

**STATE OF NEW MEXICO
LEGISLATIVE COUNCIL SERVICE
CAPITOL KITCHEN FUND #81100**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2007**

Table of Contents

Table of Contents.....	1
Official Roster.....	2
Independent Auditors' Report.....	3
Basic Financial Statements:	
<i>Government Wide Financial Statements:</i>	
Statement of Net Assets.....	5
Statement of Activities.....	6
<i>Fund Financial Statements:</i>	
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, 2007

LEGISLATIVE COUNCIL

Ben D. Altamirano	Co-Chair
Ben Lujan	Co-Chair
Pete Campos	Member
Carlos R. Cisneros	Member
Kent L. Cravens	Member
Daniel R. Foley	Member
Stuart Ingle	Member
Rhonda S. King	Member
W. Ken Martinez	Member
Rick Miera	Member
Leonard Lee Rawson	Member
Michael S. Sanchez	Member
Sheryl Williams Stapleton	Member
Thomas C. Taylor	Member
Jeannette O. Wallace	Member
Janice E. Arnold-Jones	Advisory
Donald E. Bratton	Advisory
Dianna J. Duran	Advisory
Mary Jane M. Garcia	Advisory
Antonio Lujan	Advisory
James Roger Madalena	Advisory
Cisco McSorley	Advisory
Steven P. Neville	Advisory
Al Park	Advisory
Lidio G. Rainaldi	Advisory
John Arthur Smith	Advisory
H. Diane Snyder	Advisory
Peter Wirth	Advisory
William H. Payne	Advisory

LEGISLATIVE COUNCIL SERVICE

Paula Tackett	Director
Kathy Pacheco-Dofflemeyer	Assistant Director For Administration



INDEPENDENT AUDITORS' REPORT

State of New Mexico,
Legislative Council Service,
Capitol Kitchen Fund #81100
Hector H. Balderas, State Auditor

We have audited the accompanying financial statements of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note A, the financial statements of State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100, are intended to present the financial position, and the changes in financial position of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100. They do not purport to, and do not, present fairly the financial position of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100 as of June 30, 2007, 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 respective financial position of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100 as of June 30, 2007, 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 13, 2007, on our consideration of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100 has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Kardas, Abeyta & Weiner, P.C.

Santa Fe, New Mexico
December 13, 2007

STATE OF NEW MEXICO,
LEGISLATIVE COUNCIL SERVICE,
CAPITOL KITCHEN FUND #81100
Statement of Net Assets

June 30, 2007

	<u>Statement of Net Assets</u>
Assets:	
Investment in the State General Fund Investment Pool, Note B	<u>\$ 7,500</u>
Net Assets:	
Restricted	<u>\$ 7,500</u>

The Accompanying Notes Are An Integral Part of These Financial Statements

STATE OF NEW MEXICO,
LEGISLATIVE COUNCIL SERVICE,
CAPITOL KITCHEN FUND #81100
Statement of Activities

For The Year Ended June 30, 2007

	Statement of Activities
Expenses:	
Cost of food	\$ 76,324
Supplies	4,165
Other	321
	<u>80,810</u>
 General Revenues/Transfers:	
Food sales	110,856
Transfers:	
Transfers out, Note C	(29,995)
Miscellaneous revenue	-
	<u>80,861</u>
 Change in Net Assets	 51
 Net Assets:	
Beginning of year	7,449
End of year	<u>\$ 7,500</u>

The Accompanying Notes Are An Integral Part of These Financial Statements

STATE OF NEW MEXICO,
LEGISLATIVE COUNCIL SERVICE,
CAPITOL KITCHEN FUND #81100
Balance Sheet - Governmental Funds

June 30, 2007

Assets:

Investment in the State General Fund Investment Pool, Note B \$ 7,500

Fund Balance:

Reserved \$ 7,500

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

Fund Balance - Governmental Funds \$ 7,500

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

Net Assets of Governmental Activities \$ 7,500

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

For The Year Ended June 30, 2007

Expenditures:

Cost of food	\$	76,324
Supplies		4,165
Other		321
		<u>80,810</u>

Other Financing Sources (Uses):

Food sales		110,856
Transfers:		
Transfers out, Note C		(29,995)
Miscellaneous revenue		-
		<u>80,861</u>

Net Change in Fund Balance

51

Fund Balance:

Beginning of year		7,449
End of year	\$	<u>7,500</u>

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

For The Year Ended June 30, 2007

Amounts reported for governmental activities in the
statement of net assets are different because:

Net Change in Fund Balance - Total Governmental Funds	\$	51
There are no reconciling items for the Capitol Kitchen Fund #81100 between the net change in fund balance and change in net assets.		-
Change in Net Assets - Governmental Activities	\$	51

NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100 (Fund) have been prepared in conformity with accounting principles generally accepted in the United States 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, 2007, represent activity of the fund from July 1, 2006 to June 30, 2007. 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 (reporting the Fund as a whole, excluding fiduciary activities) 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.

