

# **First Judicial District Attorney**

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**Financial Statements  
For The Year Ended June 30, 2016**





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<b>Name</b>	<b>Title</b>
Jennifer Padgett	District Attorney
Lisa Vakharia	Chief Financial Officer

## INDEPENDENT AUDITORS REPORT

Ms. Jennifer Padgett, District Attorney  
First Judicial District Attorney  
Santa Fe, New Mexico  
and  
Mr. Timothy Keller, New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, New Mexico

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico Office of the First Judicial District Attorney (Office), as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the Office's basic financial statements as listed in the table of contents. We also have audited the Office's budgetary comparison for the major capital project fund presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2016, 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.

### Auditor's 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 auditor's 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

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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 above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Office, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparison for the major capital project fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

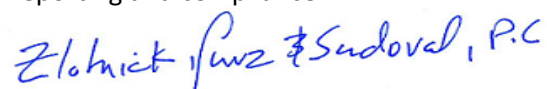
The Office has omitted Management's Discussion and Analysis which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be 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 Information*

The Schedule of Vendor Information listed under the "Compliance Section" in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2016 on our consideration of the Office'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 Office's internal control over financial reporting and compliance.



Zlotnick, Laws & Sandoval, P.C.

Santa Fe, NM

November 11, 2016



	<u>Governmental Activities</u>
<b>Assets</b>	
Current Assets	
Cash	\$ -
State General Fund Investment Pool	208,332
Due from federal government	120,086
Due from other state agencies	25,772
Total Current Assets	<u>354,190</u>
 Capital assets, net	 <u>154,444</u>
 <b>Total Assets</b>	 <b><u>\$ 508,634</u></b>
 <b>Liabilities</b>	
Current Liabilities	
Due to other state agencies	\$ 3,428
Due to State General Fund	75,034
Accounts payable	85,390
Payroll benefits payable	57,184
Payroll taxes payable	32,356
Accrued payroll	84,002
Other Liabilities	1,369
Compensated absences - short-term	158,111
Total Current Liabilities	<u>496,874</u>
 Compensated absences - long-term	 <u>47,999</u>
 <b>Total Liabilities</b>	 <b><u>544,873</u></b>
 <b>Net Position</b>	
Net investment in capital assets	154,444
Net Position	<u>(190,683)</u>
Total Net Position	<u>(36,239)</u>
 <b>Total Liabilities and Net Position</b>	 <b><u>\$ 508,634</u></b>

The accompanying notes are an integral part of these financial statements



	<u>Governmental Activities</u>
<b>Expenses</b>	
Public Safety	
Personal services and employee benefits	\$ 4,914,405
Contractual services	18,571
Other	403,640
Depreciation	41,880
Total Program Expenses	<u>5,378,496</u>
<b>Revenue</b>	
Program Revenue	
Charges for services	523
Federal grants	175,146
Total Program Revenue	<u>175,669</u>
Net Program Expenses	<u>(5,202,827)</u>
General Revenues and Transfers	
State General Fund appropriation	5,284,700
Other financing sources	59,400
Reversion	(75,034)
	<u>5,269,066</u>
Change in Net Position	66,239
Net Position, beginning	<u>(102,478)</u>
Net Position, ending	<u>\$ (36,239)</u>

*The accompanying notes are an integral part of these financial statements*



**Balance Sheet – Governmental Funds  
For the Year Ended June 30, 2016**

	Special Revenue Funds					Total Governmental Funds
	15500 General Fund	25800 CVRC-Stop VAWA Grant	25900 DOJ Rural Grant	72200 BOJ Assistance Grant	89200 Capital Projects Fund	
<b>Assets</b>						
Cash	\$ -	-	-	-	-	\$ -
State General Fund Investment Pool	207,386	705	-	2,644	-	210,735
Due from federal government	120,086	-	-	-	-	120,086
Due from other state agencies	23,369	-	2,403	-	-	25,772
<b>Total Assets</b>	<u>350,841</u>	<u>705</u>	<u>2,403</u>	<u>2,644</u>	<u>-</u>	<u>356,593</u>
<b>Liabilities</b>						
Deficiency in State GF Investment Pool	-	-	2,403	-	-	2,403
Due to other state agencies	79	705	-	2,644	-	3,428
Due to state general fund	75,034	-	-	-	-	75,034
Accounts payable	85,390	-	-	-	-	85,390
Payroll benefits payable	57,184	-	-	-	-	57,184
Payroll taxes payable	32,356	-	-	-	-	32,356
Accrued payroll	84,002	-	-	-	-	84,002
Other Liabilities	1,369	-	-	-	-	1,369
<b>Current Liabilities</b>	<u>335,414</u>	<u>705</u>	<u>2,403</u>	<u>2,644</u>	<u>-</u>	<u>341,166</u>
<b>Fund Balance</b>						
Assigned to FY17 Budget	15,427	-	-	-	-	15,427
<b>Total Fund Balance</b>	<u>15,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,427</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 350,841</u>	<u>705</u>	<u>2,403</u>	<u>2,644</u>	<u>-</u>	<u>\$ 356,593</u>

