



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE
HEARINGS OFFICE
Independent Auditor's Report
And Financial Statements
For The Year Ended
June 30, 2016**

**STATE OF NEW MEXICO
 NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
 INDEPENDENT AUDITOR'S REPORT
 AND FINANCIAL STATEMENTS
 For The Year Ended June 30, 2016**

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**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

**OFFICIAL ROSTER
As of June 30, 2016**

Name	Title
Brian VanDenzen	Chief Hearing Officer
Cindy Hudzik	Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

Mr. Brian VanDenzen, Chief Hearings Officer
New Mexico Administrative Hearings Office
and
Mr. Tim Keller, New Mexico State Auditor
Albuquerque, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, the budgetary comparison of the general fund of the State of New Mexico Administrative Hearings Office (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.

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.

Auditor's 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 from 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 opinions.

Opinions

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 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.

Other Matters

The New Mexico Administrative Hearings Office was established on July 1, 2015 and therefore, management has omitted the MD&A, which is required to be presented to supplement the basic Financial statements. The reason for the omission is because there is no comparative financial information available, which is needed to properly complete the MD&A. Such missing information, although not a part of the basic financial statements is required by GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The schedule of vendor information, which is required by the State Auditor Rule, 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 28, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Hinkle + Landers, P.C.
Albuquerque, NM
November 28, 2016

**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
As of June 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Investments in state general fund investment pool	\$ <u>270,603</u>
Total current assets	<u>270,603</u>
Capital assets, net	-
Total assets	<u>\$ 270,603</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 30,558
Accrued payroll and taxes	38,450
Due to other state agencies	53,585
Due to state general fund	148,010
Compensated absences payable - expected to be paid within one year	<u>29,354</u>
Total current liabilities	<u>299,957</u>
Noncurrent liabilities	
Compensated absences payable - expected to be paid after one year	<u>3,894</u>
Total noncurrent liabilities	<u>3,894</u>
Total liabilities	<u>303,851</u>
NET POSITION	
Net investment in capital assets	-
Unrestricted	<u>(33,248)</u>
Total net position	<u>(33,248)</u>
Total net position and liabilities	<u>\$ 270,603</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
 NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
 STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
 For The Year Ended June 30, 2016**

	<u>Governmental Activities</u>
EXPENSES	
General government	\$ <u>1,433,775</u>
Total Program Expenses	<u>1,433,775</u>
REVENUES	
Program revenues	
Charges for services	<u>3,037</u>
Total program revenues	<u>3,037</u>
Net program (expenses)/ revenue and changes in net position	<u>(1,430,738)</u>
GENERAL REVENUES AND TRANSFERS	
Transfers	
State general fund appropriation	1,545,500
Reversions to state general fund	<u>(148,010)</u>
Total general revenues and transfers	<u>1,397,490</u>
Change in Net Position	(33,248)
Net position, beginning of year	<u>-</u>
Net position, end of year	\$ <u><u>(33,248)</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
BALANCE SHEET—GOVERNMENTAL FUNDS
As of June 30, 2016**

		<u>General Fund</u>
ASSETS		
Investments in state general fund investment pool	\$	<u>270,603</u>
Total assets	\$	<u><u>270,603</u></u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$	30,558
Accrued payroll		38,450
Due to other state fund		53,585
Due to state general fund-reversion		<u>148,010</u>
Total liabilities		<u><u>270,603</u></u>
 FUND BALANCES		
Restricted		
Unrestricted		-
Total fund balances		-
Total liabilities and fund balances	\$	<u><u>270,603</u></u>
 Total fund balances - Governmental Funds		
		-
 Amounts reported for governmental activities in the Statement of Net Assets are different at June 30, because:		
Rounding		-
 Some liabilities are not due and payable in the current period and therefore are not reported in the governmental fund:		
Compensated absences		<u>(33,248)</u>
Net position of governmental activities (Statement of Net Position)	\$	<u><u>(33,248)</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES—GOVERNMENTAL FUND
For The Year Ended June 30, 2016**

