



**STATE OF NEW MEXICO
OFFICE OF THE
ATTORNEY GENERAL**

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2012

atkinson

PRECISE. PERSONAL. PROACTIVE.

State of New Mexico
Office of the Attorney General

OFFICIAL ROSTER

June 30, 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Gary K. King, Attorney General
Office of the Attorney General
and
Mr. Hector H. Balderas, State Auditor
Office of the State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparisons for the general fund and major special revenue funds and the aggregate remaining fund information of the State of New Mexico, Office of the Attorney General, as of and for the year ended June 30, 2012, which collectively comprise the Office of the Attorney General's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Office of the Attorney General's nonmajor governmental funds and the respective budgetary comparison for nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Office of the Attorney General'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 with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note B1, the financial statements of the Office of the Attorney General are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Office of the Attorney General. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2012, and the changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

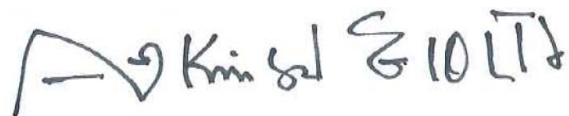
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Attorney General, as of June 30, 2012, and the respective changes in financial position and the respective budgetary comparisons of 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 addition, in our opinion, the financial statements referred to above present

fairly, in all material respects, the respective financial position of each non-major governmental fund of the Office of the Attorney General as of June 30, 2012, and the respective changes in financial position and the respective budgetary comparison for the nonmajor 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 17, 2012, on our consideration of the Office of the Attorney General'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements. The fiduciary combining schedule of changes in assets and liabilities – agency funds, and schedule of cash accounts listed as other supplementary 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.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information

June 30, 2012

The State of New Mexico, Attorney General's Office (AGO or Office), discussion and analysis provides the reader of the financial statements this narrative overview and analysis of the financial activities of the AGO for the fiscal year ended June 30, 2012. The financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and related GASB statements, which established financial reporting requirements for State and local governments throughout the United States. The requirements were developed by GASB to make annual reports more comprehensive and easier to understand and use.

The Basic Financial Statements

In compliance with requirements of U.S. generally accepted accounting principles (GAAP), the AGO's basic financial statements include the:

- Government-wide financial statements;
- Fund financial statements;
- Budget comparison statements;
- Notes to the financial statements.

In accordance with 2.2.2 New Mexico Administrative Code NMAC Section 2.2.2.10A.(2)(d), the audit opinion also covers additional information consisting of:

- Combining financial statements

The Management's Discussion and Analysis (MD&A) is included as required supplementary information (RSI).

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances, in a corporate-like manner. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental activities and business-type activities. The Office does not have any business-type activities.

The **Statement of Net Assets** presents information on all of the Office's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of the Office's financial position over time.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2012

Government-Wide Financial Statements – Continued

The **Statement of Activities** presents information on how the Office's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are included in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and uncollected accounts receivable).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Office uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Office's funds are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Office's near-term financing decisions. Both the governmental fund **Balance Sheet** and the governmental fund **Statement of Revenues, Expenditures, and Changes in Fund Balances** provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Office maintains one general fund and six special revenue funds. Information is presented in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance for the general fund and for the special revenue funds. There is also an agency fund maintained.

The Office adopts an annual appropriated budget for its general fund and for certain special revenue funds. Budgetary comparison statements have been provided for the funds to demonstrate compliance with budgets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2012

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 20 through 45 of this report.

Budgetary Comparison

The budget comparison information required by GASB No. 34 for the major governmental funds and non-major governmental funds that have legally adopted annual budgets are presented as listed in the table of contents. The budgetary comparisons present both the original and final budgets for the reporting period, as well as the actual inflows, outflows, and balances, stated on a budgetary basis.

The Statements of Revenues and Expenditures – Budget and Actual are also presented as required by the Office of the State Auditor in 2.2.2 NMAC. This information is presented at the approved budget level to demonstrate compliance with legal requirements.

Government-Wide Condensed Financial Information

Attorney General's Office Net Assets

<u>NET ASSETS</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Change</u>
ASSETS			
Current assets	\$ 12,355,223	\$ 15,318,256	\$ (2,963,033)
Capital assets, net	95,778	111,261	(15,483)
Total assets	<u>\$ 12,451,001</u>	<u>\$ 15,429,517</u>	<u>\$ (2,978,516)</u>
LIABILITIES			
Current liabilities	\$ 2,963,798	\$ 2,051,155	\$ 912,643
Long-term liabilities	193,824	172,340	21,484
Total liabilities	<u>\$ 3,157,622</u>	<u>\$ 2,223,495</u>	<u>\$ 934,127</u>
NET ASSETS			
Invested in capital assets, net	\$ 95,778	\$ 111,261	\$ (15,483)
Restricted	10,166,719	13,956,461	(3,789,742)
Unrestricted	(969,118)	(861,700)	(107,418)
Net assets	<u>\$ 9,293,379</u>	<u>\$ 13,206,022</u>	<u>\$ (3,912,643)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2012

Discussion of Statement of Net Assets

Net assets are derived by deducting total liabilities from total assets. Net assets decreased by \$3,912,643.

Current assets consist mostly of investments with the State Treasurer of \$11,226,197; grants receivable of \$449,585; amounts due from other State agencies of \$635,753; and other assets of \$34,205.

The Office reports balances in three categories of net assets: (1) invested in capital assets; (2) restricted; and (3) unrestricted. The invested in capital assets balance is positive, but the unrestricted balance is negative due to compensated absences reported on the government-wide financial statements.

Restricted net assets decreased due to payouts made in settlement monies received and deposited in the Office's consumer settlement fund (SHARE 54400).

Capital Asset and Debt Administration

The Office's investment in capital assets for its governmental activities as of June 30, 2012 is \$95,778 (net of accumulated depreciation). This investment in capital assets consists mainly of office data processing, equipment, and vehicles.

Major capital asset events during the current fiscal year include depreciation expense totaling \$21,986.

As noted earlier, net assets may, over time, serve as a useful indicator of a government's financial position. In the case of the Office, a net asset balance is reported at the close of the most recent fiscal year.

The Office uses capital assets to provide its services; consequently, these assets are not available for future spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2012

Liabilities

Current liabilities of \$2,963,798 consists primarily of accounts payable, \$411,972, i.e., money that the AGO is obligated to pay; accrued salaries and benefits payable of \$475,942; due to other State agencies of \$184,810; compensated absences payable of \$689,361; investment pool overdraft of \$549,989; and amounts due to taxpayers of \$354,550.

Long-Term Debt

At the end of the current fiscal year, the AGO had total long-term debt outstanding of \$193,824 comprised of accumulated balances for compensated absences for payment to employees upon termination of their employment from the AGO if not utilized.

Employees can receive compensation for a maximum of 240 hours upon severance.

Discussion of Statement of Activities

This statement shows the components that decreased, in the aggregate, the Office's net assets by \$3,912,643 during the year. Program revenues increased due to new grants and settlements received. The Office's State general fund appropriation decreased by \$3,166,400 as compared to the prior year mainly due to reduced appropriations from the State Legislature. The increase in expenses of \$933,667 was also primarily attributable to the increase in grants expenditures.

State of New Mexico
Office of the Attorney General

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2012

Discussion of Statement of Activities – Continued

<u>ACTIVITIES FOR THE YEAR</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Change</u>
Functional expenses:			
General government	\$ 18,938,407	\$ 18,004,740	\$ 933,667
Program revenues:			
Operating grants and contributions	<u>6,226,399</u>	<u>5,180,699</u>	<u>1,045,700</u>
Net (expense) revenue	(12,712,008)	(12,824,041)	112,033
General revenues:			
Transfers:			
State general fund appropriations	8,157,300	11,323,700	(3,166,400)
Other	1,280,459	-	1,280,459
Transfers (out) and reversions	<u>(638,394)</u>	<u>-</u>	<u>(638,394)</u>
Total general revenues and transfers	<u>8,799,365</u>	<u>11,323,700</u>	<u>(2,524,335)</u>
Change in net assets	(3,912,643)	(1,500,341)	(2,412,302)
Net assets, beginning of year	<u>13,206,022</u>	<u>14,706,363</u>	<u>(1,500,341)</u>
Net assets, end of year	<u>\$ 9,293,379</u>	<u>\$ 13,206,022</u>	<u>\$ (3,912,643)</u>

The Office's Individual Governmental Funds

As the Office completed the year, its governmental funds reported a combined fund balance of \$10,166,719 which is lower than last year's total of \$13,956,461. The primary reason for the decrease in fund balance is related to decreases in consumer settlement revenues. The fund balance of the general fund remained zero; the Medicaid fraud control unit special revenue fund remained zero; and the consumer settlements fund balance decreased \$3,824,262, due to a decrease in settlement revenues.

The general fund revenues increased \$462,952 as compared to the previous year due to an increase in federal grant revenues resulting from increases in corresponding reimbursable grant expenditures. Other financing sources increased \$811,996 as a result of decreases in general fund appropriations from the State Legislature, which were partially offset by an increase in transfers from other funds. Expenditures also increased \$890,264 as a result of increase in grant expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2012

The Office's Individual Governmental Funds – Continued

The Medicaid fraud control unit special revenue fund revenues increased \$198,831 due to an increase in revenues from federal grants. The Office transferred remaining amounts from the Medicaid program income fund (SHARE 27500) to bring the fund balance to a low amount.

The Consumer Settlements revenues increased by \$744,093 compared to the previous year due to more settlement revenues received. Transfers to the general fund increased by \$3,306,605 in order to compensate for the decrease in appropriations to the general fund.

