

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT – DIVISION II



ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT – DIVISION II

OFFICIAL ROSTER
JUNE 30, 2012

Name

Title

Karl R. Gillson

District Attorney

Administrative Officials

Loretta Diaz

Chief Financial Officer

Antoinette Esquibel

Program Specialist

Andrea Hoffman

Program Administrator

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**STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT – DIVISION II**

FOR THE YEAR ENDED JUNE 30, 2012
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FINANCIAL SECTION

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Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Karl R. Gillson, District Attorney
Office of the District Attorney
Eleventh Judicial District – Division II
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general and major special revenue funds of the State of New Mexico Office of the District Attorney Eleventh Judicial District, Division II (the Office), as of and for the year ended June 30, 2012, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. 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 1, the financial statements of the Office of the District Attorney Eleventh Judicial District, Division II, State of New Mexico, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major funds, the budgetary comparison for the general and special revenue funds, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2012 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparisons for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012 on our consideration of the 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* and should be considered in assessing the results of our audit.

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The Office has omitted the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board requires 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 Government Accounting Standards Board who considers it to be an essential part of the 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statement, and the budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grigo Professional Services, LLC

Albuquerque, New Mexico
December 12, 2012

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**BASIC
FINANCIAL STATEMENTS**

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
STATEMENT OF NET ASSETS
JUNE 30, 2012

Exhibit A-1

| | Governmental Activities |
|---|------------------------------------|
| ASSETS | |
| Current Assets | |
| Interest in General Fund Investment Pool | \$ 308,173 |
| Accounts Receivable | 6,589 |
| Total Current Assets | 314,762 |
| Noncurrent Assets | |
| Capital assets | 376,138 |
| Less: accumulated depreciation | (320,116) |
| Total capital assets | 56,022 |
| Total noncurrent Assets | 56,022 |
| Total assets | \$ 370,784 |
| LIABILITIES AND NET ASSETS | |
| Current Liabilities | |
| Accounts payable | \$ 18,024 |
| Accrued payroll | 72,048 |
| Due to State General Fund | 43,320 |
| Current portion of accrued compensated absences | 83,480 |
| Total Current Liabilities: | 216,872 |
| NET ASSETS | |
| Invested in capital assets | 56,022 |
| Restricted for: | |
| Southwest Borders Initiative | 185,631 |
| McKinley County Grants | 4,023 |
| Unrestricted | (91,764) |
| Total net assets | 153,912 |
| Total liabilities and net assets | \$ 370,784 |

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit A-2

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues Operating Grants and Contributions</u> | <u>Net (Expenses) Revenue and Changes in Net Assets Governmental Activities</u> |
|---|-----------------|--|---|
| Governmental activities: | | | |
| Public safety | | | |
| Administrative Services | \$ 2,048,458 | \$ 154,987 | \$ (1,893,471) |
| Depreciation | 22,405 | - | (22,405) |
| | | | |
| Total governmental activities | \$ 2,070,863 | \$ 154,987 | (1,915,876) |
| General Revenues: | | | |
| Miscellaneous | | | 422 |
| Total general revenues | | | 422 |
| Transfers: | | | |
| General fund appropriation | | | 1,910,700 |
| Reversion to State general fund FY11 | | | (649) |
| Reversion to State general fund FY12 | | | (43,320) |
| | | | (43,320) |
| Total general revenues, special items and transfers | | | 1,867,153 |
| Change in net assets | | | (48,723) |
| Beginning net assets | | | 202,635 |
| Ending net assets | | | \$ 153,912 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2012

Exhibit B-1
(Page 1 of 2)

| | General Fund | McKinley County Grants Fund | Southwest Border Prosecution Fund | Total |
|---|-----------------|-----------------------------------|---|------------|
| ASSETS | | | | |
| <i>Current:</i> | | | | |
| Interest in General Fund Investment Pool | \$ 119,317 | \$ 3,225 | \$ 185,631 | \$ 308,173 |
| Accounts Receivable | - | 6,589 | - | 6,589 |
| | | | | |
| <i>Total current assets</i> | \$ 119,317 | \$ 9,814 | \$ 185,631 | \$ 314,762 |
| LIABILITIES AND FUND BALANCE | | | | |
| <i>Current Liabilities:</i> | | | | |
| Accounts payable | \$ 18,024 | \$ - | \$ - | \$ 18,024 |
| Accrued payroll | 66,257 | 5,791 | - | 72,048 |
| Due to state general fund | 43,320 | - | - | 43,320 |
| | | | | |
| <i>Total current liabilities</i> | 127,601 | 5,791 | - | 133,392 |
| <i>Fund balances</i> | | | | |
| <i>Fund Balance:</i> | | | | |
| Nonspendable | - | - | - | - |
| <i>Restricted for:</i> | | | | |
| General Fund | - | - | - | - |
| Special revenue | - | 4,023 | 185,631 | 189,654 |
| Capital projects | - | - | - | - |
| Debt service | - | - | - | - |
| Assigned | - | - | - | - |
| Unassigned | (8,284) | - | - | (8,284) |
| | | | | |
| <i>Total fund balance</i> | (8,284) | 4,023 | 185,631 | 181,370 |
| <i>Total liabilities and fund balance</i> | \$ 119,317 | \$ 9,814 | \$ 185,631 | \$ 314,762 |

