

OFFICE OF THE STATE AUDITOR

Hector H. Balderas



Financial Statements Year Ended June 30, 2012

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Financial Statements
Year Ended June 30, 2012

(With Independent Auditor's Report Thereon)

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2012**

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**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2012**

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**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Official Roster
June 30, 2012**

<u>Name</u>	<u>Title</u>
Hector H. Balderas, Esq.	State Auditor
Carla Martinez, CPA, Esq.	Deputy State Auditor
Evan Blackstone, Esq.	Chief of Staff
Carla Martinez, CPA, Esq.	General Counsel
Antonio Corrales	Operations and Compliance Director
Kathryn Neidigk, CPA	Chief Financial Officer
Rita Archuleta	Budget and Finance Director



Macias, Gutierrez
& Co., P.C.

Certified Public Accountants
Member AICPA, NMSCPA

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INDEPENDENT AUDITORS' REPORT

Honorable Hector H. Balderas, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the major fund and the budgetary comparison statement for the general fund of the State of New Mexico, Office of the State Auditor (Office) as of and for the year ended June 30, 2012, which collectively comprise the Office's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Office's general fund accounts and the respective budgetary comparisons 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Office are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, the major fund, and the budgetary comparison statement for the General Fund that are attributable to the transactions of the Office. 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 its financial position and its cash flows, where applicable, 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 and the major fund of the State of New Mexico, Office of the State Auditor as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison statement for the General Fund 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 general fund account of the Office as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparisons of each general fund account 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 October 30, 2012 on our consideration of the Office's internal control over financial reporting and 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 vii through xvi 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.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Española, New Mexico
October 30, 2012

Management's Discussion and Analysis

The Office of the State Auditor's (Office's) discussion and analysis is provided as an overview of the financial activities of the Office for the fiscal year ended June 30, 2012.

The Basic Financial Statements

In compliance with requirements of accounting principles generally accepted in the United States of America (GAAP) the Office's basic financial statements include the:

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

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

- Combining financial statements, and
- Individual SHARE account budget comparison statements.

The Management's Discussion & 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 manner similar to private-sector business reporting. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental activities and business-type activities. However, the Office does not have any business-type activities to report.

The *statement of net assets* inclusively presents current and long-term assets and liabilities, with the difference between the assets and liabilities reported as net assets. The *statement of activities* presents all changes in net assets as soon as 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 only result in cash flows in future fiscal periods, like uncollected receivables (even if the "available" criteria is not met) and earned but unused employee leave liabilities.

The Fund Financial Statements

The fund financial statements are used to report additional and detailed information. 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. Funds are used to ensure and demonstrate

compliance with finance-related legal requirements. The Office has only one governmental-type fund, the general fund. The governmental fund reporting focus is primarily on the sources, uses, and balances of current financial resources and has a budgetary orientation.

A summary reconciliation to the government-wide financial statements is presented at the bottom of the fund financial statements.

The Budget Comparison Statement

The budget comparison statement presents the original and final appropriated budget for the reporting period as well as actual inflows and outflows stated on the budgetary basis. A separate column reports the variance between the final budget and actual amounts. In compliance with New Mexico Administrative Code (NMAC) Section 2.2.2.10.O.(1) through (3) the *Statement of Revenues and Expenditures – Budget and Actual*:

- Includes prior-year fund balance required to balance the budget;
- Has been included as part of the basic financial statements; and
- Has been included in the auditor’s opinion.

The Office general fund consists of two individual Statewide Human Resources Accounting and Management Reporting System (SHARE) funds (or accounts). Therefore, two individual fund (or account) budget comparison statements have been included following the combining statements in order to demonstrate budget compliance at the SHARE fund level, and to comply with the audit scope requirements of Section 2.2.2.10.A(2)(d) of NMAC.

Government-wide condensed financial information is displayed in the tables below. Comparative information from the previous fiscal year is included for the reader’s information.

Office of the State Auditor’s Net Assets

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>
Petty Cash	\$ 100	\$ 100	\$ -
Investment in General Fund Investment Pool	505,405	482,992	22,413
Receivables	107,245	56,851	50,394
Capital assets net of depreciation	<u>36,561</u>	<u>21,373</u>	<u>15,188</u>
 Total assets	 <u>\$ 649,311</u>	 <u>\$ 561,316</u>	 <u>\$ 87,995</u>

Office of the State Auditor's Net Assets (Continued)

	FY 2012	FY 2011	Change
Accounts payable	\$ 24,084	\$ 33,346	\$ (9,262)
Accrued salary & employee benefits	75,764	77,703	(1,939)
Due to State General Fund	1,839	2,794	(955)
Compensated absences	116,593	143,023	(26,430)
Total liabilities	218,280	256,866	(38,586)
Net assets, invested in capital assets	36,561	21,373	15,188
Net assets, unrestricted	394,470	283,077	111,393
Total net assets	\$ 431,031	\$ 304,450	\$ 126,581

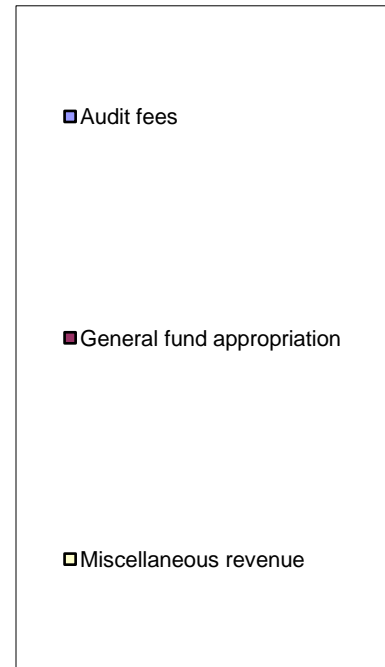
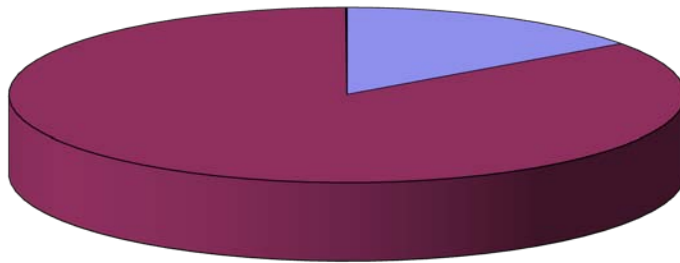
The unrestricted net asset amount of \$394,470 is available to be used to meet the Office's ongoing obligations to citizens and creditors.

Office of the State Auditor's Changes in Net Assets

	FY 2012	FY 2011	Change
Program revenues			
Audit services	\$ 392,715	\$ 498,427	\$ (105,712)
Miscellaneous revenue	1,560	221	1,339
Total program revenues	394,275	498,648	(104,373)
General revenues			
State general fund appropriation, net	2,210,361	2,196,105	14,256
Total general revenues	2,210,361	2,196,105	14,256
Total program and general revenues	\$ 2,604,636	\$ 2,694,753	\$ (90,117)

The Office's Program and General Revenues for fiscal year ended June 30, 2012 are depicted in the chart below.