General Fund Budgetary Highlights

During fiscal year 2012, the Department of Finance and Administration did not reduce the allotments statewide as was done in the previous year. The Attorney General's Office appropriation for fiscal year 2012, however, the Office was required to supplement the appropriation with Consumer Settlement Funds to avoid a serious budget cut. The general fund appropriation for fiscal year 2012 was \$7,672,200. The Consumer Settlement Funds to supplement the budget were \$7,307,966. As a result, the Office's final budget for revenues and expenditures was higher than initially budget amounts by \$5,151,695. Actual revenues and other financing sources were lower than budget amounts by \$5,279,347. The final general fund actual expenditures exceeded the prior year amount by \$1,887,741 due to increased transfers from the Consumer Settlement Fund.

Currently Known Facts, Decisions or Conditions

The Office will receive \$1,500,000 for fiscal year 2012 in special appropriations to support legal work relating to interstate water conflicts. The appropriation is from the natural resources trustee fund.

Requests for Information

This financial report is designed to provide a general overview of the AGO finances for all interested parties. If you have questions about this report or need additional information, contact:

The Office of the Attorney General
Villagra Building
Santa Fe, New Mexico 87504

State of New Mexico
Office of the Attorney General

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash in banks	\$ 9,483
Investments in State General Fund Investment Pool	11,226,197
Due from Federal government	449,585
Due from other State agencies	635,753
Other assets	<u>34,205</u>
Total current assets	12,355,223
Capital assets	480,953
Less accumulated depreciation	<u>(385,175)</u>
Total capital assets, net of depreciation	<u>95,778</u>
Total assets	<u><u>\$ 12,451,001</u></u>
LIABILITIES	
Accounts payable	\$ 411,972
State General Fund Investment Pool overdraft	549,989
Accrued salaries and benefits payable	475,942
Due to other State agencies	105,546
Due to taxpayers	354,550
Due to State general fund	79,264
Deferred revenue	211,241
Compensated absences payable: current	<u>775,294</u>
Total current liabilities	2,963,798
Compensated absences: Due after one year	<u>193,824</u>
Total liabilities	3,157,622
NET ASSETS	
Investment in capital assets	95,778
Restricted:	
Consumer settlements	10,021,372
Antitrust litigation	26,872
Medicaid fraud program income	118,475
Unrestricted deficit	<u>(969,118)</u>
Total net assets	<u>9,293,379</u>
Total liabilities and net assets	<u><u>\$ 12,451,001</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

	<u>Governmental Activities</u>
EXPENSES	
General government:	
Personal services and employee benefits	\$ 14,884,165
Other costs	2,713,773
Contractual services	1,318,483
Depreciation	<u>21,986</u>
Total expenses	18,938,407
PROGRAM REVENUES	
Operating grants, contributions and settlements	<u>6,226,399</u>
Total program revenues	<u>6,226,399</u>
Net (expense) revenue	(12,712,008)
GENERAL REVENUES	
State general fund appropriations - FY2012	8,157,300
Other financing sources	1,293,584
Other financing uses	(612,791)
Reversions to State General Fund FY2012	(25,603)
Loss on disposal of capital assets	<u>(13,125)</u>
Total general revenues and transfers	<u>8,799,365</u>
Change in net assets	(3,912,643)
Net assets, beginning of year	<u>13,206,022</u>
Net assets, end of year	<u><u>\$ 9,293,379</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2012

	General Fund - 17000	Medicaid Fraud Control - 27800	Consumer Settlement - 54400	Other Non- Major Funds	Total Governmental Funds
ASSETS					
Cash in banks	\$ 9,303	\$ -	\$ -	\$ 180	\$ 9,483
Investments, State Treasurer	-	251,789	10,919,762	54,646	11,226,197
Due from Federal government	449,585	-	-	-	449,585
Due from other funds	543,966	-	-	-	543,966
Due from other State agencies	635,064	689	-	-	635,753
Other assets	31,609	2,596	-	-	34,205
	\$ 1,669,527	\$ 255,074	\$ 10,919,762	\$ 54,826	\$ 12,899,189
 LIABILITIES AND FUND BALANCES					
Liabilities:					
State General Fund Investment Pool overdraft	\$ 549,989	\$ -	\$ -	\$ -	\$ 549,989
Accounts payable	405,595	6,377	-	-	411,972
Accrued salaries and benefits payable	432,665	43,277	-	-	475,942
Deferred revenue	211,241	-	-	-	211,241
Due to other funds	-	-	543,966	-	543,966
Due to State general fund	53,536	-	54	25,674	79,264
Due to other State agencies	16,501	89,045	-	-	105,546
Due to taxpayers	-	-	354,550	-	354,550
	1,669,527	138,699	898,570	25,674	2,732,470
 FUND BALANCES:					
Spendable:					
Restricted for:					
Medicaid fraud program	-	116,375	-	2,100	118,475
Reserved for antitrust litigation	-	-	-	26,872	26,872
Consumer settlements	-	-	10,021,192	180	10,021,372
Unassigned	-	-	-	-	-
	-	116,375	10,021,192	29,152	10,166,719
Total fund balances	-	116,375	10,021,192	29,152	10,166,719
Total liabilities and fund balances	\$ 1,669,527	\$ 255,074	\$ 10,919,762	\$ 54,826	\$ 12,899,189

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS –
GOVERNMENTAL FUNDS**

June 30, 2012

Total fund balance, governmental funds (balance sheet)	\$ 10,166,719
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and therefore, are not reported in the funds.	95,778
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(969,118)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 9,293,379</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS**

For the year ended June 30, 2012

	General Fund - 17000	Medicaid Fraud Control - 27800	Consumer Settlement - 54400	Other Non- Major Funds	Total Governmental Funds
REVENUES					
Federal operating grants	\$ 546,953	\$ 1,090,051	\$ -	\$ 247,349	\$ 1,884,353
State operating grants	683,794	-	-	-	683,794
Medicaid program income	-	-	-	26,567	26,567
Retained settlement and other revenues	147,951	30	3,483,704	-	3,631,685
	<u>1,378,698</u>	<u>1,090,081</u>	<u>3,483,704</u>	<u>273,916</u>	<u>6,226,399</u>
Total revenues	1,378,698	1,090,081	3,483,704	273,916	6,226,399
EXPENDITURES					
Current:					
Personal services and employee benefits	13,284,295	1,307,350	-	185,102	14,776,747
Other costs	2,440,102	256,655	-	36,644	2,733,401
Contractual services	1,315,260	3,223	-	-	1,318,483
	<u>17,039,657</u>	<u>1,567,228</u>	<u>-</u>	<u>221,746</u>	<u>18,828,631</u>
Total expenditures	17,039,657	1,567,228	-	221,746	18,828,631
(Deficiency) excess of revenues over expenditures	(15,660,959)	(477,147)	3,483,704	52,170	(12,602,232)
OTHER FINANCING SOURCES (USES)					
State general fund appropriations	7,672,200	485,100	-	-	8,157,300
Interfund transfers	7,307,966	108,422	(7,307,966)	(108,422)	-
Other financing sources	1,293,584	-	-	-	1,293,584
Reversions-fiscal year 2012	-	-	-	(25,603)	(25,603)
Other financing uses	(612,791)	-	-	-	(612,791)
	<u>15,660,959</u>	<u>593,522</u>	<u>(7,307,966)</u>	<u>(134,025)</u>	<u>8,812,490</u>
Total other financing sources (uses)	15,660,959	593,522	(7,307,966)	(134,025)	8,812,490
Net change in fund balances	-	116,375	(3,824,262)	(81,855)	(3,789,742)
FUND BALANCES - beginning of year	<u>-</u>	<u>-</u>	<u>13,845,454</u>	<u>111,007</u>	<u>13,956,461</u>
FUND BALANCES - end of year	<u>\$ -</u>	<u>\$ 116,375</u>	<u>\$ 10,021,192</u>	<u>\$ 29,152</u>	<u>\$ 10,166,719</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS**

For the year ended June 30, 2012

Net change in fund balances - governmental funds \$ (3,789,742)
(Statements of Revenues, Expenditures and Changes in Fund Balance)

Amounts reported for Governmental Activities in the Statement of Activities
are different because:

Capital outlays are reported as expenditures in governmental funds.
However, in the Statements of Activities, the cost of capital assets is
allocated over their estimated useful lives as depreciation expense.
In the current period, these amounts are:

Capital asset additions	\$ 19,628	
Depreciation	<u>(21,986)</u>	
Excess (deficiency) of capital outlay over depreciation expense		(2,358)
Loss on disposal of capital assets		(13,125)

Some items reported in the Statement of Activities do not require the
use of current financial resources and, therefore, are not reported
as expenditures in governmental funds.

Increase in compensated absences		<u>(107,418)</u>
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Change in net assets of governmental activities (Statement of Activities)		<u>\$ (3,912,643)</u>
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The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000)**

For the year ended June 30, 2012

General Fund	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal and State operating grants	\$ 604,000	\$ 5,285,695	\$ 1,230,747	\$(4,054,948)
General fund appropriation, Laws of 2011	7,672,200	7,672,200	7,672,200	-
Miscellaneous revenue	-	-	147,951	147,951
Other financing sources	9,503,900	9,973,900	8,601,550	(1,372,350)
Total revenue and other financing sources	\$ 17,780,100	\$ 22,931,795	\$ 17,652,448	\$(5,279,347)
General Fund	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ 13,395,963	\$ 16,953,495	\$ 13,284,295	\$ 3,669,200
Contractual services	1,307,500	2,129,214	1,315,259	813,955
Other	3,076,637	3,849,086	3,052,894	796,192
Total expenditures and other financing uses	\$ 17,780,100	\$ 22,931,795	\$ 17,652,448	\$ 5,279,347
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
MEDICAID FRAUD CONTROL FUND (FUND 27800)**

