

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

**FINANCIAL STATEMENTS WITH INDEPENDENT  
AUDITORS' REPORT**

**For the Year Ended June 30, 2010**

**HINKLE & LANDERS, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**



**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
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FOR THE YEAR ENDED JUNE 30, 2010**

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STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
OFFICIAL ROSTER  
As of June 30, 2010

<b>Directors</b>	<b>Position</b>
Mateo Madrid	Chairman
Lori Martinez	Vice-Chairperson
E.B. Armijo	Board Member
Tom Burris	Board Member
Jean Fraissinet	Board Member
Gregory Garcia	Board Member
Roque Garcia	Board Member
David S. Gershenson	Board Member
Alonzo Gonzales	Board Member
Shirley Gonzalez	Board Member
Marlene Herrerra	Board Member
Timothy Jimenez	Board Member
Jess Landers	Board Member
Robbie R. Levey	Board Member
Mary Jo Lipinski	Board Member
Leroy Madrid	Board Member
Phyllis McNall	Board Member
Valerie Medina	Board Member
Sylvia Duran-Nickerson	Board Member
Louise Peterson	Board Member
Michelle Phillips	Board Member
Minerva Rayos	Board Member
Marie Richter	Board Member
Leo Rosas	Board Member
Toby Sanchez Rue	Board Member
Anton Salome	Board Member
Jim Schoonover	Board Member
Jo Anne Shelby	Board Member
Linda Smrkovsky	Board Member
Virginia Trujillo	Board Member
Rheganne Vaughn	Board Member
Jerry Welch	Board Member
Jay Armijo	Executive Director, SCCOG

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the major fund and the major fund budgetary comparison of the Southwestern Area Workforce Development Board (SAWDB) for the year ended June 30, 2010, which collectively comprises the SAWDB's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the SAWDB'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 with 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 basic 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 reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the SAWDB, as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the major fund 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 11, 2011 on our consideration of the SAWDB's internal control over financial reporting and 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 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 read in conjunction with this report in assessing the results of our audit.

For the year ended June 30, 2010, the SAWDB 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SAWDB's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Hinkle & Landers, P.C.*

January 11, 2011  
Hinkle & Landers, PC

**STATE OF NEW MEXICO**  
**SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**(GOVERNMENT-WIDE)**  
**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 184,393
Grant receivables	<u>753,589</u>
Total current assets	<u>937,982</u>
 Total assets	 <u><u>\$ 937,982</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 859,309
Deferred revenue	51,673
Held for others	<u>27,000</u>
Total current liabilities	<u>937,982</u>
<b>NET ASSETS</b>	
Investment in capital assets	<u>-</u>
Total net assets	<u>-</u>
 Total liabilities and net assets	 <u><u>\$ 937,982</u></u>

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

**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
(GOVERNMENT-WIDE)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Functions/Programs</b>	<u><b>Expenses</b></u>	<u><b>Program Operating Grants and Contributions</b></u>	<u><b>Net (Expense) Revenue and Changes in Net Assets for Governmental Activities</b></u>
<b>Governmental activities:</b>			
Workforce Investment Act program:			
Program year 09/fiscal year 10	\$ 2,498,880	2,498,880	-
Program year 08/fiscal year 09	188,542	188,542	-
American Recovery and Reinvestment Act	2,238,029	2,238,029	-
25% Rapid Response	<u>119,071</u>	<u>119,071</u>	<u>-</u>
	5,044,522	5,044,522	-
General revenues:			
			<u>-</u>
Change in net assets			
			<u>-</u>
Net assets, beginning of year			
			<u>-</u>
Net assets, end of year			
			<u><u>\$ -</u></u>

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



**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2010**

		<u>Major -Special Revenue Workforce Investment Act</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$	184,393
Grant receivables		753,589
		<hr/>
Total assets	\$	937,982
		<hr/> <hr/>
<b>LIABILITIES:</b>		
Accounts payable	\$	859,309
Deferred revenue		51,673
Held for others		27,000
		<hr/>
Total liabilities		937,982
		<hr/>
<b>FUND BALANCE:</b>		
Unreserved and designated for future expenditures		-
Total fund balance		-
		<hr/>
		<hr/>
Total liabilities and fund balance	\$	937,982
		<hr/> <hr/>
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported		-
		<hr/>
Net assets of governmental activities	\$	-
		<hr/> <hr/>

See independent auditors' report  
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STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Major -Special Revenue Workforce Investment Act</u>
<b>Revenues:</b>	
Federal Grants	\$ <u>5,044,522</u>
<b>Expenditures:</b>	
Current:	
Employment services:	
25% Rapid Response FY09 PY 08 and FY 09	119,071
Adult	138,615
Dislocated Worker	23,152
Youth	26,775
Administration	-
10% State Set Aside PY 09 and FY 10	-
Adult	986,944
Dislocated Worker	242,280
Youth	1,069,425
Administration	200,231
10% State Set Aside	-
American Recovery and Reinvestment Act	
Adult	512,448
Dislocated Worker	167,389
Youth	1,318,955
Administration	239,237
Total Employment services	<u>5,044,522</u>
Capital outlay	<u>-</u>
Total Expenditures	5,044,522
Change in fund balance	<u>-</u>
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	\$ <u><u>-</u></u>
Amounts reported for governmental activities in the statement of activities are different because:	
<i>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</i>	
Depreciation expense	<u>-</u>
Change in net assets of governmental activities	\$ <u><u>-</u></u>