**Reconciliation of the Governmental Fund Balance to the Government-Wide Statement of Net Position:**

Total fund balance governmental funds	\$ 15,427
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds	154,444
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	<u>(206,110)</u>
Net position of governmental activities	<u>\$ (36,239)</u>

*The accompanying notes are an integral part of these financial statements*





**Statement of Revenues, Expenditures and  
Changes in Fund Balance – Governmental Funds  
For the Year Ended June 30, 2016**

	Special Revenue Funds					Total Governmenta Funds
	15500 General Fund	25800 CVRC-Stop VAWA Grant	25900 DOJ Rural Grant	72200 BOJ Assistance Grant	89200 Capital Projects Fund	
<b>Revenue</b>						
Charges for services	\$ 523	-	-	-	-	\$ 523
Federal grants	175,146	-	-	-	-	175,146
<b>Total Revenue</b>	<b>175,669</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>175,669</b>
<b>Expenditures</b>						
Personal services and benefits	4,932,368	-	-	-	-	4,932,368
Contractual services	18,571	-	-	-	-	18,571
Other costs	403,640	-	-	-	-	403,640
Capital outlay	30,756	-	-	-	59,400	90,156
<b>Total Expenditures</b>	<b>5,385,335</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,400</b>	<b>5,444,735</b>
Excess (Deficiency) of revenues over expenditures	(5,209,666)	-	-	-	(59,400)	(5,269,066)
<b>Other Financing Sources (Uses)</b>						
State general fund appropriations	5,284,700	-	-	-	-	5,284,700
Other financing sources	-	-	-	-	59,400	59,400
Reversion to State General Fund FY2	(75,034)	-	-	-	-	(75,034)
<b>Total Other Financing Sources (Uses)</b>	<b>5,209,666</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,400</b>	<b>5,269,066</b>
Net change in Fund Balance	-	-	-	-	-	-
Fund Balance, beginning	15,427	-	-	-	-	15,427
<b>Fund Balance, ending</b>	<b>\$ 15,427</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 15,427</b>

*The accompanying notes are an integral part of these financial statements*



**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balance of Governmental Funds to the Government-Wide Statement of Activities  
For the Year Ended June 30, 2016**

Net change fund balance in governmental funds	\$ -
Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or are allocated over their estimated useful lives. In the current period these amounts are:	
Capital Outlay	90,156
Depreciation Expense	(41,880)
Expenses recognized in the Statement of Activities, not reported in the funds:	
Change in compensated absences	<u>17,963</u>
Change in net position - governmental activities	<u><u>\$ 66,239</u></u>



Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis) – General Fund 15500 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State General Fund appropriations	\$ 5,316,500	5,284,700	5,284,700	\$ -
Federal Grants	163,500	163,500	175,146	11,646
Program Revenue	-	-	523	523
Total Revenues	5,480,000	5,448,200	5,460,369	\$ 12,169
Fund Balance	-	-		
	<u>\$ 5,480,000</u>	<u>5,448,200</u>		
<b>EXPENDITURES</b>				
Personnel services & employee benefits	\$ 5,019,200	4,987,400	4,932,368	\$ 55,032
Contractual services	24,000	24,000	18,571	5,429
Other costs	436,800	436,800	434,396	2,404
Total Expenditures	<u>\$ 5,480,000</u>	<u>5,448,200</u>	<u>5,385,335</u>	<u>\$ 62,865</u>

The accompanying notes are an integral part of these financial statements



Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis) – CVRC-Stop VAWA Grant 25800 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State General Fund appropriations	\$ -	-	-	\$ -
Other financing sources	-	-	-	-
Program Revenue	-	-	-	-
Total Revenues	-	-	-	\$ -
Fund Balance	-	-		
	<u>\$ -</u>	<u>-</u>		
<b>EXPENDITURES</b>				
Personnel services & employee benefits	\$ -	-	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total Expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements



Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis) – DOJ Rural Grant 25900 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State General Fund appropriations	\$ -	-	-	\$ -
Other financing sources	-	-	-	-
Program Revenue	-	-	-	-
Total Revenues	-	-	-	\$ -
Fund Balance	-	-		
	<u>\$ -</u>	<u>-</u>		
<b>EXPENDITURES</b>				
Personnel services & employee benefits	\$ -	-	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total Expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements



**Changes in Fund Balance Budget and Actual  
(Budgetary Basis) – BOJ Assistance Grant 72200  
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State General Fund appropriations	\$ -	-	-	\$ -
Other financing sources	-	-	-	-
Program Revenue	-	-	-	-
Total Revenues	-	-	-	\$ -
Fund Balance	-	-		
	<u>\$ -</u>	<u>-</u>		
<b>EXPENDITURES</b>				
Personnel services & employee benefits	\$ -	-	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total Expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

*The accompanying notes are an integral part of these financial statements*



**NATURE OF BUSINESS AND REPORTING ENTITY**

The Office of the District Attorney is an elective office established by the Constitution of the State of New Mexico, Article VI, Section 24. The District Attorney is elected to a four-year term. Functions of the District Attorney are defined in Section 36-1-1 through 36-1-26, NMSA, 1978 as amended. It is the duty of the District Attorney to prosecute and defend the state, in all courts of record, in all cases criminal and civil, in which the state or any county in the district may be a party. The District Attorney must represent any county in the district, at the request of the Board of County Commissioners. The District Attorney may also appear before the Board, without being requested to do so, when the Board is sitting as a Board of Equalization. The District Attorney must advise all county and state officers, whenever requested. The District Attorney is required to represent any county in the district before the Supreme Court or the Court of Appeals in all civil cases in which the county may be concerned, but not in suits brought in the name of the state. Additionally, Section 36-1A-1 through 36-1A-15, cited the "District Attorney Personnel and Compensation Act," established for all district attorneys, a uniform, equitable and binding system of personnel administration. Each district attorney shall establish a pre-prosecution diversion program in his judicial district in accordance with the provisions of the Pre-prosecution Diversion Act (31-16A-1 to 31-16A-8) to the extent public or private funds permit. The program includes individual counseling and guidance; requires restitution where applicable to the extent practical and may require public service. The District Attorney may refer clients for treatment and rehabilitation. Based on financial circumstances, the defendant is required to reimburse the District Attorney for costs related to participation in the program. On July 1, 1993, the District Attorney implemented the Pre-prosecution Domestic Violence Diversion Program (DVDP). The District Attorney is also authorized to assess processing fees against any person who is convicted of violating Section 30-36-4, NMSA, 1978 of the Worthless Check Act (Section 30-36-1 through 30-36-10).

The District Attorney's basic financial statements include all activities and accounts of the District Attorney's "financial reporting entity." The financial reporting entity consists of the primary government, and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The District Attorney has no component units.

The First Judicial District Attorney is a part of the Judicial Branch of the State of New Mexico. These financial statements include only those funds and activities over which the First Judicial District Attorney has oversight responsibility. The First Judicial District Attorney is not included in any other government "reporting entity" as described in Section 2100, "Codification of Governmental Accounting and Financial Reporting Standards."



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basic Financial Statements**

The financial statements of the Office have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted Standard-setting body for establishing governmental Accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the Office's accounting policies are described below.

The government-wide financial statements (i.e., the statement of net position and the statement of activities and changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District Attorney does not have any business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Office as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements focus on short term financial results related to specific purposes for which the fund was created.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Office's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different focus and basis of accounting than the government-wide statements' governmental column, a reconciliation accompanies each statement, which briefly explains the adjustment necessary to transform the fund based financial statements to the governmental column on the government-wide presentation.

**B. Basis of Presentation**

The financial transactions of the Office are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, expenditures and other financing sources or uses.

Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type and reported by generic classification in the accompanying financial statements.

The reporting model, GASB Statement No. 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures. The general fund is always considered a major fund. The Office has elected to consider all special revenue funds as major funds regardless of size. Major individual governmental





funds are reported as separate columns in the fund financial statements.