For the year ended June 30, 2012

Medicaid Fraud	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
General appropriations	\$ 485,100	\$ 485,100	\$ 485,100	\$ -
Federal grants	1,559,300	1,559,300	1,090,051	(469,249)
Other revenue	-	-	30	30
Prior year fund balance	154,100	50,100	108,422	58,322
Total revenue	<u>\$ 2,198,500</u>	<u>\$ 2,094,500</u>	<u>\$ 1,683,603</u>	<u>\$ (410,897)</u>
Medicaid Fraud	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ 1,613,300	\$ 1,613,300	\$ 1,307,350	\$ 305,950
Contractual services	7,900	7,900	3,223	4,677
Other	473,300	473,300	256,655	216,645
Other financing use	104,000	-	-	-
Total expenditures	<u>\$ 2,198,500</u>	<u>\$ 2,094,500</u>	<u>\$ 1,567,228</u>	<u>\$ 527,272</u>
Excess of revenues and other financing sources over expenditures and other financing uses			<u>\$ 116,375</u>	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
CONSUMER SETTLEMENTS FUND (FUND 54400)**

For the year ended June 30, 2012

Consumer Settlement	Original Budget	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Revenues and contributions	\$ -	\$ 8,473,900	\$ 3,483,704	\$ (4,990,196)
Total revenues	\$ -	\$ 8,473,900	\$ 3,483,704	\$ (4,990,196)
Consumer Settlement	Original Budget	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
General government:				
Other financing uses	\$ -	\$ 8,473,000	\$ 7,307,966	\$ 1,165,034
Total expenditures	\$ -	\$ 8,473,000	\$ 7,307,966	\$ 1,165,034
Prior-year fund balance budgeted	\$ -	\$ -	\$ 3,824,262	\$ 3,824,262
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses			\$ (3,824,262)	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES –
AGENCY FUNDS**

For the year ended June 30, 2012

	<u>#081 Dram Matter Cost Share</u>	<u>#695 Victims Restitution</u>	<u>#701 Special Trust</u>	<u>#702 Cummins Settlement</u>	<u>#950 Mylan Multistate Anti-trust</u>	<u>#127 Buspar Multistate Anti- trust</u>	<u>Total Agency Funds</u>
ASSETS							
Cash on deposit with State Treasurer	\$ 5,892	\$ 1,300	\$ 11,260	\$ 6,590	\$ 316,485	\$ 6,959	\$ 348,486
Interest receivable	-	-	-	-	65	-	65
Total assets	<u>\$ 5,892</u>	<u>\$ 1,300</u>	<u>\$ 11,260</u>	<u>\$ 6,590</u>	<u>\$ 316,550</u>	<u>\$ 6,959</u>	<u>\$ 348,551</u>
LIABILITIES							
Deposits held for consumers and others	\$ 5,892	\$ 1,300	\$ 11,260	\$ 6,590	\$ 316,550	\$ 6,959	\$ 348,551
Total liabilities	<u>\$ 5,892</u>	<u>\$ 1,300</u>	<u>\$ 11,260</u>	<u>\$ 6,590</u>	<u>\$ 316,550</u>	<u>\$ 6,959</u>	<u>\$ 348,551</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A – HISTORY AND FUNCTIONS

The State of New Mexico, Office of the Attorney General (the Office), Department of Justice, was created by Article V, Section 1 of the New Mexico Constitution, and the Attorney General is designated by law as the head of the Department of Justice (Section 8-5-1 through Section 8-5-16, NMSA, 1978 Compilation). The functions of the Office are to serve as the legal representative of the State in lawsuits, to represent State agencies, departments, board and commissions, as well as all State employees or officials involved in lawsuits relating to their official duties (providing the suit was not initiated by the State against that person), and to represent the Public Regulation Commission as specifically stated in the Constitution; to give opinions on legal questions asked by the Legislature, individual Legislators, State officials, and District Attorneys on matters related to their official duties; to act in any criminal or civil cases in which a county or the State is a party or has an interest, if the district attorney fails or refuses to act, and if the Attorney General determines that action is advisable; to investigate local matters in which the State has an interest, if directed to do so by the Governor, to maintain a register of charitable organizations; to assign lawyers or investigators to assure that elections are properly conducted; to enforce the Indian Arts and Crafts Sales Act, the Land Subdivision Act, the Unfair Practices Act, and the Open Meetings Act; to serve as a member of the Mortgage Finance Authority, the Risk Management Advisory Board, the State Commission of Public Records, the Judicial Council, the Compilation Commission, and the Law Enforcement Academy Board.

Section 8-5-16, NMSA 1978 provides for an office of guardianship services within the Office to consolidate guardianship services currently existing in various State agencies and to negotiate and administer contracts for guardianship services with community service providers.

The Office also operates the Medicaid fraud control unit with the power to investigate or prosecute fraud and abuse in the Medicaid program.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Office have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Office applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. There are no significant disclosures reported under FASB requirements not covered by GASB pronouncements. The more significant accounting policies of the Office are described below:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Reporting Entity and Component Units

The Attorney General is an elected official elected for a four-year term and can serve two terms in office. The Office is included in the executive branch of New Mexico State Government and these financial statements include all funds, programs, and activities over which the Attorney General has oversight responsibility.

The Office implemented GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* in fiscal year 2002.

The Office is not included in any other governmental “reporting entity” as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR).

In evaluating how to define the Office for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Office is able to exercise oversight responsibilities. Based upon the application of these criteria, the Office of the Attorney General does not have any component units.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis Financial Statements – Government-Wide Statements

The Office's basic financial statements include both government-wide (based on the Office as a whole) and fund financial statements and report information on all non-fiduciary activities. Both the government-wide and fund financial statements (within the basic statement) categorize primary activities as either governmental or business-type. The Office is a single purpose government entity and has no business-type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on a full accrual, economic resource measurement focus, which incorporates long-term assets and receivables, as well as long-term debt and obligations. The Office's net assets are reported in three parts – invested in capital assets; restricted net assets; and unrestricted net assets. When applicable, the effect of interfund activity is removed from the Statement of Net Assets in order to avoid a grossing-up effect on assets and liabilities within the statements.

The government-wide Statement of Activities reflects both the gross and net costs per functional category (general government) which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (general government). Program revenues include 1) charges to applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) consumer settlements awarded to the Office that are restricted to meeting the operational or capital requirements of a particular function or segment. The appropriation from the State general fund is not included among program revenues, but instead is reported as general revenue.

The net cost by function is normally covered by general revenue that does not employ indirect cost allocation.

The government-wide focus is more on the sustainability of the Office as an entity and the change in the Office's net assets resulting from the current year's activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements

The fund financial statements, the balance sheet and statement of revenues, expenditures and changes in fund balances, are presented to report additional and detailed information about the Office. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Office's major funds are the general fund, Medicaid fraud control unit fund, the consumer settlements fund, and the American recovery and reinvestment act fund.

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Office's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The Office's fiduciary funds are presented with the basic financial statements and the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

The focus is on the Office as a whole and the fund financial statements, including the major individual funds of the governmental category, as well as the fiduciary fund by category.

The financial transactions of the Office are recorded in individual 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, liabilities, fund balance, revenues, expenditures, or expenses 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 reporting model under GASB 34 sets forth the minimum criteria (percentage of the assets, liabilities, revenues, or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining sections.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

The following fund types are used by the Office:

GOVERNMENTAL FUND TYPES

All governmental fund types are accounted for on a spending or current resources measurement focus. Only current assets and current liabilities that are “available” are generally included on their balance sheets. Availability for purposes of revenue and liability recognition purposes is generally 60 days. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures of fund liabilities.

General Fund – The general fund is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund is a major fund. The general fund is made up of the following central accounting system (SHARE) funds.

17000 General operating – The operating account for the Office. This is a reverting fund.

Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Office’s special revenue funds are as follows:

08500 Antitrust litigation fund – The fund receives five percent of the proceeds awarded by courts in order to assist in defraying the cost incurred in initiating and litigating suits. The fund was authorized by the Laws of 1986, Chapter 19, Section 4, and is non-reverting. The antitrust litigation fund is a non-major fund. There was no activity in fiscal year 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

- 27800 Medicaid fraud control fund – To account for the activity of the Medicaid fraud control unit. Monies are derived from awards of the Federal Department of Health and Human Services and State general fund appropriations. The authority for this fund and the Medicaid program income fund is 42 USC 1396b(a)(6) and 1396b(b)(3). Legal restrictions on expenditures and the authority for the creation of the fund are a result of the agreements between the Office of the Attorney General and the Department of Health and Human Services and the annual appropriation laws. The Medicaid fraud control fund is a major fund and is reverting.
- 27500 Medicaid program income fund – To account for program income derived Medicaid fraud program. Program income is received from Medicaid based on cost incurred in connection with Medicaid fraud cases. Legal restrictions on expenditures and the authority for the creation of the fund are a result of the agreements between the Office of the Attorney General and the Department of Health and Human Services. The fund is a non-major fund and is non-reverting.
- 54400 Consumer settlements fund – To account for settlements received by the Office of the Attorney General from various court orders. The fund is authorized under Section 8-5-2 and 36-1-22, NMSA 1978, as amended. Funds are transferred to the Office's general fund for expenditure in consumer protection and training. The consumer settlements fund is a major fund and is non-reverting.
- 64900 Grant fund – To account for the activity of the Native American Arts and Crafts Investigation and Prosecution Project to enforce the Indian Arts and Crafts Sales Act; private grants and charitable organization registration fees. Legal restrictions on expenditures and the authority for the creation of the grant fund are a result of Laws of 1998, Chapter 116, grant agreements and the Charitable Solicitation Act (Section 57-22-1 et. seq., NMSA 1978). The fund is considered to be reverting and non-reverting as general fund appropriations are reverting. The grant fund is a non-major fund. There was no activity in fiscal year 2012.
- 89000 American Recovery and Reinvestment Act Fund (ARRA) – On February 13, 2009, the U. S. Congress passed the American Recovery and Reinvestment Act of 2009 in response to the economic crisis. Due to the separate reporting requirement for ARRA expenditures, as specified by the Office of Management and Budget (OMB), the Office records all ARRA activity in this special revenue fund. The ARRA fund is a non-major fund and is non-reverting.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

FIDUCIARY FUND TYPES

Fiduciary fund types include trust and agency funds, which are used to account for assets held by the Office in the capacity of trustee or agent.