		<u>General Fund</u>
REVENUES		
Charges for services	\$	<u>3,037</u>
Total revenue		<u>3,037</u>
EXPENDITURES		
Current		
General government:		
Personal services and employee benefits	\$	1,076,021
Contract services		55,591
Other costs		268,915
Capital outlay		-
Total expenditures		<u>1,400,527</u>
Excess (deficiency) of revenues over expenditures		(1,397,490)
OTHER FINANCIAL SOURCES (USES)		
Transfers out:		
Reversion to State General Fund FY 16		(148,010)
Transfers In:		
State general fund appropriation- regular		<u>1,545,500</u>
Total other financial sources (uses)		<u>1,397,490</u>
Net change in fund balances		-
Fund balances, beginning of year		-
Fund balances, end of year	\$	<u>-</u>
Net change fund balance in governmental funds		-
Amounts reported for governmental activities in the statement of activities are different because:		
Rounding		-
Some items reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds		
These activities consist of:		
(Increase) decrease in compensated absences		<u>(33,248)</u>
Change in net position - governmental activities	\$	<u>(33,248)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Modified Accrual Budgetary Basis)
For The Year Ended June 30, 2016**

GENERAL FUND (71820)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>Final Budget</u>
			<u>Basis</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
REVENUES				
Charges for services	\$ -	-	3,037	(3,037)
Total revenue	-	-	3,037	(3,037)
EXPENDITURES				
Administrative Services				
Personal services/Employee benefits	1,219,300	1,152,000	1,076,021	75,979
Contractual services	10,000	77,300	55,591	21,709
Other costs	325,500	316,200	268,915	47,285
Total expenditures	<u>1,554,800</u>	<u>1,545,500</u>	<u>1,400,527</u>	<u>144,973</u>
Excess (deficiency) of revenues over expenditures	<u>(1,554,800)</u>	<u>(1,545,500)</u>	<u>(1,397,490)</u>	<u>144,973</u>
OTHER FINANCIAL SOURCES (USES)				
Transfers - SGF appropriation less Transfers reversion to State	1,554,800	1,545,500	1,545,500	-
General Fund FY 16	-	-	(148,010)	(148,010)
Total other financing sources and uses	<u>1,554,800</u>	<u>1,545,500</u>	<u>1,397,490</u>	<u>(148,010)</u>
Net change in fund balance	-	-	-	-
Fund balances, beginning of year	\$ -	-	-	-
Fund balances, end of year			<u><u>-</u></u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Administrative Hearings Office (AHO or the Office) was established on July 1, 2015.

The mission of AHO is to adjudicate administrative hearings held pursuant to the Tax Administration Act, the Property Tax Code, the Implied Consent Act, and the Motor Vehicle Code consistent with applicable legal authority in a fair, efficient, and impartial manner.

Section 7-1B-3 & 4 NMSA 1978 also establishes a Chief Hearing Officer Selection Committee, which is administratively attached to the Department of Finance and Administration.

The accounting policies of AHO conform to generally accepted accounting principles as applicable to governmental units. A summary of the AHO 's significant accounting policies follows:

The financial reporting entity as defined by GASB Statement 14 consists of the primary Government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

The Administrative Hearings Office is a component unit of the State of New Mexico and these financial statements include all funds and activities over which the Office has oversight responsibility. The Office is part of the primary government of the State of New Mexico and its financial data of the State. The Office has decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters, the Office has no component units that are required to be reported in its financial statements.

The Office applies Government Accounting Standards Board (GASB) pronouncements as well as relevant pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued unless these pronouncements conflict or contradict GASB pronouncements.

The accounting policies of the New Mexico Administrative Hearings Office conform to generally accepted accounting principles (GAAP) as applicable to governments. A summary of the Office's significant accounting policies follow.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement #34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation based on size of government.

