY09 ARRA	<u>2,964</u>
Subtotal ARRA funding			<u>2,964</u>
Total WIA Cluster			2,235,732
TANF	93.558	PY09	<u>(10,792)</u>
Total expenditures			<u>\$ 2,224,940</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>
ENMU - Ruidoso	416,239
Region IX Education Cooperative	<u>756,123</u>
Total payments to subrecipients	<u>\$ 1,172,362</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, 2012, and have issued our report thereon dated January 4, 2013. 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

Management of EAWDB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 EAWDB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 11-01, 11-06, 11-14, and 11-20.

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: 05-04, 11-04, 11-09, 11-13, 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, 11-17.

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

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.
January 4, 2013

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, 2012. 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 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, 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-01 to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-17 to be a significant deficiency.

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.
January 4, 2013

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

Type of auditors' report issued Qualified

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 Qualified

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
17.259	Youth	Passed through the
17.278	Dislocated Worker	New Mexico Dept. of Workforce Solutions

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

Auditee qualified as low-risk auditee? __ yes X no

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EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

SECTION II & III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS

Reference #	Topic	Status of Current and Prior Year Findings	Financial Statement Finding	Federal Awards Finding	State Audit Rule Finding	Significant Deficiency	Material Weakness
Prior year							
05-03	LATE SUBMISSION OF THE DATA COLLECTION FORM	Resolved	Yes	No	No	Yes	No
05-04	LATE AUDIT REPORT	Modified	Yes	No	Yes	Yes	No
10-04	DEFICIT FUND BALANCES	Resolved	Yes	No	No	Yes	No
11-01	ACQUISITION OF REAL PROPERTY	Repeated	Yes	Yes	No	No	Yes
11-02	BUDGETS	Resolved	Yes	No	No	No	Yes
11-03	BUDGET COMPARISON	Resolved	Yes	No	No	Yes	No
11-04	NEGATIVE CASH BALANCES	Modified	Yes	No	No	Yes	No
11-05	GRANT FUNDING	Resolved	Yes	Yes	No	Yes	No
11-06	ADJUSTMENTS MADE TO FUND BALANCE ACCOUNTS	Modified	Yes	No	No	No	Yes
11-07	ALLOCATION OF SHARED COSTS	Resolved	No	Yes	No	Yes	No
11-08	TIME KEEPING RECORDS FOR FEDERAL RECORDS	Resolved	No	Yes	No	Yes	No
11-09	CASH CONTROL	Modified	Yes	No	No	Yes	No
11-10	CHECK STOCK	Resolved	Yes	No	No	No	Yes
11-11	MIP ACCESS	Resolved	Yes	No	No	No	Yes
11-12	BACKUP DOCUMENTATION MISSING	Resolved	Yes	No	No	Yes	No
11-13	SEGREGATION OF DUTIES - CASH DISBURSEMENTS	Modified	Yes	No	No	Yes	No
11-14	DEFICIENCIES IN INTERNAL CONTROL STRUCTURE DESIGN, OPERATION, AND OVERSIGHT	Modified	Yes	No	No	No	Yes
11-15	FINANCIAL GRANT MANAGEMENT	Resolved	Yes	Yes	No	Yes	No
11-16	REPORTING AND UTILIZING PROGRAM INCOME	Resolved	No	Yes	No	Yes	No
11-17	ADMINISTRATIVE COSTS	Modified	No	Yes	No	Yes	No
11-18	MATCHING OF GRANT REVENUE/ EXPENDITURES	Modified	Yes	No	No	Yes	No
11-19	INTRA- AND INTER-ENTITY LOANS	Modified	Yes	No	No	Yes	No
11-20	OVERSIGHT OF SERVICE PROVIDER	Modified	Yes	No	No	No	Yes

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

PRIOR YEAR FINDINGS – REPEATED/MODIFIED

05-04 – LATE AUDIT REPORT – SIGNIFICANT DEFICIENCY

Statement of Condition

The audit report for EAWDB's fiscal year ended June 30, 2012 was not submitted by the December 1, 2012 due date. The audit report was submitted January 4, 2013.

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.

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 EAWDB expects to be able to contract for the next fiscal year's auditor in April or May of 2013 thus beginning the audit process in a regularly scheduled process now that the delayed audits from 2010 to 2012 have been submitted and the organization is now under management of a new fiscal and administrative entity.

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, 17.278

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 outlines within the Code.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

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 the 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

Current efforts are underway to resolve this issue with the NM Dept. of Workforce Solutions and the US Dept. of Labor looking at several options to either resolve this liability or significantly reduce the amount.

11-04 – NEGATIVE CASH BALANCES – SIGNIFICANT DEFICIENCY

Statement of Condition

At June 30, 2012, the operating account had a book balance of \$(5,192).

Criteria

Unauthorized borrowing between funds 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

At the fiscal year end, cash was received in the beginning of July to cover the year end checks that were processed on June 30, 2012. The EAWDB is under new management and does not expect this to be an issue in the future.

