



MACIAS, GUTIERREZ & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
ESPANOLA, NEW MEXICO  
[www.mgandc.com](http://www.mgandc.com)

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

Financial Statements  
Year Ended June 30, 2013

(With Independent Auditors' Report Thereon)

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR

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OFFICE OF THE STATE AUDITOR  
June 30, 2013**

**Table of Contents**

<b>INTRODUCTORY SECTION</b>	<b><u>Page</u></b>
Title Page	i
Table of Contents	ii-iii
Official Roster	iv
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	v-vii
<b>Management's Discussion and Analysis</b>	viii-xvii
<b>Basic Financial Statements:</b>	<b><u>Exhibit</u></b>
Government Wide Financial Statements:	
Statement of Net Position	A 1
Statement of Activities	B 2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	C 3
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	D 4
Budget Comparison Statement:	
Statement of Revenues and Expenditures – Budget and Actual	E 5
Notes to Financial Statements	6-21
<b>Combining and Individual Fund Financial Statements:</b>	<b><u>Statement</u></b>
Combining Balance Sheet – General Fund Accounts	1 22
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund Accounts	2 23

**STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
June 30, 2013**

**Table of Contents**

	<b><u>Statement</u></b>	
General Fund – Administration Account (Fund 11100) Statement of Revenues and Expenditures – Budget and Actual	3	24
General Fund – IPA Account (Fund 11200) Statement of Revenues and Expenditures – Budget and Actual	4	25
<b>Other Supplemental Information</b>		
Schedule of Performance Measure Results		26
<b>Other Reports</b>		
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		27-28
Schedule of Findings and Exit Conference		29-30

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

**Official Roster  
June 30, 2013**

<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
James A. Noel, 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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1302 Calle De La Merced, Suite A  
Española, New Mexico 87532  
505.747.4415  
Fax 505.747.4417

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

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, 2013, and the related notes to the financial statements which collectively comprise the Office's basic financial statements as listed in the table of contents. We also have audited the financial statements and budgetary comparisons of the individual SHARE accounts presented as supplementary information, as defined by the Governmental Accounting Standards Board in the accompanying combining and individual SHARE accounts financial statements as of and for the year ended June 30, 2013 as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, respective financial position of the governmental activities and major fund of the State of New Mexico, Office of the State Auditor as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison 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 referred to above present fairly, in all material respects, the respective financial position of each individual SHARE account of the Office as of June 30, 2013 and the respective change in financial position thereof, and the respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the State of New Mexico, Office of the State Auditor 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, 2013, and the changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages viii through xvii 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. The additional schedule listed as "Other Supplemental Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 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* in considering the Office's internal control over financial reporting and compliance.

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

Macias, Gutierrez & Co., CPAs, P.C.  
Espanola, New Mexico  
October 11, 2013



## 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, 2013.

### **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).

A Schedule of Performance Measure Results and Next Year's Target is presented as supplemental information (SI).

### **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. The statement of net position presents financial information on all of the Office's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Office of the State Auditor is improving or deteriorating. The statement of activities presents information showing how the Office's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but uncollected audit fee revenues and earned but unused vacation leave). The government-wide financial statements present the expenses of the Office by function. The only function of the Office is general government. The government-wide financial statements distinguish between governmental activities and business-type activities. The Office has only governmental activities, no business-type activities to report.

## **The 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Office has only one fund, the General Fund, and it is a “governmental fund” type.

“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, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing 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 for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’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 two SHARE accounts that are combined to create the Office’s general fund. Information about the Office’s general fund is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual SHARE account data is provided in the form of combining statements in the combining and individual fund financial statement section of this report and is opined on by the auditors, as required by Section 2.2.2.12(A)(2) NMAC.

## **The Budget Comparison Statement**

The Office general fund 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.

Since the Office general fund consists of two individual Statewide Human Resources Accounting and Management Reporting System (SHARE) funds (or accounts), the two individual 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.

### Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

### Supplemental Information

The report also includes supplementary information consisting of a Schedule of Performance Measure Results. This schedule provides information about the Office's FY13 performance measure targets that were part of the Office's appropriation for the fiscal year, and the related results. In addition, the performance measure targets for the upcoming year are included to show what the Office's future performance goals are.