The following are the Office's major funds:

**Governmental Funds:**

**General Fund (15500)** – The general fund is the operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. All appropriations received in this fund are revertible funds if not expended in the appropriate time frame. This fund is also used to account for federal grant proceeds from the US Department of Justice (Southwest Border Prosecution Initiative [SWBI]). The fund balance created from these proceeds will not revert to the State of New Mexico's general fund as the source of revenues is the federal government.

The Office receives all State of New Mexico appropriations in their General Fund. The Office's Special Revenue Funds, as noted below, receive funds from various grants and contracts.

**CVRC-STOP VAWA Grant Fund (25800)** – No activity during FY 2016. Used to account for Victims of Crime Act (VOCA) Victims Assistance Grant Program Funds, US Department of Justice, passed through the State of New Mexico, Crime Victims Reparation Commission. These funds do not revert to the State General Fund. VOCA is authorized by the Crime Victims Reparation Commission (CVRC) as authorized by the Victims of Crime Act of 1984.

**Federal Grants-DOJ Rural Fund (25900)** – No activity during FY 2016. Used to account for Drug Control and Systems Improvement grant funds, US Department of Justice, passed through the State of New Mexico, Department of Public Safety (DPS). These funds do not revert to the State General Fund.

**Bureau of Justice Assistance Grant Fund (72200)** – No activity during FY 2016. Used to account for the Region III Narcotics Task Force grant for the prosecution of drug cases. These funds do not revert to the State General Fund.

**Capital Projects Fund (89200)** – The capital projects fund is used to account for financial resources to be used for the acquisition, conservation or improvement of capital assets. Any unencumbered balance remaining in the fund at the end of the project reverts to the general fund of the State of New Mexico.

**C. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures or 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 government-wide and the fiduciary financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. By definition, the resources of fiduciary funds are not available to support the Office's programs. Therefore, fiduciary funds are excluded from the government-wide financial statements.

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. 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 current period or soon enough thereafter to be used to pay liabilities of the current period, which is considered to be within sixty days of year-end.



Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "transfers in or out from other funds."

**D. Budgetary data**

The New Mexico State Legislature makes annual appropriations to the Office. Legal compliance is monitored through the establishment of a budget (modified-accrual basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level.

Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitation as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

The Office follows these procedures in establishing the budgetary data reflected in the financial statements:

1. By September 1st, the Office prepares a budget request by appropriation unit to be presented to the next Legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislature.
3. DFA makes recommendations and adjustments to the appropriation request, which become the Governor's proposal to the Legislature.
4. Legislative Finance Committee (LFC) holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcomes of these hearings are incorporated into the General Appropriations Act.
7. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit. The Office submits, no later than May 1st, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA -Budget Division reviews and approves the operating budget which becomes effective on July 1.
8. All subsequent budget adjustments must be approved by the Office and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
9. The Office's budget for the fiscal year ending June 30, 2016 was amended in a legally permissible manner by



increasing or reallocating appropriation unit totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.

10. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Funds.

11. Appropriations lapse at the end of the fiscal year. The Office's General Fund is a reverting fund (funds revert back to the State General Fund), with the exception of funds appropriated for the Southwest Border Prosecution Initiative.

12. Appropriations lapse at the end of the year except for those amounts properly classified as accounts payable.

13. Budgets for the General Fund and Special Revenue Funds are presented on the modified accrual basis of accounting. Encumbrances related to single year appropriations lapse at year end. The portion of an encumbrance representing goods and services received by the last day of the fiscal year should be reclassified as accounts payable.

14. The legal level of budgetary control is at the appropriation program level.

**E. Encumbrances**

Any encumbrances outstanding at year-end related to single year appropriations are classified as a liability to recognize amounts subject to reversion to the State General Fund. If the New Mexico State Legislature provides a new appropriation for a specific encumbrance, it is carried forward to a new appropriation period to be charged against the new budget. If the Legislature does not provide a new appropriation for an encumbrance, the encumbrance is no longer authorized.

**F. Net Position**

The government-wide financial statements utilize a net position presentation. Net position is categorized as investment in capital assets (net of related debt), restricted and unrestricted.

*Investment in Capital Assets, net of related debt* – is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

*Restricted* – net position is considered restricted by enabling legislation that has been determined to be legally enforceable. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

*Deferred Outflows/Inflows of Resources* – In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The Office has no deferred outflows of resources during fiscal year 2016 on the government wide or fund financials.



In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized until then.

*Unrestricted* – This category reflects the net position of the Office, not restricted for any project or other purpose.