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

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Exhibit B-1
(Page 2 of 2)

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

| | |
|--|--------------------------|
| Fund balances - total governmental funds | \$ 181,370 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 56,022 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: | |
| Compensated absences | <u>(83,480)</u> |
| Total Net Assets | <u><u>\$ 153,912</u></u> |

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

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B-2
(Page 1 of 2)

| | General Fund | McKinley County Grants Fund | Southwest Border Prosecution Fund | Total |
|--|--------------------|-----------------------------------|---|--------------------|
| <i>Revenues:</i> | | | | |
| Federal grants | \$ - | \$ 154,987 | \$ - | \$ 154,987 |
| Miscellaneous | 417 | 5 | - | 422 |
| <i>Total revenues</i> | <u>417</u> | <u>154,992</u> | <u>-</u> | <u>155,409</u> |
| | | | | |
| <i>Current</i> | | | | |
| Personal Services & Benefits | 1,748,017 | 151,181 | 7,897 | 1,907,095 |
| Contractual | 11,399 | - | 1,878 | 13,277 |
| Other | 115,489 | - | - | 115,489 |
| <i>Total expenditures</i> | <u>1,874,905</u> | <u>151,181</u> | <u>9,775</u> | <u>2,035,861</u> |
| | | | | |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(1,874,488)</u> | <u>3,811</u> | <u>(9,775)</u> | <u>(1,880,452)</u> |
| | | | | |
| <i>Other financing sources (uses):</i> | | | | |
| General fund appropriation | 1,910,700 | - | - | 1,910,700 |
| Transfer - Reversion to State General Fund FY11 | (649) | - | - | (649) |
| Transfer - Reversion to State General Fund FY12 | (43,320) | - | - | (43,320) |
| Interfund transfers | (527) | - | 527 | - |
| <i>Total other financing sources (uses)</i> | <u>1,866,204</u> | <u>-</u> | <u>527</u> | <u>1,866,731</u> |
| | | | | |
| <i>Net change in fund balances</i> | (8,284) | 3,811 | (9,248) | (13,721) |
| | | | | |
| <i>Fund balances - beginning of year</i> | <u>-</u> | <u>212</u> | <u>194,879</u> | <u>195,091</u> |
| | | | | |
| <i>Fund balances - end of year</i> | <u>\$ (8,284)</u> | <u>\$ 4,023</u> | <u>\$ 185,631</u> | <u>\$ 181,370</u> |

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

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B-2
 (Page 2 of 2)

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

| | |
|---|-------------|
| Net change in fund balances - total governmental funds | \$ (13,721) |
| the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | |

| | |
|----------------------|----------|
| Depreciation expense | (22,405) |
|----------------------|----------|

The issuance of long-term debt (e.g., bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

| | |
|--|-----------------|
| Increase in accrued compensated absences | <u>(12,597)</u> |
|--|-----------------|

| | |
|-----------------------|---------------------------|
| Changes in Net Assets | <u><u>\$ (48,723)</u></u> |
|-----------------------|---------------------------|