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STATE OF NEW MEXICO  
**SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD**  
*WORKFORCE INVESTMENT ACT FUND - MAJOR 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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Grants	\$ 5,416,840	5,424,039	5,044,522	(379,517)
<b>Expenditures:</b>				
Current:				
Employment services:				
FY 09				
Rapid Response				
Dislocated Worker	253,705	253,705	119,071	134,634
American Recovery and Reinvestment Act				
Adult				
Youth	512,550	512,550	512,448	102
Dislocated Worker	1,339,094	1,339,094	1,318,955	20,139
Administration	173,057	297,166	167,389	129,777
10% State Set Aside	247,188	260,978	239,237	21,741
PY 08 and FY 09				
Adult				
Dislocated Worker	100,000	100,000	-	100,000
PY 09 and FY 10				
Adult				
Dislocated Worker	35,399	-	138,615	(138,615)
Youth	85,806	-	23,152	(23,152)
Administration	3,304	-	26,775	(26,775)
10% State Set Aside	967	-	-	-
PY 09 and FY 10				
Adult				
Dislocated Worker	986,944	986,944	986,944	-
Youth	338,123	338,123	242,280	95,843
Administration	1,069,425	1,069,425	1,069,425	-
10% State Set Aside	266,054	266,054	200,231	65,823
	-	-	-	-
Total general governmental	<u>5,416,840</u>	<u>5,424,039</u>	<u>5,044,522</u>	<u>379,517</u>
Change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Entity**

The Southwestern Area Workforce Development Board (SAWDB) was organized pursuant to Section 117 of Public Law 105-220 (Workforce Investment Act of 1998) and New Mexico State Legislative Law, Chapter 260, dated April 7, 1999, to set policy for the portion of the statewide workforce investment system within the local area serviced by the Board. The SAWDB sets policy for Luna, Dona Ana, Sierra, Hidalgo, Grant, Socorro and Catron Counties in the State of New Mexico.

During the year ended June 30, 2010, the SAWDB contracted with South Central Council of Governments, a governmental entity, to provide administrative and fiscal agent services. The SAWDB also contracted with the New Mexico Department of Workforce Solutions to manage and operate the four local area One-Stop Centers. The SAWDB also contracted with various other vendors to provide youth program services.

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:

- a. Advise the state board on issues relating to regional and local workforce development needs;
- b. 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;
- c. Designate or certify one-stop program operators in accordance with the federal Workforce Investment Act of 1998;
- d. Terminate, for cause, the eligibility of the one-stop operator;
- e. Select and provide grants to youth activity providers in accordance with the Workforce Investment Act of 1998;
- f. Identify eligible training and intensive service providers in accordance with Workforce Investment Act of 1998;
- g. Develop a budget subject to approval of the chief elected official;
- h. Develop and negotiate local performance measurements as described in the Workforce Investment Act of 1998 with the chief elected official and the governor;
- i. Assist in development of an employment statistics system;
- j. Ensure linkages with economic development activities;
- k. Encourage employer participation and assist employers in meeting hiring needs;
- l. 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;
- m. Establish as a subgroup, a youth council, appointed by the local board in cooperation with the chief elected official, and

**STATE OF NEW MEXICO**  
**SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

- n. Prior to submission of the local plan, provide information regarding the following:
1. the local plan
  2. membership
  3. designation and certification of one-stop operators and
  4. 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 SAWDB'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 SAWDB 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. Basis of Accounting**

**1. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The government-wide financial statements do not include any fiduciary funds the entity may have.

**STATE OF NEW MEXICO**  
**SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Net assets on the Statement of Net Assets include the following:

Invested in Capital Assets – the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted – Net assets should be reported as restricted when constraints placed on net assets' use is either externally imposed by law through constitutional provisions or enabling legislation. The SAWDB had no restricted net assets as of June 30, 2010.

Unrestricted – the difference between the assets and liabilities that is not reported in net assets invested in capital assets or restricted net assets.

In the fund level financial statements, fund balance reserves represent those portions of fund equity not available for appropriation or expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Portions of the fund balances have been reserved for subsequent year's expenditures. The reservation represents the amount of cash appropriated in subsequent year's budget.

*Program Revenues:*

The SAWDB received program specific operating grants from the U.S. Department of Labor passed through the New Mexico Department of Workforce Solutions during the year ended June 30, 2010. These revenues are program revenues for the carrying out of program activities of the Workforce Investment Act grant cluster.

GAAP Presentation

The financial statements of the SAWDB are prepared in accordance with Generally Accepted Accounting Principles (GAAP) generally accepted in the United States of America. The SAWDB's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units 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. The SAWDB has no proprietary funds or component units.

**STATE OF NEW MEXICO**  
**SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**2. Fund Financial Statements**

Fund financial statements report detailed information about the SAWDB. The SAWDB has one major fund and no non-major funds for the year ended June 30, 2010. See item 6 for more detail.