Agency Funds. Agency funds are used to account for assets held as an agent for other governmental units, individuals, and other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds of the Office are used to account for the proceeds of settlement and court decisions until the proceeds may be distributed to the proper recipients. The Office's agency funds are as follows:

08100	Dram matter cost share fund
69500	Victim restitution fund
70100	Special trust fund
70200	Cummins settlement fund
95000	Mylan multi-state antitrust fund
12700	Buspar multi-state antitrust fund

4. Measurement Focus, Basis of Accounting, and Financial Reporting Presentation

Basis of accounting refers to the point at which revenues or expenditures 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 financial statements and the fiduciary financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis. Under the accrual method of accounting revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and non-exchange transactions are recognized in accordance with full accrual accounting and with the requirements of GASB Statement 33, Accounting and Financial Reporting for Non-exchange Transactions.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Measurement Focus, Basis of Accounting, and Financial Reporting Presentation – Continued

All governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resources increments are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are available if collected within sixty days of the end of the fiscal year.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred and all other eligibility requirements of the grant, if any, are met. Contributions and other monies held by other State and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory, and certain sick leave are not accrued as current liabilities but as non-current liabilities. However, in the government-wide financial statements, both current and long-term are accrued. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources. If both restricted and non-restricted resources are available, the Office first applies restricted resources when expenditures are incurred.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, 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 requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Office which lapse at fiscal year-end. Legal compliance is monitored through the establishment of a budget and financial control system which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation program level (no longer the 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 limitations as specified in the General Appropriations Act, Laws of 2011, Chapter 179, Section 3, Item O. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

These procedures are followed in establishing the budgetary data reflected in the financial statements:

- a. No later than September 1, the Office submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
- b. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriations Act.
- c. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
- d. No later than May 1, the Office submits to the DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1. All subsequent budgetary adjustments must be approved by the Director of the DFA Budget Division and by the LFC.
- e. Budgetary control is exercised by the Office at the appropriation program level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgets and Budgetary Accounting – Continued

- f. The budget for the general fund and special revenue funds are adopted on modified accrual basis per the General Appropriation Act, Laws of 2007, Chapter 109, Section 3, Subsections N. Budgetary comparisons presented in this report for the general fund and special revenue funds are on the budgetary basis which 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 (there were no budgets for the antitrust litigation fund, or grant fund, for fiscal year 2012 due to inactivity). The Office did not pay any fiscal year 2012 payables out of the fiscal year 2013 budget.
- g. The original budget differs from the final budgets presented in the budget comparison statements by any amendments made during the fiscal year.
- h. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30th.

In accordance with the requirements of Section 2.2.2 10.A (2) (b) of 2.2.2. NMAC *Requirements for Contracting and Conducting Audits of Agencies* and the requirements established by GASB 34, footnote 53, the budgetary comparison statement for the general fund has been included as part of the basic financial statements.

6. Accrued Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if: the employees' right to receive compensation is attributable to services already rendered; and it is probable that the employer will compensate employees for benefits through paid time off or some other means, such as cash payments at termination or retirement.

When applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and a long-term portion. The current portion is in the amount expected to be expended during fiscal year 2012. It is an estimate management determined by applying a percentage to the June 30, 2012 liability. The percentage used was determined by comparing the amount actually paid out during fiscal year 2012 compared to the liability balance at June 30, 2011.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Accrued Compensated Absences – Continued

Employees accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated annual leave as of the date of termination, up to a maximum of 240 hours.

Employees accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement, those employees with over 600 hours accumulated sick leave have the option to convert 400 hours of such leave to cash at one-half of their hourly rate.

Fair Labor Standards Act (FLSA) nonexempt employees accumulate compensation time at the rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked. Exempt employees were precluded from carrying forward any unused compensation time into the next calendar year after December 31, 2003. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes. Office general fund resources have been used to liquidate accrued compensated absences.

7. Reversions

The General Appropriation Act of 2007, Chapter 28 Section 3, Subsection N, states that "For the purpose of administering the General Appropriation Act of 2007, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's "*Basis of Accounting-Modified Accrual and the Budgetary Basis*," the Office has accrued as payables amounts owed for goods and services received by June 30, 2012. Any State general fund appropriations remaining in general fund (SHARE Fund 17000) and Medicaid fraud control, special revenue fund (SHARE Fund 27800) fund balance not reserved for, litigation, or consumer settlements is reverted to the State general fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Balance

In the government-wide financial statements net assets consist of three components: invested in capital assets, net of related debt; restricted; and unrestricted. The Office has no debt related to capital assets; therefore, net assets invested in capital assets equal the capital assets, net of accumulated depreciation. Capital assets are defined as those tangible or intangible assets used in operations and having a useful life greater than a single reporting period.

The Office financial statements show net assets restricted of \$118,475 for Medicaid fraud program income, \$10,021,372 restricted for consumer settlements, and \$26,872 for antitrust litigation.

Net assets are reported as restricted when constraints are placed on net asset use are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be used only for the specific purposes stipulated in the legislation.

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 only for the purposes specified by the legislation.

The amount of net assets restricted by enabling legislation is \$10,166,719 at June 30, 2012 which represents all restricted net assets reported on page 10.

These resources remaining in net assets were received or earned with the explicit understanding between the Office and the resource provider (grantor, contributor, other government, or enabling legislation) that the funds would be used for a specific purpose. Generally, the Office would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. All remaining net assets that are not related to capital assets are shown as unrestricted.

In the governmental fund financial statements, the Office classifies fund balances into spendable and nonspendable classifications. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact until expended for its restricted purpose.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Balance – Continued

Restricted Fund Balances

In the governmental fund financial statements *restrictions* of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the fund balance account are summarized below:

Restricted for antitrust litigation – This restricted fund balance for antitrust litigation was authorized by the Laws of 1986, Chapter 19, Section 4, in order to assist in defraying the costs incurred in initiating and litigating suits.

Restricted for consumer settlements – The restricted fund balance for consumer settlement is monies received by the Office in settlement of consumer and other legal proceedings and is restricted to reimbursement of the Office's expenditures, and thus, is segregated to retain its identity as other State funds until such time as the legislature appropriates it for such use.

Restricted for Medicaid fraud program – This restricted fund balance for the Medicaid Fraud Program is monies earned for the investigative cost and fees related to Medicaid Fraud Cases that must be expended for Medicaid Fraud Program cases in accordance with federal grantor requirements.

The additional spendable classifications are detailed below:

Committed Fund Balances

In the governmental fund financial statements *committed* fund balances are reported when amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (both Legislative and Executive branches through formal action). The Office has no *committed* fund balances as of June 30, 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Balance – Continued

Assigned Fund Balances

In the governmental fund financial statements *assigned* fund balances are reported when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can 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. The Office does not have the authority to assign fund balance for a specific purpose. The Office has no *assigned* fund balances as of June 30, 2012.

Unassigned Fund Balances

In the governmental fund financial statements *unassigned* fund balances are reported to reflect residual 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 has no *unassigned* fund balances as of June 30, 2012.

Generally, the Office would first apply committed resources when an expense is incurred for purposes for which both committed, assigned, or unassigned fund balances are available.

9. Federal Grants Receivable (Deferred Revenue)

Grant revenue is recognized when all eligibility criteria for federal awards are met. Various reimbursement procedures are used for federal awards received by the Office. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred revenue balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period.

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed. There are no allowances against federal receivables for fiscal year 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Capital Assets

Capital assets of the Office include data processing equipment, furniture and fixtures, equipment, and automobiles. The Office does not have any infrastructure. Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978, was amended effective June 19, 2005, changing the capitalization threshold of movable chattels and equipment from items costing more than \$1,500 to items costing more than \$5,000. The Office has adopted this change. Old inventory items that do not meet the new capitalization threshold will remain on the inventory list and continue to be depreciated. Any items received after July 1, 2005, have been added to the inventory only if they meet the new capitalization policy. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment.

The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Office does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the capital assets. Capital assets of the Office are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. Depreciable assets are equipment items with useful lives ranging from four (4) to ten (10) years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Capital Assets – Continued

	<u>Years</u>
Furniture/fixtures	10
Equipment and machinery	7-10
Automobiles	10
Data processing equipment	4-10
Library	10

There is no outstanding debt related to capital assets.

The Office utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as road, bridges, etc. The Office does not own any infrastructure assets.

NOTE C – CASH AND INVESTMENTS

1. Cash in Banks

Cash on deposit with area banks amounting to \$9,483 represents amounts which are held for use by the agents of the Office. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

2. Investments, State Treasurer

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 interest in the amount of \$11,226,197.

The circumstances described in Note O raise a concern in relation to the accuracy of the Office's program share of the GFIP investment balance held at the State Treasury. The Office's general fund is reverting which does not allow excessive build up of cash at the end of the year. Unspent funding is reverted and appropriations and corresponding reversions have been audited each year. The consumer settlement fund is characterized by larger, less numerous transactions that are reviewed in depth by the legislature in addition to the Office.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE C – CASH AND INVESTMENTS – CONTINUED

2. Investments, State Treasurer – Continued

Such transactions have been validated by the Office each year. Additionally, the Office maintains certain compensating controls for the monitoring of cash receipts and cash disbursements. Finally, federal funding is on a reimbursement basis whereby revenues equal expenditures for each program and audit work is focused on the beginning and ending receivables for the federal grants every year.

Due to characteristics of the primary revenue sources for the Office and the presence of compensating controls, management believes that the GFIP balance of \$11,226,197 materially approximates their share of the GFIP at June 30, 2012. Any adjustments to the GFIP balance that might exist at June 30, 2012 are not known at this time.

