

**STATE OF NEW MEXICO
FUND #81100 CAPITOL KITCHEN**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2011



KARDAS • ABEYTA • WEINER P.C.
Certified Public Accountants

June 30, 2011

Table of Contents.....	1
Official Roster.....	2
Independent Auditors' Report.....	3
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets.....	5
Statement of Activities.....	6
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.....	8
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities.....	9
Notes to Financial Statements.....	10
Other Information:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	14
Schedule of Findings and Responses.....	16

June 30, 2011

FIFTIETH LEGISLATURE, FIRST SESSION

HOUSE OF REPRESENTATIVES PRINTING AND SUPPLIES COMMITTEE

Luciano "Lucky" Varela	Chair
Rhonda S. King	Vice-Chair
Alonzo Baldonado	Member
Donald E. Bratton	Member
Anna M. Crook	Member
Brian F. Egolf	Member
Jim W. Hall	Member
Dianne Miller Hamilton	Member
Tim D. Lewis	Member
W. Ken Martinez	Member
Rick Miera	Member
Danice Picraux	Member
Sheryl Williams Stapleton	Member
Thomas C. Taylor	Member
Jim R. Trujillo	Member
Richard D. Vigil	Member
James P. White	Member

HOUSE OF REPRESENTATIVES

Stephen R. Arias	House Chief Clerk
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INDEPENDENT AUDITORS' REPORT

State of New Mexico, House of Representatives
House Printing and Supplies Committee
Fund #81100 Capitol Kitchen
Hector H. Balderas, State Auditor

We have audited the accompanying financial statements of the State of New Mexico, Fund #81100 Capitol Kitchen, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the State of New Mexico, Fund #81100 Capitol Kitchen's management. Our responsibility is to express an opinion 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.

As discussed in Note A, the financial statements of the State of New Mexico, Fund #81100 Capitol Kitchen, are intended to present the financial position, and the changes in financial position of the State of New Mexico, Fund #81100 Capitol Kitchen. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Mexico, Fund #81100 Capitol Kitchen, as of June 30, 2011, and the 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 our report dated December 8, 2011, on our consideration of the State of New Mexico, Fund #81100 Capitol Kitchen'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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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.

Kardas, Abeyta & Weiner, P.C.

Santa Fe, New Mexico
December 8, 2011

STATE OF NEW MEXICO
FUND #81100 CAPITOL KITCHEN
Statement of Net Assets

June 30, 2011

Assets:

Investment in the State General Fund Investment Pool, Note B \$ 7,428

Net Assets:

Restricted \$ 7,428

The Accompanying Notes are an Integral Part of These Financial Statements

STATE OF NEW MEXICO
FUND #81100 CAPITOL KITCHEN
Statement of Activities

6

For The Year Ended June 30, 2011

Governmental Activities

Food Sales	\$	108,409
Cost of food and supplies		<u>(87,193)</u>
Net Revenue		21,216

General Revenues:

Transfers:		
Transfer out, Note D		<u>(20,887)</u>

Change in Net Assets

329

Net Assets:

Beginning of year		<u>7,099</u>
End of year	\$	<u><u>7,428</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

STATE OF NEW MEXICO
FUND #81100 CAPITOL KITCHEN
Balance Sheet - Governmental Funds

June 30, 2011

Assets:

Investment in State General Fund Investment Pool, Note B \$ 7,428

Fund Balance:

Unassigned \$ 7,428

Amounts reported for governmental activities in Statement of Net Assets are different because:

Fund Balance - Governmental Funds \$ 7,428

There are no reconciling items between the governmental funds balance sheet and the statement of net assets.

Net Assets of Governmental Activities \$ 7,428

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds

For The Year Ended June 30, 2011

Revenues:

Food sales \$ 108,409

Current Expenditures:

Cost of food and supplies 87,193

Revenues over expenditures:

21,216

Other Financing Sources (Uses):

Transfer out, Note D (20,887)

Net Change in Fund Balance

329

Fund Balance:

Beginning of year 7,099
End of year \$ 7,428

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance to
Statement of Activities

For The Year Ended June 30, 2011

Amounts reported for governmental activities in the Statement of Net
Assets are different because:

Net Change in Fund Balance - Total Governmental Funds	\$	329
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There are no reconciling items between the net change in fund balance and
change in net assets.

