

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2012



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

June 30, 2012

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June 30, 2012

FIFTIETH LEGISLATURE, FIRST SPECIAL SESSION AND SECOND REGULAR 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, 2012, 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, 2012, 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 previously present fairly, in all material respects, the financial position of the State of New Mexico, Fund #81100 Capitol Kitchen, as of June 30, 2012, 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 12, 2012, 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 not presented the management's discussion and analysis that governmental 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.

A beyta, Weiner & Cherne, P. C.

Santa Fe, New Mexico
December 12, 2012

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

June 30, 2012

Assets:

Investment in the State General Fund Investment Pool, Note B \$ 7,044

Net Assets:

Unrestricted \$ 7,044

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

For The Year Ended June 30, 2012

Governmental Activities

Food sales	\$	77,590
Cost of food and supplies		<u>(66,262)</u>
Net Revenue		11,328

General Revenues:

Transfers:		
Transfer out, Note D		<u>(11,712)</u>

Change in Net Assets (384)

Net Assets:

Beginning of year		<u>7,428</u>
End of year	\$	<u><u>7,044</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, 2012

Assets:

Investment in State General Fund Investment Pool, Note B \$ 7,044

Fund Balance:

Unassigned \$ 7,044

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

Fund Balance - Governmental Funds \$ 7,044

There are no reconciling items between the Balance Sheet - Governmental Funds and the Statement of Net Assets.

Net Assets of Governmental Activities \$ 7,044

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

For The Year Ended June 30, 2012

Revenues:

Food sales \$ 77,590

Current Expenditures:

Cost of food and supplies 66,262

Revenues Over Expenditures:

11,328

Other Financing Sources (Uses):

Transfer out, Note D (11,712)

Net Change in Fund Balance

(384)

Fund Balance:

Beginning of year 7,428

End of year \$ 7,044

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

For The Year Ended June 30, 2012

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

Net Change in Fund Balance - Total Governmental Funds	\$	(384)
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There are no reconciling items between the net change in fund balance and
change in net assets.

Change in Net Assets - Governmental Activities	\$	<u>(384)</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, Second Session, and First Special 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, 2012 represent activity in Fund #81100 from July 1, 2011 to June 30, 2012. 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 supported by general government revenues (intergovernmental revenues). This government-wide focus is on the change in net assets resulting from activities from the period July 1, 2011 to June 30, 2012.

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's policy is to first apply the expense toward unrestricted resources.

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

Non-spendable are 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.

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

5. Nature and Purpose of Reservations and Designations of Fund Balance (Cont'd)

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

State law (Section 8-6-3 NMSA 1978) requires the Fund's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Fund consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

The estimated fair value of the investments maintained at the New Mexico State Treasurer's Office are as follows at June 30, 2012:

SHARE BU 11100, Fund #81100, Capitol Kitchen	\$ <u>7,044</u>
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Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

NOTE B - INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL (Continued)

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Fund #81100 Capitol Kitchen's balances at the business unit/fund level is not possible. It is the DFA/FCD's responsibility to perform the monthly reconciliation at the business unit/fund level to the General Fund Investment Pool.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

Fund #81100 Capitol Kitchen has cash reconciliation policies and procedures in place which are performed on a monthly basis to ensure that the agency's cash balances in SHARE are correct and to mitigate the risk that the agency's cash balances would not be misstated as of June 30, 2012.

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, Section 10.

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>\$ (11,712)</u>
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NOTE E - RISK MANAGEMENT

The Legislature is exposed to various risks of loss related to torts, theft or 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, 2012, and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State of New Mexico, Fund #81100 Capitol Kitchen is responsible for establishing and maintaining effective 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.

A beyta, Weiner & Cherne, P. C.

Santa Fe, New Mexico
December 12, 2012

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 modified
08-1	Internal Control Over Cash Disbursements	Repeated and modified

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 the following conditions that represent material weaknesses in internal control over cash.

We selected House Food Service daily cash receipts summary for 10 days and agreed amounts to source documents and noted the following:

Two instances where the cash register tape grand total and amount reported on the daily cash receipts summary report did not agree with the individual sales detail activity on the cash register tapes. In the first instance, the total amount reported on the daily cash receipts summary report and deposited in the bank was \$32.75 more than the total recalculated from the detail activity on the cash register tapes. In the second instance the amount reported on the daily cash receipts summary report and deposited in the bank was \$16.25 less than the total calculated from the detail activity on the cash register tapes.

One instance where the over-rings did not equal the daily cash receipts summary report.

Daily cash over/short amounts for the sample of 10 days selected netted to a total shortage of \$57.63

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.

Criteria:

Sound internal controls include procedures to ensure there are adequate safeguards over cash.

Cause:

Lack of monitoring and review by management in tallying totals and over rings, lead to discrepancies between the register tapes and the daily cash receipts summary report.

Effect:

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

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

Recommendation:

We recommend that additional review of register tape totals and cash drawers by more than one employee for separate accounting. Management should provide for adequate 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 30 vouchers, we noted two instances in which an invoice was not supported by documentation evidencing receipt of goods.

Criteria:

Sound internal controls include procedures to ensure that goods received agree with goods included on the vendor packing slip and invoice.

Cause:

Kitchen employees failed to follow established procedures for receipt of goods, which require the entire delivery be checked to ensure receipt of all goods included on the packing slip and invoice, 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.

Recommendations:

The kitchen employees should follow the established procedures for receipt of goods, which require the entire vendor invoice be checked to ensure receipt of all goods included on the invoice, and then signed evidencing approval, prior to submission to the Chief Clerk for payment approval.

Agency Response:

Kitchen management will continue to train to make this possible.

Section III - Exit Conference

An exit conference was held 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 on December 12, 2012 were there following individuals:

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

Representative Luciano "Lucky" Varela, Printing & Supplies Committee Chair

Stephen Arias, House Chief Clerk

Raul Burciaga, Director, Legislative Council Service

Kathy Pacheco-Dofflemeyer, Assistant Director for Administration, Legislative Council Service

Representing Abeyta, Weiner & Cherne, P.C.

Sean S. Weiner, Principal

Jeremy Hamlin, Manager