### Government-Wide Condensed Financial Information

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 Position

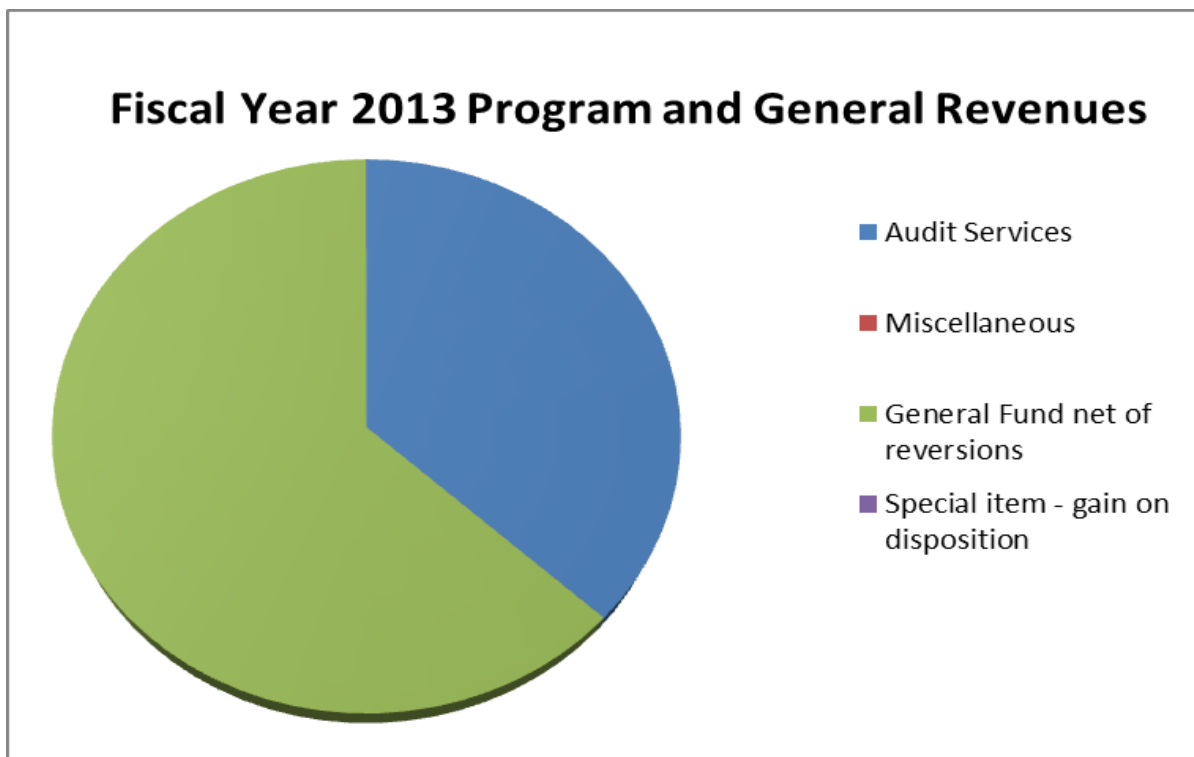
	FY 2013	FY 2012	Change
Petty Cash	\$ 100	\$ 100	\$ -
Investment in General Fund Investment Pool	776,381	505,405	270,976
Receivables	-	107,245	(107,245)
Capital assets net of depreciation	39,281	36,561	2,720
<b>Total assets</b>	<b><u>\$ 815,762</u></b>	<b><u>\$ 649,311</u></b>	<b><u>\$ 166,451</u></b>
Accounts payable	\$ 12,104	\$ 24,084	\$ (11,980)
Accrued salary & employee benefits	48,943	75,764	(26,821)
Due to State General Fund	27,776	1,839	25,937
Compensated absences	95,981	116,593	(20,612)
<b>Total liabilities</b>	<b><u>184,804</u></b>	<b><u>218,280</u></b>	<b><u>(33,476)</u></b>
Net position, investment in capital assets	39,281	36,561	2,720
Net position, unrestricted	591,677	394,470	197,207
<b>Total net position</b>	<b><u>\$ 630,958</u></b>	<b><u>\$ 431,031</u></b>	<b><u>\$ 199,927</u></b>

The unrestricted net position amount of \$591,677 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 Position

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Change</u>
Program revenues			
Audit services	\$ 1,447,631	\$ 392,715	\$ 1,054,916
Miscellaneous revenue	94	1,560	(1,466)
Total program revenues	<u>1,447,725</u>	<u>394,275</u>	<u>1,053,450</u>
General revenues			
General fund appropriation, net	2,488,824	2,210,361	278,463
Total general revenues	<u>2,488,824</u>	<u>2,210,361</u>	<u>278,463</u>
Special Item – gain on disposition	<u>680</u>		<u>680</u>
Total program and general revenues	<u>\$ 3,937,229</u>	<u>\$ 2,604,636</u>	<u>\$ 1,332,593</u>

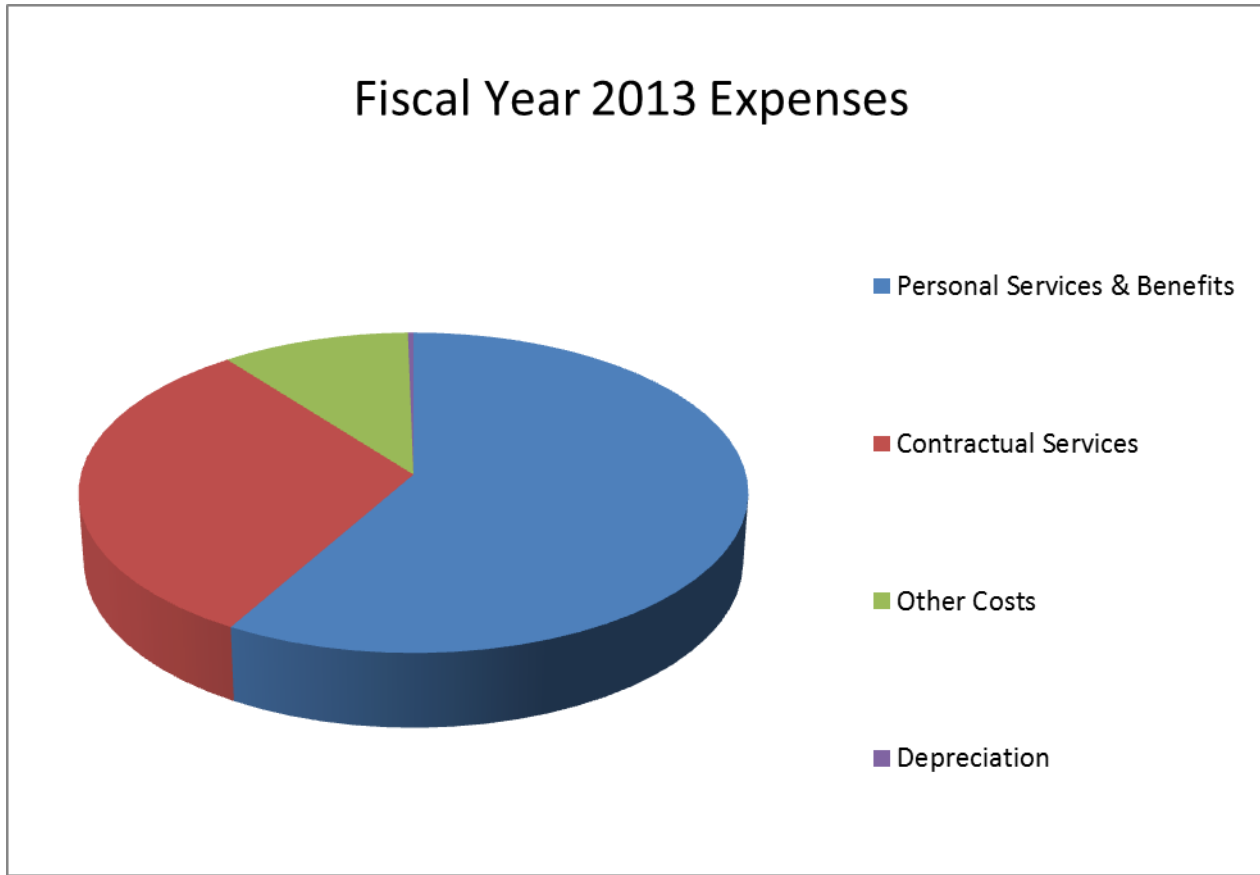
The Office’s Program and General Revenues for fiscal year ended June 30, 2013 are depicted in the chart below.



