

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

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2014**



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

June 30, 2014

Table of Contents.....	1
Official Roster.....	2
Independent Auditors' Report.....	3
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Position.....	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:	
Independent Auditors' 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</i>	15
Schedule of Findings and Responses.....	17

June 30, 2014

FIFTY-FIRST LEGISLATURE, SECOND SESSION

HOUSE OF REPRESENTATIVES PRINTING AND SUPPLIES COMMITTEE

Luciano "Lucky" Varela	Chair
Patricia A. Lundstrom	Vice-Chair
Alonzo Baldonado	Member
Anna M. Crook	Member
Brian F. Egolf, Jr.	Member
William "Bill" J. Gray	Member
Dianne Miller Hamilton	Member
Tim D. Lewis	Member
Georgene Louis	Member
Antonio "Moe" Maestas	Member
W. Ken Martinez	Member
Rick Miera	Member
Sheryl Williams Stapleton	Member
Thomas C. Taylor	Member
Jim R. Trujillo	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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the State of New Mexico, Fund 81100 Capitol Kitchen, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the State of New Mexico, Fund 81100 Capitol Kitchen's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the State of New Mexico, Fund 81100 Capitol Kitchen, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 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* in considering the State of New Mexico, Fund 81100 Capitol Kitchen's internal control over financial reporting and compliance.

Weiner, Cherro & Company, P.C.

Santa Fe, New Mexico
December 5, 2014

STATE OF NEW MEXICO
FUND 81100 CAPITOL KITCHEN
Statement of Net Position

June 30, 2014

Assets:

Investment in the State General Fund Investment Pool, Note B \$ 7,440

Net Position:

Unrestricted \$ 7,440

STATE OF NEW MEXICO
FUND 81100 CAPITOL KITCHEN
Statement of Activities

For The Year Ended June 30, 2014

Governmental Activities:

Food sales	\$	67,833
Cost of food and supplies		<u>(55,741)</u>
Net Revenue		12,092

General Revenues:

Transfers:		
Transfer out, Note D		<u>(12,152)</u>

Change in Net Position (60)

Net Position:

Beginning of year		<u>7,500</u>
End of year	\$	<u><u>7,440</u></u>

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

June 30, 2014

Assets:

Investment in State General Fund Investment Pool, Note B \$ 7,440

Fund Balance:

Unassigned \$ 7,440

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

Fund Balance - Governmental Funds \$ 7,440

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

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Net Position of Governmental Activities \$ 7,440

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

For The Year Ended June 30, 2014

Revenues:

Food sales \$ 67,833

Current Expenditures - Legislative:

Cost of food and supplies 55,741

Revenues Over Expenditures:

12,092

Other Financing Sources (Uses):

Transfer out, Note D (12,152)

Net Change in Fund Balance

(60)

Fund Balance:

Beginning of year 7,500

End of year \$ 7,440

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

For The Year Ended June 30, 2014

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

Net Change in Fund Balance - Total Governmental Funds	\$	(60)
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There are no reconciling items between the net change in fund balance and
change in net position.

Change in Net Position - Governmental Activities	\$	<u><u>(60)</u></u>
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NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico, Capitol Kitchen, Fifty-First Legislature, Second 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, 2014 represent activity in Fund 81100 from July 1, 2013 to June 30, 2014. The fund has does not have any component units. 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 Position 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 position is reported as unrestricted net position.

The government-wide Statement of Activities reports the cost of the Fund 81100's function. The function is supported by charges to customers for food. This government-wide focus is on the change in net position resulting from activities from the period July 1, 2013 to June 30, 2014.

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

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 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 presents its financial statement in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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 Restriction of Fund Balance/Net Position

Government-wide net position are divided into two components:

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

Unrestricted net position - all other resources 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 towards restricted, and then toward unrestricted resources.

Governmental fund balances are divided into five classifications based on the extent to which 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.

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

5. Nature and Purpose of Restriction of Fund Balance/Net Position (cont'd)

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.

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.

7. Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Statement 65 is effective for periods beginning after December 15, 2012, and earlier application is encouraged. The Fund does not have any items that have been reclassified as deferred outflows of resources or deferred inflows of resources that were previously reported as assets and liabilities.

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. At June 30, 2014 the Fund had the following invested in the General Fund Investment Pool:

SHARE BU 11100, Fund 81100, Capitol Kitchen	\$ <u>7,440</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, 2014.

