

**OFFICE OF THE STATE AUDITOR**  
**Timothy M. Keller**



**Financial Statements**  
**Year ended June 30, 2016**  
**(With Independent Auditor's Report Thereon)**

**STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
June 30, 2016**

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**STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
June 30, 2016**

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

**Official Roster  
June 30, 2016**

<u><b>Name</b></u>	<u><b>Title</b></u>
Timothy M. Keller, CFE	State Auditor
Sanjay Bhakta, CPA, CGFM, CFE, CGMA	Deputy State Auditor
Sunalei Stewart, Esq., CFE	Chief of Staff
Sarita Nair, Esq.	General Counsel
Anna Williams, CPA	Financial Audit Director
Emily Oster, CPA, CGMA	Compliance and Quality Control Director
Kevin Sourisseau, CPA	Special Investigation Division Director
Janelle Johnson	Government Accountability Officer
Jessica Lucero	Chief Financial Officer/Audit Supervisor
Antonio Medina	Budget and Finance Director

**INDEPENDENT AUDITORS' REPORT**

Honorable Timothy M. Keller  
New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, New Mexico

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the 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, 2016, and the related notes to the financial statements which collectively comprise the Office's basic financial statements as listed in the table of contents. We also have audited the 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, 2016 as listed in the table of contents.

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

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

***Auditor's Responsibility***

Our responsibility is to express an opinion 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

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 Office as of June 30, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financials 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, 2016 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, 2016, 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 xviii 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 basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons that collectively comprise the Office's basic financial statements. The Schedule of Performance Measure Results 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of Vendor Information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Vendor

Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Schedule of Joint Powers Agreements and Memorandums of Understanding in the table of contents is presented for purposes of additional disclosures and is not a required part of the basic financial statements. The Schedule of Joint Powers Agreements and Memorandums of Understanding has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C.  
Albuquerque, New Mexico  
November 8, 2016

## Management's Discussion and Analysis

The Office of the State Auditor's (Office) discussion and analysis is provided as an overview of the financial activities of the Office for the fiscal year ended June 30, 2016.

### **Basic Financial Statements**

In compliance with requirements of accounting principles generally accepted in the United States of America (U.S. 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 and individual fund financial statements, and
- Individual Statewide Human Resources Accounting and Management Reporting System (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 audited 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, with no business-type activities to report.



## **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 balance 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 balance. 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.N.(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 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 FY16 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.

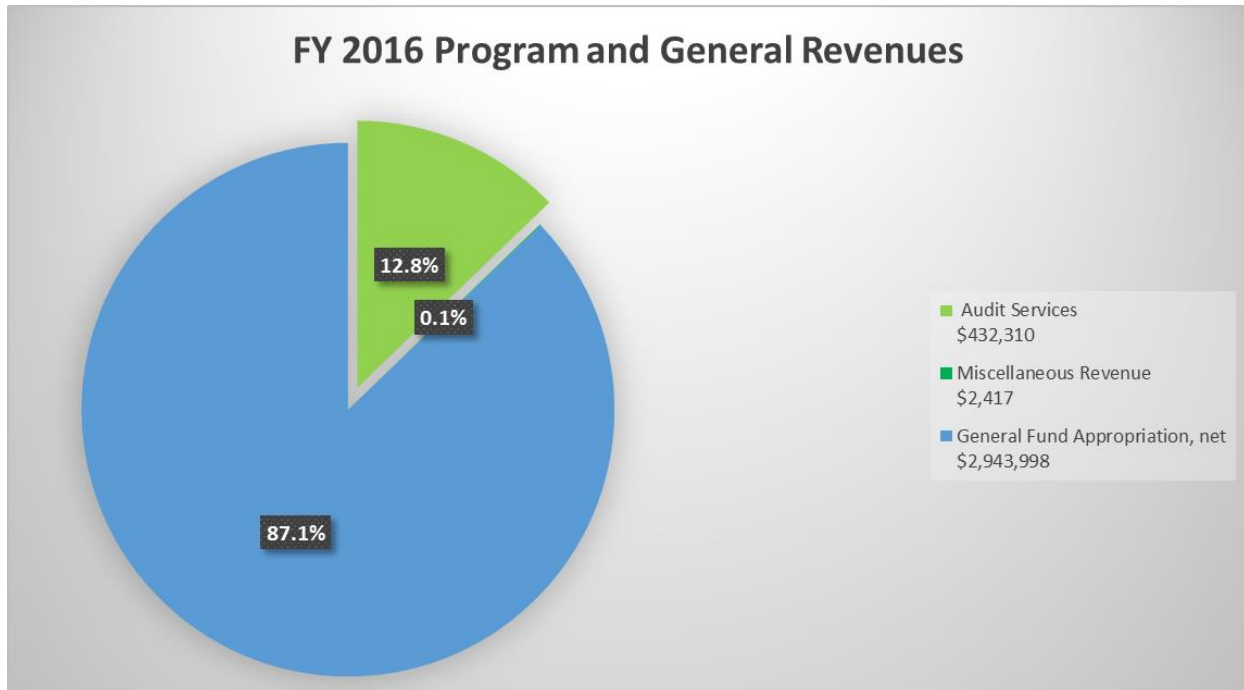
Office of the State Auditor's Net Position			
	FY 2016	FY 2015	Change
Petty Cash	\$ 100	\$ 100	\$ -
Investment in State General Fund Investment Pool	1,095,524	1,449,760	(354,236)
Receivables	-	24,000	(24,000)
Capital assets, net of accumulated depreciation	17,718	27,327	(9,609)
<b>Total assets</b>	<b>\$ 1,113,342</b>	<b>\$ 1,501,187</b>	<b>\$ (387,845)</b>
Accounts payable	\$ 17,973	\$ 156,628	(138,655)
Accrued salaries & employee benefits	101,486	81,297	20,189
Due to State General Fund	3,802	143,810	(140,008)
Compensated absences	112,682	127,808	(15,126)
Due to Other State Agencies	-	5,318	(5,318)
<b>Total liabilities</b>	<b>235,943</b>	<b>514,861</b>	<b>(278,918)</b>
Net position, investment in capital assets	17,718	27,327	(9,609)
Net position, unrestricted	859,681	958,999	(99,318)
<b>Total net position</b>	<b>\$ 877,399</b>	<b>\$ 986,326</b>	<b>\$ (108,927)</b>