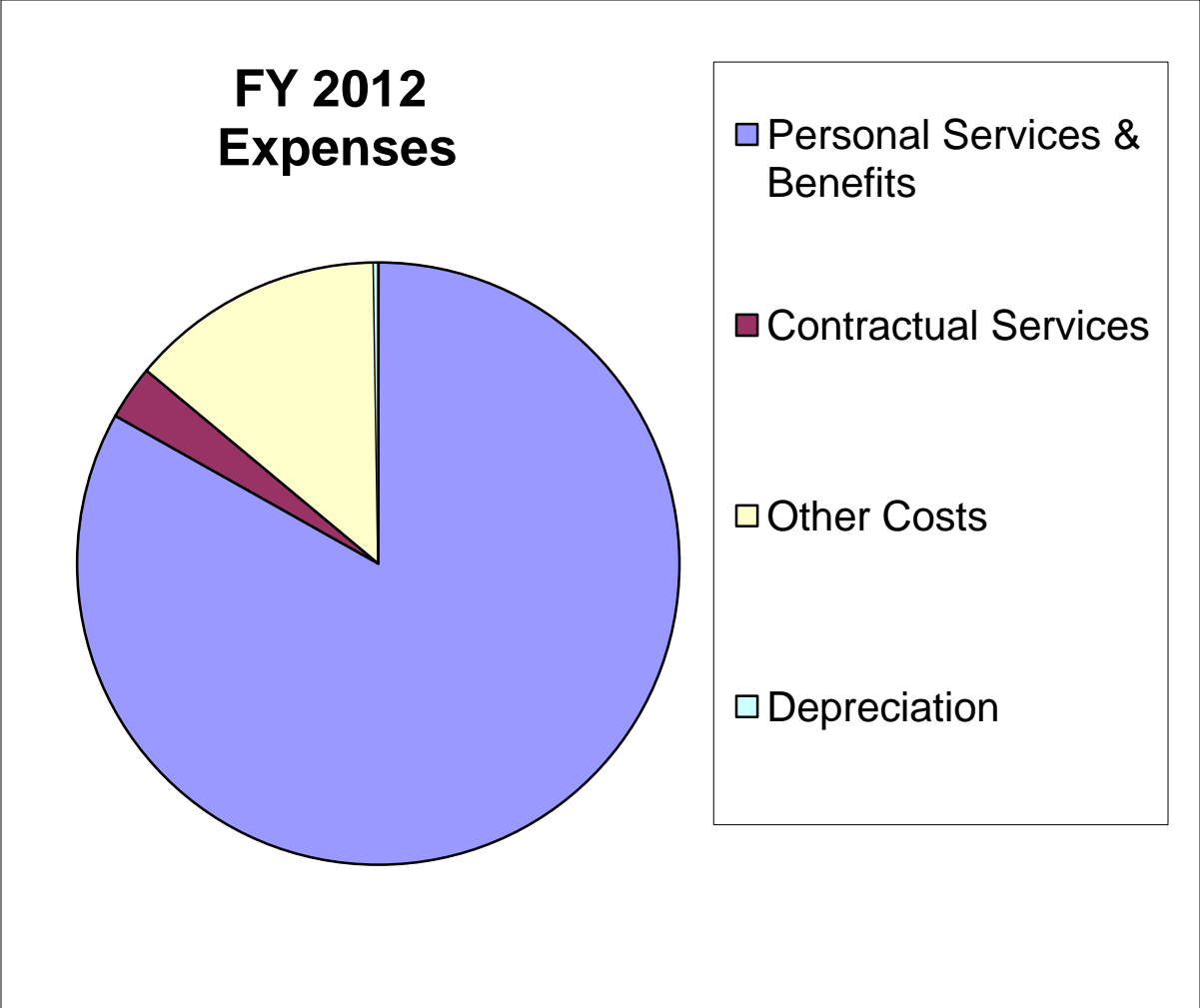
**FY 12
Program & General Revenues**



Office of the State Auditor's Changes in Net Assets (Continued)

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>
Program expenses			
Personal services & benefits	\$ 2,060,545	\$ 2,321,700	\$ (261,155)
Contractual services	72,019	166,392	(94,373)
Other costs	339,702	390,677	(50,975)
Depreciation	5,789	5,444	345
 Total program expenses	 <u>2,478,055</u>	 <u>2,884,213</u>	 <u>(406,158)</u>
 Change in net assets	 126,581	 (189,460)	 316,041
 Beginning net assets	 304,450	 493,910	 (189,460)
 Ending net assets	 <u>\$ 431,031</u>	 <u>\$ 304,450</u>	 <u>\$ 126,581</u>

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2012 appear in the chart that follows.



Financial Analysis of the Fund Financial Statements

As noted earlier, the Office uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, providing useful information on near-term inflows, outflows, and balances of available resources (modified accrual basis). Unassigned and assigned fund balances serve as measures of net resources available for future appropriation. Because unexpended unencumbered balances in SHARE fund 11100 (Administrative Account) must revert to the State General Fund, the unassigned fund balance will be zero, except for the \$100 related to the petty cash. However, if there are accounts payable at year end that did not get paid within the 31 days after fiscal year end allowed by statute, there could be a resulting negative unassigned fund balance. SHARE fund 11200 (IPA Account) is non-reverting. Therefore, the assigned fund balance is available for future appropriation. The committed fund balance in fund 11200 is not available because it has already been committed for expenditure in subsequent fiscal year by statutes approved by the legislature and the governor.

Fund Balance	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Committed for Subsequent years	\$ 221,200	\$ 199,400	
Assigned to Audit Expenses	289,763	223,600	
Unassigned	100	100	
Reserved for Subsequent years			\$ 418,100
Reserved for Petty Cash			100
Unreserved			206,206
Total Fund Balance	<u>\$ 511,063</u>	<u>\$ 423,100</u>	<u>\$ 624,406</u>

The fund balance available for appropriation in future fiscal years, is presented as “Assigned” in FY12 and FY11 and was presented as “unreserved” in previous years. It was generated from audit fees earned by the Office. Changes have occurred in this available fund balance as follows:

- Increased from FY10 to FY11 by \$17,394; and
- Increased from FY11 to FY12 by \$66,163.

The \$17,394 increase in assigned fund balance in FY11 was the result of the following circumstances related to SHARE account 11200: (1) the fund balance reserve budgeted for expenditure during the FY11 was decreased down to \$199,400 from the FY10 amount of \$418,100; (2) FY11 actual charges for audit service revenues exceeded the budgeted revenues; and (3) actual personnel expenditures cost less than the budgeted amount.

The \$66,163 increase in assigned fund balance in FY12 was the result of SHARE account 11200 actual revenues exceeding actual expenditures, which was mainly a result of personnel services and employee benefits expenditures remaining well below the budgeted amount. On June 30, 2012, the Office had only 23 of its 33 positions filled.