In the government-wide Statement of Net Assets, the governmental column 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. Fund #81100's net assets are reported as restricted net assets.

The government-wide Statement of Activities reports the gross cost of Fund #81100's function. The function is supported by general government revenues (intergovernmental revenues). This government-wide focus is on the change in the Fund's net assets resulting from activities for the period July 1, 2006 to June 30, 2007.

2. Basic Financial Statements - Fund Financial Statements

The financial transactions of the Capitol Kitchen Fund #81100 are reported in the individual fund financial statement. The operations of the 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 individual funds based on the appropriate state statutes and the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types are utilized by the Legislative Council Service, Capitol Kitchen Fund #81100:

Governmental Funds

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

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

Special Revenue Fund - Capitol Kitchen 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 of interim committees.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or 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. The governmental funds of the Legislative Council Service follow 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.

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

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

The governmental fund financial statements report a reserved fund amount legally restricted for specified purposes. The special revenue fund reserve for restricted purposes includes fund balance/net assets exclusively restricted for operation of the concessions by the House of Representatives.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the agency's policy is to first apply the expense towards restricted, and then toward unrestricted resources.

6. Budgetary Procedures and Accounting

The Capitol Kitchen Fund #81100 is a 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. Information on the State Treasurer General Fund Investment Pool may be obtained by reading a copy of the State Treasurer audited financial statements for the year ended June 30, 2007.

SHARE Fund # 81100, Capitol Kitchen Fund	<u>\$ 7,500</u>
--	-----------------

NOTE C - OTHER FINANCING SOURCES (USES)

No later than sixty days after final adjournment of each session, the balance of the Capitol Kitchen Fund #81100, in excess of \$7,500, shall be transferred to the State Capitol Maintenance Fund. Uses of funds classified as "transfers out" are as follows:

Transfer from Agency 11100, Fund 81100 to Agency 11100, Fund 07500	<u>\$ 29,995</u>
--	------------------

NOTE D - RISK MANAGEMENT

The Legislative Council Service 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 agency carries insurance (Workers Compensation, Unemployment Compensation, Employee Liability, and Transportation Property) with the State of New Mexico Risk Management Division (RMD) of the General Services Department.



**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,
Legislative Council Service,
Capitol Kitchen Fund #81100
Hector H. Balderas, State Auditor

We have audited the financial statements of the State of New Mexico, Legislative Council Service, Capitol Kitchen Fund #81100, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 13, 2007. 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 agency'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 agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the agency'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entities ability to initialize, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. See 05-1, 07-1 and 07-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 05-1, 07-1 and 07-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the agency'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*.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* Paragraph 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 07-3.

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

This report is intended solely for the information and use of the House of Representatives, management of the State of New Mexico, Legislative Council Service and the State of New Mexico, Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Kardas, Abeyta & Werner, P.C.

Santa Fe, New Mexico
December 13, 2007

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 07-1
 Finding 07-2

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
06-1	Internal Control Over Customer Payments	Repeated and updated and included as part of finding 05-01

Section II - Financial Statement Findings (Current Year)

05-1 Internal Control

Condition:

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

We selected 25 "House Food Service daily cash receipts" and agreed amounts to source documents and noted the following:

Total cash register "over ring amounts" for the sample of 25 days selected appear excessive in relation to total sales.

Daily cash over/short amounts for the sample of 25 days selected netted to a total shortage of \$28.92.

Three cash register "over ring slips" provided by Kitchen management do not agree to the "over ring totals" on House Food Service receipts.

The quantity of cash register "no sale" transactions for the sample of 25 days was 1,652.

Other internal control issues noted:

Customers are not issued guest checks for small item purchases such as fruit, gum or candy.

Guest checks are not reconciled to the cash register tapes.

Lack of segregation of duties for cash and inventory.

One invoice not signed by management prior to payment.

05-1 Internal Control (Continued)

Criteria:

Sound internal control practices dictate that adequate internal controls be in place to safeguard assets and record accurate cash receipts.

Cause:

Lack of adequate training in cash register operations, cash registers that are not working properly, and lack of designated "register only" employees. Guest checks are not utilized for all purchases. There is no segregation of duties for the order, receipt and storing of inventory items. One invoice not approved by management for payment.

Effect:

The above conditions leave the kitchen vulnerable to misappropriation of funds and errors that may go undetected. The lack of segregation of duties in the kitchen creates a lack of control and accountability for cash in the registers and inventory items. The cash over/short amounts are not accurate because the over ring amount on the "House Food Service cash receipt" does not agree to the over ring source documentation. Guest checks are not issued for all items purchased and therefore they cannot be reconciled to the cash register tapes which prevents management from confirming that they have received all revenue earned, and inventory items sold cannot be reconciled to inventory items purchased. Excessive cash register "no sale" transactions indicate that cashiers may be opening the register for reasons other than collecting money or giving change to customers. Unapproved invoices could result in the agency paying for an item that was never received. For example, a vendor shortage of items or possible employee misappropriation.