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

	FY 2013	FY 2012	Change
Program expenses			
Personal services & benefits	\$ 2,180,779	\$ 2,060,545	\$ 120,234
Contractual services	1,172,683	72,019	1,100,664
Other costs	380,159	339,702	40,457
Depreciation	11,174	5,789	5,385
Total program expenses	<u>3,744,795</u>	<u>2,478,055</u>	<u>1,266,740</u>
Change in net position	192,434	126,581	65,853
Beginning net position	431,031	304,450	126,581
Restatement of beginning net position	7,493		7,493
Restated beginning net position	<u>438,524</u>	<u>304,450</u>	<u>134,074</u>
Ending net position	<u>\$ 630,958</u>	<u>\$ 431,031</u>	<u>\$ 199,927</u>

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2013 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. There were no such accounts payable as of June 30, 2013, and therefore no negative 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 a subsequent fiscal year by statutes approved by the legislature and the governor.

Fund Balance	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>
Committed for Subsequent years	\$ 200,000	\$ 221,200	\$ 199,400
Assigned to Audit Expenses	487,558	289,763	223,600
Unassigned	100	100	100
Total Fund Balance	<u>\$ 687,658</u>	<u>\$ 511,063</u>	<u>\$ 423,100</u>

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

- Increased from FY11 to FY12 by \$66,163; and
- Increased from FY12 to FY13 by \$197,795.

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.

The \$197,795 increase in assigned fund balance in FY13 was the result of \$176,595 excess actual revenues over actual expenditures, plus the \$21,200 resulting from the decrease in the prior-year funds re-budgeted for FY14 from the amount re-budgeted in FY13. Due to the fact that the audit service fees and miscellaneous revenue totaling \$1,447,706 exceeded the actual expenditures of \$1,271,111, none of the \$221,200 of the SHARE account 11200 prior-year funds that were re-budgeted for FY13 were used during FY13. Then the FY14 appropriation of prior year funds re-budgeted was \$21,200 less than the amount appropriated in FY13. This resulted in the additional increase of \$21,200 in the assigned fund balance.

During the same period of time, audit fee revenue on the modified accrual basis decreased by (\$99,712) between FY11 and FY12 and increased by \$1,051,916 between FY12 and FY13.

Audit Fee Revenue (Modified Accrual Basis)

	FY 2013	FY 2012	FY 2011
Audit Fee Revenue	\$ 1,447,631	\$ 395,715	\$ 495,427

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	\$ 495,427

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	\$ 395,715

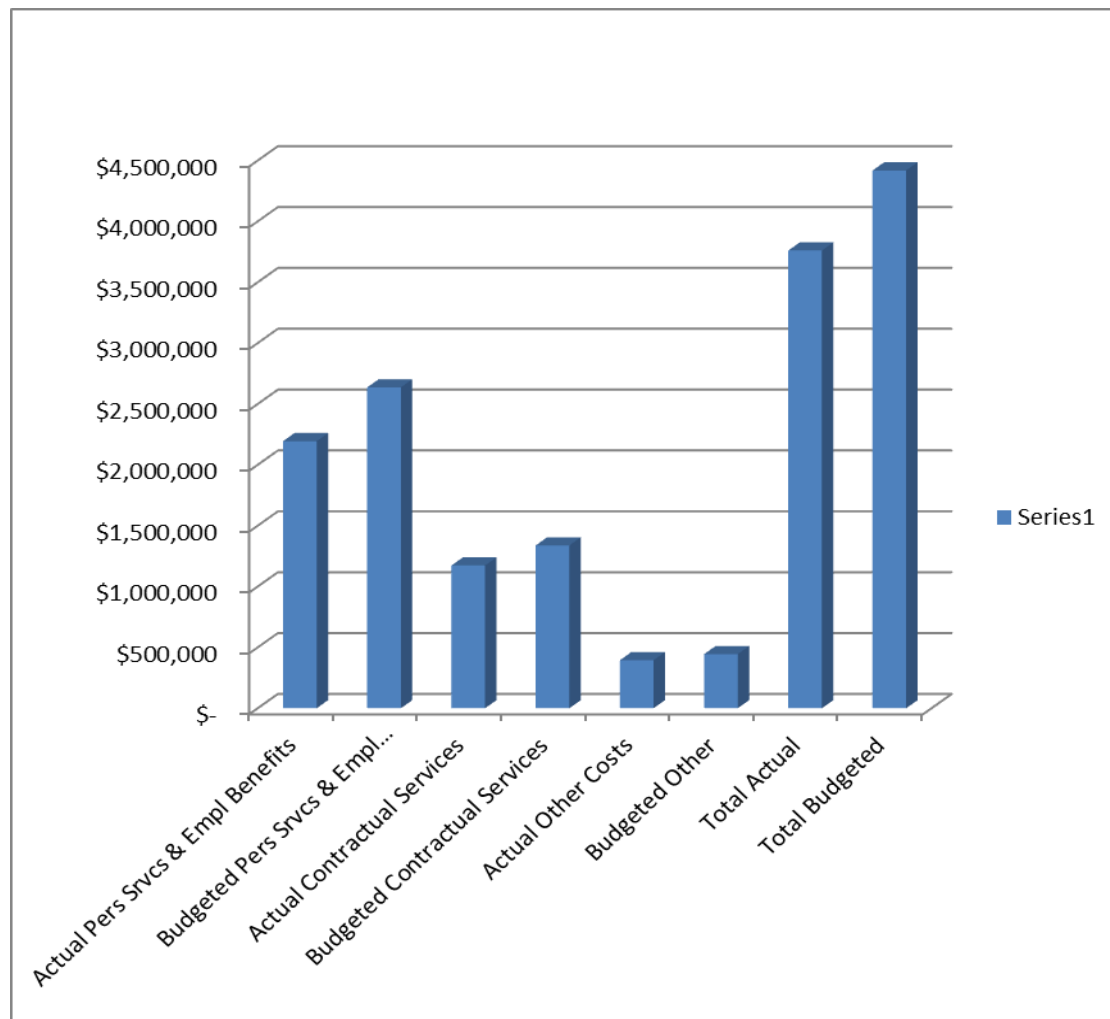
In FY13 the Office earned the audit fees shown below from the following governmental entities, but then had to pay a contractor \$1,094,555 of the New Mexico Finance Authority (NMFA) revenues for performing work on the NMFA special audit. When this “pass through” payment received for the NMFA special audit contractor is excluded, the Office revenues for FY13 totaled **\$353,076**. This was a decrease from prior year revenues, caused by the numerous vacancies in the financial division.