During the same period of time, audit fee revenue on the modified accrual basis increased by \$140,112 between FY10 and FY11 and decreased by (\$99,712) between FY11 and FY12.

Audit Fee Revenue (Modified Accrual Basis)

	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Audit Fee Revenue	<u>\$ 395,715</u>	<u>\$ 495,427</u>	<u>\$ 355,315</u>

In FY10 the Office earned the audit fees shown below from the following governmental entities.

Children, Youth and Families Dept.	Annual financial and compliance audit	\$ 70,020
Aging & Long-Term Services Dept.	Annual financial and compliance audit	49,400
Mora Schools	Special audit	12,000
Rio Arriba County	Annual financial and compliance audit	74,960
City of Albuquerque	Annual financial and compliance audit	148,935
	Total	<u>\$ 355,315</u>

The total contract amount of the City of Albuquerque audit for FY09 was \$179,957. However, due to the City not being ready for audit, the Office was able to complete only 83% of the audit and bill the City \$148,935 in FY10. Therefore, the Office earned and billed the remaining \$31,024 of this contract in FY11.

In FY11 the Office earned the audit fees shown below from the following governmental entities and collected \$8,163 of old receivables.

Collection of old FY03 receivables	Quay County special audit	\$ 8,163
Children, Youth and Families Dept.	Annual financial and compliance audit	70,470
Children, Youth and Families Dept.	Special examination	18,000
Corrections Department	Annual financial and compliance audit	58,600
Corrections Department	Special audit	50,000
Rio Arriba County	Annual financial and compliance audit	74,960
City of Albuquerque FY09	Annual financial and compliance audit	31,024
City of Albuquerque FY10	Annual financial and compliance audit	184,210
	Total	<u>\$ 495,427</u>

In FY12 the Office earned the audit fees shown below from the following governmental entities and collected \$3,000 of old receivables.

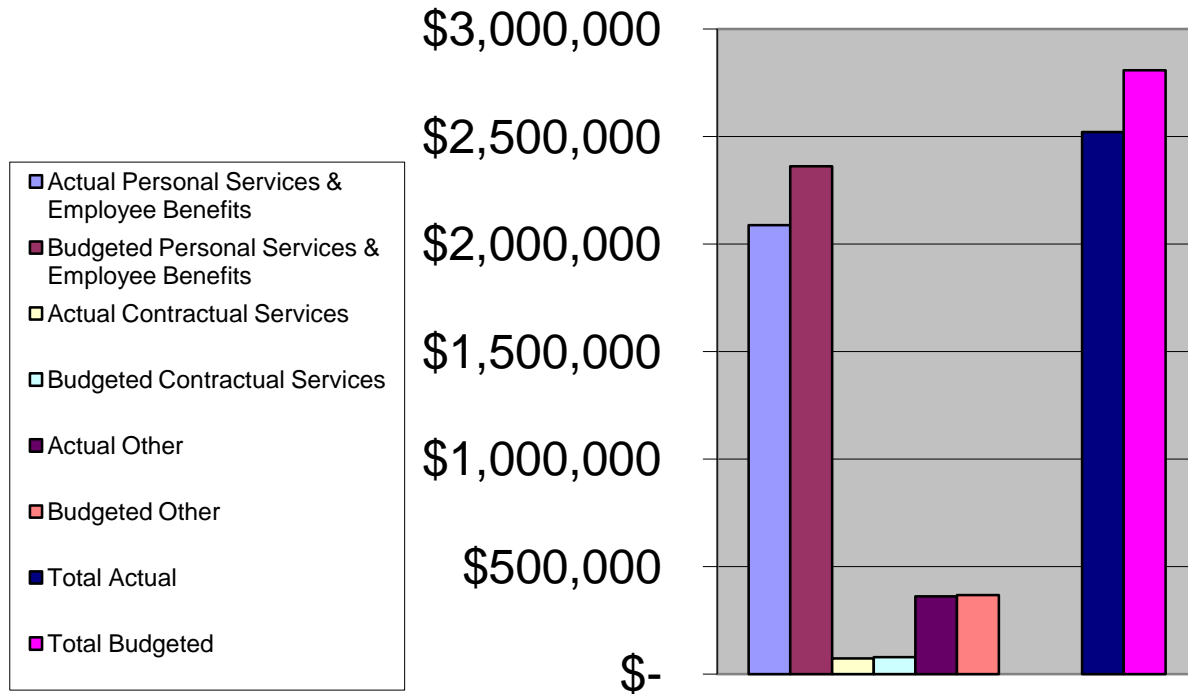
Collection of old FY03 receivables	African American Affairs audit	\$ 3,000
Children, Youth and Families Dept.	Annual financial and compliance audit	70,470
Corrections Department	Annual financial and compliance audit	115,000
Corrections Department	Interim work for FY12 audit	7,245
Rio Arriba County	Annual financial and compliance audit	100,000
City of Sunland Park Special	Annual financial and compliance audit	100,000
	Total	<u>\$ 395,715</u>

General Fund Budgetary Highlights

The FY12 combined budget of \$2,833,400 for both SHARE accounts 11100 and 11200 was decreased by a total of 1% by the Laws of 2011, HB 2, Section 10, Subsection B, to reflect lower employer contribution rates for certain retirement plans under the Public Employees Retirement Act.” That statute resulted in a total decrease to Personal Services and Benefits of \$26,000 in FY12. The Office processed one budget adjustment request (BAR) in fund 11100 during FY12. The BAR moved \$55,000 out of the Personal Services and Benefits category and into the “Other costs” category.

For additional budget information see Exhibit E in the financial statements section and Statements 3 and 4 in the combining and individual fund financial statements section of the report. The following chart also reflects the actual to budget comparisons for the fiscal year.

FY12 Actual / Budgeted Expenditures



Capital Assets

The Office's investment in capital assets, net of accumulated depreciation is \$36,561. There is no debt related to these capital assets. During FY12, the Office purchased one new server at a cost of \$10,827 and paperless audit software for \$10,150. Depreciation expense for the year was \$5,789. The Office disposed of \$21,379 of capital assets, with related accumulated depreciation of \$21,379, resulting in no loss or gain. As a result of this activity, the investment in capital assets, net of accumulated depreciation changed from \$21,373 at June 30, 2011 to \$36,561 at June 30, 2012, for a net increase of \$15,188.

Long-term Debt

The total compensated absences liability decreased by \$26,130 from \$143,023 as of June 30, 2011, to \$ 116,893 at June 30, 2012. The Office estimated that the amount of compensated absences balance that would be used in FY12 would be about the same as the amount used in FY11, resulting in all of the \$116,893 balance being reported as current.

The Political Environment and Next Year's Budget

At the end of FY12 the Office had ten vacant positions out of a total of 33 positions. The Office has experienced difficulty hiring experienced auditors and is working with State Personnel on that issue.