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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 \$121,134. 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 EAWDB 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 has contracted with a new Administrative Entity and Fiscal Agent. The new AE/FA has policies and procedures in place to avoid adjusting fund balance accounts.

11-09 – CASH CONTROL – SIGNIFICANT DEFICIENCY

Statement of Condition

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

- Stale dated checks were not investigated and cleared in a timely manner.
- Stale dated checks were a result of booking the same transactions twice (debit accounts payable and credit cash) and amounted to \$1,791.

Criteria

Section 6-6-3 NMSA, 1978 discusses the need for the EAWDB to keep all the books, records and accounts in their respective office in the form prescribed by the local government division and conform to the rules and regulations adopted by the local government division. Good accounting

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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 EAWDB did not have policies and procedures in place to ensure stale dated checks are being investigated in a timely manner.

Effect

Cash may be understated in the financial statements.

Recommendation

The EAWDB's Accounting Policies and Procedures manual should contain explicit instructions for all accounting related matters, including the handling of stale dated checks.

Management Response

The new AE/FA has stringent check control procedures. Check stock is kept locked with limited access and requires two staff members to sign when issuing check stock for printing. Any checks determined to have been written in error for any reason are un-cashed after 60 days will be investigated and either immediately voided and placed in the stale check file or explained with a follow-up pending deadline.

11-13 – SEGREGATION OF DUTIES – CASH DISBURSEMENTS – SIGNIFICANT DEFICIENCY

Statement of Condition

Due to the size of the organization, complete segregation of duties is not possible.

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 EPCOG 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 new AE/FA has established stringent segregation of duties within the restrictions of a limited staff. All financial transactions are input by the Financial Specialist with the exception of payroll. All transactions are posted by the Financial Manager and reviewed by the Director.

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.

Criteria

The *Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, 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 2012 management did not have a documented policy to ensure internal controls were in place and working properly.

Effect

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

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Recommendation

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

Management Response

The new AE/FA has established stringent segregation of duties within the restrictions of a limited staff. All financial transactions are input by the Financial Specialist with the exception of payroll. All transactions are posted by the Financial Manager and reviewed by the Director.

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, 17.278
Award Period: 2011

Statement of Condition

During our walkthrough and testing of the disbursement process, we determined the fiscal agent/administrative entity had adopted a methodology for capturing actual administrative costs during the fiscal year. The finding is being repeated due to the possibility of the DOL reissuing the finding if the EAWDB does not correct some of the other identified deficiencies.

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 did not allow it to ensure that only actual costs that benefit the grant are charged to the grant in the prior period.

Effect

The fiscal agent/administrative entity was unable to determine the actual amount of indirect administrative costs because its cost allocation methodologies were not being applied accurately or consistently in the prior year.

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Recommendation

The fiscal agent/administrative has developed and implemented a methodology for capturing all administrative costs but should strive to clear all other identified deficiencies in order to avoid the reissuance of this finding.

Management Response

The new AE/FA has established a cost allocation plan for allocating expenses. All costs which can be wholly attributed to a single program are charged to that program. All costs attributed to several programs are allocated based on the percentage used for each program. Staffing and related expenses are allocated to each program based on a quarterly review of time expended. There are no indirect costs.

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 was not taking place before January of 2012.

The initial examination of the Roswell and Clovis One-Stop Offices showed that expenditures exceeded revenues by \$5,286 and \$12,413, respectively. These offices operate by billing the office tenants for their proportional share of all expenditures incurred by the office. As a result, revenues received from the tenants should match the expenses incurred.

Criteria

Grants handled by the EPCOG 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 EPCOG 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.

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Management Response

The new fiscal agent of EAWDB is aware of the requirement by USDOL that it must follow the accrual basis of accounting and matching concepts.

11-19 – 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 \$17,347 from the fiscal agent/administrative entity. Although immaterial, we were unable to obtain sufficient documentation to support this balance and whether it was still valid.

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 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 is not able to determine the financial obligations of its programs to ensure they are fiscally compliant.

Recommendation

We recommend the EAWDB 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

The balance owed to the Eastern Plains Council of Governments for the funds that it provided in advance to operate the one-stop centers was repaid subsequent to 6/30/2012.

The new AE/FA has procedures in place to allow for inter-entity loans between the AE/FA and the EAWDB. Loan documents are prepared including starting balances and terms.

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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 WIA 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 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

The EAWDB has, in place, a monthly AE/FA financial procedures checklist for the board to approve and will be implementing a plan for the Quality Assurance committee and/or the Operations and Finance committee to review AE/FA financial operations.

CURRENT YEAR FINDINGS

NONE

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OTHER DISCLOSURES
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An exit conference was held in a closed session on January 4, 2013 and the contents of this report were discussed. Present at the exit conference were:

Representing Eastern Area Workforce Development Board:

Tiffany Roth, WIA Coordinator
Charles Lehman, Director
Sandy Chauncey, EPCOG Executive Director
John Merrett, Fiscal Administrator
Slade Morgan, EAWDB Vice- Chair
Odessa Hamilton, Accountant

Representing Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE President
Erick Robinson, CPA, CFE Audit manager

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.