**3. Governmental Funds-Method of Accounting**

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**4. Revenue Recognition**

The governmental fund types for financial statement purposes follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and other governmental fund financial resources are recognized in the accounting period in which they become susceptible to accrual; then they become both measurable and available to finance expenditures of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes and other taxes as available if they are collected within sixty days after year end. The SAWDB does not receive any tax revenues. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

The SAWDB is implementing GASB Statement No. 33 on any non-exchange transaction. A non-exchange transaction occurs when a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The SAWDB has two types of non-exchange transactions: government-mandated non-exchange transaction revenues (federal programs that state or local governments are mandated to perform), and voluntary non-exchange transactions (grants, entitlements, and donations by non-governmental entities, including private donations). The SAWDB recognizes non-exchange transactions in the financial statements as income unless it is not measurable (reasonably estimate), if any.

Revenues from grants that are restricted for specific uses are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual. Restricted revenues are applied to expenditures first before non-restricted revenues are applied.

**STATE OF NEW MEXICO**  
**SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**5. Expenditure Recognition**

The measurement focus of governmental fund accounting is based on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. The SAWDB did not have any general long-term debt as of June 30, 2010.

Expenditures, other than vacation and sick pay, are recorded when the related fund liability is incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources.

**6. Fund Accounting**

The accounts of the SAWDB are organized on a basis of 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 equity, revenue and expenditures. The funds are governmental fund types and are grouped as General Fund and Special Revenue Funds.

The General Fund is the general operating fund; however, the SAWDB has no General Fund. It is used to account for all financial resources except those required to be accounted for in another fund.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Board of Directors authorizes the establishment of Special Revenue Funds.

The following is the special revenue fund that was created by Federal and State specific contractual authority, active in the fiscal year ended June 30, 2010:

Workforce Investment Act Fund – Provides employment services at three levels: which are core, intensive and training services, to adults, dislocated workers and youth.

**C. 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 SAWDB 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 SAWDB to other agencies is accounted for in capital



**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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</u>	<u>Estimated Depreciable Life</u>
Furniture and fixtures	3-10 years
Software	3-10 years
Equipment	3-10 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 as 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 SAWDB end, those assets will need to be returned to the SAWDB's WIA program.

**D. Budgets**

The SAWDB prepares a budget by funding stream based upon the allocation by the State Workforce Development Board to be approved by the SAWDB's Board. The State Workforce Development Board provides the SAWDB 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 SAWDB 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 SAWDB 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.

**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**E. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**F. 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.

**G. Allowances**

The SAWDB 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.

**2. DEPOSIT AND INVESTMENTS**

In accordance with Section 6-10-17, NMSA, 1978 Compilation, deposits of public money are required to be collateralized. Pledged collateral is required in amounts in an aggregated 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.

The Governmental Accounting Standards Board has issued its Statement #40 which requires information on custodial risk be disclosed. Custodial credit risk is risk that in the event of bank failure, the SAWDB's deposits may not be returned to it. The SAWDB's deposit policy is to collateralize one half of the uninsured public money in each account.

Deposits as of June 30, 2010 were held in Bank of the Southwest in the name of the South Central Council of Governments. Deposits (cash or cash equivalents) are carried at cost, which approximates market value. As of June 30, 2010, the carrying amount of the SAWDB's deposits was \$184,393.

The following is a listing of deposits of public money and collateral pledged at values acceptable per state statute, by the depositing financial institutions as of June 30, 2010:

**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

Account Name	Type	Bank Balance
Checking Account - non interest bearing	Demand Deposits	\$ 215,423
Less: FDIC coverage		(215,423)
Uninsured balance		-
50% collateral requirement		\$ -

The SAWDB's bank (Bank of the Southwest) is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount of the account. As of June 30, 2010, the amount of the SAWDB'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 SAWDB's name	\$ -
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The following schedule is presented to comply with the requirements of New Mexico State Statute 12-6-5 NMSA, 1978 as interpreted by the New Mexico State Auditor's Rule 2 NMAC 2.2.

Bank Name	Bank Balance	Outstanding Checks	Outstanding Deposits	Book Balance
Bank of the Southwest Program Checking	\$ 215,423	(31,195)	165	184,393

Due to restriction on Workforce Investment Act funds by the granting agency monies deposited into the account of the SAWDB and any program revenue earned by the SAWDB are not allowed to be invested.

**3. RECEIVABLES**

The SAWDB had grant receivables from the Department of Workforce Solutions in the amount of \$753,589 as of June 30, 2010.

**4. DEFERRED REVENUE**

During the fiscal year ending June 30, 2010, the SAWDB had \$51,673 in deferred revenues.

**5. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP BASIS**

Because the SAWDB kept its budgets on the modified accrual basis of accounting during the year ending June 30, 2010, there was no need to reconcile the budget financial statements to fund financial statements.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**6. CAPITAL ASSETS AND DEPRECIATION**

The following is a summary of changes in capital assets for the year ended June 30, 2010:

	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>
Capital Assets:				
Furniture, fixtures, and equipment	\$ 21,650	-	-	<b>21,650</b>
Accumulated Depreciation				
Furniture, fixtures, and equipment	<u>(21,650)</u>	<u>-</u>	<u>-</u>	<u><b>(21,650)</b></u>
Total net capital assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

Current year depreciation expense for the year ended June 30, 2010 was \$-. All depreciation for the year has been allocated to the Workforce Investment Act Program. All of the SAWDB's equipment have been purchased under government contracts and are restricted as to their use as designated by granting agencies.