Funds	SHARE Fund No.	Investment at State Treasurer's Office	Reconciling Items	Fair Value June 30, 2012
Major funds				
General fund	17000	\$ (549,989)	\$ -	\$ (549,989)
Medicaid fraud control fund	27800	251,789	-	251,789
Consumer settlement fund	54400	10,919,762	-	10,919,762
Total major funds		10,621,562	-	10,621,562
Non-major funds				
Medicaid program income fund	27500	2,100	-	2,100
Antitrust litigations fund	08500	26,872	-	26,872
ARRA fund	89000	25,674	-	25,674
Total non-major funds		54,646	-	54,646
Bank overdraft		549,989	-	549,989
Total		<u>\$ 11,226,197</u>	<u>\$ -</u>	<u>\$ 11,226,197</u>
Agency funds				
Victims restitution	69500	\$ 1,300	\$ -	\$ 1,300
Special trust	70100	11,260	-	11,260
Cummins settlement	70200	6,590	-	6,590
Mylan multi-state anti-trust	95000	316,485	-	316,485
Buspar multi-state anti-trust	12700	6,959	-	6,959
Dram matter cost share	08100	5,892	-	5,892
Total		<u>\$ 348,486</u>	<u>\$ -</u>	<u>\$ 348,486</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE C – CASH AND INVESTMENTS – CONTINUED

2. Investments, State Treasurer – Continued

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 means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

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

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

NOTE D – DUE TO OTHER STATE AGENCIES

The following are short-term amounts owed between other State agencies and are classified as due to other State agencies:

Due to other State agencies

Medicaid fraud – (SHARE 27800)

Human Services Department (SHARE 65500)	\$ 89,045
Human Services Department (SHARE 65500)	<u>16,501</u>
Net amount due to other State agencies	<u>\$ 105,546</u>

Amounts due to the Human Services Department include amounts owed for the Office's participation in Medicaid fraud cases. The amounts are expected to be repaid in fiscal year 2013.

NOTE E – DUE FROM FEDERAL GOVERNMENT

Due from federal government represents the excess of expenditures over reimbursements received on Federal awards programs and is fully collectible based on subsequent cash collections after year-end.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE F – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions in FY 12	Deletions in FY 12	Balance June 30, 2012
Capital assets				
Data processing	\$ 674,650	\$ -	\$ 357,884	\$ 316,766
Equipment	93,944	19,628	52,719	60,853
Library	1,632	-	-	1,632
Furniture and fixtures	123,991	-	22,289	101,702
Vehicles	44,202	-	44,202	-
Total capital assets	<u>\$ 938,419</u>	<u>\$ 19,628</u>	<u>\$ 477,094</u>	<u>\$ 480,953</u>
Accumulated depreciation				
Data processing	\$ 576,273	\$ 15,565	\$ 347,063	\$ 244,775
Equipment	90,888	3,614	52,366	42,136
Library	1,632	-	-	1,632
Furniture and fixtures	114,163	2,807	20,338	96,632
Vehicles	44,202	-	44,202	-
Total accumulated depreciation	<u>\$ 827,158</u>	<u>\$ 21,986</u>	<u>\$ 463,969</u>	<u>\$ 385,175</u>
Net capital assets				
Data processing	\$ 98,377	\$ (15,565)	\$ 10,821	\$ 71,991
Equipment	3,056	16,014	353	18,717
Library	-	-	-	-
Furniture and fixtures	9,828	(2,807)	1,951	5,070
Vehicles	-	-	-	-
Net capital assets	<u>\$ 111,261</u>	<u>\$ (2,358)</u>	<u>\$ 13,125</u>	<u>\$ 95,778</u>

The Office does not have any debt related to capital assets. Depreciation expense for the current year was \$21,986. There are no assets that are non-depreciable.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE G – COMPENSATED ABSENCES PAYABLE

Employees are entitled to accumulate annual leave at a graduated rate based on years of service. A maximum of 240 hours can be carried forward at calendar year-end. The Office has recognized a liability of \$969,118 in the Statement of Net Assets for annual leave based on current pay rates and hours accumulated at June 30, 2012. The general fund is used to liquidate compensated absences when paid out.

A summary of changes in the compensated absences payable for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Increase	(Decrease)	Balance June 30, 2012
Current compensated absences payable	\$ 689,360	\$ 772,083	\$ (686,149)	\$ 775,294
Long-term compensated absences payable	<u>172,340</u>	<u>193,021</u>	<u>(171,537)</u>	<u>193,824</u>
Total compensated absences payable	<u>\$ 861,700</u>	<u>\$ 965,104</u>	<u>\$ (857,686)</u>	<u>\$ 969,118</u>

NOTE H – ACCRUED SALARIES, TAXES, AND BENEFITS

A portion of payroll expenditures pertaining to the year ended June 30, 2012 was paid on July 13, 2012. Since the disbursements did not occur until subsequent to June 30, 2012, accrued salaries and employee benefits payable totaling \$475,942 has been reflected in the Balance Sheet and Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE I – PERA 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 (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. That report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 15.09% of the gross covered salary. The contribution requirements of the plan members and the Office are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Office's employer contributions to PERA for the years ending June 30, 2012, 2011, and 2010 were \$1,514,060, \$1,614,870, and \$1,713,053, respectively, which equal the amount of the required contributions for each year.

NOTE J – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The Office of the Attorney General contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment health care 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 health care 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 Retiree Health Care 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

**NOTE J – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN –
CONTINUED**

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment health care 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 health care 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.

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%

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

**NOTE J – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN –
CONTINUED**

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 \$207,172, \$176,758, and \$140,562, respectively, which equal the required contributions for each year.

NOTE K – COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations – Commitment

The Office of the Attorney General is committed under several leases for office space, grounds, and various equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2012 amounted to \$676,881.

The following is a schedule by years of future minimum lease rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2012:

2013	\$	661,873
2014		679,138
2015		698,063
2016		709,699
2017		702,621
Thereafter		<u>2,032,484</u>
	\$	<u><u>5,483,878</u></u>

Federal Grants – Contingency

The Office of the Attorney General receives federal grants which may be refundable in the event that all terms of the grants are not complied with.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE L – RISK MANAGEMENT

The Office obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance, and State unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Office are covered by a blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence for the period July 1, 2011 through June 30, 2012. There have been no reductions in coverage by risk category for the year ending June 30, 2012.

NOTE M – OTHER DISCLOSURE

As indicated in Note A, under Section 8-5-2 (NMSA 1978, as amended) the Attorney General is directed to prosecute and defend in all actions and proceedings where the State may be a party or have an interest. The Office is also authorized to compromise and settle civil actions under the management and control of the Attorney General pursuant to Section 36-1-22 (NMSA 1978, as amended).

Revenues received are the result of investigation and settlement of enforcement actions brought pursuant to the New Mexico Unfair Practices Act, Section 57-12-1, et. eq., (NMSA 1978, as amended). Cases have been brought against a number of corporations and business organizations that were alleged to be in violation of the State's laws and regulations on deceptive and misleading trade practices.

Pursuant to Orders issued by the Judicial Courts of New Mexico and formal Assurances of Discontinuance, the companies agreed to change their business practices and to make contributions to consumer education/protection efforts managed by the Office of the Attorney General. The Court orders and assurances are binding and based on the statutory provisions cited above, as well as Section 57-12-8 and 57-12-9 of the Unfair Practices Act. These Court orders and assurances mandate that the Office of the Attorney General receive the payments from the settling parties, manage the funds, and use the monies only for consumer protection and education purposes.

The Office has been successful through the Consumer Protection Division in obtaining court ordered settlements from various nationally known vendors.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE N – TRANSFERS

The following amounts were transferred between funds within the Office’s fund structure; to other agencies or received by the Office from other agencies:

<u>Transfers between funds</u>			
<u>From Fund</u>	<u>To Fund</u>	<u>From (To) Transfer Amount</u>	<u>Purpose of the Transfer</u>
54400	17000	\$ 7,307,966	Transfers were made to fully utilize available consumer alert and education programs
27500	27800	<u>108,422</u>	Transfers were made to offset the cost of the Medicaid Fraud Program
Total		<u>\$ 7,416,388</u>	

<u>Transfers from other agencies</u>			
<u>To Fund</u>	<u>From Fund</u>	<u>Transfer Amount</u>	<u>Purpose of the Transfer</u>
17000	85300	\$ 7,672,200	General fund appropriations - Legal services
27800	85300	<u>485,100</u>	General fund appropriations - Medicaid Fraud Program
Total		<u>\$ 8,157,300</u>	

No transfers were inconsistent with the purposes of the funds involved.

NOTE O – 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) 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE O – GENERAL FUND INVESTMENT POOL NOT RECONCILED – CONTINUED

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. By statute 6-5-2.1(J) NMSA 1978, the DFA must reconcile the operating account on a monthly basis.

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 Attorney General's balances at the business unit/fund level is not possible.

The information in the following paragraph is provided by the Department of Finance and Administration in relation to remedial efforts and expected timing.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE P – SUBSEQUENT EVENTS

Events subsequent to June 30, 2012 have been evaluated by management through December 17, 2012, the date of the auditor's report. In the opinion of management, no events occurring after June 30, 2012 required disclosure or adjustment to the financial statements.

NOTE Q – NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has published statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record the government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for members of multiemployer cost sharing plans. The Office is a participating member of the Public Employees Retirement Association (PERA), a multiemployer cost sharing plan. See Note I. Other changes arising from these statements are significant and the Office will comply with these changes as information for implementation is provided by PERA and the State of New Mexico. The implementation date for statement No. 68, most relevant to the Authority is for FY2015. The current status of the unfunded liability for PERA is \$4.97 billion based on the most recently issued audited financial statement at June 30, 2011.