The Office experienced a \$971,522 (25.7%) decrease in budget between the FY09 final budget amount of \$3,778,922 and FY12 final budget amount of \$2,807,400 as indicated below. The FY13 HB2 appropriation reflects a 12.8% increase over the FY12 final budget, also indicated below. However, the FY13 budget of \$3,167,800 is still \$611,122 less than the FY09 final budget of \$3,778,922, a 16.2% reduction from the final FY09 budget.

Combined Funds 11100 & 11200	FY13 Budget	FY12 Budget	FY11 Budget	FY10 Budget	FY09 Budget
Personal Services & Employee Benefits	2,657,700	2,361,200	2,503,300	2,495,300	2,913,910
Contractual Services	65,700	78,300	155,600	200,900	248,600
Other	444,400	367,900	386,800	475,800	616,412
Total	<u>3,167,800</u>	<u>2,807,400</u>	<u>3,045,700</u>	<u>3,172,000</u>	<u>3,778,922</u>
Percentage Increase or Decrease		<u>12.8%</u>	<u>(7.8%)</u>	<u>(4.0%)</u>	<u>(16.2%)</u>

Performance Measure Results and Next Year's Target

Due to implementation of the Accountability in Government Act (AGA), Chapter 15, Laws of 1999, six performance measurements were incorporated into the appropriation for the Office for the first time in fiscal year 2003, and every year since then. The target measures and related results for fiscal year 2012 are shown below. Fiscal year 2013 target measures are reflected in the column at the far right.

Performance Measure	FY12 Target Measures	FY12 Results	FY13 Target Measures
Output: Total audit fees generated	\$400,000	\$395,715	\$430,000
Outcome: Percent of audits completed by regulatory due date	80%	81%	80%
Output: Number of training sessions performed	22	20	16
Outcome: Percent of statutory reviews of audit reports completed within ten days	79%	79%	75%
Efficiency: Percent of agency auditor selection requests processed within five days of receipt	95%	94%	95%
Number of independent public accountant working paper reviews	45	24	45

Requests for Information

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

The Office of the State Auditor
2540 Camino Edward Ortiz, Suite A
Santa Fe, NM 87507

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Exhibit A

Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	505,405
Accounts receivable, net of allowance (note 3)	-
Due from other state agencies (note 3)	7,245
Due from local governments	100,000
Capital assets, net of accumulated depreciation (note 4)	<u>36,561</u>
Total assets	<u>649,311</u>
LIABILITIES	
Accounts payable	24,084
Payroll benefits payable	39,863
Payroll taxes payable	19,998
Accrued salaries	15,903
Due to state general fund (note 7)	1,839
State dated warrants	-
Compensated absences: (note 5)	
Due within one year	116,593
Due in more than one year	<u>-</u>
Total liabilities	<u>218,280</u>
NET ASSETS:	
Invested in capital assets (note 4)	36,561
Restricted	-
Unrestricted	<u>394,470</u>
Total net assets	<u><u>\$ 431,031</u></u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Exhibit B

Statement of Activities
For the Year Ended June 30, 2012

	Governmental Activities
Expenses:	
General government - audit services	
Personal services & employee benefits	\$ 2,060,545
Contractual services	72,019
Other Costs	339,702
Depreciation	5,789
Total program expenses	2,478,055
Program revenues:	
Charges for audit services	392,715
Miscellaneous revenue	1,560
Total program revenues	394,275
Net program expense	(2,083,780)
General revenues:	
State general fund appropriation (note 8)	2,212,200
Reversions (note 7)	(1,839)
Total general revenues	2,210,361
Special item - loss on property disposition	-
Change in net assets	126,581
Net assets, beginning	304,450
Net assets, ending	\$ 431,031

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

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Balance Sheet
Governmental Funds
June 30, 2012**

Exhibit C

	General Fund
ASSETS	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	505,405
Accounts receivable, net of allowance (note 3)	-
Due from Other State Agencies (note 3)	7,245
Due from local governments	100,000
 Total assets	 \$ 612,750
LIABILITIES AND FUND BALANCES	
Accounts payable	\$ 24,084
Payroll benefits payable	39,863
Payroll taxes payable	19,998
Accrued salaries	15,903
Due to state general fund (note 7)	1,839
State dated warrants	-
Deferred revenue	-
 Total liabilities	 101,687
FUND BALANCES	
Fund balances:	
Committed to:	
Fiscal Year 2013 Budget	221,200
Assigned to:	
Audit Expenses	289,763
Unassigned:	100
 Total fund balances	 511,063
 Total liabilities and fund balances	 \$ 612,750

Amounts reported in the statement of net assets differ because:

Total fund balances	\$ 511,063
Capital assets reported in governmental activities are not financial resources and therefore are not reported in the funds	36,561
Compensated absences accrued in the government-wide financial statements but not due and payable at fiscal year end	(116,593)
 Net assets per Statement of Net Assets	 \$ 431,031

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	<u>General Fund</u>
Revenues:	
Charges for audit services	\$ 395,715
Miscellaneous revenue	1,560
Total revenues	<u>397,275</u>
Expenditures:	
General government:	
Current:	
Personal services & employee benefits	2,086,975
Contractual services	72,019
Other costs	339,703
Capital outlay	<u>20,977</u>
Total expenditures	<u>2,519,674</u>
Excess (deficiency) of revenues over expenditures	<u>(2,122,399)</u>
Other financing sources (uses):	
State general fund appropriation (note 8)	2,212,200
Reversions to State General Fund (note 7)	<u>(1,839)</u>
Total other financing sources (uses)	<u>2,210,361</u>
Net change in fund balances	87,962
Fund balance, beginning	<u>423,100</u>
Fund balance, ending	<u><u>\$ 511,062</u></u>

Amounts reported in the Statement of Activities are different because:

Net change in fund balances	\$ 87,962
Increase since PY in capital assets net of accumulated depreciation CY 36,561 less PY 21,373 equals increase of 15,188	15,188
Decrease since PY in compensated absences PY 143,023 less CY 116,098 equals increase of 26,925	26,430
Decrease since PY in deferred revenue from \$3000 to zero only in the fund financial statements	<u>(3,000)</u>
Change in net assets of governmental activities	<u><u>\$ 126,580</u></u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
All General Fund Accounts
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2012

Exhibit E

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State General Fund:				
General fund appropriation	\$ 2,233,400	\$ 2,212,200	\$ 2,212,200	\$ -
Charges for audit services	400,000	395,800	395,715	(85)
Miscellaneous revenue	-	-	1,560	1,560
Total revenues	<u>2,633,400</u>	<u>2,608,000</u>	<u>2,609,475</u>	<u>1,475</u>
Fund Balance Budgeted:				
Fund 11200 Fund Balance	<u>200,000</u>	<u>199,400</u>	<u>-</u>	<u>(199,400)</u>
Total budgeted fund balance	<u>200,000</u>	<u>199,400</u>	<u>-</u>	<u>(199,400)</u>
Total budgeted revenue and fund balance	<u>\$2,833,400</u>	<u>\$ 2,807,400</u>	<u>\$ 2,609,475</u>	<u>\$(197,925)</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$2,442,200	\$ 2,361,200	\$ 2,086,975	\$ 274,225
Contractual services	78,300	78,300	72,019	6,281
Other	<u>312,900</u>	<u>367,900</u>	<u>360,680</u>	<u>7,220</u>
Total expenditures and other uses	<u>\$2,833,400</u>	<u>\$ 2,807,400</u>	<u>\$ 2,519,674</u>	<u>\$ 287,726</u>