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

During the fiscal year ended June 30, 2010, the SAWDB had no employees eligible for retirement benefits and, therefore, had no retirement benefit expenditures during the year.

**8. RISK MANAGEMENT**

The SAWDB 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 SAWDB. 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, 2010, the SAWDB did not have any probable risk of loss.

**9. RELATED PARTY TRANSACTIONS**

The SAWDB board members include community leaders who are involved in and concerned with providing opportunities for employment in the areas serviced by the SAWDB. The area partners, one-stop providers, and training providers are required to have representation on the SAWDB 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, 2010, purchases for goods and services were made by the SAWDB with companies or organizations with which various board members are associated. The following schedule details those purchases by organization/company/association:

<u>Board Member</u>	<u>Organization</u>	<u>Association to SAWDB</u>	<u>Amount</u>
Jess Landers	Landers Enterprises	OJT Training Provider	\$ 12,257
Marlene Herrera	Alamo Navajo School Board	Youth Training Provider	122,830
Scott Apachito	Alamo Navajo School Board	Youth Training Provider	-
Robert Smith	Western New Mexico University	Training Provider	167,450
Marcos Martinez	Department of Workforce Solutions		<u>805,912</u>
			1,108,449
<u>Chief Elected Officials</u>	<u>Organization</u>	<u>Association to SAWDB</u>	<u>Amount</u>
Carlos Arzábal	Town of Mesilla	Postage	23
Rosie Trip	Socorro County	OJT Training Provider	<u>5,077</u>
			5,101
		Total related party transactions	<u>\$ 1,113,550</u>

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

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			
Major programs:			
WIA Adult Program:	17.258	08-004-PY08	1,638,007
WIA Youth Activities:	17.259	08-004-PY08	2,415,155
WIA Dislocated Workers:	17.260	08-004-PY08	432,821
WIA 25% Rapid Response	17.258	08-004-PY08	119,071
WIA Administration			
Adult	17.258	08-004-PY08	160,467
Youth	17.259	08-004-PY08	236,600
DW	17.260	08-004-PY08	42,401
Total expenditures			\$ <u>5,044,522</u>

Selected Disclosures

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Southwestern 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 Southwestern Area Workforce Development Board did not receive any noncash assistance.

3. Payments to subrecipients

<u>Organization</u>	<u>Amount</u>
New Mexico Department of Workforce Solutions	\$ 805,913
Alamo Schools	122,830
Families and Youth, Inc.	1,191,171
HELP	378,618
Socorro Consolidated School District	174,061
Southwest Regional Education Center	419,743
Total payments to subrecipients	\$ <u>3,092,336</u>

**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  
Southwestern Area Workforce Development Board  
Elephant Butte, 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 Southwestern Area Workforce Development Board (SAWDB), as of and for the year ended June 30, 2010, and have issued our report thereon dated January 11, 2011. 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 SAWDB'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 SAWDB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SAWDB'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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness 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 deficiency described in the schedule of findings and questioned costs to be a material weakness: 09-01.

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 accompanying schedule of findings and questioned costs to be significant deficiencies: 10-01-10-03, 10-05, 10-06, and 10-08.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the SAWDB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 10-09.

The SAWDB'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 SAWDB's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Southwestern 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.

The image shows a handwritten signature in black ink that reads "Hinkle & Landers, P.C.". The signature is written in a cursive, flowing style.

Hinkle & Landers, P.C.  
January 11, 2011



**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  
Southwestern Area Workforce Development Board  
Elephant Butte, New Mexico and  
Mr. Hector Balderas, State Auditor  
Santa Fe, New Mexico

**Compliance**

We have audited the Southwestern Area Workforce Development Board's (SAWDB) compliance with the types of compliance requirements described in "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on each of the SAWDB's major federal program for the year ended June 30, 2010. The SAWDB'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 SAWDB's management. Our responsibility is to express an opinion on the SAWDB'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, "Audit 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 SAWDB'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 SAWDB's compliance with those requirements.

In our opinion the SAWDB complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-01, 08-03, 09-01, 10-04, and 10-07.

### **Internal Control Over Compliance**

Management of the SAWDB 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 SAWDB'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 SAWDB'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 09-01 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-01, 08-03, 10-04, and 10-07 to be significant deficiencies.

The SAWDB'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 SAWDB's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Southwestern 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 11, 2011

**STATE OF NEW MEXICO  
SOUTHWESTERN AREA WORKFORCE DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

*Financial Statements:*

Type of auditors' report issued Unqualified

*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 Unqualified

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

	Status of Current and Prior Year Findings	Financial Statement Finding	Federal Awards Finding	State Auditor Finding	Significant Deficiency	Material Weakness
Prior year						
08-01 FOLLOW UP OF CASE MANAGEMENT FILES	Repeated	no	yes	no	yes	no
08-03 TIMELY SUBMISSION OF MONTHLY STATUS REPORTS	Repeated	no	yes	no	yes	no
09-01 CASH CONTROLS	Repeated	yes	yes	no	yes	yes
Current						
10-01 BANK RECONCILIATION NOT SIGNED OFF ON	Current	yes	no	no	yes	no
10-02 VIOLATION OF OPEN MEETINGS ACT	Current	yes	no	yes	yes	no
10-03 RFP PROCUREMENT PROCESS NOT PROPERLY FOLLOWED	Current	yes	no	yes	yes	no
10-04 TRAVEL VOUCHERS	Current	no	yes	no	no	no
10-05 FORMAL SIGN OFF ON SIGNIFICANT DISBURSEMENTS	Current	yes	no	no	yes	no
10-06 OUTSTANDING PAYABLES	Current	yes	no	no	yes	no
10-07 CONTRACT PAYMENTS MADE IN EXCESS OF APPROVED YOUTH ARRA CONTRACTS	Current	no	yes	no	yes	no
10-08 ACCRUAL REPORTING	Current	yes	no	no	yes	no
10-09 LATE AUDIT REPORT	Current	no	no	yes	no	no