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

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
GENERAL FUND

Exhibit C-1

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|------------------|-------------|-------------------|--|
| | Original | Final | | |
| <i>Revenues:</i> | | | | |
| Federal grants | \$ - | \$ - | \$ - | \$ - |
| Other Financing Sources | - | - | - | - |
| Local government - Intrastate WTS | - | - | - | - |
| Miscellaneous | - | - | 417 | 417 |
| <i>Total revenues</i> | - | - | 417 | 417 |
| <i>Expenditures:</i> | | | | |
| Personal services and employee benefits | 1,808,300 | 1,790,325 | 1,748,017 | 42,308 |
| Contractual services | 11,400 | 11,400 | 11,399 | 1 |
| Other | 91,000 | 116,500 | 115,489 | 1,011 |
| <i>Total expenditures</i> | 1,910,700 | 1,918,225 | 1,874,905 | 43,320 |
| <i>Excess (deficiency) of revenues over expenditures</i> | (1,910,700) | (1,918,225) | (1,874,488) | 43,737 |
| <i>Other financing sources (uses):</i> | | | | |
| State general fund appropriation | 1,910,700 | 1,910,700 | 1,910,700 | - |
| Reversion to State general fund FY11 | - | - | (649) | (649) |
| Reversion to State general fund FY12 | - | - | (43,320) | (43,320) |
| Interfund transfers | - | - | (527) | (527) |
| Designated cash | - | 7,525 | - | (7,525) |
| <i>Total other financing sources (uses)</i> | 1,910,700 | 1,918,225 | 1,866,204 | (52,021) |
| <i>Net change in fund balances</i> | \$ - | \$ - | \$ (8,284) | \$ (8,284) |
| <i>Reconciliation to GAAP Basis:</i> | | | | |
| Adjustments to revenues | | | - | |
| Adjustments to expenditures | | | - | |
| Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis) | | | \$ (8,284) | |

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

STATE OF NEW MEXICO

Exhibit C-2

OFFICE OF THE DISTRICT ATTORNEY
 ELEVENTH JUDICIAL DISTRICT - DIVISION II
 MCKINLEY COUNTY GRANTS FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|------------------|----------------|-------------------|--|
| | Original | Final | | |
| <i>Revenues:</i> | | | | |
| Federal grants | \$ 123,700 | \$ 156,000 | \$ 154,987 | \$ (1,013) |
| Other Financing Sources | - | - | - | - |
| Local government - Intrastate WTS | - | - | - | - |
| Other Gifts & Grants | - | - | 5 | 5 |
| <i>Total revenues</i> | <u>123,700</u> | <u>156,000</u> | <u>154,992</u> | <u>(1,008)</u> |
| <i>Expenditures:</i> | | | | |
| Personal services and employee benefits | 123,700 | 156,000 | 151,181 | 4,819 |
| Contractual services | - | - | - | - |
| Other | - | - | - | - |
| <i>Total expenditures</i> | <u>123,700</u> | <u>156,000</u> | <u>151,181</u> | <u>4,819</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>-</u> | <u>-</u> | <u>3,811</u> | <u>3,811</u> |
| <i>Other financing sources (uses):</i> | | | | |
| State general fund appropriation | - | - | - | - |
| Designated cash | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balances</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,811</u> | <u>\$ 3,811</u> |
| <i>Reconciliation to GAAP Basis:</i> | | | | |
| Adjustments to revenues | | | - | |
| Adjustments to expenditures | | | - | |
| Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis) | | | <u>\$ 3,811</u> | |

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

STATE OF NEW MEXICO

Exhibit C-3

OFFICE OF THE DISTRICT ATTORNEY
 ELEVENTH JUDICIAL DISTRICT - DIVISION II
 SOUTHWEST BORDER PROSECUTION FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|------------------|-----------|-------------------|--|
| | Original | Final | | |
| <i>Revenues:</i> | | | | |
| Federal grants | \$ - | \$ - | \$ - | \$ - |
| Other Financing Sources | - | - | - | - |
| Local government - Intrastate WTS | - | - | - | - |
| Other Gifts & Grants | - | - | - | - |
| <i>Total revenues</i> | - | - | - | - |
| <i>Expenditures:</i> | | | | |
| Personal services and employee benefits | - | 175,405 | 7,897 | 167,508 |
| Contractual services | - | 5,000 | 1,878 | 3,122 |
| Other | - | - | - | - |
| <i>Total expenditures</i> | - | 180,405 | 9,775 | 170,630 |
| <i>Excess (deficiency) of revenues over expenditures</i> | - | (180,405) | (9,775) | 170,630 |
| <i>Other financing sources (uses):</i> | | | | |
| State general fund appropriation | - | - | - | - |
| Interfund transfers | - | - | 527 | 527 |
| Designated cash | - | 180,405 | - | (180,405) |
| <i>Total other financing sources (uses)</i> | - | 180,405 | 527 | (179,878) |
| <i>Net change in fund balances</i> | \$ - | \$ - | \$ (9,248) | \$ (9,248) |
| <i>Reconciliation to GAAP Basis:</i> | | | | |
| Adjustments to revenues | | | - | |
| Adjustments to expenditures | | | - | |
| Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis) | | | \$ (9,248) | |

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

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STATE OF NEW MEXICO Exhibit D-1
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2012

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | <u>8,719</u> |
| <i>Total assets</i> | <u><u>\$ 8,719</u></u> |
| LIABILITIES | |
| Due to injured parties | <u>\$ 8,719</u> |
| <i>Total liabilities</i> | <u><u>\$ 8,719</u></u> |

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

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies

The Office of the District Attorney, Eleventh Judicial District - Division II (Office) was created out of the Eleventh Judicial District Attorney bylaws 1981, Chapter 25, paragraph 4. The District Attorney provides law enforcement as its primary service. Financing of the Office is by state appropriation.