NMFA	Special Audit	\$1,194,555
Human Services Department	Annual financial and compliance audit	13,815
NM Mortgage Finance Authority	Annual financial and compliance audit	77,402
CYFD	Annual financial and compliance audit	54,104
Corrections Department	Annual financial and compliance audit	107,755
	Total	\$1,447,631

## General Fund Budgetary Highlights

The New Mexico Legislature appropriated the Office a total original FY13 budget of \$3,167,800 during the 2012 regular session. The Office processed two budget adjustment requests (BARs) during FY13. The first BAR was made in fund 11200 during September 2012, and increased “contractual services” by the \$1,250,000 of estimated audit fees needed to perform the NMFA special audit for the fraudulently submitted audit report. The second BAR was made in fund 11100 for the purpose of moving \$21,638 from the “personal services and benefits” category to the “contractual services” category. This BAR was required to pay for a contract IPA to review the OSA audit work papers on the Corrections Department audit. The total final adjusted FY13 budget was \$4,417,800.

For additional budget information see also Exhibit E in the financial statements section, Note 1 (D), 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.





## Capital Assets

The Office's net investment in capital assets is \$39,281. There is no debt related to these capital assets. During FY13, the Office purchased a new Dell server at a cost of \$7,145 and a Barracuda Backup Server for \$6,749. Depreciation expense for the year was \$11,174. The Office disposed of various capital assets that originally cost \$21,983, with related accumulated depreciation of \$21,983. The office received \$680 from the property auctioneer that is reported as the special item labeled "gain on property disposition." As a result of this activity, the investment in capital assets, net of accumulated depreciation changed from \$36,561 at June 30, 2012, to \$39,281 at June 30, 2013, for a net increase of \$2,720.

## Long-term Debt

The total compensated absences liability decreased in FY13 by \$20,612, down from \$116,593 at June 30, 2012, to \$95,981 at June 30, 2013. The Office estimates that all of the \$95,981 balance is a current liability. The general decrease in the total compensated absences liability in recent years is attributable to two factors. The first factor is that the Office has lost individuals to retirement and other employment, who had a lot of state government experience and significant earned compensation balances, and then hired individuals who generally came to the Office from non-state employment. As of June 30, 2012, the Office had nine vacant positions. By June 30, 2013, the number of vacant positions decreased to three. The second factor is the restatement of the Comp-Time balances as of June 30, 2013, pursuant to Office policy, as explained in Notes 5 and 14.

## The Political Environment and Next Year's Budget

The FY13 HB2 appropriation reflected a 12.8% increase over the FY12 final budget, also indicated below. The FY14 HBs appropriation reflects an additional 10.9% increase over the FY13 final budget. However, the FY14 budget of \$3,512,400 is still \$266,522 less than the FY09 final budget of \$3,778,922.

<b>Combined Funds 11100 &amp; 11200</b>	<b>FY14 Budget</b>	<b>FY13 Budget</b>	<b>FY12 Budget</b>	<b>FY11 Budget</b>	<b>FY10 Budget</b>	<b>FY09 Budget</b>
Pers Services & Employee Benefits	2,980,400	2,657,700	2,361,200	2,503,300	2,495,300	2,913,910
Contractual Services	75,700	65,700	78,300	155,600	200,900	248,600
Other	456,300	444,400	367,900	386,800	475,800	616,412
<b>Total</b>	<b>3,512,400</b>	<b>3,167,800</b>	<b>2,807,400</b>	<b>3,045,700</b>	<b>3,172,000</b>	<b>3,778,922</b>
Percentage Increase or Decrease	10.9%	12.8%	(7.8%)	(4 %)	(16%)	

**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 Position  
June 30, 2013

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	776,381
Capital assets, net of accumulated depreciation (note 4)	<u>39,281</u>
Total assets	<u>815,762</u>
<b>LIABILITIES</b>	
Accounts payable	12,104
Payroll benefits payable	17,241
Payroll taxes payable	10,147
Accrued salaries	21,555
Due to state general fund (note 7)	27,776
Compensated absences: (note 5)	
Due within one year	<u>95,981</u>
Total liabilities	<u>184,804</u>
<b>NET POSITION:</b>	
Net Investment in capital assets (note 4)	39,281
Restricted	-
Unrestricted	<u>591,677</u>
Total net position	<u>\$ 630,958</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, 2013

	<u>Governmental Activities</u>
Expenses:	
General government - audit services	
Personal services & employee benefits	\$ 2,180,779
Contractual services	1,172,683
Other Costs	380,159
Depreciation	<u>11,174</u>
Total program expenses	<u>3,744,795</u>
Program revenues:	
Charges for audit services	1,447,631
Miscellaneous revenue	<u>94</u>
Total program revenues	1,447,725
Net program expense	<u>(2,297,070)</u>
General revenues:	
State general fund appropriation (note 8)	2,516,600
Reversions (note 7)	(27,776)
Special item - gain on property disposition	<u>680</u>
Total general revenues and special items	<u>2,489,504</u>
Change in net position	<u>192,434</u>
Net position, beginning, as originally stated	431,031
Restatement of beginning net position (note 14)	<u>7,493</u>
Net position beginning, as restated	<u>438,524</u>
Net position, ending	<u><u>\$ 630,958</u></u>

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, 2013**

**Exhibit C**

	<b>General Fund</b>
<b>ASSETS</b>	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	776,381
	776,381
Total assets	\$ 776,481
<b>LIABILITIES AND FUND BALANCES</b>	
Accounts payable	\$ 12,104
Payroll benefits payable	17,241
Payroll taxes payable	10,147
Accrued salaries	21,555
Due to state general fund (note 7)	27,776
	88,823
Total liabilities	88,823
<b>FUND BALANCES</b>	
Fund balances:	
Committed to:	
Fiscal Year 2014 Budget	200,000
Assigned to:	
Audit Expenses	487,558
Unassigned:	100
	687,658
Total fund balances	687,658
Total liabilities and fund balances	\$ 776,481