The Office implemented the provisions of GASB #34 upon its creation. As a part of this Statement, there is a reporting requirement regarding the government's infrastructure (road, bridges, etc.) The Office does not own any infrastructure assets and therefore is unaffected by this requirement. The Office also implemented the provisions of the later related GASB statements #37 and #38 which affect GASB #34 and its implementation.

STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

A. Financial Reporting Entity

Governmental Accounting Standards Board Statement (GASBS) 14, "The Financial Reporting Entity," effective for periods beginning, after December 15, 1992, establishes standards for defining and reporting on the financial reporting entity. GASBS 14 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASBS 14 apply at all levels to all state and local governments.

GASB 14 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government." A primary government is any state government or general-purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Office, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. However, New Mexico issues an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government, which can be found at www.dfafcd.state.nm.us.

The Audit Act, Sections 12-6-1 through 12-6-14, NMSA 1978, requires the financial affairs of every agency to be thoroughly examined and audited each year, and a complete written report to be made. Moreover, the New Mexico State Auditor requires that each agency shall prepare financial statements in accordance with accounting principles generally accepted in the United States of America. As a result, the Office has prepared and issued its own audited, agency Annual Financial Report.

Included within the Office for this purpose are the following: all of the programs that are administered and/or controlled by the Office have been included.

No entities were noted that should be considered component units of the Office. No entities were specifically excluded from the Office because no entities were noted as meeting any of the criteria for potential inclusion. Also, there were no fiduciary funds held by the Office as of June 30, 2016.

B. Basic Financial Statements—GASB Statement #34

The basic financial statements include both government-wide (based on the Office as a whole) and fund financial statements. The reporting model focus is on either the Office as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental. In the Government-Wide Statement of Net Position the governmental activities are reflected on a full accrual, economic resources measurement focus basis, which incorporates long-term assets and receivables as well as long-term debt and obligations, when applicable.

For its government-wide activities, the Office has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements

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(Statements and Interpretations), constitutes GAAP for governmental units.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (education, labor, transportation, etc.), which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation when applicable) by related program revenues and operating grants. The program revenues must be directly associated with the function or an activity. The Office includes only one function (general government).

The net cost (by function or activity) is presently covered by a state appropriation. The Office does not currently employ indirect cost allocation systems. The Office only receives a state appropriation and the Office only serves one function, therefore, there is no need to allocate indirect expenses to one or more functions. The Office's policy for when an expense is incurred for purposes for which both restricted and unrestricted assets are available is to utilize the restricted assets first. No such expenses occurred during the year ended June 30, 2016.

This government wide focus is more on the sustainability of the Office as an entity and the change in aggregate financial position resulting from the activities of the current fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in the governmental type categories. There is only a single fund, the general fund. which has been classified as a major fund as required.

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

C. Basis of Presentation

The financial transactions of the Office are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The Office currently only has the single General Fund.

The reporting model, GASB Statement 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined. The single fund of the Office is considered a major fund.

GASB Statement #54

The GASB issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing

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For The Year Ended June 30, 2016

clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement 54.

As a result, in the governmental fund financial statements, fund balances previously reported as reserved and unreserved are now reported as nonspendable, restricted, or unrestricted (committed, assigned or unassigned).

Spending Policy

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Office's policy to use restricted resources first. When expenditures/expenses are incurred for purposes, for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Office's policy to spend committed resources first.

GASB Statement #68

Compliant with the requirements of Government Accounting Standards Board Statement 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, as part of the primary government of the State of New Mexico, is a contributing employer to a 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 the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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, New Mexico, 87501.

Governmental Fund Types

The focus of Governmental Fund measurement (in the Fund Financial Statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the Office.

a. General Fund (71820)

The General Fund is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily from appropriations from the State of New Mexico General Fund.

Non-Current Governmental Assets/Liabilities

GASB Statement #34 eliminated the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Position.

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D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

Modified Accrual—All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period which is considered to be within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, which was also adopted by the Office upon its creation, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met, resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

As the Office only has a single fund there were no interfund (internal) transactions.