**08-01 FOLLOW-UP OF CASE MANAGEMENT FILES - REPEATED**

**Statement of Condition**

Out of the 60 adult/dislocated worker and youth participant files tested, 5 adult and 3 youth files had not been followed up with properly. In 5 participant files, at least 90 days had passed with no activity in either case management notes or in the VOSS system, yet participants had not been exited from the program. Also, in 3 exited participant files no documentation was available to support if required quarterly follow-ups had been performed.

**Criteria**

Reference: CFDA # 17.258 WIA Adult, 17.259 WIA Youth, 17.260 WIA Dislocated Worker. Federal Grantor: US Department of Labor passed through the New Mexico Department of Workforce Solutions.

Proper follow-up procedures should be followed and documented in participants case management files. WIA requires participant files be followed up on and if no contact can be

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made with the participant within 90 days, that participant should be exited from the program. The WIA Act also requires that follow-up be performed quarterly after a participant exits from the program.

**Effect**

Not all files have adequate documentation for the follow-up services provided as required by the WIA program grant. Performance reports concerning the area of job retention could be affected.

**Cause**

Not all older files had been updated to provide information required by the WIA.

**Questioned Costs**

None

**Recommendation**

More training in the case notes, exiting and follow-up areas should be provided to the contractors. Perhaps there should be a more standardized operating timeline that should be implemented. For example, a day each month could be set aside where appointments would not be taken to allow case managers to update and review files of participants not heard from in a while.

**Management Response**

We concur with the finding and we will provide recurring training specific to the case note and follow up requirements. In addition, the SAWDB Administrative Entity's Monitoring Team will conduct monthly desk reviews, on-site monitoring, and offer technical assistance to service providers to assist in resolving this finding.

**08-03 TIMELY SUBMISSION OF MONTHLY STATUS REPORTS - REPEATED**

**Statement of Condition**

It was noted that 4 out of 12 WIA and 2 out of 10 ARRA monthly status reports were submitted late to the NM Department of Workforce Solutions.

**Criteria**

NM Department of Workforce Solutions requires that the reports be submitted by the 20<sup>th</sup> calendar day after the month end. Reports should be complete and accurate.

**Effect**

Monthly status reports were not submitted on time and the Department of Workforce Solutions did not have timely information given to them so that they would be able to prepare their reports to the U.S. Department of Labor in a timely manner.

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**Cause**

Due to late reporting of expenditures from contractors, the finance director was unable to meet deadlines early in the year.

**Recommendation**

Monthly status report should be prepared on time and reviewed before submission to NM Department of Workforce Solutions.

**Management Response:**

As of July 2010, we have set up a system to get MFSR's turned in timely. We have a few at the beginning of the year that had not been turned in on time due to reconciling issues.

**09-01 CASH CONTROLS – REPEATED/REVISED**

**Statement of Condition**

During the year ended June 30, 2010, the organization used computer generated signatures to “sign” check disbursements. This method of authorizing checks for disbursement was in place up until the month of April 2010.

The custodian of the computerized signatures was the Fiscal Manager, which was password protected in the organization's accounting software.

To compensate for the usage of computerized signature authorizations, the Executive Director would review the check registers as he reviewed the prepared checks and supporting documentation for the disbursement to ensure the register agreed with the prepared checks.

During our review of the check registers, we noted the following:

- July through September 2009, were signed by the Fiscal Manager on January 29, 2010 and by the Executive Director February 4, 2010.
- October 2009 was signed by the Fiscal Manager on January 29, 2010 and was not signed by the Executive Director.
- November through December 2009 were signed by the Fiscal Manager on January 29, 2010 and by the Executive Director February 4, 2010.
- January through April were not printed out and therefore were not signed by either the Fiscal Manager nor by the Executive Director.

This process was changed starting with the month of May 2010 and the computer generated signature authorization was rendered inactive and two hand-written signatures were required to authorize check disbursements.

**Criteria**

An essential element of a preventative control system is segregation of functions in such a manner that no single individual can perpetrate an error, misappropriation or illegal act without

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being discovered in a timely manner. Ideally, three general categories of functions should be separated:

- Functions involving custody of assets (e.g. physical control of asset, handling cash, custody of check stock),
- Functions involving recording transactions (e.g. bookkeeping, preparation of bank reconciliations), and
- Functions involving authorization (e.g. sign checks, approve purchases)

Improving internal controls reduces the opportunity for fraud or errors to take place, or to be identified and corrected in a timely manner.

**Effect**

Without the proper review of all checks going out of the organization against the check register, there is a significant risk that signed checks could be printed out of accounting software system without the knowledge of the officials responsible for overseeing the check disbursements. That could result in misappropriation of funds.