SUPPLEMENTARY INFORMATION

State of New Mexico
Office of the Attorney General

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	Medicaid Program Income - 27500	Antitrust Litigation - 08500	Grant - 64900	ARRA - 89000	Total Non- Major Funds
ASSETS					
Investments, State Treasurer	\$ 2,100	\$ 26,872	\$ -	\$ 25,674	\$ 54,646
Cash in banks	-	-	180	-	180
Due from Federal government	-	-	-	-	-
Total assets	<u>\$ 2,100</u>	<u>\$ 26,872</u>	<u>\$ 180</u>	<u>\$ 25,674</u>	<u>\$ 54,826</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll and benefits	-	-	-	-	-
Due to State general fund	-	-	-	25,674	25,674
Total liabilities	-	-	-	25,674	25,674
FUND BALANCES					
Spendable:					
Restricted for Medicaid fraud program	2,100	-	-	-	2,100
Restricted for antitrust litigation	-	26,872	-	-	26,872
Restricted for consumer settlements	-	-	180	-	180
Total fund balances	<u>2,100</u>	<u>26,872</u>	<u>180</u>	<u>-</u>	<u>29,152</u>
Total liabilities and fund balances	<u>\$ 2,100</u>	<u>\$ 26,872</u>	<u>\$ 180</u>	<u>\$ 25,674</u>	<u>\$ 54,826</u>

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2012

	Medicaid Program Income - 27500	Antitrust Litigation - 08500	Grant - 64900	ARRA - 89000	Total Non- Major Funds
REVENUES					
Federal grants	\$ -	\$ -	\$ -	\$ 247,349	\$ 247,349
Other revenues	<u>26,567</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,567</u>
Total revenues	26,567	-	-	247,349	273,916
EXPENDITURES					
General government					
Current	-	-	-	185,102	185,102
Other services	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,644</u>	<u>36,644</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>221,746</u>	<u>221,746</u>
Excess (deficiency) of revenues over expenditures	26,567	-	-	25,603	52,170
OTHER FINANCING SOURCES (USES)					
Other financing sources-internal transfers	(108,422)	-	-	-	(108,422)
Reversions to State General Fund - FY2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,603)</u>	<u>(25,603)</u>
Total other financing sources (uses)	<u>(108,422)</u>	<u>-</u>	<u>-</u>	<u>(25,603)</u>	<u>(134,025)</u>
Net change in fund balances	(81,855)	-	-	-	(81,855)
Fund balance, beginning of year	<u>83,955</u>	<u>26,872</u>	<u>180</u>	<u>-</u>	<u>111,007</u>
Fund balances, end of year	<u><u>\$ 2,100</u></u>	<u><u>\$ 26,872</u></u>	<u><u>\$ 180</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,152</u></u>

State of New Mexico
Office of the Attorney General

GENERAL FUND BUDGET PROGRAMS

For the year ended June 30, 2012

The General Fund is used to account for all financial resources except those required to be accounted for in another fund (SHARE Fund 17000).

For budget purposes, the General Fund is divided into the following legal references:

Legal Services
Teen Violence
Environmental Crimes Program
Southwest Money Laundering
Traffic Safety
Methamphetamine Initiative
Internet Crimes Against Children
Human Trafficking Task Force
Water Litigation
Homeownership Preservation Program

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – LEGAL SERVICES PROGRAM**

For the year ended June 30, 2012

General Fund - Legal Services	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
State operating grants	\$ 104,000	\$ -	\$ -	\$ -
General fund appropriation, Laws of 2011	7,672,200	7,672,200	7,672,200	-
Miscellaneous revenue	-	-	147,951	147,951
Other financing sources	8,003,900	8,473,900	7,304,362	(1,169,538)
 Total revenue and other financing sources (budget basis)	 <u>\$ 15,780,100</u>	 <u>\$ 16,146,100</u>	 <u>\$ 15,124,513</u>	 <u>\$(1,021,587)</u>
General Fund - Legal Services	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ 13,257,100	\$ 13,044,400	\$ 12,418,064	\$ 626,336
Contractual services	434,700	1,001,500	758,261	243,239
Other	2,088,300	2,100,200	1,948,188	152,012
 Total expenditures and other financing uses (budget basis)	 <u>\$ 15,780,100</u>	 <u>\$ 16,146,100</u>	 <u>\$ 15,124,513</u>	 <u>\$ 1,021,587</u>
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – TEEN VIOLENCE PROGRAM**

For the year ended June 30, 2012

General Fund - Teen Violence	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
State operating grants	\$ -	\$ 250,000	\$ 114,537	\$ (135,463)
Other financing sources	-	-	-	-
Total revenue and other financing sources	\$ -	\$ 250,000	\$ 114,537	\$ (135,463)
General Fund - Teen Violence	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ -	\$ 107,680	\$ 67,301	\$ 40,379
Contractual services	-	116,764	43,251	73,513
Other	-	25,556	3,985	21,571
Total expenditures and other financing uses	\$ -	\$ 250,000	\$ 114,537	\$ 135,463
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – ENVIRONMENTAL CRIMES PROGRAM**

For the year ended June 30, 2012

General Fund - Environmental Crimes	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ -	\$ 220,000	\$ 80,062	\$ (139,938)
Other financing sources	-	-	-	-
Total revenue and other financing sources (budget basis)	\$ -	\$ 220,000	\$ 80,062	\$ (139,938)
Prior year fund balance carryforward	\$ -	\$ -	\$ -	\$ -
General Fund - Environmental Crimes	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ -	\$ 154,280	\$ 72,733	\$ 81,547
Contractual services	-	19,828	-	19,828
Other	-	45,892	7,329	38,563
Total expenditures and other financing uses (budget basis)	\$ -	\$ 220,000	\$ 80,062	\$ 139,938
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – SOUTHWEST MONEY LAUNDERING PROGRAM**

For the year ended June 30, 2012

General Fund - Southwest Money Laundering	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
State operating grants	\$ -	\$ 3,605,920	\$ 569,257	\$(3,036,663)
Other financing sources	-	-	-	-
Total revenue and other financing sources	\$ -	\$ 3,605,920	\$ 569,257	\$(3,036,663)
Prior year fund balance carryforward	\$ -	\$ -	\$ -	\$ -
General Fund - Southwest Money Laundering	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ -	\$ 3,133,470	\$ 509,449	\$ 2,624,021
Contractual services	-	9,600	1,255	8,345
Other	-	462,850	58,553	404,297
Total expenditures and other financing uses	\$ -	\$ 3,605,920	\$ 569,257	\$ 3,036,663
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – TRAFFIC SAFETY PROGRAM**

For the year ended June 30, 2012

General Fund - Traffic Safety	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ -	\$ 236,000	\$ 100,232	\$ (135,768)
Other financing sources	-	-	-	-
Total revenue and other financing sources (budget basis)	\$ -	\$ 236,000	\$ 100,232	\$ (135,768)
Prior year fund balance carryforward	\$ -	\$ -	\$ -	\$ -
General Fund - Traffic Safety	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ -	\$ 221,250	\$ 89,287	\$ 131,963
Contractual services	-	8,000	7,800	200
Other	-	6,750	3,145	3,605
Total expenditures and other financing uses (budget basis)	\$ -	\$ 236,000	\$ 100,232	\$ 135,768
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – METHAMPHETAMINE INITIATIVE PROGRAM**

For the year ended June 30, 2012

General Fund - Methamphetamine Initiative	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ 500,000	\$ 500,000	\$ 96,820	\$ (403,180)
Miscellaneous revenue	-	-	-	-
Other financing sources	-	-	-	-
Total revenue and other financing sources (budget basis)	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 96,820</u>	<u>\$ (403,180)</u>
General Fund - Methamphetamine Initiative	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ 138,863	\$ 166,863	\$ 62,696	\$ 104,167
Contractual services	222,800	270,354	29,136	241,218
Other	138,337	62,783	4,988	57,795
Total expenditures and other financing uses (budget basis)	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 96,820</u>	<u>\$ 403,180</u>
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – INTERNET CRIMES AGAINST CHILDREN PROGRAM**

For the year ended June 30, 2012

General Fund - ICAC	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ -	\$ 258,775	\$ 209,109	\$ (49,666)
Other financing sources	-	-	-	-
Total revenue and other financing sources (budget basis)	\$ -	\$ 258,775	\$ 209,109	\$ (49,666)
Prior year fund balance carryforward	\$ -	\$ -	\$ -	\$ -
General Fund - ICAC	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ -	\$ 48,412	\$ 45,215	\$ 3,197
Contractual services	-	22,868	13,989	8,879
Other	-	187,495	149,905	37,590
Total expenditures and other financing uses (budget basis)	\$ -	\$ 258,775	\$ 209,109	\$ 49,666
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – HUMAN TRAFFICKING TASK FORCE**

For the year ended June 30, 2012

General Fund - Human Trafficking	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ -	\$ 215,000	\$ 60,730	\$ (154,270)
Other financing sources	-	-	-	-
Total revenue and other financing sources (budget basis)	\$ -	\$ 215,000	\$ 60,730	\$ (154,270)
General Fund - Human Trafficking	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ -	\$ 77,140	\$ 19,550	\$ 57,590
Contractual services	-	28,300	-	28,300
Other	-	109,560	41,180	68,380
Total expenditures and other financing uses (budget basis)	\$ -	\$ 215,000	\$ 60,730	\$ 154,270
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – WATER LITIGATION**

For the year ended June 30, 2012

General Fund - Water Litigation	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ -	\$ -	\$ -	\$ -
Other financing sources	1,500,000	1,500,000	1,293,584	(206,416)
Total revenue and other financing sources (budget basis)	\$ 1,500,000	\$ 1,500,000	\$ 1,293,584	\$ (206,416)
General Fund - Water Litigation	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ -	\$ -	\$ -	\$ -
Contractual services	650,000	652,000	458,190	193,810
Other	850,000	848,000	835,394	12,606
Total expenditures and other financing uses (budget basis)	\$ 1,500,000	\$ 1,500,000	\$ 1,293,584	\$ 206,416
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)				
	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000) – HOME PRESERVATION PROGRAM**

For the year ended June 30, 2012

General Fund - Foreclosure Prevention	Budget Original	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ -	\$ -	\$ -	\$ -
Other financing sources	3,500,000	3,500,000	3,604	(3,496,396)
Total revenue and other financing sources (budget basis)	\$ 3,500,000	\$ 3,500,000	\$ 3,604	\$(3,496,396)
General Fund - Foreclosure Prevention	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ 300,000	\$ 300,000	\$ -	\$ 300,000
Contractual services	2,700,000	2,700,000	3,377	2,696,623
Other	500,000	500,000	227	499,773
Total expenditures and other financing uses (budget basis)	\$ 3,500,000	\$ 3,500,000	\$ 3,604	\$ 3,496,396
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	\$ -	\$ -	\$ -	\$ -

State of New Mexico
Office of the Attorney General

ARRA FUND PROGRAMS

For the year ended June 30, 2012

The American Recovery and Reinvestment Act Fund (ARRA) (SHARE 89000) is used to account for federal funds received under the American Recovery and Reinvestment Act. For budget purposes the fund is divided into the grant programs detailed below.