The unrestricted net position amount of \$859,681 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

	FY 2016	FY 2015	Change
<b>Program revenues</b>			
Audit services	\$ 432,310	\$ 424,468	\$ 7,842
Miscellaneous revenue	2,417	261	2,156
<b>Total program revenues</b>	<b>434,727</b>	<b>424,729</b>	<b>9,998</b>
<b>General revenue</b>			
General Fund appropriation, net	2,943,998	2,990,801	(46,803)
Compensation appropriation	-	35,700	(35,700)
<b>Total general revenues</b>	<b>2,943,998</b>	<b>3,026,501</b>	<b>(82,503)</b>
<b>Total program and general revenues</b>	<b>\$ 3,378,725</b>	<b>\$ 3,451,230</b>	<b>\$ (72,505)</b>

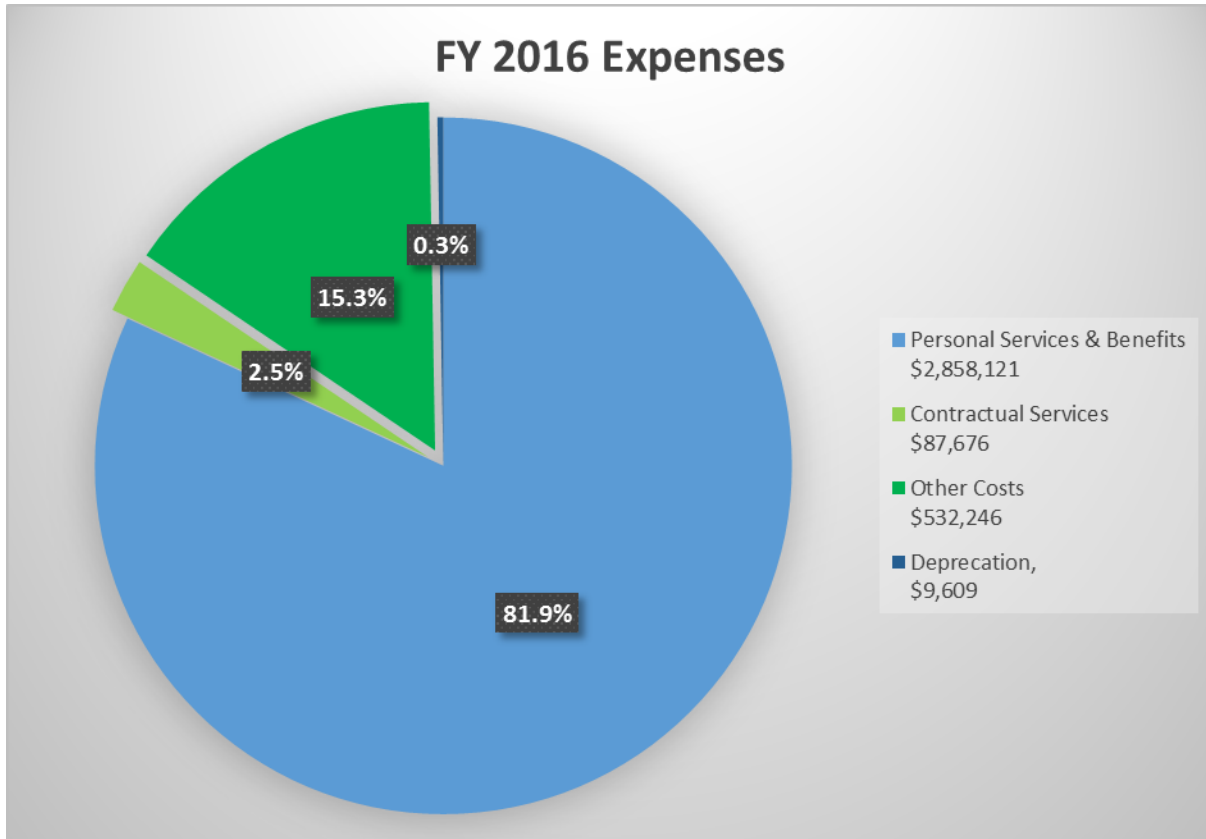
The Office's Program and General Revenues for fiscal year ended June 30, 2016 are depicted in the chart below.



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

	FY 2016	FY 2015	Change
Program expenses			
Personal Services & Benefits	\$ 2,858,121	\$ 2,631,923	\$ 226,198
Contractual Services	87,676	288,428	(200,752)
Other Costs	532,246	575,137	(42,891)
Deprecation	9,609	12,839	(3,230)
Total program expenses	<u>3,487,652</u>	<u>3,508,327</u>	<u>(20,675)</u>
Change in net position	(108,927)	(57,097)	(51,830)
Beginning, net position	986,326	1,044,173	(57,847)
Restatement of beginning net position	-	(750)	750
Ending, net position	<u>\$ 877,399</u>	<u>\$ 986,326</u>	<u>\$(108,927)</u>

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2016 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, 2016, 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 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Committed for subsequent years	\$ 812,700	\$ 399,300	\$ 208,100
Assigned to audit expenses	159,563	687,407	906,359
Unassigned	<u>100</u>	<u>100</u>	<u>100</u>
Total Fund Balance	<u>\$ 972,363</u>	<u>\$ 1,086,807</u>	<u>\$ 1,114,559</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:

- Decreased from FY14 to FY15 by \$218,952; and
- Decreased from FY15 to FY16 by \$527,844.