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

NOTE C - RESTRICTED NET POSITION

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>(12,152)</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 - STATEWIDE CASH RECONCILIATION ISSUE

In June 2012, a diagnostic report revealed that the State General Fund Investment Pool (LGIP) balances had 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 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 - June 2012."

The Department of Finance and Administration (DFA), 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, conducted a Cash Management Remediation Project (Remediation Project) with a goal of achieving "a point forward" reconciliation of cash, as of February 2013. However, as of June 30, 2014, the old unreconciled items that occurred from July 1, 2006 through February 2013, remained unreconciled.

On July 11, 2014, DFA entered into a \$1,000,000 contract with Deloitte & Touche, LLP. The contract terminates June 30, 2015. The goals of the contract are for the contractor to:

- Design and execute a process to reconcile historical bank account transactions to entries recorded in the State's official book of record, SHARE, for the period beginning July 2006 and ending January 2013.
- Develop a tool to identify and match offsetting bank and book transactions and identify non-matching items to be assessed for additional research, recommended resolution and or next steps.
- Provide the DFA reports including a project plan outlining project activities, weekly status reports, issues/risks log and a monthly steering committee report.

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, 2014.

NOTE G - 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.



Independent Auditors' 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, in accordance with the 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, the financial statements of the governmental activities and the major fund of the State of New Mexico, Fund 81100 Capitol Kitchen, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of New Mexico, Fund 81100 Capitol Kitchen's basic financial statements, and have issued our report thereon dated December 5, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of New Mexico, Fund 81100 Capitol Kitchen's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 State of New Mexico, Fund 81100 Capitol Kitchen's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of New Mexico, Fund 81100 Capitol Kitchen's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 2005-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of New Mexico, Fund 81100 Capitol Kitchen's financial statements are free from 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 State of New Mexico, Fund 81100 Capitol Kitchen's Response to Findings

The State of New Mexico, Fund 81100 Capitol Kitchen's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The State of New Mexico, Fund 81100 Capitol Kitchen's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of New Mexico, Fund 81100 Capitol Kitchen's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weiner, Cherro & Company, P.C.

Santa Fe, New Mexico
December 5, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Finding 2005-001 [05-1]

Significant deficiencies identified that are not considered to be material weakness(es)? None noted



Status of Prior Year Audit Findings

Current Status

05-1 Internal Control Over Cash Receipts

Repeated and modified
as finding 2005-001



Section II - Financial Statement Findings (Current Year)

2005-001 [05-1] (Material Weakness) Internal Control Over Cash Receipts

Condition:

During our cash receipts testwork, we noted the following conditions that represent material weaknesses in internal control over cash.

We selected House Food Service daily cash receipts summary reports for 12 days and agreed amounts to source documents and noted the following:

Ten instances (out of 34 register tapes tested) where the cash register tape grand total did not agree with the amount reported on the reconciliation of daily cash receipts summary report.

Daily cash over/short amounts for the sample of 12 days selected netted to a total shortage of \$129.46.

Other internal control issues noted:

There is a lack of supporting documentation for catering service deposits that are input on the kitchen cash registers. During our test work, we noted five instances totaling \$1,036.50, in which there was a large "no-sale" transaction recorded on the cash register tape with no supporting documentation to show the detail of the catering services and food provided.

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. In regards to the "no sale" catering transactions, a procedure has not been established to properly document these transactions for audit purposes.

Effect:

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

2005-001 [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. On catering service deposits, detailed records should be maintained documenting what was included in the transaction and to provide an audit trail on both resources used and income received from the catering service.

Agency Response:

Kitchen management will continue to train to make this possible, and will prepare documentation for catering transactions.

Section III - Other Matters as Required by New Mexico State Statute 12-6-5, NMSA 1978

None

Section IV - 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 5, 2014 were there following individuals:

Representing the State of New Mexico, Fund 81100 Capitol Kitchen

Representative W. Ken Martinez, Speaker of the House, Legislative Council Co-Chair

Stephen Arias, House Chief Clerk

Raul Burciaga, Director, Legislative Council Service

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

Anesa Serna-Espinoza, Financial Assistant, Legislative Council Service

Representing Weiner, Cherne & Company, P.C.

Sean S. Weiner, Principal

Jeremy Hamlin, Manager