Internet Crimes Against Children
Border Violence Program

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) FUND (FUND 89000)**

For the year ended June 30, 2012

ARRA	Original Budget	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal funds	\$ -	\$ 263,804	\$ 247,349	\$ (16,455)
	-	-	-	-
Total revenue	\$ -	\$ 263,804	\$ 247,349	\$ (16,455)
Prior year fund balance	\$ -	\$ -	\$ -	\$ -
ARRA	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personnel	\$ -	\$ 214,244	\$ 185,102	\$ 29,142
Contractual	-	5,796	-	5,796
Other	-	43,764	36,644	7,120
Total expenditures (single year)	\$ -	\$ 263,804	221,746	\$ 42,058
Reversion			\$ (25,603)	

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) FUND (FUND 89000) –
INTERNET CRIMES AGAINST CHILDREN PROGRAM**

For the year ended June 30, 2012

ARRA - ICAC	Original Budget	Revised Budget	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal funds	\$ -	\$ 44,235	\$ 43,352	\$ (883)
Total revenue	<u>\$ -</u>	<u>\$ 44,235</u>	<u>\$ 43,352</u>	<u>\$ (883)</u>
Prior year fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ARRA - ICAC	Budget Original	Revised Budget	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personnel	\$ -	\$ 43,001	\$ 42,128	\$ 873
Contractual	-	-	-	-
Other	-	1,234	1,224	10
Total expenditures (single year)	<u>\$ -</u>	<u>\$ 44,235</u>	<u>\$ 43,352</u>	<u>\$ 883</u>

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) FUND (FUND 89000) –
BORDER VIOLENCE PROGRAM**

For the year ended June 30, 2012

<u>ARRA - Border Violence</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual Amount Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:				
Federal funds	\$ -	\$ 219,569	\$ 203,997	\$ (15,572)
Total revenue	<u>\$ -</u>	<u>\$ 219,569</u>	<u>\$ 203,997</u>	<u>\$ (15,572)</u>
Prior year fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>ARRA - Border Violence</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual Amounts Expended</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures:				
Personnel	\$ -	\$ 171,243	\$ 168,578	\$ 2,665
Contractual	-	5,796	5,155	641
Other	-	42,530	30,264	12,266
Total expenditures	<u>\$ -</u>	<u>\$ 219,569</u>	<u>\$ 203,997</u>	<u>\$ 15,572</u>

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS –
MEDICAID FRAUD PROGRAM INCOME FUND (FUND 27500)**

For the year ended June 30, 2012

<u>Medicaid Fraud Program Income</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual Amount Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Program income	\$ 200,000	\$ 200,000	\$ 26,567	\$ (173,433)
Total revenues	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 26,567</u>	<u>\$ (173,433)</u>
Prior year fund balance	<u>\$ -</u>	<u>\$ 198,549</u>	<u>\$ 198,549</u>	<u>\$ -</u>
<u>Medicaid Fraud Program Income</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual Amounts Expended</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures:				
General government:				
Other	\$ 200,000	\$ 200,000	\$ -	\$ 200,000
Other financing uses	<u>-</u>	<u>198,549</u>	<u>108,422</u>	<u>90,127</u>
Total expenditures	<u>\$ 200,000</u>	<u>\$ 398,549</u>	<u>\$ 108,422</u>	<u>\$ 290,127</u>

OTHER SUPPLEMENTARY INFORMATION

State of New Mexico
Office of the Attorney General

FIDUCIARY FUNDS

For the year ended June 30, 2012

Agency Funds

The Agency Funds of the Office of the Attorney General are used to account for the proceeds of settlements and court decisions until the proceeds may be distributed to the proper recipients.

Dram matter cost share fund (SHARE Fund #08100)
Victim restitution fund (SHARE Fund #69500)
Special trust fund (SHARE Fund #70100)
Cummins settlement fund (SHARE Fund #70200)
Mylan multi-state antitrust fund (SHARE Fund #95000)
Buspar multi-state antitrust fund (SHARE Fund #12700)

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES –
ALL AGENCY FUNDS**

June 30, 2012

	Balance June 30, 2011	Additions	(Deletions)	Balance June 30, 2012
<u>Victims restitution fund (SHARE #69500)</u>				
ASSETS				
Investments, State Treasurer	\$ 1,300	\$ -	\$ -	\$ 1,300
Interest receivable	-	-	-	-
Total assets	\$ 1,300	\$ -	\$ -	\$ 1,300
LIABILITIES				
Deposits held for consumers and others	\$ 1,300	\$ -	\$ -	\$ 1,300
Total liabilities	\$ 1,300	\$ -	\$ -	\$ 1,300
 <u>Special trust fund (SHARE #70100)</u>				
ASSETS				
Investments, State Treasurer	\$ 11,260	\$ -	\$ -	\$ 11,260
Interest receivable	-	-	-	-
Total assets	\$ 11,260	\$ -	\$ -	\$ 11,260
LIABILITIES				
Deposits held for consumers and others	\$ 11,260	\$ -	\$ -	\$ 11,260
Total liabilities	\$ 11,260	\$ -	\$ -	\$ 11,260
 <u>Cummins settlement fund (SHARE #70200)</u>				
ASSETS				
Investments, State Treasurer	\$ 6,581	\$ 9	\$ -	\$ 6,590
Interest receivable	-	-	-	-
Total assets	\$ 6,581	\$ 9	\$ -	\$ 6,590
LIABILITIES				
Deposits held for consumers and others	\$ 6,581	\$ 9	\$ -	\$ 6,590
Total liabilities	\$ 6,581	\$ 9	\$ -	\$ 6,590

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES –
ALL AGENCY FUNDS – CONTINUED**

June 30, 2012

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Mylan multi-state antitrust fund (SHARE #95000)</u>				
ASSETS				
Investments, State Treasurer	\$ 316,051	\$ 434	\$ -	\$ 316,485
Interest receivable	28	37	-	65
Total assets	<u>\$ 316,079</u>	<u>\$ 471</u>	<u>\$ -</u>	<u>\$ 316,550</u>
LIABILITIES				
Deposits held for consumers and others	\$ 316,079	\$ 471	\$ -	\$ 316,550
Total liabilities	<u>\$ 316,079</u>	<u>\$ 471</u>	<u>\$ -</u>	<u>\$ 316,550</u>
 <u>Buspar multi-state antitrust fund (SHARE #12700)</u>				
ASSETS				
Investments, State Treasurer	\$ 6,949	\$ 10	\$ -	\$ 6,959
Interest receivable	-	-	-	-
Total assets	<u>\$ 6,949</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 6,959</u>
LIABILITIES				
Deposits held for consumers and others	\$ 6,949	\$ 10	\$ -	\$ 6,959
Total liabilities	<u>\$ 6,949</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 6,959</u>
 <u>Dram matter cost share (SHARE #08100)</u>				
ASSETS				
Investments, State Treasurer	\$ 5,892	\$ -	\$ -	\$ 5,892
Interest receivable	-	-	-	-
Total assets	<u>\$ 5,892</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,892</u>
LIABILITIES				
Deposits held for consumers and others	\$ 5,892	\$ -	\$ -	\$ 5,892
Total liabilities	<u>\$ 5,892</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,892</u>

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES –
ALL AGENCY FUNDS – CONTINUED**

June 30, 2012

	Balance June 30, 2011	Additions	(Deletions)	Balance June 30, 2012
<u>Total - All Agency Funds</u>				
ASSETS				
Investments, State Treasurer	\$ 348,033	\$ 453	\$ -	\$ 348,486
Interest receivable	28	37	-	65
Total assets	<u>\$ 348,061</u>	<u>\$ 490</u>	<u>\$ -</u>	<u>\$ 348,551</u>
LIABILITIES				
Deposits held for consumers and others	\$ 348,061	\$ 490	\$ -	\$ 348,551
Total liabilities	<u>\$ 348,061</u>	<u>\$ 490</u>	<u>\$ -</u>	<u>\$ 348,551</u>

State of New Mexico
Office of the Attorney General

SCHEDULE OF CASH ACCOUNTS

June 30, 2012

Account Name	SHARE Fund No. Account Number	Balance per Depository	Reconciling Items		Reconciled Balance at June 30, 2012
			Outstanding Warrants	Other	
Governmental fund types					
Wells Fargo Bank:					
General fund-petty cash fund	17000	\$ 9,303	\$ -	\$ -	\$ 9,303
Grant fund-checking	64900	180	-	-	180
		<u>\$ 9,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,483</u>
Total governmental fund types		<u>\$ 9,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,483</u>
Total - all cash		<u>\$ 9,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,483</u>