The \$218,952 decrease in assigned fund balance in FY15 was the result of a decrease in revenue over expenditures of \$27,752 less the \$191,200 increase in fund balance committed for FY16 budget.

The \$527,844 decrease in assigned fund balance in FY16 was the result of a decrease in revenue over expenditures of \$114,444 less the \$413,400 increase in fund balance committed for FY17 budget.

During the same period of time, audit fee revenue on the modified accrual basis increased by \$7,842 between FY15 and FY16 and decreased by \$21,312 between FY14 and FY15.

Audit Fee Revenue (Modified Accrual Basis)

	FY 2016	FY 2015	FY 2014
Audit Fee Revenues	\$432,310	\$424,468	\$445,780

In FY16 the Office earned \$432,310 of audit fees on the modified accrual basis, as shown below. This is an increase of \$7,842 over the prior year revenue collection. For additional information regarding annual financial and compliance audit engagements, see the Schedule of Joint Powers Agreements and Memorandums of Understanding included on pages 29 and 30 of this report.

<u>Agency</u>	<u>Type of Audit</u>	<u>Amount</u>
NM Mortgage Finance Authority	Annual financial and compliance audit	\$ 108,000
Bernalillo County	Annual financial and compliance audit	56,160
Rio Rancho Public Schools	Annual financial and compliance audit	20,700
Office of the Superintendent of Insurance	Annual financial and compliance audit	55,000
NM Department of Corrections	Annual financial and compliance audit	110,000
City of Ruidoso Downs	Special Audit	20,000
Eastern New Mexico University	Special Audit	36,000
Village of Estancia	Special Audit	23,750
Health Policy Commission	Annual financial and compliance audit	2,700
<b>Total FY 2016</b>		<b>\$ 432,310</b>

In FY15 the Office earned \$424,468 of audit fees on the modified accrual basis, as shown below. This was a decrease of \$21,312 over the prior year amount of \$445,780. Audit fees totaling \$750 from performing agreed-upon procedures engagements for small acequias, had to be shown as “deferred inflows of resources – unavailable revenue,” because it was not collected within the period of availability after the end of the fiscal year. This was recognized in FY15.

<u>Agency</u>	<u>Type of Audit</u>	<u>Amount</u>
Bernalillo County	Annual financial and compliance audit	\$ 56,130
NM Department of Corrections	Annual financial and compliance audit	51,750
NM Mortgage Finance Authority	Annual financial and compliance audit	108,000
NM Junior College	Annual financial and compliance audit	14,648
Office of the Superintendent of Insurance	Annual financial and compliance audit	46,000

NM State University	Annual financial and compliance audit	77,495
Hachita Mutual Domestic Water Association	Annual financial and compliance audit	10,500
Agua Fria Community Water System Association	Annual financial and compliance audit	2,580
McKinley County	Special Audit	24,000
Various Acequias	Agreed-upon procedures	33,365
<b>Total FY 2015</b>		<u><u>\$ 424,468</u></u>

In FY14 the Office earned \$445,780 of audit fees on the modified accrual basis, as shown below. This was an increase of \$92,704 over the prior year amount of \$353,076. However, that fact is hidden by the \$1,094,555 in FY13 that was collected from New Mexico Finance Authority, and then paid out to a contractor for work performed on that special audit. Audit fees totaling \$750 from performing agreed-upon procedures engagements for small acequias, had to be shown as “deferred inflows of resources – unavailable revenue,” because it was not collected within the period of availability after the end of the fiscal year.