Amounts reported in the statement of net position differ because:

Total fund balances	\$ 687,658
Capital assets reported in governmental activities are not financial resources and therefore are not reported in the funds	39,281
Compensated absences accrued in the government-wide financial statements but not due and payable at fiscal year end	(95,981)
	(95,981)
Net position per Statement of Net Position	\$ 630,958

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, 2013**

	<b>General Fund</b>
Revenues:	
Charges for audit services	\$ 1,447,631
Miscellaneous revenue	774
Total revenues	1,448,405
Expenditures:	
General government:	
Current:	
Personal services & employee benefits	2,193,898
Contractual services	1,172,683
Other costs	380,159
Capital outlay	13,894
Total expenditures	3,760,634
Excess (deficiency) of revenues over expenditures	(2,312,229)
Other financing sources (uses):	
State general fund appropriation (note 8)	2,516,600
Reversions to State General Fund (note 7)	(27,776)
Total other financing sources (uses)	2,488,824
Net change in fund balances	176,595
Fund balance, beginning	511,063
Fund balance, ending	\$ 687,658
Amounts reported in the Statement of Activities are different because:	
Net change in fund balances	\$ 176,595
Increase since PY in capital assets net of accumulated depreciation CY 39,281 less PY 36,561 equals increase of 2,720	2,720
Decrease since PY in compensated absences PY 116,593 less CY 95,981 equals increase of	20,612
Prior period adjustment due to change in compensated absences	(7,493)
Change in net position of governmental activities	\$ 192,434

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, 2013

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	\$ 2,516,600	\$ 2,516,600	\$ 2,516,600	\$ -
Charges for audit services	430,000	1,680,000	1,447,631	(232,369)
Miscellaneous revenue	-	-	774	774
Total revenues	<u>2,946,600</u>	<u>4,196,600</u>	<u>3,965,005</u>	<u>(231,595)</u>
Fund Balance Budgeted:				
Fund 11200 Fund Balance	221,200	221,200	-	(221,200)
Total budgeted fund balance	<u>221,200</u>	<u>221,200</u>	<u>-</u>	<u>(221,200)</u>
Total budgeted revenue and fund balance	<u>\$3,167,800</u>	<u>\$ 4,417,800</u>	<u>\$ 3,965,005</u>	<u>\$ (452,795)</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$2,657,700	\$ 2,636,062	\$ 2,193,898	\$ 442,164
Contractual services	65,700	1,337,338	1,172,683	164,655
Other	444,400	444,400	394,053	50,347
Total expenditures and other uses	<u>\$3,167,800</u>	<u>\$ 4,417,800</u>	<u>\$ 3,760,634</u>	<u>\$ 657,166</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

**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 Audit Act requires the State Auditor to conduct financial and compliance audits of every agency in accordance with governmental auditing, accounting and financial reporting standards, and local, state and federal laws, rules and regulations. The Audit Act further establishes a tiered system of financial reporting for local public bodies in which the amount of a local public body's annual revenue determines whether the local public body is subject to an agreed upon procedures engagement. The Audit Act also gives the State Auditor the authority to cause the financial affairs and transactions of an agency to be audited in whole or in part, in addition to the annual audit.

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 position 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



STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

general fund (administrative account fund 11100 and independent public accounting fund 11200) is removed from the statement of net position 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. 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, the general fund, which is presented as a major fund. The general fund is the Office operating fund. It includes all the 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**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. In exchange transactions, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. In nonexchange transactions, revenues and expenses are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Office considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Only the portion of current compensated absences related to payments due to retired or terminated employees as of June 30, 2013, but not paid until after the end of the fiscal year, is included in the fund financial statements.

**D. Budgets and Budgetary Accounting**

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

1. No later than September 1<sup>st</sup>, 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). Subsection C of Section 9 of the General Appropriation Act of 2012, 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 M of Section 3 of the General Appropriation Act of 2012 "for the purpose of administering the General Appropriation Act of 2012, 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." Pursuant to Section 2.2.2.12(A)(3) NMAC, the only exception would be an amount payable at June 30, 2013, 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

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

September 30, 2013, creating a negative fund balance. Such 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, 2013.

8. Single-year appropriations lapse at the end of the fiscal year. Accounts payable amounts related to goods and services received by June 30<sup>th</sup> 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, 2013 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.

**E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

**1. Investments**

Office investments are deposited in the New Mexico State Treasurer's General Fund Investment Pool (GFIP).

**2. Receivables and payables between SHARE accounts**

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" generally reflect reversions for unexpended unencumbered appropriations that must be paid to the State General Fund.

**3. Capital assets**

Capital assets of the Office include furniture and fixtures, information technology equipment (computers and peripherals, all equipment related to electronic

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

communications), and software. 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

**4. Reversions**

Fund 11200 is non-reverting per Section 12-6-13 B, NMSA 1978. 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, 2013, in accordance with Section 6-5-10, NMSA 1978. The reversion amount for the current fiscal year is shown as an “Other financing use” in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and as a reduction of the State general fund appropriation in the Statement of Activities.

**5. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Office did not have any items that were required to be reported in this category as of June 30, 2013.

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

**6. *Net position flow assumption***

The Office does not have any “restricted” net position because the state legislature could potentially “re-appropriate” the SHARE account 11200 fund balance that is restricted by Section 12-6-13 NMSA 1978, for payments for salaries and expenses of the state auditor. Therefore, the Office net position flow assumption is that unrestricted net position is always being used to pay Office expenses.

**7. *Fund balance flow assumptions***

The Office has no fund balance in SHARE account 11100 except for the \$100 of unassigned fund balance related to the Office petty cash fund. The Office has not paid for anything out of its petty cash fund in recent years. In SHARE account 11200, the Office has: 1) committed fund balance related the next fiscal year’s budget; and 2) assigned fund balance that the Office does not have the budget authority to expend until future periods, when and if the Legislature includes some of those assigned funds in an appropriation. When the fiscal year begins for which SHARE account 11200 cash balance has been appropriated, then the Office is authorized to expend those funds. However, it is generally Office policy to expend the funds in the following order: (1) first, the general fund appropriation deposited in the SHARE account 11100, (2) then the funds that the Office earned as audit fees in the current year; and (3) lastly, the SHARE account 11200 cash balance funds budgeted for the current year.