These financial statements include all funds and activities over which the District Attorney has oversight responsibility. The Office has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The Office is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the state. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

The financial statements of the Office 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 Standard 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 District's accounting policies are described below.

A. *Reporting Entity*

GASB Statement No. 14 established criteria for determining the government reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Office is considered a *primary government*, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Office may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt. The Office also has no *component units*, as defined by GASB Statement No. 14 and/or GASB Statement No. 39, as there are no other legally separate organizations for which the Office is financially accountable. There are no other primary governments with which the Office is financially accountable. There are no other primary governments with which the Office has a significant relationship.

B. *Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund 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 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. For the District Attorney's Office, these revenues consist of federal, state and local government operating grants. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies - (Continued)

B. Government-wide and fund financial statements (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The *agency funds* are custodial in nature (assets equal liabilities) and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the District holds for others in an agency capacity. The District's agency fund is for fees collected for worthless checks and pre-prosecution diversion fees and such funds are distributed to victims and the Administrative Office of the District Attorneys.

Governmental funds are used to account for the District's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets, and the servicing of long-term debt. Governmental funds include:

The *General Fund* is the primary operating fund of the Office, and accounts for all financial resources, except those required to be accounted for in other funds. The SHARE number and description of the General Fund of the Office is #16900~ Eleventh Judicial District - Division II. This fund is a reverting fund with regards to state appropriations. All state appropriations remaining at the end of the fiscal year revert to the state's general fund. Other sources of revenue may result in an ending fund balance that is reserved for that revenue source's purpose.

The *McKinley County Grants Special Revenue Fund (27600)* is specific to McKinley County DWI Grant awards. 100% of expenditures are that of payroll reimbursements. Upon receipt of payroll and reconciliation, McKinley County is invoiced for services rendered by three Term FTE's as follows:

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NOTE 1. Summary of Significant Accounting Policies - (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation

one DWI Secretary, one DWI Subpoena Clerk and, one DWI Prosecutor. This fund is a non-reverting fund.

The *Southwest Border Prosecution Special Revenue Fund (27700)* is specific to Southwest Border Prosecution Initiatives (SWBPI). The funding is based on statistical records that pertain to Drug Task Force involvement/prosecution. This fund is a non-reverting fund.

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Office's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Office's general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Office has elected not to follow subsequent private-sector guidance.

Program revenues are categorized as (a) charges for services, which include revenues collected for cafeteria fees and lost books, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The Office reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The Office does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function, except for that portion of depreciation that is identified as unallocated on the Statement of Activities. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Assets, Liabilities and Net Assets or Equity

Cash and cash equivalents: The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All funds allotted to the Office are held on deposit with the State Treasurer. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits.

State statutes authorize the Office to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool. Investments for the Office are reported at fair value.

Receivables and Payables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible

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D. Assets, Liabilities and Net Assets or Equity

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are to be included as part of the governmental capital assets reported in the government wide statements. However, infrastructure assets have not been included in the June 30, 2012 financial statements of the Office, since the Office did not own any infrastructure assets as of June 30, 2012. Information technology equipment, including software, is being capitalized and included in furniture and equipment as the Office did not maintain internally developed software. Donated capital assets are recorded at estimated fair market value at the date of donation. During the year ended June 30, 2012, the Office did not receive any donated capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction during the year ended June 30, 2012.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

| | |
|---------------------------|----------|
| Building improvements | 15 years |
| Furniture and fixtures | 7 years |
| Machinery and equipment | 6 years |
| Vehicles | 5 years |
| Date processing equipment | 3 years |

Compensated Absences: Qualified employees accumulate annual leave as follows:

| Years Of Service | Hours Earned Per Month |
|---------------------|---------------------------|
| 1 month - 3 yrs | 10 |
| Over 3 - 7 yrs | 12 |
| Over 7 - 14 yrs | 14 |
| Over 14 - beyond | 16 |

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NOTE 1. Summary of Significant Accounting Policies - (Continued)

D. *Assets, Liabilities and Net Assets or Equity - (continued)*

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment of 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employees current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 120 hours accumulated in excess of 600 hours at the 50 percent hourly rate.