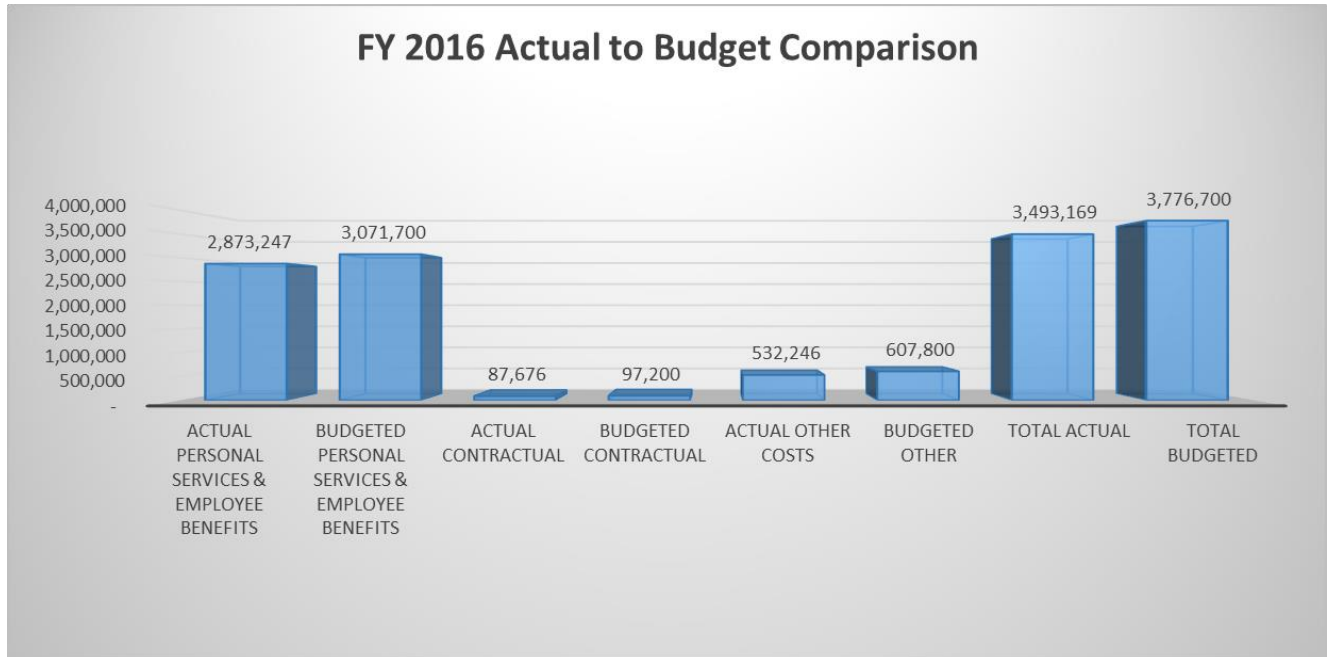
<u>Agency</u>	<u>Type of Audit</u>	<u>Amount</u>
Bernalillo County	Annual financial and compliance audit	\$ 56,130
NM Department of Corrections	Annual financial and compliance audit	103,020
NM Junior College	Annual financial and compliance audit	14,648
NM Mortgage Finance	Annual financial and compliance audit	108,000
NM Department of Cultural Affairs	Annual financial and compliance audit	58,500
Children, Youth and Families Department	Annual financial and compliance audit	54,274
NM State University	Annual financial and compliance audit	14,383
Various Acequias	Agreed-upon procedures	36,825
<b>Total FY 2014</b>		<u><u>\$ 445,780</u></u>

### **General Fund Budgetary Highlights**

The New Mexico Legislature’s General Appropriation Act of 2016 adopted a total original FY16 budget for the Office of \$2,965,600. In early 2016, due to a sharp decline in oil and gas tax revenue and pursuant to Section 10 of the General Appropriations Act of 2016, the Governor, with the approval of the State Board of Finance, proportionally reduced all agencies fiscal year 2016 general fund operating budgets. In April 2016, the Office’s FY16 budget was reduced by \$17,800. The reduction resulted in a final General Fund appropriation of \$2,947,800.

The Office had only category Budget Adjustment Requests (BAR) transfers in FY16. The total final adjusted FY16 budget, including General Fund and Other State Funds, was \$3,776,700. 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 \$17,718. There is no debt related to these capital assets. During FY16, the Office had no purchases of capital assets. Depreciation expense for the year was \$9,609. The Office disposed of no capital assets in FY16. As a result of this activity, the investment in capital assets, net of accumulated depreciation changed from \$27,327 at June 30, 2015, to \$17,718 at June 30, 2016, for a net decrease of \$9,609.

### Long-term Debt

The total compensated absences liability decreased in FY16 by \$15,126, from \$127,808 at June 30, 2015, to \$112,682 at June 30, 2016. The decrease in the liability account balance is due to normal attrition of staff. The Office experienced senior staff members retiring from state government and other staff members leaving to pursue other endeavors within the accounting sector. As other positions became vacant, active recruitment resulted in filling vacant positions as allowed within the means of the budget. The Office estimates that all of the \$112,682 balance is a current liability.

### The Political Environment and Next Year’s Budget

The State of New Mexico has experienced important indicators of well below expectations of General Fund revenues. This in part is attributed to the decline in crude oil and natural gas prices. Economic indicators are forecasting that both the US Gross Domestic Product and New



Mexico Gross State Product are trending downward, in large part due to a slowdown of oil and gas drilling. New Mexico's job growth has slowed its pace, again in large part due to the slowdown of oil and gas drilling. Taxable Gross Receipts, in oil and gas producing counties like Eddy and Lea are experiencing downward trends as a result of depending on drilling activities. In August 2016, as a result of grim General Fund revenue estimates, the Governor called for a Special Legislative Session in early fall 2016.

The Office has experienced a decrease in the FY17 Operating Budget of 3.1% over the FY16 final budget amounts. The Office is seeking an FY18 appropriation that focuses on ensuring the OSA has the resources necessary to thoroughly examine and audit the financial affairs and transactions of governmental agencies that receive and expend public money, effectively oversee accounting firms conducting governmental audits, and aggressively combat fraud, waste and abuse. The request, which amounts to an overall decrease of about 2 percent over FY17, reflects a measured approach that is essential to enabling the OSA to meet its constitutional and statutory duties.

The Office's historic budget impact for General Fund and Audit Revenues are detailed below.

	FY 2017 Operating Budget	FY 2016 Final Budget	FY 2015 Final Budget	FY 2014 Final Budget	FY 2013 Original Budget*	FY 2012 Final Budget	FY 2011 Final Budget
Pers. Services & Employee Benefits	2,951,100	3,071,700	2,742,500	2,997,900	2,657,700	2,361,200	2,503,300
Contractual Services	74,100	97,200	399,600	75,700	65,700	78,300	155,600
Other	634,500	607,800	666,300	456,300	444,400	367,900	386,800
Total	3,659,700	3,776,700	3,808,400	3,529,900	3,167,800	2,807,400	3,045,700
Percentage Increase or (Decrease)	-3.1%	-0.8%	7.9%	11.4%	12.8%	-7.8%	-4%

\* The final FY13 budget was skewed by the \$1 million plus special audit of NMFA, so the original budget is used here for FY13.