State of New Mexico
Office of the Attorney General

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

<u>Federal Agency/ Grantor/Program/Pass through entity</u>	<u>Federal CFDA Number</u>	<u>Grant Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Direct Programs:			
Medicaid Fraud Control Unit:			
01-07-01-NM-5050	93.775	\$ 1,245,000	<u>\$ 1,090,051</u>
Total U.S. Department of Health and Human Services			1,090,051
U.S. Department of Justice:			
Direct Programs:			
Office of Juvenile Justice and Delinquency Prevention:			
Investigative satellite initiative -			
Internet Crimes Against Children (ICAC)	16.543	296,824	209,109
Meth Initiative Public Safety Partnership and Community Policing	16.710	500,000	96,820
New Mexico Human Trafficking Task Force	16.753	215,000	60,730
Environmental Crimes	16.753	220,000	80,062
ARRA-American Recovery and Reinvestment Act spending:			
Border Violence Recovery Act Rural Law Enforcement Assistance			
	16.810	678,880	185,102
Internet Crimes Against Children Task Force program grants	16.800	488,527	<u>36,644</u>
Total ARRA-American Recovery and Reinvestment Act spending			<u>221,746</u>
Total U.S. Department of Justice			668,467
U.S. Department of Transportation:			
Pass through entity: New Mexico Department of Transportation:			
Pass through entity Identifying numbers: 11-AL-64-P15; 11-PT 02-408; 11-PT-RF-P14			
Traffic Safety Resource Prosecutor	20.600/20.608	120,000	<u>100,232</u>
Total U.S. Department of Transportation			<u>100,232</u>
Total expenditures of federal awards			<u>\$ 1,858,750</u>

State of New Mexico
Office of the Attorney General

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the year ended June 30, 2012

Notes to Schedule of Expenditures of Federal Awards

A. Basis of Presentation

The Schedule of Expenditures of Federal Awards was prepared using the modified accrual basis of accounting.

B. Noncash Assistance

The Department did not receive any federal awards in the form of noncash assistance or loan assistance during the year.

Reconciliation of Federal Expenditures
to expenditures per the Statement of Revenues, Expenditures,
and Changes in Fund Balance

State expenditures	\$ 16,969,881
Federal expenditures	<u>1,858,750</u>
Total expenditures per statement of revenues expenditures and changes in fund balance	<u><u>\$ 18,828,631</u></u>



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**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**

Honorable Gary K. King, Attorney General
Office of the Attorney General
and
Mr. Hector H. Balderas, State Auditor
Office of the State Auditor

We have audited the accompanying financial statements of governmental activities, each major fund, the budgetary comparison for the General Fund and Major Special Revenue Funds and the aggregate remaining fund information of the State of New Mexico, Office of the Attorney General, as of and for the year ended June 30, 2012, which collectively comprise the Office of the Attorney General's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Office of the Attorney General's nonmajor governmental funds and respective budgetary comparison presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012, as listed in the table of contents, and have issued our report thereon dated December 17, 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 of the Attorney General is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office of the Attorney General'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 of the Attorney General's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office of the Attorney General'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 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.

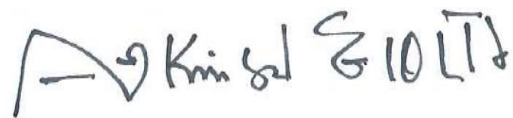
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. This finding can be referenced as item 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.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Office of the Attorney General's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain other matter that is required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and questioned costs as item 12-03.

This report is intended solely for the information and use of management, others within the Office of the Attorney General, the Office of the State Auditor, the New Mexico Legislature, Department of Finance and Administration, and applicable Federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 17, 2012



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Gary K. King, Attorney General
Office of the Attorney General
and
Mr. Hector H. Balderas, State Auditor
Office of the State Auditor

Compliance

We have audited the State of New Mexico, Office of the Attorney General's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Office of the Attorney General's major federal programs for the year ended June 30, 2012. The Office of the Attorney General's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Office of the Attorney General's management. Our responsibility is to express an opinion on the Office of the Attorney General's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Office of the Attorney General's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Office of the Attorney General's compliance with those requirements.

In our opinion the Office of the Attorney General complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 12-02.

Internal Control Over Compliance

Management of the Office of the Attorney General is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Office of the Attorney General's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Office of the Attorney General's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the Office of the Attorney General, the Office of the State Auditor, the New Mexico Legislature, Department of Finance and Administration, and applicable Federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 17, 2012

State of New Mexico
Office of the Attorney General

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes none reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.775	Department of Health and Human Services: State Medicaid Fraud Control Units

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2012

II. Findings – Findings and Questioned Costs – Major Federal Award Programs Audit

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.775	Department of Health and Human Services: State Medicaid Fraud Control Units

Questioned costs: None

III. Status of Prior Audit Findings

None

IV. Current Audit Findings

Financial Statement Findings Required by *Government Auditing Standards*

12-01 General Ledger Reconciliations

Findings in Accordance with OMB Circular A-133

12-02 Lack of Time Certifications

Findings in Accordance with 2.2.2. NMAC

12-03 Noncompliance with Capital Asset Requirements

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2012

Financial Statement Finding Required by *Government Auditing Standards*

12-01 General Ledger Reconciliations (Significant Deficiency)

Condition:

Federal accounts receivable and accrued liabilities were misstated on the trial balance the Office provided at the beginning of the audit. Cash in the general fund was overdrawn in excess of \$500,000.

Criteria:

Chapters §6-5-1 through §6-5-6, NMSA 1978, set requirements for State agencies. The statutes require State agencies to implement internal accounting controls designed to prevent accounting errors and violations of State and Federal law and rules related to financial matters.

Cause:

Reconciliations were not performed timely.

Effect:

The Office did not have accurate financial information during FY12.

Recommendation:

We recommend the Office perform monthly reconciliations of all balance sheet accounts.

Responsible Official's View:

The timing of Budget Adjustment Requests did not coincide properly with the need to draw down funds to supplement our general fund budget. Due to a heavy load of grant administration and other unexpected activity, monthly reconciliations were not done in a timely manner. Although we feel we do our best to monitor internal controls and follow the model accounting practices manual set forth by the Department of Finance and Administration, we understand that we need better control of our reconciliation process.

We are in the process of realigning duties and processes so that our Finance Manager can concentrate more fully on monthly reconciliation and reporting. We intend to have reviews of this process no less than quarterly and request updates from the Finance Manager monthly.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2012

Findings in Accordance with OMB Circular A-133

**U.S. Department of Health and Human Services
State Medicaid Fraud Control Units CFDA 93.775
Award Period: 7/1/2011 – 6/30/2012
Questioned Costs: None**

12-02 Lack of Timesheet Certifications (Noncompliance)

Condition:

The Office did not require employees who are charged 100% to a federal program to certify as such.

Criteria:

OMB Circular A-87 requires all employees who are charged 100% to a federal program to certify, semi-annually, that they worked solely on the federal program that pays their salary and benefits.

Cause:

The Office was unaware of this Federal requirement.

Effect:

The Office is not in compliance with Federal time reporting requirements. The possibility exists that employees may be paid erroneously by a Federal program, although no erroneous charges were noted.

Recommendation:

We recommend that semi-annual certifications are completed by all employees whose pay is reimbursed by a Federal grant.

Responsible Official's View:

Unfortunately, we were not aware of the OMB Circular A-133 requirement to certify semi-annually that all grant (federally-funded) employees work only on federal work. We were under the impression that timesheets coded to federally funded expenditure codes was sufficient to certify work charged to federal grants. Additionally, none of our sponsor federal agencies had ever asked for such documentation. However, we understand that ignorance of the requirement does not relieve responsibility to comply.

To assure that all federally funded employees in the Attorney General's Office make the required OMB semi-annual certification, our Human Resources group is developing a methodology and certification form which will be monitored and placed in each affected employee's personnel file.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2012

Finding in Accordance with NMAC 2.2.2

12-03 Noncompliance with Capital Asset Requirements (Noncompliance)

Condition:

The Office did not complete a capital asset inventory in FY12. Additionally, when the inventory was taken subsequent to year-end, there were items which could not be found. We could not determine whether these items were disposed of in accordance with state statute.

Criteria:

Section 12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency's auditors. Sections 13-6-1 and 13-6-2 NMSA 1978 govern the disposition of obsolete, worn-out or unusable tangible personal property owned by State agencies, local public bodies, school districts, and State educational institutions. At least thirty days prior to any disposition of property on the agency inventory list, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the State Auditor.

Cause:

The Office recently dedicated an employee to oversee the capital asset inventory and related compliance. This person was not aware of the various requirements of accounting and reporting for capital assets.

Effect:

The Office did not have a complete, reconciled inventory of capital assets.

Recommendation:

We recommend the Office and the designated employee continue to work with the independent auditor on compliance and tracking issues related to capital assets.

Responsible Official's View:

We know that there have been issues with annual inventory and disposal. We do have an employee assigned to inventory and disposal, however, we still do not have a satisfactory system for the inventory of capital assets.

We agree that we should continue to work with our auditors to improve our system. Additionally, we will work on training our staff who are responsible for the inventory.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2012

Finding in Accordance with NMAC 2.2.2 - Continued

12-03 Noncompliance with Capital Asset Requirements (Noncompliance) - Continued

Responsible Official's View - Continued:

We have also purchased a help-desk and IT inventory system to implement an accurate accounting of our IT assets. The new system tracks each help service request and notes the inventory equipment making the request and checks against the inventory database.

To assist in creating a reliable capital asset (other than IT) inventory and disposal system, our database manager is creating a complete system to track and record inventory items as well as disposals.

State of New Mexico
Office of the Attorney General

FINANCIAL STATEMENT PREPARATION

June 30, 2012

The financial statements were prepared by the independent certified public accounting firm performing the audit with the assistance of the Office's Finance Manager. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance. Management has reviewed and approved the financial statements.

EXIT CONFERENCE

An exit conference was held on December 5, 2012 to discuss the audit. The following individuals were in attendance:

State of New Mexico – Office of the Attorney General

Gary K. King, Attorney General
Evangeline Tinajero, Administrative Services Division Director
Tammy Herrera, Finance Manager

Independent Auditor – Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM, Audit Director
James Hartogenesis, CPA, CGFM, Audit Senior Manager

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