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost.

In addition, the Office allows FLSA non-exempt employees to accumulate compensatory leave in certain approved circumstances. Compensatory leave may be carried forward into the next calendar year and any unused portion is paid at termination to non-exempt employees under the Federal Labor Standards Act.

In prior years, substantially all of the related expenditures have been liquidated by the general fund.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the district-wide statement of net assets.

Net Assets or Fund Equity: 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 detail of these classifications is presented in Note 14.

In the government-wide financial statements, fund equity is classified as net assets and is displayed in three components:

Invested in capital assets, net of related debt: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets: Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net assets are restricted for “debt service or capital projects.”

Unrestricted Net Assets: All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Office’s policy to use restricted resources first, then unrestricted resources as they are needed.

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NOTE 1. Summary of Significant Accounting Policies - (Continued)

D. *Assets, Liabilities and Net Assets or Equity - (continued)*

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates affecting the Office's financial statements include management's estimate of the useful lives of capital assets.

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

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

1. No later than September 1, the Office submits the Legislative Finance Committee (LFC) and the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July. The appropriation includes proposed expenditures and the means of financing them.
2. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.
3. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
4. The Office submits, no later than May 1, 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 in July. All subsequent budget adjustments must be approved by the Director of the DFA - Budget Division. The current year budget was revised in a legal manner.
5. Legal budget control for expenditures and encumbrances is by category.
6. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund.
7. The budget is now adopted on a modified accrual basis of accounting that is consistent with generally accepted accounting principles (GAAP). This change was implemented with the Laws of 2004, Chapter 114, Section 3, paragraph N and paragraph O. It is effective for fiscal years beginning July 1, 2004. In this year of transition, the current year GAAP expenditures will include charges against prior year encumbrances; the current year budget basis, however, excludes expenditures charged against prior year encumbrances. Under the previous method of accounting, those charges were included in the prior year budget basis as expenditures. In future years, the District will not have encumbrances related to prior year appropriations and the budget basis expenditures will be the same as the modified accrual basis expenditures.
8. Appropriations lapse at the end of the fiscal year unless specifically re-appropriated. Unexpended amounts within the General Fund of the Office revert to the State General Fund.
9. Per the General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

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NOTE 2. Stewardship, Compliance and Accountability (continued)

The accompanying Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2012, is presented on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual for each governmental fund.

NOTE 3. Cash and Investments

State statutes authorize the investment of Office funds in a wide variety of instruments including certificates of deposit and other similar obligations, State Treasurer General Fund Investment Pool, money market accounts, and United States Government obligations. All invested funds of the Office properly followed State investment requirements as of June 30, 2012.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Office. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. Additionally, all deposits in non-interest bearing transaction accounts (such as non-interest bearing checking accounts) at participating institutions are fully guaranteed, regardless of dollar amount.

Deposits – Agency Funds

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the entities for a least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico, Office of the State Auditor’s requirements in reporting the insured portion of the deposits. At June 30, 2012, the carrying amount of these deposits was \$8,719.

| | |
|--|----------------|
| | <u>Bank of</u> |
| | <u>America</u> |
| Total amounts of deposits (checking account) | \$ 8,999 |
| FDIC coverage | <u>(8,999)</u> |
| Total uninsured public funds | <u>\$ —</u> |

STATE OF NEW MEXICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3. Cash and Investments - (Continued)

Investments – SHARE Fund 16900

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 Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

As of June 30, 2012, the Office had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> <u>Less than 1 Year</u> |
|---|-------------------|---|
| Interest in the State Treasurer General Fund Investment Pool | \$ 308,173 | \$ 308,173 |

The State Treasurer Local Government Investment Pool is not SEC Registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment funds in the securities that are issued by the United States government or by its departments or agencies and are either backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares; at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in the amounts of the fund were invested. Any realized gain or loss on the portfolio is distributed through the investment yield on distribution dates. The carrying amount of the portfolio approximates the fair value of all investments at June 30, 2012. The State of New Mexico is regulatory oversight entity and participation in the pool in voluntary.

Interest rate risk is the risk that interest rate variations may adversely affect an investment’s fair value. 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 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. The prices of securities fluctuate with market interest rate and the securities held in a portfolio will decline if market interest rates rise. The portfolio’s weighted average maturity (WAM) is a key determinant of the tolerance of a fund’s investments to rising interest rates. At June 30, 2012, the Office’s investment of New MexiGROW LGIP had a credit risk rating of AAAM and a 60-day WAM.