Recommendation:

We recommend that more resources be allocated to the upstairs coffee shop, if possible, to help prevent cash register mistakes. All customer orders should be documented on a guest check. This will allow a control to determine 1) that cash was received for all items sold, and 2) verify that inventory items purchased were charged to customers when sold. It would also be beneficial if the upstairs coffee shop could utilize a computerized point of sale system that would "clear" guest check numbers when the order is paid in full. Cashiers should not use the cash register "no sale" button to open the drawer and if there is a legitimate reason for the drawer to be opened, it should only be done so by a manager. We also suggest that security cameras be installed upstairs, isolated on the cash registers, and the tapes monitored by Capitol Security. All invoices should be approved by management before being paid.

05-1 Internal Control (Continued)

Response:

The upstairs cash register will be upgraded in order to provide the Kitchen with better control over cash and a more specific summary of incidental sales. Two additional employees will be added and designated as "register only" employees. Two regular Kitchen staff employees will be given additional training to perform backup cashier duties as necessary. A security camera will be installed in the upstairs facility positioned on the cash register. The guest checks will be retained and kept in a locked cabinet. All invoices will be signed by Kitchen manager.

07-1 Cash Receipts Reconciliation

Condition:

During cash receipts test work, we noted one instance where an over ring was documented on a receipt that was actually a cash register "no sale" transaction.

Criteria:

Cash Register "no sale" transactions are not included in the "total sales" tally at the end of the cash register tape roll at the end of the day. Over rings are only valid for transactions that have been rung up as sales.

Cause:

Kitchen staff erroneously used a no sale transaction receipt as over ring documentation.

Effect:

The effect of this incident resulted in the actual daily cash over/short amount being short \$55.96, rather than the originally reported amount of over \$1.34.

Recommendations:

Cash register "no sales" should not be confused with over rings. Management should be sure that when they are reconciling the cash receipts each day that over rings are true transactions that should not be included in the sales total for the day. Any over rings that are documented on "no sale" register tapes should be disregarded.

Response:

The upstairs cash register will be upgraded in order to provide the Kitchen with better control over cash and a more specific summary of incidental sales. Two additional employees will be added and designated as "register only" employees. Two regular Kitchen staff employees will be given additional training to perform backup cashier duties as necessary. A security camera will be installed in the upstairs facility positioned on the cash register. The guest checks will be retained and kept in a locked cabinet. All invoices will be signed by Kitchen manager.

07-2 Record Retention

Condition:

During cash receipts test work, we noted two instances where we could not locate the cash register tapes in order to perform test work.

Criteria:

Sound accounting practices dictate that all accounting source records be maintained for a period of three years after close of fiscal year in which payment is received (1.15.4 NMAC).

Cause:

No control in place to prevent unauthorized access or misplacement of cash register tape rolls after cash has been reconciled for the day.

Effect:

The above conditions leave the kitchen vulnerable to misappropriation of funds and errors that may go undetected.

Recommendations:

Kitchen personnel should control accessibility to accounting records. Access should be restricted to accounting personnel and management.

Response:

Original tapes were available at the time that they were reconciled by Kitchen management with the management of the Legislative Council Service. In the future, all tapes will be kept in a locked cabinet.

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

07-3 Late Audit Report

Condition:

The audit report was not submitted to the New Mexico Office of the State Auditor by the deadline of December 15, 2007.

Criteria:

Section 2.2.2.9 A (1) (f) of the NMAC requires that all audit reports be submitted to the New Mexico Office of the State Auditor by December 15, 2007.

Cause:

The agency reconciles its internal records with the newly implemented SHARE accounting system. In doing so, the agency noted numerous unidentified transactions posted to its books. The agency notified the Department of Finance and Administration (DFA) and learned the SHARE system does not have a control to prevent other agencies from inadvertently posting transactions in its general ledger. DFA assisted with correcting the unidentified transactions posted by other state agencies, but this process extended well beyond the December 15, 2007 deadline.

In addition, the numerous automated payroll postings throughout the year were not correct. The Agency was satisfied with DFA adjustments in April 2008, and proceeded to provide its books to its external auditors for final completion.

Recommendation:

This agency should continue to communicate with DFA for timely corrections of SHARE entries posted by other state agencies.

Response:

The Agency will file timely in 2008.

Disclosure required by 2.2.2.8 J (4) NMAC - Financial Statement Presentation

In accordance with 2.2.2.8 J (4) NMAC, the State of New Mexico, Office of the State Auditor requires that the Legislative Council Service disclose that these financial statements were prepared by its auditors, Kardas, Abeyta & Weiner, PC, with the assistance of the Council Service staff.

Section IV - Exit Conference

An exit conference was held on December 13, 2007 with the following in attendance:

Paula Tackett, Director, Legislative Council Service

Stephen Arias, House Chief Clerk

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

Sean Weiner, Kardas, Abeyta & Weiner, P.C.

Stacy Wilson, Kardas, Abeyta & Weiner, P.C.