**G. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**H. Cash and Cash Equivalents**

The Office has defined cash to include cash on hand and demand deposits.

**I. Receivables and Payables**

Receivables consist of amounts due from federal, state and local governments. No allowance for doubtful accounts is established, since all amounts are considered collectible in the subsequent fiscal year.

**J. Capital Assets**

Property, plant and equipment including software, purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software are added to the capital accounts, is \$5,000. Assets with historical cost under \$5,000 and with a historical cost over \$1,000 that were capitalized prior to July 1, 2005 remain on the Office's capital assets schedule. However, all capital outlay purchases may not necessarily be capitalized. Computer software which has been developed for internal use and which meets the capitalization minimum of \$5,000 is capitalized and depreciated in accordance with the Office's depreciation guidelines.

Depreciation on all exhaustible assets is provided on the straight-line basis with no salvage value. The estimated useful life for capital assets is estimated as follows:

<u>Type</u>	<u>Life</u>
Building improvements	39 years
Furniture and fixtures	7 years
Equipment and Machinery	6 years
Vehicles	5 years
data processing	3 years

There is no debt related to capital assets as of June 30, 2016.



**K. Accrued Compensated Absences**

Qualified employees accumulate annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned</u>	<u>Hours of Maximum</u>
	<u>Per Pay Period</u>	<u>Accrual</u>
1 pay period - 4 years	4.62	240
Over 4 years - 8 years	5.08	240
Over 8 years - 12 years	5.54	240
Over 12 Years - 16 years	6.00	240
Over 16 years and beyond	6.46	240

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the aforementioned maximums, at their current hourly rate.

**L. Accrued Sick Leave**

Chapter 150 Laws of 1983, provides for the payment to employees for accumulated sick leave under certain conditions. Employees who have over 600 hours of accumulated sick leave can receive payment for the hours over 600 up to 120 hours on July 1st and January 1st of each year. However, the sick leave will be paid at fifty percent of the employee’s regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Employees who terminate receive no payment for accumulated sick leave; therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2016 over 600 hours. In accordance with GASB 16, accrued compensated absences consisted of accumulated annual leave and related salary payments (employers’ matching FICA and Medicare payroll taxes). Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a liability in the Governmental Activities Funds.

**M. Interfund Activity**

Interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**N. Program Revenues**

Program revenues include federal and state grants.

**O. Spending Policy**

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State’s policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State’s policy to spend committed resources first.



**2. INTEREST IN STATE GENERAL FUND INVESTMENT POOL**

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

At June 30, 2016 the Department had the following invested in the General Fund Investment Pool:

	<u>Bank Balance</u>	<u>Book Balance</u>
Governmental Funds:		
Investment in the State General Fund Investment Pool:		
Fund 15500	\$ 207,386	\$ 207,386
Fund 25800	705	705
Fund 25900	(2,403)	(2,403)
Fund 72200	2,644	2,644
Fund 89200	-	-
	<u>\$ 208,332</u>	<u>\$ 208,332</u>

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, 2016.

**General Fund Investment Pool Not Reconciled**

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.

In June 2012 an independent diagnostic report revealed that Pool balances had not been reconciled at a “business unit/fund” level since the inception of the Statewide Human resources, Accounting, and Management Reporting system (SHARE) system in July 2006. This report, entitled “Current State Diagnostic of Cash Control”, also described differences between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration’s website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System



Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE System configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

DFA Management in FY 2012 recorded a lost contingency of \$101.7 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable

**Update for Fiscal Year 2016:** The Financial Control Division (FCD) in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the independent public accountants performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For FY 2016 the following assertions are provided:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP
3. All claims will be honored at face value.

Since SHARE was implemented, the Office recognized the statewide cash reconciliation issue and in response, developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Office. The reconciliation occurs each month and any required adjustments are forwarded to the Financial Control Division at DFA for correction. The monthly internal reconciliation of cash receipts and disbursements flowing through the Office's share of the state general fund investment pool provides management assurance that the balance reflected in the State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, the Office reconciles other asset and liability accounts on the Balance Sheet of each fund type. This process also provides additional assurance that transactions affecting the Office's share in the State General Fund Investment Pool account are accurate.



**3. DUE FROM OTHER STATE AGENCIES**

Due from other state agencies consists primarily of grant cost-reimbursements, including \$23,369 due from the New Mexico Crime Victim Reparation Commission (Fund 91602). The remaining \$2,403 is due from the Department of Finance and Administration (Fund 85300) for payroll tax and employee benefits liability errors.