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

Reconciliation of Cash and Interest in General Fund Investment Pool

| | |
|--|------------|
| Governmental Funds – Balance Sheet | |
| Interest in Local Government Investment Pool per Exhibit A-1 | \$ 308,173 |
| Statement of Fiduciary Assets and Liabilities – Agency Funds – cash per Exhibit D-1 | 8,719 |
| | 316,892 |
| Add outstanding checks and other reconciling items | 280 |
| Total Interest in GFIP and Deposits | \$ 317,172 |

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NOTE 3. Cash and Investments - (Continued)

General Fund Investment Pool Not Reconciled

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and Management Reporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at:

http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

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

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Office of the District Attorney, Eleventh Judicial District – Division II balances at the business unit/fund level is not possible.

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

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

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

Section 6-5-2.1(J) NMSA 1978 requires DFA to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies. The Office adheres to the standards established in the Cash Management Function of the Manual of Model Accounting Practices which was issued by the New Mexico Department of Finance and Administration – Financial Control Division. The Office has taken every reasonable measure within its control, to ensure that its cash balances in SHARE are correct.

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JUNE 30, 2012

NOTE 4. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2012 follows. Land is not subject to depreciation.

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Additions &</u> <u>Transfers in</u> | <u>Deletions &</u> <u>Transfers out</u> | <u>Balance</u> <u>June 30, 2012</u> |
|--|--|---|--|--|
| Capital Assets: | | | | |
| Furniture & Fixtures | \$ 57,004 | \$ - | \$ - | \$ 57,004 |
| Machinery & Equipment | 25,539 | - | - | 25,539 |
| Data Processing Equipment | 30,816 | - | - | 30,816 |
| Building Improvements | 72,347 | - | - | 72,347 |
| Vehicles | <u>190,432</u> | <u>-</u> | <u>-</u> | <u>190,432</u> |
| Total Capital Assets: | <u>376,138</u> | <u>-</u> | <u>-</u> | <u>376,138</u> |
| Less Accumulated Depreciation for: | | | | |
| Furniture & Fixtures | 46,399 | 7,765 | - | 54,164 |
| Machinery & Equipment | 24,383 | 1,158 | - | 25,541 |
| Data Processing Equipment | 30,816 | - | - | 30,816 |
| Building Improvements | 29,678 | 4,823 | - | 34,501 |
| Vehicles | <u>166,435</u> | <u>8,659</u> | <u>-</u> | <u>175,094</u> |
| Total Accumulated depreciation: | <u>297,711</u> | <u>22,405</u> | <u>-</u> | <u>320,116</u> |
| Governmental activities capital assets, net: | <u>\$ 78,427</u> | <u>\$ (22,405)</u> | <u>\$ -</u> | <u>\$ 56,022</u> |

Capital assets, net of accumulated depreciation, at June 30, 2012 appear in the Statement of Net Assets and/or the Fund Statements Balance Sheets as follows: Governmental activities \$56,022.

Depreciation expense for the year ended June 30, 2012 was charged to Public Safety in the amount of \$22,405.

NOTE 5. Due to State General Fund

The Due to State General Fund in the Statement of Net Assets includes \$43,320 which comprises the 2012 reversion amount owed to the State General Fund.

NOTE 6. Long-term Debt

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2012</u> | <u>Due Within</u> <u>One Year</u> |
|----------------------|--|-------------------|-------------------|--|--------------------------------------|
| Compensated Absences | <u>\$ 70,883</u> | <u>\$ 124,140</u> | <u>\$ 111,543</u> | <u>\$ 83,480</u> | <u>\$ 83,480</u> |

In prior years, the general fund was typically used to liquidate long-term liabilities other than debt.

Compensated Absences – Administrative employees of the Office are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2012, compensated absences increased \$12,597 from the prior year accrual. See Note 1 for more details.

Operating Leases – The Office leases office equipment under short-term cancelable operating leases. Rental cost for the year ended June 30, 2012 was \$13,524.

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7. Risk Management

The Office obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes general liability, workers' compensation, law enforcement liability, civil rights, property and vehicle.

NOTE 8. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures as part of the Combined Statements of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The General fund maintained a deficit fund balance as of June 30, 2012 in the amount of \$8,284.
- B. Excess of expenditures over appropriations. There were no funds that exceeded approved budgetary authority for the year ended June 30, 2012.