## 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:

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, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Petty cash	\$ 100
Investment in general fund investment pool (note 2)	1,095,524
Accounts receivable (note 3)	-
Due from other state agencies (note 8)	-
Capital assets, net of accumulated depreciation (note 4)	<u>17,718</u>
Total assets	<u>1,113,342</u>
<b>LIABILITIES</b>	
Accounts payable	17,973
Payroll benefits payable	34,009
Payroll taxes payable	20,414
Accrued salaries	47,063
Due to Other State Agencies (note 8)	-
Due to state general fund (note 7)	3,802
Compensated absences: (note 5)	
Due within one year	<u>112,682</u>
Total liabilities	<u>235,943</u>
<b>NET POSITION</b>	
Net Investment in capital assets (note 4)	17,718
Restricted	-
Unrestricted	<u>859,681</u>
Total net position	<u><u>\$ 877,399</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, 2016**

	Governmental Activities
Expenses:	
General government - audit services	
Personal services & employee benefits	2,858,121
Contractual services	87,676
Other Costs	532,246
Depreciation	9,609
Total program expenses	3,487,652
Program revenues:	
Charges for audit services	432,310
Miscellaneous revenue	2,417
Total program revenues	434,727
Net program expense	(3,052,925)
General revenues:	
State general fund appropriation (note 9)	2,947,800
Reversions (note 7)	(3,802)
Total general revenues and special items	2,943,998
Change in net position	(108,927)
Net position, beginning	986,326
Net position, ending	\$ 877,399

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

**Balance Sheet  
Governmental Funds  
June 30, 2016**

	<u>General Fund</u>
<b>ASSETS</b>	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	1,095,524
Accounts Receivable (note 3)	-
Due from Other State Agencies (note 8)	-
	<hr/>
Total assets	<u>\$ 1,095,624</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 17,973
Payroll benefits payable	34,009
Payroll taxes payable	20,414
Accrued salaries	47,063
Due to Other State Agencies (note 8)	-
Due to State General Fund (note 7)	3,802
	<hr/>
Total liabilities	<u>123,261</u>
Deferred Inflows of Resources:	
Unavailable Revenue	-
	<hr/>
Fund balances:	
Committed to:	
Fiscal Year 2017 Budget	812,700
Assigned to:	
Audit Expenses	159,563
Unassigned:	
	<hr/>
Total fund balances	<u>972,363</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,095,624</u>

Amounts reported in the statement of net position differ because:

Total fund balances	\$ 972,363
Capital assets reported in governmental activities are not financial resources and therefore are not reported in the funds	17,718
Revenue appears as Deferred inflow of resources in the fund financial statements because it is not available	-
Compensated absences accrued in the government-wide financial statements but not due and payable at fiscal year end	<hr/>
	(112,682)
Net position per Statement of Net Position	<u>\$ 877,399</u>

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, 2016**

	<b>General Fund</b>
Revenues:	
Charges for audit services	\$ 432,310
Miscellaneous revenue	2,417
Total revenues	434,727
Expenditures:	
General government:	
Current:	
Personal services & employee benefits	2,873,247
Contractual services	87,676
Other costs	532,246
Capital outlay	-
Total expenditures	3,493,169
Excess (deficiency) of revenues over expenditures	(3,058,442)
Other financing sources (uses):	
State general fund appropriation (note 9)	2,947,800
Compensation appropriation (note 9)	-
Reversions to State General Fund (note 7)	(3,802)
Total other financing sources (uses)	2,943,998
Net change in fund balances	(114,444)
Fund balance, beginning	1,086,807
Fund balance, ending	\$ 972,363

Amounts reported in the Statement of Activities are different because:

Net change in fund balances	\$ (114,444)
-----------------------------	--------------

Governmental Funds report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	-
Depreciation Expense	(9,609)

Expenditures are recognized in the governmental funds when paid or due for items normally paid with available financial resources; however, the Statement of Activities is presented on the accrual basis and expenses and liabilities are reported when incurred, regardless of when financial resources are available or expenditures are paid or due. This adjustment combines the net change of the following balances:

Compensated Absences Expense	15,126
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Change in net position of governmental activities	\$ (108,927)
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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, 2016**

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	\$ 2,965,600	\$ 2,947,800	\$ 2,947,800	\$ -
Charges for audit services	429,600	429,600	432,310	2,710
Miscellaneous revenue	-	-	2,417	2,417
Total revenues	<u>3,395,200</u>	<u>3,377,400</u>	<u>3,382,527</u>	<u>5,127</u>
Fund Balance Budgeted:				
Fund 11200 Fund Balance	399,300	399,300	399,300	-
Total budgeted fund balance	<u>399,300</u>	<u>399,300</u>	<u>399,300</u>	<u>-</u>
Total budgeted revenue and fund balance	<u>\$ 3,794,500</u>	<u>\$ 3,776,700</u>	<u>\$ 3,781,827</u>	<u>\$ 5,127</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 3,071,700	\$ 3,071,700	\$ 2,873,247	\$ 198,453
Contractual services	237,200	97,200	87,676	9,524
Other	485,600	607,800	532,246	75,554
Total expenditures and other uses	<u>\$ 3,794,500</u>	<u>\$ 3,776,700</u>	<u>\$ 3,493,169</u>	<u>\$ 283,531</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, 2016

**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 (U.S. 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 may 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 operations 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 non-fiduciary activities of an agency. The Office does not have any fiduciary activities. When applicable, the



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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 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

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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 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, 2016, 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 2015, 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 L of Section 3 of the General Appropriation Act of 2015 "for the purpose of administering the General Appropriation Act of 2015, 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

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2.2.2.12(A)(3) NMAC, the only exception would be an amount payable at June 30, 2016, 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, 2016, 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, 2016.