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
<b>Capital Assets:</b>				
Data processing equipment	\$ 37,054	-	7,650	\$ 29,404
Furniture and fixtures	54,934	-	-	54,934
Equipment	33,238	-	-	33,238
Automobiles	397,814	90,156	109,197	378,773
<b>Total capital assets</b>	<b>523,040</b>	<b>90,156</b>	<b>116,847</b>	<b>496,349</b>
<b>Accumulated Depreciation:</b>				
Data processing equipment	32,005	2,017	7,650	26,372
Furniture and fixtures	38,854	4,270	-	43,124
Equipment	32,727	105	-	32,832
Automobiles	313,286	35,488	109,197	239,577
<b>Total accumulated depreciation</b>	<b>416,872</b>	<b>41,880</b>	<b>116,847</b>	<b>341,905</b>
<b>Net capital assets</b>	<b>\$ 106,168</b>	<b>48,276</b>	<b>-</b>	<b>\$ 154,444</b>

The Office recorded depreciation expense of \$41,880 for the year ended June 30, 2016.

**6. COMPENSATED ABSENCES**

The amount recorded as a long-term liability in the government-wide statements for compensated absences consist of accrued annual leave and accrued sick leave as follows:

Balance 2015	Additions	Deletions	Balance 2016	Due in one year
\$224,073	211,165	229,128	\$206,110	\$158,111

**7. DUE TO THE STATE GENERAL FUND**

The Due to State General Fund in the Statement of Net Position includes \$75,034 in fiscal year 2016 reversions that will be remitted to the State General Fund (Fund 85300).





**8. INTERAGENCY TRANSFERS**

Transfers in or out of the Agency (Fund #15500) are as follows:

	<u>Share Fund</u>	<u>Title</u>	<u>Transfer In</u>	<u>Transfer Out</u>
(1)	85300	Department of Finance and Administration	\$ 5,284,700	\$ -
(2)	85300	Department of Finance and Administration	59,400	-
(1)	14900	FY 2016 Reversion	-	75,034
			<u>\$ 5,344,100</u>	<u>\$ 75,034</u>

(1) Laws of 2015, 1<sup>st</sup> Session, Chapter 101, Section 4

(2) Laws of 2015, Chapter 3, Section 11

**10. CAPITAL PROJECTS FUND**

The Office received the following appropriation for general capital outlay expenditures:

<u>Appropriation Description</u>	<u>Appropriation Period</u>	<u>Original Appropriation</u>	<u>Expenditures to Date</u>	<u>Unencumbered Balance</u>
Severance Tax Bonds 15A 15-0226	07/01/15 – 06/30/16	\$60,000	\$59,400	\$600

**11. CONTINGENCIES**

The Office is a party to various claims and other legal matters coming about in their normal course of business. The Office does not believe that the results of all claims and other legal matters, individually or in the aggregate will have a material adverse effect on its operations or financial positions.

**Risk of loss** – The Office is insured through the Risk Management Division of the General Services Department, which is accounted for as an internal service fund of the State of New Mexico. In general, Risk Management Division responds to suits against the State and state agencies, manages funds to provide unemployment compensation, tort liability insurance, workers’ compensation and general and property insurance, and attempts to reduce the number of suits against the State and state agencies through the risk management process. The actuarial gains and losses of Risk Management Division were not available and were not included in this report. However, the Office is not liable for more than the premiums paid.

**12. FUND BALANCE**

Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**Nonspendable:** Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted:** Consists of amounts that are restricted to specific purposes as a result of a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.



Committed: Consist of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

Assigned: Consist of amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned: Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Office would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**13. PERA PENSION PLAN**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2016.

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**14. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN**

*Plan Description.* The Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.



The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us). The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were \$68,649, \$70,961 and \$65,471, respectively, which equal the required contributions for each year.

#### **15. EVALUATION OF SUBSEQUENT EVENTS**

The Office has evaluated subsequent events through November 11, 2016, which is the date the financial statements were available to be issued.



Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis) – Capital Projects Fund For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State General Fund appropriations	\$ 60,000	60,000	59,400	\$ (600)
Total Revenues	60,000	60,000	59,400	\$ (600)
Fund Balance	-	-		
	<u>\$ 60,000</u>	<u>60,000</u>		
<b>EXPENDITURES</b>				
Personnel services & employee benefits	\$ -	-	-	\$ -
Contractual services	-	-	-	-
Other costs	60,000	60,000	59,400	600
Total Expenditures	<u>\$ 60,000</u>	<u>60,000</u>	<u>59,400</u>	<u>\$ 600</u>

**Independent Auditor's 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**

Ms. Jennifer Padgett, District Attorney  
First Judicial District Attorney  
Santa Fe, New Mexico  
and  
Mr. Timothy Keller, New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, New Mexico

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, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds, of the Office as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 11, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit, of the financial statements, we considered the Office'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 Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as finding 2016-001 that we consider to be a significant deficiency.

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### **Compliance and Other Matters**

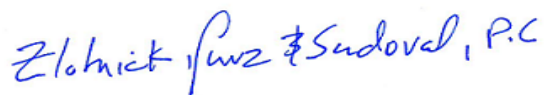
As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **The Office's Response to Findings**

The Office's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Office's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Zlotnick, Laws & Sandoval, P.C.

Santa Fe, NM

November 11, 2016



**Schedule of Findings and Responses  
For The Year Ended June 30, 2016**

**2016-001: Proper Control over Fixed Assets – Significant Deficiency**

**Condition:** At the end of the fiscal year, when the Office of the District Attorney did a physical inventory of the capital assets, they discovered that some assets on the list that has been maintained were not physically present at the office. There was a total of 8 items missing with a value of \$7,650.45. The items had all been originally purchased during FYE's 2003 and 2004.

**Criteria:** 2.2.2.10 G. (14): 2.20.1.1 to 2.20.1.18 NMAC, Accounting and Control of Fixed Assets of State Government (updated for GASBS 34 as applicable) establishes standards for the accounting for and the controlling of the capital assets acquired and owned by state agencies.

**Effect:** The Office did not comply with State Law in their responsibility to safeguard and inventory capital assets. The missing items may have been lost or stolen.

**Cause:** The Office of the Attorney has a system to inventory and track capital assets. This system has a detail listing of all inventoried capital assets. It has been audited in the past and the list agrees to the audit report. However, during FYE 2016 the former District Attorney retired and the former Chief Financial Officer moved to another position. Before these two key administrators left, the Office disposed of several capital asset items by renting a dumpster and throwing items away. One of two things may have happened. 1) The items may have been disposed of improperly during FYE 2016 without the proper notification to the Office of the State Auditor. 2) The items may have been missing in prior years even though they appeared on the detail list of capital assets.

**Auditors' Recommendation:** In future years the Office must comply with 2.2.2 NMAC They must notify the Office of the State Auditor of any disposition of capital assets and make a complete and thorough inventory of assets owned at the end of each year. The Office should have procedures in place to assure that capital assets are safeguarded from theft or loss.

**Management's Response:** During the later months of FY16 and after a change in administration, the financial division of the First Judicial District Attorney's Office conducted a compliance check to match the capital asset inventory with the actual inventory in possession of the office. During this inventory, it was discovered that certain capital assets from FY 2003 and FY 2004 were listed on the capital asset inventory, but were no longer in actual possession of the District Attorney's Office. After checking with the State Auditor, it was ascertained that the assets were not properly disposed of, and that the disposition was not properly reported or recorded. Corrective action and controls were put into place that included: removing these items from the capital asset listing, conducting a complete inventory with all supporting documentation, and reporting the issue to the FY16 auditors – even at the risk of an audit finding. With these actions and internal controls in place, the current administration guarantees continued compliance with the laws governing the proper inventory and disposal of capital assets.



**Schedule of Findings and Responses  
For The Year Ended June 30, 2016**

**Prior Year – None**





**Schedule of Vendor Information  
For purchases exceeding \$60,000 (excluding GRT)  
For The Year Ended June 30, 2016**

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (if applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
Not applicable													



**Exit Conference**

An exit conference was held in a closed session on November 11, 2016. In attendance were the following:

Representing the First Judicial District Attorney:

Jennifer Padgett, District Attorney

Lisa S. Vakharia, Chief Financial Officer

Representing Zlotnick, Laws & Sandoval, P.C.:

Asa Laws, CPA

Brian Laws, CPA

**FINANCIAL STATEMENTS**

The accompanying financial statements of the Office have been prepared by Zlotnick, Laws & Sandoval, P.C., the Office's independent public auditors; however, the financial statements are the responsibility of management.