NOTE 9. Pension Plan – Public Employees Retirement Association

Plan Description. Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (PERA) (Chapter 10, Article 11 NMSA 1978.) The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 10.67% of their gross salary. The Office is required to contribute 13.34% of the gross covered salary. The contribution requirements of plan members and the Office are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office's contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$183,867, \$215,567, and \$226,967, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10. 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.

STATE OF NEW MEXICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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 premiums 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.

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. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

| <u>Fiscal Year</u> | <u>Employer Contribution Rate</u> | <u>Employee Contribution Rate</u> |
|--------------------|-----------------------------------|-----------------------------------|
| FY13 | 2.000% | 1.000% |

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Office’s contributions to the RHCA for the years ended June 30, 2012, 2011, and 2010 were \$25,147, \$23,657 and \$19,493, respectively, which equal the required contributions for each year.

NOTE 11. Interfund Receivables, Payables, and Transfers

Net operating transfers, which were made to close out funds and to supplement funding were as follows:

| | Transfers In | Transfers Out |
|-----------------------------------|-----------------|------------------|
| General Fund | \$ — | \$ 527 |
| Southwest Border Prosecution Fund | 527 | — |

STATE OF NEW MEXICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11. Interfund Receivables, Payables, and Transfers (continued)

The Office occasionally records temporary interfund receivable and payables until appropriate transfers are made. All interfund balances are to be paid within one year. At June 30, 2012, the Office did not have any interfund payables.

NOTE 12. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Office expects such amount, if any, to be immaterial.

The Office is involved in various claims and lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Office's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Office.

NOTE 13. Deferred Compensation

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan is available to all State employees and those local government and school district employees whose employers have elected participation in the plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are employees that are making contributions to a Deferred Compensation Plan. All contributions withheld from participants by the Office have been paid to the New Mexico Public Employee's Retirement Association, which administers the plan.

NOTE 14. Subsequent Accounting Standard Pronouncements

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan*, which is effective for financial statement periods beginning after June 15, 2011. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, which is effective for financial statement periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances.

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 14. Subsequent Accounting Standard Pronouncements (continued)

In December of 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

NOTE 15. Governmental Fund Balance

Fund Balance: In the fund financial statements, governmental funds are reported in 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. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications and therefore would not report amounts in all possible fund balance classifications.

In the governmental financial statements, fund balance is classified and is displayed in five components:

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.

Detail relating to the fund balance classifications is displayed below:

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 15. Fund Balance (continued)

| | <u>General Fund</u> | <u>McKinley County Grants Fund</u> | <u>Southwest Border Prosecution Fund</u> | <u>Total Funds</u> |
|------------------------|-------------------------|--|--|------------------------|
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Inventory | \$ - | \$ - | \$ - | \$ - |
| Restricted for: | | | | |
| General fund | - | - | - | - |
| Public Safety | - | 4,023 | 185,631 | 189,654 |
| Capital projects | - | - | - | - |
| Assigned to: | | | | |
| Other capital projects | - | - | - | - |
| Other purposes | - | - | - | - |
| Unassigned: | | | | |
| | (8,284) | - | - | (8,284) |
| Total fund balances | <u>\$ (8,284)</u> | <u>\$ 4,023</u> | <u>\$ 185,631</u> | <u>\$ 181,370</u> |

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SUPPLEMENTARY INFORMATION

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
SCHEDULE OF OPERATING TRANSFERS
JUNE 30, 2012

Schedule I

| SHARE FUND | TITLE | TRANSFER | |
|---------------|--|--------------|-----|
| | | IN | OUT |
| (1) 34100 | Department of Finance & Administration | 1,910,700 | |
| (2) 30600 | State General Fund | | 649 |
| (1) | State General Fund Appropriation (Laws 2011, Chapter 179, Section 4) | General Fund | |
| (2) | Reversion for fiscal year 2011 | General Fund | |

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2012

Schedule II

| | Beginning Balance | Additions | Deletions | Ending Balance |
|------------------------|----------------------|-----------|-----------|-------------------|
| ASSETS | | | | |
| Cash in Bank | \$ 5,285 | \$ 36,252 | \$ 32,818 | \$ 8,719 |
| LIABILITIES | | | | |
| Due to Injured Parties | \$ 5,285 | \$ 36,252 | \$ 32,818 | \$ 8,719 |

The accompanying notes are an integral part of these financial statements

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COMPLIANCE SECTION

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Griego Professional Services, LLC

Certified Public Accountants

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*

Karl R. Gillson, District Attorney
Office of the District Attorney
Eleventh Judicial District – Division II
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited 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, and the supplemental information of the State of New Mexico Office of the District Attorney Eleventh Judicial District, Division II (the Office), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office'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 Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. (FS 10-01 and FS 12-01) 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.