The accompanying notes are an integral part of the financial statements

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1. Summary of Significant Accounting Policies

The financial statements of the Office of the State Auditor (Office) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below:

A. Financial Reporting Entity

The Office is an elective office established by the Constitution of the State of New Mexico, Article V, Section 1, as adopted in 1912 as part of a plural executive. The State Auditor is elected to a four-year term and can serve two terms in office. After an intervening term, the State Auditor could serve again. The functions of the State Auditor are defined in Section 12-6-1 through 12-6-14 NMSA, 1978 as amended, also known as the Audit Act. The State Auditor or his designee is required by statute to examine and audit the financial affairs of every agency every year. In addition to the annual audit, the State Auditor may cause the financial affairs and transactions of an agency to be audited in whole or in part.

The Office is a department of the primary government, the State of New Mexico. These financial statements present the financial position and results of operation of only those Statewide Human Resources Accounting and Management Reporting System (SHARE) funds for which the State Auditor has oversight responsibility. The Office does not have any component units.

The State Auditor has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

B. Government-wide and fund financial statements

In the **government-wide financial statements**, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of an agency. The Office does not have any fiduciary activities. When applicable, the effect of interfund activity between the two SHARE accounts that make up the general fund (administrative account fund 11100 and independent public accounting fund 11200) is removed from the statement of net assets in order to avoid a grossing-up effect on assets and liabilities within the statement. The Office does not have any business-type activities, therefore only governmental activities are shown.

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Governmental activities are normally supported by taxes and intergovernmental revenues.

The **Fund financial statements**, the balance sheet and the statement of revenues, expenditures, and changes in fund balances, are presented to report additional and detailed information about the Office. The Office has only one type of fund financial statement, a governmental fund; and it has only one type of governmental fund, its general fund. The general fund is the Office operating fund and includes all financial transactions conducted to fulfill the general government function of complying with the Audit Act. It accounts for all financial resources of the Office.

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

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurements made, regardless of the measurement focus applied.

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Program revenues consist of audit fees earned from audit services provided by the Office. Capital assets are reported at historical cost and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet. The reported fund balance 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 fund balance. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Revenues are recognized as soon as they are both measurable and available. Revenues are available if collectible within the current period or soon enough afterwards to pay liabilities of the current period. The Office generally considers audit fee revenues to be available if collected within sixty days of the end of the fiscal year. However, there was one situation with extenuating circumstances where the Office included \$7,245 in fiscal year 2012 revenue that was collected on September 11, 2012. See Note 3 below for additional

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details regarding the extenuating circumstances. Expenditures are recorded when a liability is incurred, as under accrual accounting. The Office does not have any debt service expenditures. Only the portion of current compensated absences related to payments due to retired or terminated employees as of June 30, 2012, but not paid until after the end of the fiscal year, is included in the fund financial statements.

D. Receivables and payables

When applicable, amounts “due to/from other general fund accounts” between the two SHARE accounts 11100 and 11200 are netted for financial statement presentation when the funds are combined into the general fund. Any amounts “due to/from other state agencies” shown in the general fund reflect outstanding balances of receivables and payables between the Office and other departments of the State of New Mexico. Amounts shown as “Due to the State General Fund” reflect reversions for unexpended unencumbered appropriations that must be paid to the State General Fund.

E. Capital assets

Capital assets of the Office include furniture and fixtures, information technology equipment (computers and peripherals, all equipment related to electronic communications), software, and a motor vehicle. The Office does not have any infrastructure. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. 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 Office’s capital assets. Pursuant to Section 12-6-10 NMSA 1978, movable chattels and equipment costing more than \$5,000 are capitalized. Capital assets of the Office are depreciated using zero salvage value and the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and fixtures	10
Information technology equipment	5
Software	3
Motor vehicles	7

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F. Budgets and Budgetary Accounting

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

1. No later than September 1st, the Office prepares a budget request by appropriation unit to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which becomes the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA and LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. The legal level of budgetary control is at the appropriation program level (P-Code level). Section 9 of the General Appropriation Act of 2011, allows all agencies to request category transfers among personal services and employee benefits, contractual services and other. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
7. According to subsection O of Section 3 of the General Appropriation Act of 2011 (Laws of 2011, House Bill 2) "for the purpose of administering the General Appropriation Act of 2011 and approving operating budgets, 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. The only exception would be an amount payable at June 30, 2012 that did not get paid by the statutory deadline after the end of the fiscal year. The cash to pay such a payable is reverted to the State General Fund on September 30, 2012, creating a negative fund balance. Those payables must be paid out of the following year's budget after a request to pay prior year bills out of the current year budget has been approved by DFA. The Office did not have any such exceptions at June 30, 2012.
8. The FY12 budget of \$2,833,400 for both SHARE accounts 11100 and 11200 were decreased by a total of 1% by the Laws of 2011, HB 2, Section 10, Subsection B,

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to reflect lower employer contribution rates for certain retirement plans under the Public Employees Retirement Act.” This statute resulted in a total decrease to Personal Services and Benefits of \$26,000.

9. Single-year appropriations lapse at the end of the fiscal year. Accounts payable amounts related to goods and services received by June 30th that were paid within the 31 day statutory period are accrued as accounts payable in the budget basis expenditures. Accounts payable that were not paid within the 31 day statutory time period that require a request for approval to pay prior year bills with current year funds, are paid out of the next year’s budget. The Office did not have any accounts payables at June 30, 2012 that were not paid within the required time period.

In accordance with the requirements of Section 2.2.2.10.A(2)(b) NMAC, *Requirements for Contracting and Conducting Audits of Agencies*, and the allowance made by GASBS 34 footnote 53, the budgetary comparison statement has been included as part of the basic financial statements.

G. 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 long-term portion. The current portion is the amount expected to be expended during the upcoming fiscal year.

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 unpaid 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 at a specified pay

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period in either January or July. Additionally, upon retirement, those employees with over 600 hours of 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. Classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked. Exempt employees are not entitled to compensation time. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment. At June 30, 2012, the liability for compensation time owed to ten employees totaled \$7,493.

In accordance with GASBS 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employer's matching FICA and Medicare payroll taxes.

H. Reversions

Any remaining SHARE fund 11100 fund balance not reserved for petty cash or unexpended special or capital outlay appropriations, reverts to the State General fund by September 30, 2012, in accordance with Section 6-5-10, NMSA 1978. Fund 11200 is nonreverting per Section 12-6-13 B, NMSA 1978.

I. Net Assets/Fund Equity

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 of \$36,561 equal the capital assets, net of accumulated depreciation.