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Change in Net Assets - Governmental Activities	\$	<u>329</u>
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NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico, Fiftieth Legislature, First Session has been prepared in conformity with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Financial statements for the period ended June 30, 2011 represent activity in Fund #81100 from July 1, 2010 to June 30, 2011. The more significant accounting policies of the Fund are described below:

1. Basic Financial Statements - Government-Wide Statements

Fund #81100's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as governmental. Fund #81100 is classified as a governmental activity.

The government-wide Statement of Net Assets is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long term debt and obligations. The Fund's net assets are reported as unrestricted net assets.

The government-wide Statement of Activities reports the cost of the Fund #81100's function. The function is

2. Basic Financial Statements - Fund Financial Statements

The financial transactions of Fund #81100 are reported in one individual fund in the financial statements. The operations of Fund #81100 are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. Government resources are allocated to and accounted for in this individual fund based on the appropriate state statutes and the purposes for which they are spent and the means by which spending activities are controlled. The following fund type is utilized by Fund #81100:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental fund.

General Fund - Fund #81100 is used to administer and account for the sale of food, food services and related concessions by the House of Representatives. Money in the fund may be expended by the Legislative Council Service for start-up costs, supplies and other costs necessary for the House of Representatives to operate the concessions, and with the approval of the New Mexico Legislative Council, for incidental expenses of the Legislature, including those interim committees.

NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures/expenses 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. This governmental Fund #81100 follows FASB statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Accrual

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

4. Investment in the State General Fund Investment Pool

The State of New Mexico, Office of the State Treasurer's scope of authority for the types of investments which may be made with state funds is statutorily defined and governed by the State Treasurer's Investment Policy approved by the State Board of Finance.

5. Nature and Purpose of Reservations and Designations of Fund Balance

Government-wide net assets are divided into two components:

Restricted net assets - consists of net assets that are restricted by state enabling legislation.

Unrestricted net assets - all other assets are reported in this category.

When an expense is incurred that can be paid using either restricted resources or unrestricted resources, the Fund policy is to first apply the expense toward unrestricted resources.

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, was implemented by the Council Service for the year ending June 30, 2011. Statement No. 54 replaces an old fund balance terminology ("Reserved", "Unreserved", "Designated", and "Undesignated") with new financial reporting categories for fund balances of governmental funds.

NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Nature and Purpose of Reservations and Designations of Fund Balance (Continued)

Governmental fund balances are divided into five classifications based on the extent to which the government is bound to honor constraints and the specific purposes for which amounts in that fund can be spent.

Non-spendable is the most limited amounts and are legally or contractually required to stay intact.

The spendable fund categories can be depicted as follows:

Restricted are amounts that are due to enabling legislation, constitutional provisions, externally imposed by grantors, contributors, laws and regulations of other governments, or by creditors, such as through debt covenants.

Committed are amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and removal of the constraint would require a formal action by the same authority.

Assigned consists of amounts that are intended to be used for a specific purpose established by the government's highest-level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the general fund, assigned fund balance represents the residual amount in the fund balance.

Unassigned represents the residual amount after all classifications have been considered for the government's general fund, and could report a surplus or a deficit.

6. Budgetary Procedures and Accounting

Fund #81100 is not budgeted.

NOTE B - INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Interest rate risk is the risk that change in interest rates will adversely affect the fair value of an investment. The Fund does not have an investment policy that limits investment interest rate risk. Management estimates that the State General Fund Investment Pool is presented at a value which approximates fair value. For additional disclosure information regarding the investment in State Treasurer's SGFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2011, review the State Treasurer's Investment Policy at <http://www.stonm.org/Investments/InvestmentPolicy>, and review Sections 2.60.4.1 through 2.60.4.15 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

SHARE BU 11100, Fund #81100, Capitol Kitchen

\$ 7,428

NOTE C - RESTRICTED NET ASSETS

No later than sixty days after final adjournment of each session, the balance of the Fund #81100 in excess of \$7,500 shall be transferred to the State Capitol Maintenance Fund, per the laws of 2004, Ch. 1.

NOTE D - TRANSFERS

Uses of funds classified as "transfers out" are as follows:

Transfer from BU 11100, Fund #81100 to BU 11100, Fund #07500	<u>\$ (20,887)</u>
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NOTE E - RISK MANAGEMENT

The Legislature 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 the Fund carried insurance (Workers Compensation, Unemployment Compensation, Employee Liability, and Transportations Property) with the State of New Mexico Risk Management Division (RMD) of the General Services Department.