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, 2016 that were not paid within the required time period.

In accordance with the requirements of Section 2.2.2.10(A)(2)(a) NMAC, *Requirements for Contracting and Conducting Audits of Agencies*, and the allowance made by GASB 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 eliminated 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.

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**3. Capital assets**

Capital assets of the Office include furniture and fixtures, information technology equipment (computers and peripherals, all equipment related to electronic 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, 2016, 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, 2016.

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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. When applicable, the Office reports audit fee revenues as deferred inflows of resources when they are not collected within the 60 day period of availability after the end of the fiscal year.

**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. 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

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the highest level of decision-making authority for the Office that can, by the annual adoption of the General Appropriations Act 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.

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 and 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) charges to local public body clients for agreed-upon procedures engagements performed. 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

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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.

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, 2016 compensatory time balance is for only FLSA non-exempt employees.

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, 2016 were:

Name of Account	SHARE Fund Name	SHARE Fund #	Balance Per Books
Investment in General Fund Investment Pool	State Auditor Administration	11100	\$ 22,681
Investment in General Fund Investment Pool	State Auditor IPA- Audits	11200	1,072,843
Subtotal of Investments			1,095,524
Petty Cash			100
Total Investments and Petty Cash			\$ 1,095,624

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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 the State Treasurer in the State General Fund Investment Pool (GFIP), except the \$100 petty cash fund that is administered by the Office budget and finance 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 GFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2016, review the State Treasurer's Investment Policy at [STO Investment Policy](#) 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. Receivables**

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. As of June 30, 2016, the Office had no outstanding receivable amounts.



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**4. Changes in Capital Assets**

Summaries of changes in capital assets and related depreciation follow:

<b>Historical Cost</b>	<b>Balance 6/30/15</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/16</b>
Furniture and fixtures	\$ 13,268	\$ -	\$ -	\$ 13,268
Info Technology Equipment	70,624	-	-	70,624
Software	25,876	-	-	25,876
<b>Totals</b>	<b>\$ 109,768</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 109,768</b>

<b>Related Depreciation</b>	<b>Balance 6/30/15</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/16</b>
Furniture and fixtures	\$ 10,395	\$ 707	\$ -	\$ 11,102
Info Technology Equipment	46,170	8,902	-	55,072
Software	25,876	-	-	25,876
<b>Totals</b>	<b>\$ 82,441</b>	<b>\$ 9,609</b>	<b>-</b>	<b>\$ 92,050</b>

<b>Assets, net of Depreciation</b>	<b>Balance 6/30/15</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/16</b>
Furniture and fixtures	\$ 2,873	\$ (707)	\$ -	\$ 2,166
Info Technology Equipment	24,454	(8,902)	-	15,552
Software	-	-	-	-
<b>Totals</b>	<b>\$ 27,327</b>	<b>\$ (9,609)</b>	<b>-</b>	<b>\$ 17,718</b>

**5. Changes in Compensated Absences**

A summary of changes in the compensated absences liabilities follows:

	<b>Balance 6/30/15</b>	<b>Increase</b>	<b>(Decrease)</b>	<b>Balance 6/30/16</b>	<b>Amount Due in 1 Year</b>
Annual Leave	\$ 126,464	\$111,919	\$(126,225)	\$112,158	\$112,158
Sick Leave	957	349	(957)	349	349
Comp-Time	387	180	(392)	175	175
<b>Total Compensated Absences</b>	<b>\$127,808</b>	<b>\$112,448</b>	<b>\$(127,574)</b>	<b>\$112,682</b>	<b>\$112,682</b>

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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 eight operating leases during the fiscal year ended June 30, 2016, with the related total expenditures:

- a Pitney Bowes postage meter, \$542;
- one Xerox photocopier with Scanflowstore, \$12,518;
- four leased vehicles, \$15,408;
- one Santa Fe office building, \$207,831; and
- one Albuquerque office building, \$7,301.

The small postage meter was originally leased in FY10, for four years. The Office signed the lease for the current Xerox copier in the Santa Fe office in October 2012, and started using the machine about January 2013. The copier lease is for four years. The Office made lease payments during FY16, for four vehicles that are leased from the New Mexico General Services Department (GSD): a Dodge Durango; Dodge Caravan; Nissan Altima; and Ford Fusion. 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. In September of 2015, the Office entered into a lease agreement for office space in Albuquerque at 400 Gold Avenue SW. The Office began occupying that space in September 2015. The term of the lease is from September 1, 2015, to August 31, 2019.

All of the Office leases include a standard cancellation clause in the event 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.

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**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, 2016, from the General Administration Account (Fund 11100) to DFA SHARE Fund 85300:

Petty cash and investment in general fund investment pool, June 30, 2016 (Administration Account, Fund 11100)	\$ 22,781
Less: Accounts payable, June 30, 2016	(12,557)
Accrued salaries and related liabilities, June 30, 2016	(6,322)
Fund balance for petty cash, June 30, 2016	(100)
Due to State General Fund, June 30, 2016	\$ 3,802

The sources of the amounts due to the state general fund by budget fiscal year and appropriation are:

FY16 unencumbered unexpended general fund appropriation	\$ 3,802
Total Reversions	\$ 3802

**8. Due to and Due From Other State Agencies**

The Office had no Due to and Due from Other State Agencies at June 30, 2016.

**9. 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)	Purpose	Amount
State General Fund - Department of Finance and Administration	85300/11100	Appropriation allotments	\$ 2,947,800
Total Transfers			\$ 2,947,800

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The Office made the payment shown below to the State General Fund (85300) during FY 16, for the reversion related to the FY15 appropriation.