**Cause**

The procedures outlined in the “statement of condition” were not followed.

**Questioned Costs**

None

**Recommendation**

We agree with the change the organization made when they removed the ability to “sign” checks with computerized signatures. We also recommend that all support accompany checks when presented for signature and the signer of the checks review the supporting documentation to ensure that it supports the purpose for the check disbursement.

**Management’s Response**

We concur with this finding and as noted in the finding we have changed our check writing procedures. Checks are now physically signed by authorized signors. We require two signatures on each check, one signor is the Executive Director and the other signor is a board member. Those signors review each check and support and question anything that does not appear to be appropriate before the checks are mailed.

**10-01 BANK RECONCILIATIONS NOT SIGNED OFF ON**

**Statement of Condition**

We reviewed the twelve monthly bank reconciliations for the year ended June 30, 2010. Out of the twelve reviewed, two of bank reconciliations (February and March 2010) were not documented that they were reviewed.

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**Criteria**

Good cash controls dictate that bank reconciliations be reviewed by a responsible official in a timely fashion. The review of the bank reconciliation should include but not limited to:

- A review of balances on the bank reconciliation to the general ledger to ensure they match
- Review of deposits for frequency and amounts of deposits for reasonableness
- Review of disbursements for reasonableness of signatures, amounts and vendors.
- Review of stale-dated outstanding checks and deposits in transit.

**Effect**

The lack of adequate review of the bank reconciliations may result in increased risk of errors or malfeasance going undetected.

**Cause**

The organization has experienced changes in the Fiscal Manager position and this may have resulted in certain review procedures not being completed.

**Recommendation**

We recommend the review process as noted in the “criteria” be followed. The organization may want to use a checklist provided by the auditors to help improve the documentation of the reconciliation review. We also recommend the reconciler and the reviewer of the reconciliation sign and date when they have completed their task.

**Management Response**

As of May, bank reconciliations are prepared by the finance manager and reviewed by the Executive Director. Both parties involved, sign and date the reconciliation.

**10-02 VIOLATION OF OPEN MEETINGS ACT**

**Statement of Condition**

- A. Per review of the Southwestern Area Workforce Development Board minutes, it appears the Executive Committee of the Board improperly went into “executive session” or, in other words, the meeting was closed to the public for the following times and purposes under the exception cited as 10-15-1 (H)(6) Certain Purchases:

November 13, 2009 for the purpose as stated, “to address the Administrative Entity Request for Proposals (RFP)....”

April 21, 2010, for the purpose as stated, “to discuss the Youth Request for Proposal (RFP) and possibly the Administrative Entity (AE) RFP.....”

- B. It also appears that “reasonable notice” of the closed sessions was not given to the public in the agendas and no other notice of the meetings documented the closed meeting session ahead of time. Per our review of auditory tape, the Executive Committee of the



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Board was cautioned against going into executive session by the Administrative Entity as it did not appear to qualify under 10-15-1 (H)(6) Certain Purchases.

**Criteria**

The “Open Meetings Act” NMSA 1978, Chapter 10, Article 15, Seventh Edition (2010) states under the following sections:

- A. One of the Exceptions to Open Meetings or convening closed meetings regarding purchases cited under 10-15-1 (H)(6) Certain Purchases states, the type of purchases that can be addressed in closed session as:

“That portion of meetings at which a decision concerning purchases in an amount exceeding two thousand five hundred dollars (\$2,500) that can be made only from one source and that portion of meetings at which the contents of competitive sealed proposals solicited pursuant to the Procurement Code are discussed during the contract negotiation process. The actual approval of purchase of the item or final action regarding the selection of a contractor shall be made in an open meeting.”

- B. **10-15-1. Formation of Public Policy D Notice Requirements:**

“Any meetings at which the discussion or adoption of any proposed resolution, rule, regulation or formal action occurs and at which a majority or quorum of the body is in attendance, and any closed meetings, shall be held only after reasonable notice to the public...” (underline not included in the original text)

**Effect**

The Open Meetings Act of the State of New Mexico was violated and the issues discussed appear to be invalidated.

**Cause**

The Open Meetings Act was not properly adhered to.

**Recommendation**

We recommend that the Open Meetings Act be reviewed by the responsible officials conducting meeting for the SAWDB and a determination if the items discussed in the closed meeting sessions need to be readdressed in an open meeting session.

**Management Response**

The Administrative Entity will continue to advise and caution Board Members on the requirements of the Open Meetings Act as they conduct meetings. The Administrative Entity will work with the Chair of the SAWDB to conduct an annual training on requirements of the Open Meetings Act in conjunction with the passage of the annual Open Meetings Act Resolution.

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**10-03 RFP PROCUREMENT PROCESS NOT PROPERLY FOLLOWED**

**Statement of Condition**

During our review of the minutes and significant contracts, it appears the procurement process for documenting the reason why an initial request for proposal for Administrative Entity Services was cancelled and reissued after receiving only one bid. It is noted that discussions of this RFP improperly took place in closed board meetings as written in finding 10-02.