Unrestricted net assets of \$394,470 make up the remaining net assets that were received or earned that have no explicit understanding between the Office and a resource provider (grantor, contributor, other government, or enabling legislation) that the funds are to be used for a specific purpose.

In the **fund financial statements**, the fund balance is reported in classifications that comprise a hierarchy based on the extent to which the Office is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund 11200 cash balance amounts that the New Mexico Legislature and Governor

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have approved in statute, for the next year’s budget, are reported as committed fund balance. Unexpended fund 11200 amounts that have not yet been committed by statute for expenditure in a specific future fiscal year, that are required by Section 12-6-13 NMSA 1978 to be used for audit expenses, are reported as assigned fund balance. The Office cannot legally expend assigned fund balance amounts until the budget process changes the status of the assigned fund balance to committed fund balance.

J. Policy Regarding FASB Pronouncements

Private-sector standards of accounting and financial reporting (FASB pronouncements) issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict GASB guidance. Governments also have the option of following subsequent FASB pronouncements for their government-wide financial statements. The Office has elected not to follow subsequent FASB guidance.

2. Investment in State Treasurer’s General Fund Investment Pool

Cash accounts of the Office at June 30, 2012:

Name of Account	SHARE Fund Name	SHARE Fund #	Balance Per Books
Investment in General Fund Investment Pool	State Auditor Administration	11100	\$ 62,072
Investment in General Fund Investment Pool	State Auditor IPA- Audits	11200	443,333
Subtotal of Investments			505,405
Petty Cash			100
Total Investments and Petty Cash			\$ 505,505

All investments are on deposit with State Treasurer in the State General Fund Investment Pool (SGFIP), except the \$100 petty cash fund that is administered by the budget and finance director. The State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended. The State Treasurer, with the advice and consent of the state board of finance, can invest money not immediately needed for the operation of state government.

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For additional disclosure information regarding the investment in the State Treasurer’s SGFIP, the reader should see the separate audit report for the State Treasurer’s Office for the fiscal year ended June 30, 2012, review the State Treasurer’s Investment Policy at <http://www.stonm.org/Investments/InvestmentPolicy>, and review Sections 2.60.4.1 through 2.60.4.15 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

3. Accounts Receivable

Article IV Section 32 of the New Mexico Constitution states that “No obligation or liability of any person, association or corporation held or owned by or owing to the state, or any municipal corporation therein, shall ever be exchanged, transferred, remitted, released, postponed or in any way diminished by the legislature, nor shall any such obligation or liability be extinguished except by the payment thereof into the proper treasury, or by proper proceeding in court.” When applicable, the Office works with agencies that owe the Office money for services provided in previous fiscal years, to facilitate the eventual payment of amounts due to the Office. In the meantime, old account receivable amounts are offset by an allowance for doubtful receivables in the Office financial statements. The Office has not written off any old receivables during the current fiscal year or during previous fiscal years. Accounts receivable at June 30, 2012 consist of:

Other State Agencies	SHARE Unit	SHARE Fund	Amount
Corrections Department	77000	90700	\$ 7,245
Due from local Governments City of Sunland Park			100,000
Total			\$ 107,245

The account receivable amount of \$7,245 due from the Corrections Department was not received until 13 days after the usual 60 day period of availability. However, due to the following extenuating circumstances, the \$7,245 was included as revenue in the fund financial statements in FY12. The three previous FY12 operating transfer payments from Corrections Department to the Office for audit services were posted to SHARE an average of 8.3 days after the invoice date. The invoice date for the \$7,245 was June 29, 2012. Therefore, the Office expected the operating transfer payment of the \$7,245 to be posted to SHARE within the 60 day period of availability after June 30, 2012. That would have been receipt within 61 days after the date of the invoice. In addition, the Office received an email from Corrections Department on August 28, 2012, stating that

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the operating transfer for the \$7,245 was being submitted to the Department of Finance and Administration (DFA) on August 28, 2012. If DFA had posted that operating transfer on August 28, 2012, the receipt of the cash would have occurred within the 60 day period. Pursuant to statute, the FY14 budget request for the Office was due to DFA by September 1, 2012. Based on the above information and assumptions, the Office included the \$7,245 in the FY12 revenue in the FY14 budget request documentation. Since DFA can post items in SHARE to a previous month after the end of the month, the Office had no way of knowing that DFA did not post the operating transfer for the \$7,245 on August 28, 2012, until the September 11, 2012 SHARE general ledger became available, showing the \$7,245 posted as of September 11, 2012. The Office financial statements are supposed to tie to the "actual" FY12 information submitted in the FY14 budget request on September 1, 2012. Therefore, the \$7,245 has been included in the FY12 fund financial statements.

4. Changes in Capital Assets

Summaries of changes in capital assets and related depreciation follow:

Historical Cost	Balance				Balance
	6/30/11	Adjustments	Additions	Deletions	
Furniture and fixtures	\$ 16,893	\$ -	\$ -	\$ (1,265)	\$ 15,628
Info Technology Equipment	89,131	-	10,827	(3,051)	96,907
Software	18,078	-	10,150	(2,352)	25,876
Motor Vehicle	14,711	-	-	(14,711)	-
Totals	\$ 138,813	\$ -	\$ 20,977	\$(21,379)	\$ 138,411

Related Depreciation	Balance				Balance
	6/30/11	Adjustments	Additions	Deletions	
Furniture and fixtures	\$ 10,746	\$ -	\$ 962	\$(1,265)	\$ 10,443
Info Technology Equipment	73,905	-	4,827	(3,051)	75,681
Software	18,078	-	-	(2,352)	15,726
Motor Vehicle	14,711	-	-	(14,711)	-
Totals	\$ 117,440	\$ -	\$ 5,789	\$(21,379)	\$ 101,850

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Assets, net of Depreciation	Balance 6/30/11	Adjustments	Additions	Deletions	Balance 6/30/12
Furniture and fixtures	\$ 6,147	\$ -	\$ (962)	\$ -	\$ 5,185
Info Technology Equipment	15,226	-	6,000	-	21,226
Software	-	-	10,150	-	10,150
Motor Vehicle	-	-	-	-	-
Totals	\$ 21,373	\$ -	\$ 15,188	-	\$ 36,561

5. Changes in Compensated Absences

A summary of changes in the compensated absences liabilities follows:

	Balance 7/1/11	Increase	(Decrease)	Balance 6/30/12	Amount Due in 1 Year
Annual Leave	\$134,968	\$115,625	\$(142,931)	\$107,662	\$107,662
Sick Leave	693	3,415	(2,670)	1,438	1,438
Comp-Time	7,362	24,233	(24,102)	7,493	7,493
Total Compensated Absences	\$143,023	\$143,273	\$(169,703)	\$116,593	\$116,593

The compensated absence liabilities include the applicable employer FICA taxes.

Compensated absences are usually paid with general fund appropriations out of the administrative account, SHARE fund 11100.