Date	SHARE fund from/to	Amount	Purpose of the Payments
9/3/2015	11100/85300	\$143,810	Reversions to the State General Fund

**10. Pension Plan – Public Employees Retirement Association**

*Plan Description.* 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, 33 Plaza La Prensa, Santa Fe, New Mexico 87507. The report is also available on PERA’s website at <http://www.nmpera.org>.

**11. 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

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employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the 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, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the

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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, 2016, 2015, and 2014 were \$41,483, \$37,645, and \$35,466 respectively, which equal the required contributions for each year.

**12. 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 created which allow RMD to insure, self-insure or use a combination of both. The Office's risk management expenditures paid to RMD 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.

**13. Statewide Cash Reconciliation Issue**

In June 2012, a diagnostic report revealed that the State General Fund Investment Pool (GFIP) balances had not been reconciled at the business unit/fund level since the inception of the 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, as of February 2013. However, as of June 30, 2016, the old unreconciled items that occurred from July 1, 2006 through February 2013, remained unreconciled. For current status on Cash Management Remediation Project please refer to Department of Finance and Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

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The Office of the State Auditor has the following internal control procedures in place 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 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, 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.

**14. Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pensions Plans by Employers (GASB 68)**

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

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

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Notes to Financial Statements  
June 30, 2016

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

**15. Joint Powers Agreements and Memorandums of Understanding**

The OSA entered into no Joint Powers Agreements in FY16. All Memorandums of Understanding (MOU) entered into by the OSA are for financial audits for fiscal year 2015 conducted by the OSA. None of the MOU's creates a joint venture or ongoing financial interest in another organization. Revenues generated by conducting these audits are deposited into SHARE fund 11200 (Audit Fund) using account 424102 (Audit Revenue). The Schedule of Joint Powers Agreements and Memorandums of Understanding is in the Other Supplemental Information section of this report.



STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR

**Combining Balance Sheet - General Fund Accounts  
June 30, 2016**

	<b>SHARE FUND 11100 Adm. Account</b>	<b>SHARE FUND 11200 IPA Account</b>	<b>TOTAL GENERAL FUND</b>
<b>ASSETS</b>			
Petty Cash	\$ 100	\$ -	\$ 100
Investment in General Fund Investment Pool	22,681	1,072,843	1,095,524
Accounts Receivable	-	-	-
Due from Other State Agencies	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 22,781</u>	<u>\$ 1,072,843</u>	<u>\$ 1,095,624</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 12,557	\$ 5,416	\$ 17,973
Payroll benefits payable	1,865	32,144	34,009
Payroll taxes payable	1,171	19,243	20,414
Accrued salaries	3,286	43,777	47,063
Due to Other State Agencies	-	-	-
Due to State General Fund	3,802	-	3,802
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>22,681</u>	<u>100,580</u>	<u>123,261</u>
Deferred Inflows of Resources:			
Unavailable revenue	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Committed to:			
Fiscal Year 2017 Budget	-	812,700	812,700
Assigned to:			
Audit Expenses	-	159,563	159,563
Unassigned:	<u>100</u>	<u>-</u>	<u>100</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>100</u>	<u>972,263</u>	<u>972,363</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 22,781</u>	<u>\$ 1,072,843</u>	<u>\$ 1,095,624</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, 2016**

	<u>SHARE FUND 11100 Adm. Account</u>	<u>SHARE FUND 11200 IPA Account</u>	<u>TOTAL GENERAL FUND</u>
Revenues:			
Charges for audit services	\$ -	\$ 432,310	\$ 432,310
Miscellaneous revenue	2,417	-	2,417
Total revenues	<u>2,417</u>	<u>432,310</u>	<u>434,727</u>
Expenditures			
General government:			
Current:			
Personal services & employee benefits	2,340,394	532,853	2,873,247
Contractual services	77,192	10,484	87,676
Other costs	528,829	3,417	532,246
Capital outlay	0	-	-
Total expenditures	<u>2,946,415</u>	<u>546,754</u>	<u>3,493,169</u>
Excess (deficiency) of revenues over expenditures	<u>(2,943,998)</u>	<u>(114,444)</u>	<u>(3,058,442)</u>
Other financing sources (uses):			
State General Fund Appropriation	2,947,800	-	2,947,800
Compensation Appropriation	-	-	-
Reversion to State General Fund	(3,802)	-	(3,802)
Total other financing sources (uses)	<u>2,943,998</u>	<u>-</u>	<u>2,943,998</u>
Net change in fund balances	-	(114,444)	(114,444)
Fund balance, beginning	<u>100</u>	<u>1,086,707</u>	<u>1,086,807</u>
Fund balance, ending	<u>\$ 100</u>	<u>\$ 972,263</u>	<u>\$ 972,363</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, 2016**

	<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	\$ 2,965,600	\$ 2,947,800	\$ 2,947,800	\$ -
Miscellaneous revenue	-	-	2,417	2,417
<b>Total budgeted revenues</b>	<b><u>\$ 2,965,600</u></b>	<b><u>\$ 2,947,800</u></b>	<b><u>\$ 2,950,217</u></b>	<b><u>\$ 2,417</u></b>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,340,400	\$ 2,340,400	\$ 2,340,394	\$ 6
Contractual services	237,200	77,200	77,192	8
Other	388,000	530,200	528,829	1,371
<b>Total expenditures and other uses</b>	<b><u>\$ 2,965,600</u></b>	<b><u>\$ 2,947,800</u></b>	<b><u>\$ 2,946,415</u></b>	<b><u>\$ 1,385</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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for audit services	\$ 429,600	\$ 429,600	\$ 432,310	\$ 2,710
Miscellaneous revenue	-	-	-	-
Total revenues	429,600	429,600	432,310	2,710
Prior-year funds re-budgeted	399,300	399,300	399,300	-
Total budgeted revenues and fund balance	<u>\$ 828,900</u>	<u>\$ 828,900</u>	<u>\$ 831,610</u>	<u>\$ 2,710</u>
Expenditures:				
General government:				
Personal services & employee benefits	\$ 731,300	\$ 731,300	\$ 532,853	\$ 198,447
Contractual services	-	20,000	10,484	9,516
Other	97,600	77,600	3,417	74,183
Total expenditures	<u>\$ 828,900</u>	<u>\$ 828,900</u>	<u>\$ 546,754</u>	<u>\$ 282,146</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  
For the Year Ended June 30, 2016