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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 disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item FS 12-01.

We noted no other matters that are required to be reported pursuant to *Government Auditing Standards* paragraph 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, NM State Legislature, the Office of the State Auditor, and the Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Grigo Professional Services, LLC

Albuquerque, New Mexico
December 12, 2012

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STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Schedule III

Section I – Summary of Audit Results

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditors' report issued | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiency identified not considered to be a material weakness? | Yes |
| c. Control deficiency identified not considered to be a significant deficiency? | No |
| d. Noncompliance material to financial statements noted? | No |

Section II – Financial Statement Findings

FS 10-01: Internal Controls – Disbursements—Repeated and Revised—Significant Deficiency

Criteria: Per the State of New Mexico Manual of Model Accounting Practices, Section FIN4.1 and Section 6-5-2, NMSA 1978, state agencies must use the Purchase Document form, approved by the State Purchasing Division, to order goods or services and to support encumbrances. This requires agencies to process through SHARE purchase requisitions, then purchase orders, then invoices, then payment vouchers for all purchases unless otherwise noted under special conditions.

Condition: During our test-work, we found that in four (4) out of twenty-five (25) payment vouchers randomly selected for testing and for two(2) of three (3) individually significant transactions chosen for testing, the purchase orders were being processed after invoices were received. The payment vouchers amounts for these transactions were \$45.00, \$500.00, \$609.08, \$147.99, \$12,198.61, and \$8,859.60 for a total of \$22,360.28.

Cause: The Office reasoned that it was difficult to process purchase orders prior to the invoice being received due to the fact that they did not know the amount in total of the purchase so they would wait until the invoice was received and create the purchase order after that. All other internal controls for the disbursement process are in place and being followed, but purchase orders were not used appropriately in order to prevent risk of fraud or misuse of funds.

Effect: The Office is not in compliance with State requirements for internal controls within State agencies. Not being in compliance with these requirements places the Office at risk for fraud or misuse of public funds.

Auditor's Recommendation: We recommend that the Office review the requirements for all internal controls and update their internal controls appropriately. Proper understanding of the SHARE system should be obtained in order to ensure that the Office is using the proper controls built into the SHARE system to protect against fraud.

Management's Response: This agency is not able to predict exact expenses, to include but not limited to expert witness fees, insurances or unforeseen vehicle maintenance, etc., as it would require each and every Purchase Order be adjusted upon receipt of Invoice. This agency will work harder in requesting quotations prior to receiving invoices to remedy this reoccurring problem and to come up with a solution for FY13 audit.

STATE OF NEW MEXICO
OFFICE OF THE DISTRICT ATTORNEY
ELEVENTH JUDICIAL DISTRICT - DIVISION II
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Schedule III

FS 12-01: Untimely Bank Deposit - Significant Deficiency

Criteria: Monies received by the Office should be deposited into the bank by the end of next business day (Section 6-10-2, NMSA, 1978).

Condition: In a random sample of twenty five receipts, we noted one instance in the amount of \$35.00, where the money was not deposited until approximately seven days after it was received.

Cause: The employee responsible for this particular deposit was not able to recall why this deposit was not made timely.

Effect: Monies may get lost or misused if not deposited in a timely manner.

Auditor's Recommendation: We recommend that monies be deposited by end of next business day.

Management's Response: The employee who failed to make the deposit was immediately removed from this duty and that employee's deposit duties were reassigned to another employee. This reassignment is in compliance with the separation of duties and will adhere to the recommendation of the auditors to have the deposits made in a timely manner.

Section III – Prior Year Audit Findings

FS 10-01: Internal Controls – Disbursements - Repeated and Revised.

FS 11-01: Internal Controls – Payroll – Resolved.

FS 11-02: Reversion to State General Fund – Resolved.

Section IV – Other Disclosures

Auditor Prepared Financials

Griego Professional Services, LLC assisted in the preparation of the financial statements presented in this report. The Office's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference

The contents of this report were discussed on December 13, 2012. The following individuals were in attendance.

Eleventh Judicial District Attorney – Division II

Karl R. Gillson, District Attorney
Loretta Diaz, Chief Financial Officer
Antoinette Esquibel, Program Specialist
Andrea Hoffman, Program Administrator

Griego Professional Services, LLC

J.J. Griego, CPA
David Baca