6. Operating Leases

The Office had seven operating leases at July 1, 2010 for the following items: a Pitney Bowes postage meter; one Xerox photocopier; four vehicles leased from General Services Department, and one office building. The small postage meter that cost a total of \$404 during FY12, was originally obtained in FY10. The Office obtained the leased Xerox photocopier on July 3, 2007. The payments the copier were \$835 per month (plus the cost of extra copies) during FY12, resulting in a total cost of \$12,752. The Office returned the smaller Xerox copier to Xerox when the Albuquerque office was closed the end of April 2011. The Office made twelve lease payments totaling \$6,384 during FY12, for four vehicles that are leased from the New Mexico General Services Department. In October of 2008, the Office entered into a lease agreement for the current Santa Fe office space at 2540 Camino Edward Ortiz, Suite A. The Office began occupying that space in

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August 2009. The original term of the lease was from March 1, 2009 through February 29, 2019. The lease was amended. The new term of the lease is from August 14, 2009 through August 14, 2019. The Office paid \$195,442 for this lease during FY12.

All of the Office leases include a standard cancellation clause in case the Legislature does not appropriate sufficient appropriations for the Office to carry out the terms and conditions of its leases. In the current economic climate it is not a remote possibility that the Office leases could be cancelled. Therefore, no disclosure of future minimum lease payments is necessary.

7. Due to State General Fund

The following is a summary of the determination of the amount Due to the State General Fund at June 30, 2012, from the General Administration Account (Fund 11100):

Petty cash and investment in general fund investment pool, June 30, 2012 (Administration Account, Fund 11100)	\$ 62,172
Less: Accounts payable, June 30, 2012	(12,467)
Accrued salaries and related liabilities, June 30, 2012	(47,766)
Fund balance for petty cash, June 30, 2012	(100)
Due to State General Fund, June 30, 2012	\$ 1,839

The sources of the reversion amounts by budget fiscal year and appropriation are:

FY12 unencumbered unexpended general fund appropriation	\$ 304
FY12 Employee Assistance Program (EAP) refund	25
FY12 Printing & Reproduction Revenue not budgeted	1,510
Total Reversions	\$ 1,839

8. Transfers

The Office received twelve monthly operating transfers from the DFA Appropriations account totaling the amount shown below.

Agency	SHARE fund from/to	Amount	Purpose of the Payment
DFA	85300/11100	\$ 2,212,200	Appropriation allotments

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The office made payments to the State General Fund (85300) during FY12 totaling the amount shown below, for reversions related to appropriations from FY11.

Date	SHARE fund from/to	Amount	Purpose of the Payments
9/26/2011	11100/85300	\$ 2,794	Reversions to the State General Fund

9. Pension Plan – Public Employees Retirement Association

Plan Description. Substantially all of the Office of the State Auditor’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. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute from 3.83% to 16.65% of their gross salary, depending upon which plan they participate in: state general; state hazardous duty; state police and adult correctional officers; municipal general; municipal police, municipal fire, or municipal detention officer. Employers are required to contribute from 7.0% to 25.72% of the gross covered salary, depending on the plan. The contribution requirements of plan members and the Office of the State Auditor are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office’s contributions to PERA for the fiscal years ending June 30, 2012, 2011, and 2010 were \$208,002, \$256,129, and \$280,547 respectively, which equal the amount of the required contributions for each fiscal year.

10. Post-Employment Benefits – State Retiree Health Care Plan

Plan Description. The Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving

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spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

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 (police, firefighters, municipal detention officers, or Judicial Retirement Act participants) the contribution rates will be:

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

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

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

The Office contributions to the RHCA for the years ended June 30, 2012, 2011, and 2010 were \$28,439, \$28,090, and \$23,661 respectively, which equal the required contributions for each year.

11. Risk Management and Litigation

The Office is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure or use a combination of both. Risk management expenditures for the Office are accounted for in SHARE account 11100. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Office is a party.

12. Explanation of Differences Between SHARE general ledger, Budget Basis Amounts, and Financial Statement Modified Accrual Amounts

Total agency revenues per SHARE A611 Trial Balance Report	\$ 2,606,475
Difference is PY Deferred Revenue to be posted to SHARE	3,000
Budget Basis amounts	2,609,475
Difference	0
Revenues per Modified Accrual Fund Financial Statements excluding the reversion amount (Exhibit D)	\$ 2,609,475

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Total agency expenditures:	
Per SHARE A611 Trial Balance Report	\$ 2,519,674
Difference	0
Per Budget Basis (Exhibit E)	2,519,674
Difference	0
Total agency expenditures on the modified accrual basis excluding reversion amount (Exhibit D)	\$ 2,519,674

13. Statewide Cash Reconciliation Issue

The cash to bank reconciliation for the State of New Mexico is performed at the statewide level by the Office of the State Treasurer and the Department of Finance and Administration (DFA). A report titled *Current State Diagnostic of Cash Control* prepared by Deloitte Consulting, LLP, dated June 20, 2012, stated on page 2 that “As of June, 2012, the SHARE book to bank reconciliation contains a significant number of un-reconciled items. Reconciling items are where a SHARE system transaction (general ledger (GL) journal entry) may or may not have a corresponding bank transaction or a bank transaction may or may not have a corresponding SHARE transaction. According to information gathered during the preparation of this report, there are 32 categories of reconciling items ranging in size from less than \$1,000,000 to over \$6,000,000,000 with an absolute value total in excess of \$32,500,000,000 for the periods of FY 2007 through FY 2011. The count of individual reconciling items exceeds 1,400,000 transactions between FY 2010 and FY2011. A transaction count is not available for FY2007 through FY2009. Reconciling items also include warrants that have been issued but have not cleared the bank. The impact of reconciling items to the GL is unknown at this time. The net difference between the unadjusted GL and the bank accounts is approximately \$2,700,000,000. These figures and counts are approximate and are subject to change through the daily accounting and monthly reconciliation processes. Planning for remediation efforts to rectify the root causes and problems are underway. An upgrade of SHARE is planned for FY 2013. Treasury system and process changes will be in alignment with the SHARE upgrade.”

A related updated report titled *Cash Management Plan and Business Processes* dated October 11, 2012, also prepared by Deloitte Consulting, LLP, states on page 30 that “The main premise (Premise) of the PeopleSoft Treasury reconciliation functionality is that all system transactions have an accounting entry on the general ledger and each bank transaction reconciles to a system transaction. Designing the processes to follow the Premise of the system will virtually eliminate the need for manual entries to cash directly on the GL.” This report identified three areas that the Office of the State Auditor uses report-identified business processes: deposit processing (page 48); disbursement

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to Financial Statements
June 30, 2012

processing (page 54); and other bank activity processing (manual SHARE GL Journal) and ability to record pre and/or post bank activity.