**8. *Fund balance policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The Legislature and the Governor are the highest level of decision-making authority for the Office that can, by the annual adoption of the House Bill 2 (HB2) statute, commit fund balance. Once adopted, the limitation imposed by the statute remains in place until a similar action is taken (the adoption of the HB2 in the following year) to remove or revise the limitation.

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

Pursuant to Section 12-6-13 NMSA 1978, the Office intends to use the amounts presented as assigned fund balance in future years for audit expenditures. However, recent history has demonstrated that at a future date, the Legislature and Governor could decide to appropriate the remaining fund balance in SHARE account 11200 for some purpose other than audit expenditures. Therefore, the fund balance amount in SHARE account 11200 that has not been formally appropriated for use in the next fiscal year, is presented as assigned fund balance.

**F. Revenues and expenditures/expenses**

**1. Program revenues**

Amounts reported as charges for audit services include: (1) charges to Office audit clients for financial audit services; (2) charges to Office clients for special audit services in response to fraud issues; and (3) in the fiscal year ended June 30, 2013, \$1,094,555 that the Office collected from the New Mexico Finance Authority (NMFA) to pay a contract independent public accountant for work performed on a special audit of the NMFA. The annual general fund appropriation is not program revenue; it is general revenue.

**2. Compensated absences**

The liability for the types of compensated absences listed below includes the applicable employer match for the Federal Insurance Contributions Act (FICA) and Medicare payroll taxes. The liability for such leave is reported as incurred in the government-wide statements. 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. A liability for these compensated absences is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements as of the end of the fiscal year.

Vacation Leave - 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 each year after the pay period beginning in December and ending in January. When employees terminate their employment with the Office, they receive compensation at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

Compensatory Time - FLSA non-exempt employees are compensated at one and one-half times their regular rate of pay in cash or comp time for all preapproved overtime worked. FLSA non-exempt employees are paid for all accrued compensatory time upon separation from the Office. FLSA exempt employees are eligible for hour-for-hour comp-time, with advance approval from the State Auditor. FLSA exempt employees shall not accumulate compensatory time off in excess of 100 hours. Compensatory time must be taken before annual leave is used. Upon separation or transfer from the Office, FLSA exempt employees may use accumulated compensatory time, with the approval of the State Auditor, or it will be forfeited. Therefore, the June 30, 2013 compensatory time balance is zero to make the financial statement presentation agree with the Office policy.

Sick Leave - In general, employees accrue sick leave at the rate of 3.69 hours per pay period. 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 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.

**2. Investment in State Treasurer's General Fund Investment Pool**

Office investments in the State Treasurer's General Fund Investment Pool (GFIP) at June 30, 2013 were:

Name of Account	SHARE Fund Name	SHARE Fund #	Balance Per Books
Investment in General Fund Investment Pool	State Auditor Administration	11100	\$ 85,231
Investment in General Fund Investment Pool	State Auditor IPA- Audits	11200	<u>691,150</u>
Subtotal of Investments			776,381
Petty Cash			<u>100</u>
Total Investments and Petty Cash			<u><u>\$ 776,481</u></u>

Section 8-6-3 NMSA 1978 NMSA, requires that all money of the state except when otherwise specially provided, be kept by the State Treasurer. Therefore, all Office cash is maintained 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

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

director. The State Treasurer, with the advice and consent of the state board of finance, may invest money held in demand deposits and not immediately needed for operations, in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended.

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, 2013, review the State Treasurer’s Investment Policy at [http://www.nmsto.gov/investment\\_policy\\_1](http://www.nmsto.gov/investment_policy_1) 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. The Office did not have any accounts receivable as of June 30, 2013.

**4. Changes in Capital Assets**

Summaries of changes in capital assets and related depreciation follow:

<b>Historical Cost</b>	<b>Balance 6/30/12</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/13</b>
Furniture and fixtures	\$ 15,628	\$ -	\$ -	\$ 15,628
Info Technology Equipment	96,907	13,894	(21,983)	88,818
Software	25,876	-	-	25,876
<b>Totals</b>	<b><u>\$ 138,411</u></b>	<b><u>\$ 13,894</u></b>	<b><u>(\$21,983)</u></b>	<b><u>\$ 130,322</u></b>



STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

<b>Related Depreciation</b>	<b>Balance 6/30/12</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/13</b>
Furniture and fixtures	\$ 10,443	\$ 898	\$ -	\$ 11,341
Info Technology Equipment	75,681	6,893	(21,983)	60,591
Software	15,726	3,383	-	19,109
<b>Totals</b>	<u>\$ 101,850</u>	<u>\$ 11,174</u>	<u>(\$21,983)</u>	<u>\$ 91,041</u>

<b>Assets, net of Depreciation</b>	<b>Balance 6/30/12</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/13</b>
Furniture and fixtures	\$ 5,185	\$ (898)	\$ -	\$ 4,287
Info Technology Equipment	21,226	7,001	-	28,227
Software	10,150	(3,383)	-	6,767
<b>Totals</b>	<u>\$ 36,561</u>	<u>\$ 2,720</u>	<u>-</u>	<u>\$ 39,281</u>

**5. Changes in Compensated Absences**

A summary of changes in the compensated absences liabilities follows:

	<b>Balance 6/30/12</b>	<b>Adjustment</b>	<b>Increase</b>	<b>(Decrease)</b>	<b>Balance 6/30/13</b>	<b>Amount Due in 1 Year</b>
Annual Leave	\$107,662	\$ -	\$104,316	\$(115,997)	\$95,981	\$95,981
Sick Leave	1,438		5,065	(6,503)	-	-
Comp-Time	7,493	(7,493)	24,399	(24,399)	-	-
<b>Total Compensated Absences</b>	<u>\$116,593</u>	<u>\$(7,493)</u>	<u>\$133,780</u>	<u>\$(146,899)</u>	<u>\$95,981</u>	<u>\$95,981</u>

The compensated absence liabilities include the applicable employer FICA taxes. The Comp-Time balance as of June 30, 2013 was adjusted to zero because the Office policy precludes payment of Comp-Time balances to FLSA-exempt employees when they leave the office. See also Note 14 regarding the current year adjustment to Comp-Time.