**Criteria**

As cited in 13-1-131 Rejection or Cancellation of Bids or Requests for Proposals; Negotiations (underline not in the original text):

“An invitation for bids, a request for proposals or any other solicitation may be canceled or any or all bids or proposals may be rejected in whole or in part when it is in the best interest of the state agency or a local public body. A determination containing the reasons for cancellation shall be made part of the procurement file. If no bids are received or if all bids received are rejected and if the invitation for bid was for any tangible personal property, construction or service, then new invitations for bids shall be requested. If upon rebidding the tangible personal property, construction or services, the bids received are unacceptable, or if no bids are secured, the central purchasing office may purchase the tangible personal property, construction or services in the open market at the best obtainable price.”

**Effect**

The SAWDB is out of compliance with the State Statutes in reference to the procurement process as noted in above in “Criteria”

**Cause**

Members of the Executive Committee of the SAWDB that were administering the Administrative Entity RFP may not have been aware of the statutes.

**Recommendation**

The SAWDB should be aware of the state statutes as cited in the “criteria” above

**Management Response**

The Administrative Entity will advise the SAWDB to seek assistance from a professional/certified RFP Manager for future Administrative Entity Request for Proposals. The Administrative Entity has two certified RFP Managers and will work in coordination with the SAWDB to provide training to Board Members on the requirements of the procurement code related to Request for Proposals. The Administrative Entity will work in coordination with the State of New Mexico Purchasing Division to offer RFP training to Board Members.

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**10-04 TRAVEL VOUCHERS**

**Statement of Condition**

The United States Department of Labor issued a compliance finding for the improper reimbursement of lodging costs. The traveler was reimbursed for lodging costs of \$645 even though she shared lodging with another staff person who was also reimbursed \$645. The grant reimbursed \$1,290 for lodging of two staff members when the actual cost was only \$645. The costs were repaid in the subsequent period.

**Criteria**

Reference: CFDA # 17.258 WIA Adult, 17.259 WIA Youth, 17.260 WIA Dislocated Worker.  
Federal Grantor: US Department of Labor passed through the New Mexico Department of Workforce Solutions

The USDOL only allows for the use of a per diem for meals and does not allow a per diem for lodging. The USDOL believes that the tracking of lodging receipts is not burdensome and requires travelers to provide those receipts for reimbursement.

Additionally, OMB A-87, Attachment A, subsection C.1, provides that to be allowable under an award, costs must be necessary and reasonable for the proper and efficient performance and administration of the award, be allocable to the award, and be adequately documented.

**Effect**

This practice of not requiring lodging receipts and allowing the payment of lodging per diem does not safeguard grant funds and incurs costs that are not necessary or beneficial to the grant.

**Cause**

New Mexico travel regulations allow the payment of a per diem for lodging without submission of a receipt for that lodging. Following that New Mexico travel regulation; the SCCOG does not routinely require travel vouchers to contain lodging receipts unless the cost of the lodging exceeds the allowable per diem amount. However, USDOL believes that the tracking of lodging receipts is not burdensome and requires travelers to provide those receipts for reimbursement.

**Questioned Costs**

\$645

**Recommendation**

It is recommended that the SAWDB require receipts for reimbursement of lodging expenses when USDOL grant funds are being used.

**Management Response**

As mentioned in the "Cause" section above, New Mexico travel regulations allow the payment of a per diem for lodging without submission of a receipt for that lodging. Management is of the understanding that the NM Department of Workforce Solutions and the US Department of Labor

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are examining whether receipts will be required. The SCCOG has reimbursed the SAWDB for the amount that was in question to resolve this issue. The SCCOG is requiring that individuals who share a room split the cost instead of receiving a full per diem reimbursement.

**10-05 FORMAL SIGN OFF ON SIGNIFICANT DISBURSEMENTS**

**Statement of Condition**

It was noted that approval signatures on 2 significant disbursements were not present. The invoices totaled \$441, 908.

**Criteria**

Reference: CFDA # 17.258 WIA Adult, 17.259 WIA Youth, 17.260 WIA Dislocated Worker.  
Federal Grantor: US Department of Labor passed through the New Mexico Department of Workforce Solutions.

Good internal control practices require that disbursements be reviewed by an individual charged with oversight and signed by that reviewer to evidence such action was taken. An approval signature indicates the disbursement was made in accordance with grant policies and guidelines.

**Effect**

There is no physical evidence that review functions had taken place.

**Cause**

The Fiscal offices were in the process of moving locations during that time period and a key employee left the organization.

**Questioned Costs**

None

**Recommendation**

Ensure that all supporting documentation for significant disbursements is reviewed and signed by the appropriate officials.

**Management Response**

We have reinforced our already existing procedures that all contract invoices be reviewed and signed off on by the finance manager.

**10-06 OUTSTANDING PAYABLES**

**Statement of Condition**

The SAWDB had 2 significant payables 354 and 429 days outstanding, respectively, totaling \$377,563 at June 30, 2010. The tardiness of the payables will create a budget deficit as current year budgeted amounts will be used to cover prior year expenses.

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**Criteria**

Reference: CFDA # 17.258 WIA Adult, 17.259 WIA Youth, 17.260 WIA Dislocated Worker.  
Federal Grantor: US Department of Labor passed through the New Mexico Department of Workforce Solutions.

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

**Effect**

Cash management compliance requirements are not being met. Additionally, the current year budget will be at a deficit as funds from the current year budget will be used to cover the unpaid expenses from the prior year.