NOTE F - MANAGEMENT'S DISCUSSION AND ANALYSIS EXPLANATION

Management's discussion and analysis, while required to be presented to supplement the basic financial statements, are generally outside the purview of the legislature's management staff. The legislative body is the sole entity responsible for preparing a budget based on revenue estimates, state needs and statutory and constitutional requirements. Once appropriated, management staff is responsible for ensuring that expenditures are in compliance with state law.



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Government
Auditing Standards***

State of New Mexico, House of Representatives
House Printing and Supplies Committee
Fund #81100 Capitol Kitchen
Hector H. Balderas, State Auditor

We have audited the financial statements of the State of New Mexico, Fund #81100 Capitol Kitchen, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 8, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider 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 responses to be material weaknesses. See 05-1 and 08-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, others within the entity, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Kardas, Abeyta & Weiner, P.C.

Santa Fe, New Mexico
December 8, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Finding 05-1
Finding 08-1

Significant deficiencies identified that are not considered
to be material weakness(es)? No

Section II - Financial Statement Findings (Prior Year)

05-1	Internal Control Over Cash Receipts	Repeated and updated
08-1	Internal Control Over Cash Disbursements	Repeated and updated

Section II - Financial Statement Findings (Current Year)

05-1 (Material Weakness) Internal Control Over Cash Receipts

Condition:

During our cash receipts test work, we noted several conditions that represent material weaknesses in internal control over cash and inventory.

We selected House Food Service daily cash receipts summary for 11 days and agreed amounts to source documents and noted the following:

Three instances where the "Cash Summary" over ring total was less than the amounts included on the cash register tapes.

One instance where the "Cash Summary" over ring total, dated March 14, 2011, was supported in part by an over ring slip, dated March 13, 2011.

Other internal control issues noted:

There is a lack of segregation of cash duties; the kitchen manager closes the cash registers, counts the cash received for the day, and then provides the cash to Legislative Council Service staff for deposit.

During our walkthrough of cash receipts during the session, we noted one instance in which a menu item was ordered, without the sale entered into the cash register and with no cash register receipt issued.

Criteria:

Sound internal control practices require that adequate internal controls be in place to safeguard cash.

Cause:

Lack of monitoring and review by management in tallying over rings, lead to the cash register tape did not match the cash register summary.

Kitchen staff failed to follow established cash register procedures.

05-1 (Material Weakness) Internal Control Over Cash receipts (Continued)

Effect:

The above conditions leave the kitchen vulnerable to material misappropriation of cash.

Recommendation:

We recommend that additional review of register tape totals and cash drawers by more than one employee for separate accounting. Training of employees to track and report on over rings accurately.

Agency Response:

Kitchen management will continue to train to make this possible.

08-1 (Material Weakness) Internal Control Over Cash Disbursements

Condition:

During our test work of 38 vouchers, we noted the following:

One instance where the re-calculated price of line items on invoice was less than the total price of the invoice.

Seven instances when the kitchen manager ordered inventory, received inventory and approved invoices for payment.

Criteria:

Sound internal control practices involve checking invoices for mathematical accuracy and completeness prior to approval, as well as segregation of duties among inventory purchasing, receiving and invoice approval.

Cause:

Due to small number of staff, there is a lack of segregation of duties.

The kitchen manager failed to follow established vendor invoice completeness and accuracy procedures, which require the entire vendor invoice be checked for mathematical accuracy, and then signed evidencing approval, prior to submission to the Chief Clerk for payment approval.

Effect:

The Kitchen may have paid for items not received or overpaid items actually received.

Recommendations:

Management should determine if additional segregation of duties may be implemented, given limited resources.

The kitchen manager should follow the established vendor invoice completeness and accuracy procedures, which require the entire vendor invoice be checked for mathematical accuracy, and then signed evidencing approve, prior to submission to the Chief Clerk for accuracy.

Agency Response:

Management will determine if additional segregation of duties is possible given limited resources.

Section III - Exit Conference

An exit conference was held on December 6, 2011, to discuss the audit report and current and prior year auditor's comments. The parties agreed to the factual accuracy of the comments contained herein. In attendance were the following individuals:

Representing the State of New Mexico, Fund #81100 Capitol Kitchen

Representative Ben Lujan, Speaker of the House, Legislative Council Co-Chairman
Stephen Arias, House Chief Clerk
Raul Burciaga, Director, Legislative Council Service
Kathy Pacheco-Dofflemeyer, Assistant Director for Administration, Legislative Council Service

Representing Kardas, Abeyta & Weiner, P.C.

Sean S. Weiner, Principal
Jeremy Hamlin, Manager