The Office of the State Auditor has developed the following internal control procedures to monitor the monthly change in the Office Investment in General Fund Investment Pool accounts related to each of these areas of risk noted in the report referenced above: deposits; disbursements; and journal entries posted to the investment in General Fund Investment Pool accounts in SHARE. These internal control procedures have been in effect for the most part since the conversion to SHARE in FY07. The Office inputs into an Excel spreadsheet all monthly changes in every account from the SHARE A611 trial balance report, and then the Office ties the changes in these various account balances back to the monthly change in the Office Investment in General Fund Investment Pool accounts. In addition, the monthly deposits per the general ledger are tied back to the original deposit documentation, or in the case of an appropriation, the deposits are tied back to the original law. The changes in the payroll liabilities that are posted to the Office general ledger by DFA are scheduled out on an Excel spreadsheet by the Office for the entire year, and reviewed for consistency and reasonableness. Expenditures recorded for each month, and the related change in the accounts payable balances are included in the overall reconciliation back to the monthly change in Office Investment in General Fund Investment Pool accounts. The Office chief financial officer, who is a certified public accountant, reviews the posting of Office journal entries to ensure that the resulting effect on Investment in General Fund Investment Pool and other accounts is the intended result. These processes that have been put into place by the Office of the State Auditor are the reasons that risk of misstatement of the Office Investment in General Fund Investment Pool accounts has been mitigated to a low level of risk, even though there are significant problems with the statewide cash reconciliation process.

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Combining Balance Sheet - General Fund Accounts
June 30, 2012**

	<u>SHARE FUND 11100 Adm. Account</u>	<u>SHARE FUND 11200 IPA Account</u>	<u>TOTAL GENERAL FUND</u>
ASSETS			
Petty Cash	\$ 100	\$ -	\$ 100
Investment in General Fund Investment Pool	62,072	443,333	505,405
Accounts receivable (net of allowance for doubtful accounts)	-	-	-
Due from other state agencies	-	7,245	7,245
Due from local governments	-	100,000	100,000
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 62,172</u>	<u>\$ 550,578</u>	<u>\$ 612,750</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 12,467	\$ 11,617	\$ 24,084
Payroll benefits payable	29,217	10,646	39,863
Payroll taxes payable	14,914	5,084	19,998
Accrued salaries	3,635	12,268	15,903
Due to State General Fund	1,839	-	1,839
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>62,072</u>	<u>39,615</u>	<u>101,687</u>
Fund balances:			
Committed to:			
Fiscal Year 2013 Budget	-	221,200	221,200
Assigned to:			
Audit Expenses	-	289,763	289,763
Unassigned:	100	-	100
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>100</u>	<u>510,963</u>	<u>511,063</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 62,172</u>	<u>\$ 550,578</u>	<u>\$ 612,750</u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - General Fund Accounts
For the Year Ended June 30, 2012

	SHARE FUND 11100 Adm. Account	SHARE FUND 11200 IPA Account	TOTAL GENERAL FUND
Revenues:			
Charges for audit services	\$ -	\$ 395,715	\$ 395,715
Miscellaneous revenue	1,534	26	1,560
Total revenues	<u>1,534</u>	<u>395,741</u>	<u>397,275</u>
Expenditures			
General government:			
Current:			
Personal services & employee benefits	1,848,748	238,226	2,086,974
Contractual services	61,700	10,319	72,019
Other costs	280,470	59,233	339,703
Capital outlay	20,977	-	20,977
Total expenditures	<u>2,211,895</u>	<u>307,778</u>	<u>2,519,673</u>
Excess (deficiency) of revenues over expenditures	<u>(2,210,361)</u>	<u>87,963</u>	<u>(2,122,398)</u>
Other financing sources (uses):			
State General Fund Appropriation	2,212,200	-	2,212,200
Special General Fund Appropriation	-	-	-
Compensation Appropriation	-	-	-
Reversion to State General Fund	(1,839)	-	(1,839)
Total other financing sources (uses)	<u>2,210,361</u>	<u>-</u>	<u>2,210,361</u>
Net change in fund balances	-	87,963	87,963
Fund balance, beginning	100	423,000	423,100
Fund balance, ending	<u>\$ 100</u>	<u>\$ 510,963</u>	<u>\$ 511,063</u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
General Fund - Administration Account (Fund 11100)
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State General Fund:				
General fund appropriation	\$ 2,233,400	\$ 2,212,200	\$ 2,212,200	\$ -
Miscellaneous revenue	-	-	1,534	1,534
	<u>\$ 2,233,400</u>	<u>\$ 2,212,200</u>	<u>\$ 2,213,734</u>	<u>\$ 1,534</u>
Total budgeted revenues				
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 1,925,000	\$ 1,848,800	\$ 1,848,749	\$ 51
Contractual services	61,700	61,700	61,700	-
Other	246,700	301,700	301,447	253
	<u>\$ 2,233,400</u>	<u>\$ 2,212,200</u>	<u>\$ 2,211,896</u>	<u>\$ 304</u>
Total expenditures and other uses				

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
General Fund - IPA Account (Fund 11200)
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for audit services	\$ 400,000	\$ 395,800	\$ 395,715	\$ (85)
Miscellaneous revenue	-	-	26	26
Total revenues	400,000	395,800	395,741	(59)
Prior-year funds re-budgeted	200,000	199,400	-	(199,400)
Total budgeted revenues and fund balance	<u>\$ 600,000</u>	<u>\$ 595,200</u>	<u>\$ 395,741</u>	<u>\$ (199,459)</u>
Expenditures:				
General government:				
Personal services & employee benefits	\$ 517,200	\$ 512,400	\$ 238,226	\$ 274,174
Contractual services	16,600	16,600	10,319	6,281
Other	66,200	66,200	59,233	6,967
Total expenditures	<u>\$ 600,000</u>	<u>\$ 595,200</u>	<u>\$ 307,778</u>	<u>\$ 287,422</u>

The accompanying notes are an integral part of the financial statements



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Hector H. Balderas, Esq.
New Mexico State Auditor
Santa Fe, New Mexico 87505

We have audited the financial statements of the governmental activities, the major fund and the budgetary comparison statement for the general fund of the State of New Mexico, Office of the State Auditor (Office) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. We have also audited the financial statements of each of the Office's general fund accounts and the respective budgetary comparisons as of and for the year then ended presented as supplementary information in the combining and individual fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Office of the State Auditor, the New Mexico State Legislature and its committees and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Espanola, New Mexico
October 30, 2012

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Schedule of Findings and Responses
June 30, 2012**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
None	N/A	N/A	N/A
Follow-up on Prior Year Findings:			
None	N/A	N/A	N/A

*** Legend for Findings:**

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters involving Internal Control Over Financial Reporting
- D. Material Instance of Noncompliance
- E. Immaterial Instance of Noncompliance

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Exit Conference
June 30, 2012**

Financial Statement Preparation

The financial statements and notes to the financial statements were prepared by the Office of the State Auditor staff.

* * * * *

EXIT CONFERENCE

The financial statements and the auditors' reports were discussed at an exit conference held on October 30, 2012 with the following in attendance:

Office of the State Auditor

The Honorable Hector H. Balderas, Esq., New Mexico State Auditor
Carla Martinez, Esq., CPA, Deputy State Auditor
Evan Blackstone, Esq., Chief of Staff
Rita Archuleta, Director of Budget and Finance

Audit Firm

James R. Macias, CPA