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 2016 are shown below. Fiscal year 2017 target measures are reflected in the column at the far right.

Performance Measure	FY16 Target Measures	FY16 Results	FY17 Target Measures
Output: Total audit fees generated	\$430,000	\$432,310	\$450,000
Explanatory: Percent of audits completed by regulatory due date	80%	87%	81%
Output: Number of training sessions performed	16	38	17
Outcome: Percent of statutory reviews of audit reports completed within ten days	88%	88%	90%
Outcome: Percent of agency auditor selection requests processed within five days of receipt	100%	*N/A%	*N/A%
Output: Number of working paper reviews of independent public accountants	45	46	45

\*With the implementation of OSA Connect (an online approval process of contracts), this performance measure is no longer informative. There is no longer an IPA recommendation form that is separately processed; entities report their independent public accountant when submitting contract information in the new system.

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
**SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)**  
For the Year Ended June 30, 2016

<i>RFB#/ RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded</i>	<i>In-State/ Out- of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in- state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of Scope of Work</i>
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During FY 2016, the Office had no purchases to one vendor above \$60,000 (excluding gross receipt tax). The only expenditure above \$60,000 to a vendor was related to a multi-year lease agreement for office space. The lease for office space was executed during FY 2010. Further information on all leases can be found in the Notes to the Financial Statements - Note 6: Operating Leases

**State of New Mexico**  
**Office of the State Auditor**  
**Schedule of Joint Powers Agreements and Memorandums of Understanding**  
**For the Year Ended June 30, 2016**

**2015 Financial Audit** – MOU between New Mexico Corrections Department (NMCD) and the OSA to conduct the Fiscal Year 2015 Financial Audit.

- Responsible Party for Operations: NMCD/OSA
- Time Period: July 21, 2015 – July 21, 2016
- Total Amount of Project: \$110,000.00
- Portion Applicable to OSA: -0-
- Amount Agency Contributed in Fiscal Year 2015: -0-
- Audit Responsibility: NMCD/OSA

**2015 Financial Audit** – MOU between New Mexico Mortgage Finance Authority (NMMFA) and the OSA to conduct the Fiscal Year 2015 Financial Audit.

- Responsible Party for Operations: NMMFA/OSA
- Time Period: July 28, 2015 – July 28, 2016
- Total Amount of Project: \$108,000.00
- Portion Applicable to OSA: -0-
- Amount Agency Contributed in Fiscal Year 2015: -0-
- Audit Responsibility: NMMFA/OSA

**2015 Financial Audit** – MOU between Bernalillo County (BC) and the OSA to conduct the Fiscal Year 2015 Financial Audit.

- Responsible Party for Operations: BC/OSA
- Time Period: June 30, 2015 – June 30, 2016
- Total Amount of Project: \$56,160.00
- Portion Applicable to OSA: -0-
- Amount Agency Contributed in Fiscal Year 2015: -0-
- Audit Responsibility: BC/OSA

**2015 Financial Audit** – MOU between Rio Rancho Public Schools (RRPS) and the OSA to conduct the Fiscal Year 2015 Financial Audit.

- Responsible Party for Operations: RRPS/OSA
- Time Period: September 28, 2015 – September 28, 2016
- Total Amount of Project: \$20,700.00
- Portion Applicable to OSA: -0-
- Amount Agency Contributed in Fiscal Year 2015: -0-
- Audit Responsibility: RRPS/OSA

**State of New Mexico**  
**Office of the State Auditor**  
**Schedule of Joint Powers Agreements and Memorandums of Understanding**  
**For the Year Ended June 30, 2016**

**2015 Financial Audit** – MOU between the Office of the Superintendent of Insurance (OSI) and the OSA to conduct the Fiscal Year 2015 Financial Audit.

- Responsible Party for Operations: OSI/OSA
- Time Period: August 11, 2015 – August 11, 2016
- Total Amount of Project: \$55,000.00
- Portion Applicable to OSA: -0-
- Amount Agency Contributed in Fiscal Year 2015: -0-
- Audit Responsibility: OSI/OSA



**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 Timothy M. Keller  
New Mexico State Auditor  
Office of the 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, the 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, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 8, 2016.

Internal Control Over Financial Reporting

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

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

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

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

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C  
Albuquerque, New Mexico  
November 8, 2016

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

**Schedule of Findings and Responses  
June 30, 2016**

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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, 2016**

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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 November 8, 2016 with the following in attendance:

**Office of the State Auditor**

The Honorable Timothy Keller, New Mexico State Auditor  
Sanjay Bhakta CPA, CGFM, CFE, CGMA, Deputy State Auditor  
Sunalei Stewart, Esq., Chief of Staff  
Jessica Lucero, CFO (by telephone)  
Antonio Medina, Director of Budget and Finance

**Audit Firm**

Johnny Mangu MBA, CPA, CGFM, CGMA  
James Hartogenesis CPA, CGFM