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

**6. Operating Leases**

The Office had the following seven operating leases during the fiscal year ended June 30, 2013, with the related total expenditures:

- a Pitney Bowes postage meter, \$542;

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

- one Xerox photocopier with Scanflowstore, \$11,551;
- four leased vehicles, \$6,384; and
- one Santa Fe office building, \$198,404.

The small postage meter was originally leased in FY10, for four years. The Office obtained the old leased Xerox photocopier on July 3, 2007, and kept it through December 2012. The Office signed the lease for the new Xerox copier in October 2012, and started using the machine about January 2013. The copier lease is for four years. The Office made lease payments during FY13, for four vehicles that are leased from the New Mexico General Services Department. The Office has requested budget in FY15 to replace these old leased vehicles. 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 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.

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 since the leases are considered cancellable.

**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, 2013, from the General Administration Account (Fund 11100):

Petty cash and investment in general fund investment pool, June 30, 2013 (Administration Account, Fund 11100)	\$ 85,331
Less: Accounts payable, June 30, 2013	(8,512)
Accrued salaries and related liabilities, June 30, 2013	(48,943)
Fund balance for petty cash, June 30, 2013	(100)
Due to State General Fund, June 30, 2013	\$ 27,776

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

FY13 unencumbered unexpended general fund appropriation	\$ 27,077
FY13 Sale of equipment	680
FY13 Printing & Reproduction Revenue not budgeted	19
Total Reversions	\$ 27,776

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

**8. Transfers**

The Office received twelve monthly operating transfers from the Department of Finance and Administration (DFA) Appropriations account totaling the amount shown below.

Agency	SHARE fund from/to	Amount	Purpose of the Payment
DFA	85300/11100	\$ 2,516,600	Appropriation allotments

The Office made the payment shown below to the State General Fund (85300) during FY13, for the reversion related to the FY12 appropriation.

Date	SHARE fund from/to	Amount	Purpose of the Payments
9/26/2012	11100/85300	\$ 1,839	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](http://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 the plan e.g.: 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

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

June 30, 2013, 2012, and 2011 were \$243,252, \$208,002, and \$256,129 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 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](http://www.nmrhca.state.nm.us).

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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

The Office contributions to the RHCA for the years ended June 30, 2013, 2012, and 2011 were \$32,257, \$28,439, and \$28,090 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.

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

**12. Statewide Cash Reconciliation Issue**

In June 2012, a diagnostic report revealed that the State General Fund Investment Pool (LGIP) balances had not been reconciled at the business unit/fund level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July of 2006. The diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx). The document title is "Current State Diagnostic of Cash Control – June 2012." The General Fund Investment Pool (GFIP) is the State Treasurer fund where the Office cash is invested pursuant to Section 8-6-3 NMSA 1978.

The Department of Finance Administration (DFA), 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, conducted a Cash Management Remediation Project (Remediation Project) with a goal of achieving "a point forward" reconciliation of cash, in February 2013. A DFA representative verbally indicated to the Office that the SHARE cash reconciliation process from February 2013 forward, is working for agencies like the Office that issue warrants through DFA. As of June 30, 2013, the old unreconciled items that occurred from July 1, 2006 through February 2013, remain unreconciled.

On March 15, 2013, the third party PeopleSoft Treasury expert provided DFA with an additional report titled "Approach to the Historical Reconciliation of Bank Transactions." This report describes three possible approaches to addressing the remaining reconciliation issue: (1) adjust balances only; (2) fully reconcile only the differences created from 2010 through the present that were created while Wells Fargo was the fiscal agent; or (3) fully reconcile the differences created: from 2002 through 2006 while Wells Fargo was the fiscal agent, from 2006 through 2010 while Bank of America was the fiscal agent and from 2010 through the present while Wells Fargo was again the fiscal agent. DFA is currently requesting a 3.2 million dollar supplemental appropriation to address the remaining reconciliation issues.

The Office of the State Auditor has the following internal control procedures to monitor the monthly change in the Office investment in GFIP accounts related to each of the areas of risk noted in the first report referenced above: deposits; disbursements; and journal entries posted to the 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 GFIP accounts. In addition, the monthly deposits per the general ledger are tied back to

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Notes to Financial Statements  
June 30, 2013

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 GFIP 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 GFIP, 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 the Office believes the risk of misstatement of the Office investment in GFIP accounts has been mitigated to a low level of risk, even though there are the significant problems with the statewide cash reconciliation process described above.

**13. Change in Accounting Principle**

Due to the implementation of GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013, the Office has reclassified “net assets” in the financial statements as “net position.”

During FY13, the Office also implemented GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS 62 incorporates any old FASB statements that apply to government accounting into GASB statements. Therefore, the old policy disclosure is no longer necessary, regarding what FASB pronouncements apply, or do not apply, to the Office financial statements.

**14. Correction of an Error**

The Office policy regarding comp-time balances for FLSA exempt employees changed effective August 13, 2008. Prior to that date the Office paid FLSA exempt employees for any comp-time balance at the time of termination of employment. The financial statement presentation of compensated absences was not updated to reflect this change in policy for FY09 through FY12. Therefore, Office financial statements for FY09 through FY12 incorrectly overstated the compensated absences liabilities by the following amounts: \$31,379 for FY09; \$12,182 for FY10; \$7,362 for FY11; and \$7,493 for FY12. As shown in Note 5 above, the beginning balance for comp-time has been adjusted down to zero to correct this previous error in the current year. In addition, the beginning net position amount in Exhibit B has been restated from \$431,031 to \$438,524.