**Cause**

The program manager at the time was reluctant to pay the amounts as she did not feel it was adequate to have a \$0 cash balance.

**Recommendation**

It is recommended that the SAWDB pay their payables as they become due regardless of the amount that will be left in their cash accounts.

**Management Response**

We have paid to our vendor \$155,000 for the amount that we had in our bank account. We have received as of 12/15/2010 additional grant funds to pay the remaining balance of the invoices and expect funds to be drawn in January and checks to cut. We have set up a finance committee, whose first meeting will be in February, to review outstanding payables and receivables and provide additional oversight over the fiscal office.

**10-07 CONTRACT PAYMENTS MADE IN EXCESS OF APPROVED YOUTH ARRA CONTRACTS**

**Statement of Condition**

It was noted that the SAWDB had exceeded their allowed contractual amounts for their ARRA contracts for 2 of their 8 subrecipients. The amounts awarded to the subrecipients, per their contract with the SAWDB, were \$95,436 and \$259,852 respectively. However, expenditures reported at year end for the same subrecipients were \$105,035 and \$288,413 respectively. Excess expenditures for each subrecipient totaled \$9,599 and \$28,561 respectively.

**Criteria**

ARRA contracts with Socorro Schools and FYI Luna should be monitored closely and adhered to. If the decision is made to allow contractors to do more work, then contracts between the parties should be amended in a timely manner to ensure both parties are in agreement to new terms.

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**Effect**

The SAWDB is not in compliance with the ARRA contracts noted above in “Criteria”.

**Cause**

Amounts spent were not monitored against the agreed amounts stated in the contracts. More youth participants in the program and no contract amendment was done to increase the amount those providers were originally contracted for.

**Recommendation**

We recommend the amounts expended are monitored against the stated amounts in the contracts.

**Management Response**

We have reinforced our already existing procedures to review and monitor all contract invoices to ensure that contract amendments if necessary are made if needed or refuse payment if a contractor goes over their budgeted amount. Additional amounts spent for ARRA activities did not cause the SAWDB to exceed its budget however we understand that procedures were not properly followed to ensure that the additional work needed by the contractors was reflected in their contract.

**10-08 ACCRUAL REPORTING**

**Statement of Condition**

Neither the SAWDB nor its subrecipients are reporting expenditures on an accrual basis

**Criteria**

20 CFR 667.300 (c)(3), provides that grant recipients’ financial reports will be on the “accrual basis of accounting and cumulative by fiscal year of appropriation. If the recipient’s accounting records are not normally kept on the accrual basis of accounting, the recipient must develop accrual information through analysis of the documentation on hand.”

**Effect**

The SAWDB is not in compliance with federal grant regulations.

**Cause**

The SAWDB’s misunderstanding of what accrual accounting reporting is contributed to the finding.

**Recommendation**

The SAWDB should develop and implement a plan that ensures that it and its subrecipients understand and comply with the requirement to report financial status on an accrual basis.

**Management Response**

We would like to note that our subrecipient’s youth providers and one stop provider do in fact report to the SAWDB on the accrual basis of accounting. However, our office was not reporting

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on the accrual basis of accounting. As of July of 2010 we have begun ensuring our books are kept on the accrual basis of accounting. Receivables are recorded by the fiscal clerk when earned and reviewed by the finance manager.

**10-09 LATE AUDIT REPORT**

**Statement of Condition**

The annual financial and compliance audit for the year ending June 30, 2010 was not conducted within the time limit imposed by the State of New Mexico guidelines or requirement for the State Auditor Rule for "Conducting of Audits". The Office of the State Auditor received this audit report on January 14, 2011.

**Criteria**

The requirements set forth in the New Mexico State Auditors' Rule 2 NMAC 2.2 require that the financial and compliance audit be conducted and completed within five months of the SAWDB's fiscal year end which was December 1, 2010. The report was not submitted until January 14, 2011.

**Effect**

The financial and compliance audit is a statute requirement. Failure to have a completed audit by the stipulated date may jeopardize the SAWDB's eligibility for funding from the State Legislature and Federal agencies.

**Cause**

It was noted during the audit that revenues had been materially understated. Consequently, expenses were also materially understated. The cause of the misstated revenues and expenses was being investigated by management and was not discovered within the time limit imposed by the State of New Mexico to submit the audit in a timely manner.

**Recommendation**

The auditor and auditee must coordinate the timing of the audit and ensure that deliverables requested by the auditor are ready to be audited in a timely manner in the future to meet the December 1st deadline.

**Management Response**

We have made changes to our internal control system to address this issue and do not expect to be late in future audits.

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EXIT CONFERENCE  
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An exit conference was held in a closed session on January 11, 2011 and the contents of this report were discussed. Present at the exit conference were:

Representing Southwestern Area Workforce Development Board:

Mayor Nora Barraza	SCCOG Board Chairperson
Roque Garcia	SAWDB Board Member
Katherine Gervasio	WIA Accountant
Steve Duran	WIA Administrator
Linda Lanham	SCCOG Deputy Director
Jay Armijo	Executive Director, South Central Council of Governments

Representing Hinkle & Landers, P.C.:

Farley Vener, CPA, CFE	Independent auditor, Hinkle & Landers, P.C.
Maclen Enriquez	Independent auditor, Hinkle & Landers, P.C.

**PREPARATION OF FINANCIAL STATEMENTS**

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