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

**Combining Balance Sheet - General Fund Accounts  
June 30, 2013**

	<u>SHARE FUND 11100 Adm. Account</u>	<u>SHARE FUND 11200 IPA Account</u>	<u>TOTAL GENERAL FUND</u>
<b>ASSETS</b>			
Petty Cash	\$ 100	\$ -	\$ 100
Investment in General Fund Investment Pool	85,231	691,150	776,381
Total assets	<u>\$ 85,331</u>	<u>\$ 691,150</u>	<u>\$ 776,481</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 8,512	\$ 3,592	\$ 12,104
Payroll benefits payable	17,241	-	17,241
Payroll taxes payable	10,147	-	10,147
Accrued salaries	21,555	-	21,555
Due to State General Fund	27,776	-	27,776
Total liabilities	<u>85,231</u>	<u>3,592</u>	<u>88,823</u>
Fund balances:			
Committed to:			
Fiscal Year 2014 Budget	-	200,000	200,000
Assigned to:			
Audit Expenses	-	487,558	487,558
Unassigned:	100	-	100
Total fund balances	<u>100</u>	<u>687,558</u>	<u>687,658</u>
Total liabilities and fund balances	<u>\$ 85,331</u>	<u>\$ 691,150</u>	<u>\$ 776,481</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, 2013**

	<b>SHARE FUND 11100 Adm. Account</b>	<b>SHARE FUND 11200 IPA Account</b>	<b>TOTAL GENERAL FUND</b>
Revenues:			
Charges for audit services	\$ -	\$ 1,447,631	\$ 1,447,631
Miscellaneous revenue	699	75	774
Total revenues	<u>699</u>	<u>1,447,706</u>	<u>1,448,405</u>
Expenditures			
General government:			
Current:			
Personal services & employee benefits	2,033,457	160,441	2,193,898
Contractual services	78,128	1,094,555	1,172,683
Other costs	364,044	16,115	380,159
Capital outlay	13,894	-	13,894
Total expenditures	<u>2,489,523</u>	<u>1,271,111</u>	<u>3,760,634</u>
Excess (deficiency) of revenues over expenditures	<u>(2,488,824)</u>	<u>176,595</u>	<u>(2,312,229)</u>
Other financing sources (uses):			
State General Fund Appropriation	2,516,600	-	2,516,600
Special General Fund Appropriation	-	-	-
Compensation Appropriation	-	-	-
Reversion to State General Fund	(27,776)	-	(27,776)
Total other financing sources (uses)	<u>2,488,824</u>	<u>-</u>	<u>2,488,824</u>
Net change in fund balances	-	176,595	176,595
Fund balance, beginning	<u>100</u>	<u>510,963</u>	<u>511,063</u>
Fund balance, ending	<u>\$ 100</u>	<u>\$ 687,558</u>	<u>\$ 687,658</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, 2013**

	<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	\$ 2,516,600	\$ 2,516,600	\$ 2,516,600	\$ -
Miscellaneous revenue	-	-	699	699
<b>Total budgeted revenues</b>	<b><u>\$ 2,516,600</u></b>	<b><u>\$ 2,516,600</u></b>	<b><u>\$ 2,517,299</u></b>	<b><u>\$ 699</u></b>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,072,700	\$ 2,051,062	\$ 2,033,457	\$ 17,605
Contractual services	65,700	87,338	78,128	9,210
Other	378,200	378,200	377,938	262
<b>Total expenditures and other uses</b>	<b><u>\$ 2,516,600</u></b>	<b><u>\$ 2,516,600</u></b>	<b><u>\$ 2,489,523</u></b>	<b><u>\$ 27,077</u></b>

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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for audit services	\$ 430,000	\$ 1,680,000	\$ 1,447,631	\$ (232,369)
Miscellaneous revenue	-	-	75	75
Total revenues	430,000	1,680,000	1,447,706	(232,294)
Prior-year funds re-budgeted	221,200	221,200	-	(221,200)
Total budgeted revenues and fund balance	<u>\$ 651,200</u>	<u>\$ 1,901,200</u>	<u>\$ 1,447,706</u>	<u>\$ (453,494)</u>
Expenditures:				
General government:				
Personal services & employee benefits	\$ 585,000	\$ 585,000	\$ 160,441	\$ 424,559
Contractual services	-	1,250,000	1,094,555	155,445
Other	66,200	66,200	16,114	50,086
Total expenditures	<u>\$ 651,200</u>	<u>\$ 1,901,200</u>	<u>\$ 1,271,111</u>	<u>\$ 630,089</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
Schedule of Performance Measure Results  
Year Ended June 30, 2013

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 2013 are shown below. Fiscal year 2014 target measures are reflected in the column at the far right.

Performance Measure	FY13 Target Measures	FY13 Results	FY14 Target Measures
Output: Total audit fees generated	\$430,000	\$353,076 *	\$430,000
Explanatory: Percent of audits completed by regulatory due date	80%	79%	80%
Output: Number of training sessions performed	16	17	16
Outcome: Percent of statutory reviews of audit reports completed within ten days	75%	90%	75%
Outcome: Percent of agency auditor selection requests processed within five days of receipt	95%	100%	95%
Output: Number of working paper reviews of independent public accountants	45	44	45

\* Note that the modified accrual audit fee revenue amount of \$1,447,631 has been reduced by \$1,094,555 to arrive at this \$353,076 amount. The \$1,094,555 portion of the revenue was received by the Office from NMFA, to pay a contract independent public accountant for work performed on the NMFA special audit engagement regarding a fraudulent audit report. Therefore, the \$1,094,555 that was not earned or retained by the Office is excluded for the purpose of “performance measure” reporting.



Macias, Gutierrez  
& Co., P.C.

*Certified Public Accountants*  
*Member AICPA, NMSCPA*

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1302 Calle De La Merced, Suite A  
Española, New Mexico 87532  
505.747.4415  
Fax 505.747.4417

## **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**

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

We have audited, 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, the financial statements of the governmental activities and major fund and the budgetary comparison of the general fund, of the State of New Mexico, Office of the State Auditor (Office) as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and the combining and individual SHARE accounts and related budgetary comparisons of the Office, presented as supplementary information and have issued our report thereon dated October 11, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Macias, Gutierrez & Co., CPAs, P.C.  
Espanola, New Mexico  
October 11, 2013

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR

Schedule of Findings and Responses  
June 30, 2013

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	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
<b>Current Year Findings:</b>			
None	N/A	N/A	N/A
<b>Follow-up on Prior Year Findings:</b>			
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, 2013**

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**Financial Statement Preparation**

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

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**EXIT CONFERENCE**

The financial statements and the auditors' reports were discussed at an exit conference held on October 22, 2013 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  
Kathy Neidigk, CPA, CFO  
Rita Archuleta, Director of Budget and Finance

**Audit Firm**

James R. Macias, CPA