E. Budgetary Accounting

The State Legislature makes annual appropriations to the Office. Legal compliance is monitored through the establishment of a budget and a financial control system which permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation level.

Budgeted category amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriation Act. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year. The Office follows these procedures in establishing the budgetary data reflected in the Financial statements:

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

1. No later than September 1st, the Office prepares a budget appropriation request by category to be presented to the next Legislature.
2. The appropriation request is submitted to the New Mexico 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 then becomes the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also submitting recommendations and

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adjustments before presentation to the Legislature.

5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcomes of these hearings are incorporated into the General Appropriations Act.
7. The Office's budget for the fiscal year ending June 30, 2016 was amended in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.
8. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit. The Office submits, no later than May 1st, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
9. All subsequent budget adjustments must be approved by the Office and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
10. Formal budgetary integration is employed as a management control device during the fiscal year for the Office's funds.
11. The budget for the Governmental Funds are not adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The budgets do not include prior year encumbrances paid in the current year in the budgetary amounts.
12. Appropriations lapse at the end of the fiscal year. The Office's General Fund is a reverting fund.
13. The budget for this State Agency is adopted on the modified accrual basis of accounting except for accounts payable at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. There were no accounts payable paid out of the next year's budget.
14. If there are appropriations for multiple years and related funds are encumbered, there is a reservation of fund balance for encumbrances in the financial statements. This State Agency has no encumbered funds outstanding as of June 30, 2016.
15. The legal level of budgetary control is at the appropriation program unit level.

F. Capital Assets

The Office has not capital assets, if and when it does, property and equipment including software, purchased or acquired will be carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software are added to the capital accounts, is \$5,000. However, all capital outlay purchases may not necessarily be capitalized. The Office does not capitalize any interest in regards to its capital

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For The Year Ended June 30, 2016**

assets. Computer software, if developed for internal use and which meets the capitalization minimum of \$5,000 is capitalized and depreciated in accordance with the Office's depreciation guidelines. The Office currently has no capital assets.

Depreciation, when applicable, on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Office utilizes Internal Revenue Service guidelines to estimate the useful lives on capital assets as follows:

Furniture, machinery and equipment	5 to 10 years
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GASB Statement #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The Office does not own any capital assets and therefore no infrastructure assets as well.

G. Compensated Absences Payable

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The compensated absences payable is included in the government-wide financial statements. No sick leave at June 30, 2016 met the requirements for accrual as no one had over 600 hours of sick leave at June 30, 2016.

Qualified employees, per the schedule approved by the Office, accumulate annual leave to a maximum of 240 hours as follows:

Years of Service	Hours Earned Per Pay Period
Less than 3 years	3.08
Between 3 to 7 years	3.69
Between 7 and 11 years	4.61
Between 11 and 15 years	5.54
15 years or more	6.15

H. Due to State General Fund (Reversions)

Reversions to the State General Fund by the Office are based on the definitions of reverting funds.

Reverting Funds - All funds that are not identified by law as non-reverting, such funds are those in excess of budgeted appropriated expenditures.

Current reversions due to the State General Fund as of June 30, 2016 were as follows:

	<u>General Fund</u>
FY 16 reversion	\$ <u>148,010</u>
Total reversions	\$ <u><u>148,010</u></u>

STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

I. Net Position

The government-wide financial statements utilize a net position presentation. Net Position are categorized as investment in capital assets (net of related debt), restricted and unrestricted. As stated earlier, the Office currently has no capital assets.

Unrestricted (deficit) Net Position—represents the deficit of the Office at June 30, 2016. It consists of the Office's current assets less the current liabilities and the noncurrent liabilities. It is expected that the deficit related to the compensated absences payable will be financed by future state appropriations.

J. Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. The only revenues the Office receives are State appropriations. Expenditures are recognized when the related fund liability is incurred.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

L. Fund Balance

The Office's fund balance is classified under the following GASB Statement 54 components:

- **Nonspendable:** Nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The Office has no amounts in the category of nonspendable fund balance for the year ended June 30, 2016.
- **Restricted:** Restricted fund balance represents amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government) The Office's has no amounts in the category of restricted fund balance.
- **Committed:** Committed fund balance is constrained to specific purposes by the highest level of decision-making authority (the New Mexico Legislature and Governor). The Office does not have any committed fund balance for the year ended June 30, 2016.
- **Assigned:** Assigned fund balance is constrained by the Legislature and Executive branch's intent to be used by the government for specific purposes or in some cases by legislation. Intent can be expressed by the governing body or an official or body to which the governing body delegates authority. The Office does not have any assigned fund balance for the year ended June 30, 2016.
- **Unassigned:** Unassigned fund balance is the residual classification for the general fund. The Office does not currently have a minimum fund balance policy. There is no

STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

unassigned amount in the General Fund.

M. Other Required Individual Fund Disclosures

Generally accepted accounting principles of the United States of America require disclosures of certain information concerning individual funds including:

- No funds maintained a deficit fund balance as of June 30, 2016.
- No funds exceeded approved budgetary authority for the year ended June 30, 2016.

N. Concentrations

The Office depends on financial resources flowing from, or associated with the State of New Mexico. Because of this dependency, the Office is subject to changes in specific flows of intergovernmental revenues based on modification to State laws and State appropriations.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet 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/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The Office has no items that meet this criterion. In addition to liabilities, the statement of net position and/or balance sheet 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/fund balance that applies to a future period and so will not be recognized until then. The Office has no items that meet this criterion.

P. Deferred Compensation Plan

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all State employees and those local government and school district employees whose employers have elected participation in the plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination retirement, death or unforeseeable emergency.

The Office has 3 employees that are making contributions to a Deferred Compensation plan. Neither the Office nor the State of New Mexico makes any contributions to the Deferred Compensation plan. All contributions withheld from participants by the Office have been paid to the Nationwide Retirement Solutions, which administers the plan.

2. CASH ACCOUNTS AND INVESTMENT POLICY

General Fund Investment Pool Reconciliation

On August 8, 2016, the New Mexico Department of Finance and Administration, Financial Control Division issued a memorandum regarding the reconciliation of the State General Fund Investment Pool. It stated that the Financial Control Division in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation

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were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For fiscal year 2016 the following assertions are provided;

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range < \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP, and
3. All claims will be honored at face value.

With specific reference to the AHO, the Office has provided copies of the referenced diagnostic reports to the IPA. The Office has also explained and provided copies to the IPA what policies and procedures are in place that ensures that the cash balances in SHARE are correct to the extent that the Office has control (i.e. collection, depositing, reconciling, bank statement validation, and documentation of outstanding reconciling items) of the cash it receipts and transfers to the state general fund and other state agencies pursuant to state statute.

The Office has an interest in the State General Fund Investment Pool allocated between their funds operating under the oversight of SHARE and the State Treasurers Office. The cash transactions processed by the Office flow through the state general fund investment pool.

The Office developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Office. Monthly reconciliation procedures throughout the fiscal year, include, but are not limited to validation of: allotments, deposits, expenditures, all general entries, operating transfers, payroll expenditures/payroll liabilities and a review of outstanding warrants. The Office conducts ongoing tracking of all cash deposits and financial transactions to ensure that they are accurately recorded and posted to the SHARE system. This monthly internal reconciliation of cash receipts and disbursements flowing through the Office share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period.

Credit Risk for Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The SGFIP is not rated for credit risk.

Interest Rate Risk for Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Office does not have an investment policy that limits investment interest rate risk.

Investments in the State Treasurer General Fund Investment Pool

Please see the State Treasurer's annual audit report for the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

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The following is a summary on the next page of the investment and cash balances of the Office. The investments are with the New Mexico State Treasurer as reported by the New Mexico Department of Finance and Administration (DFA) at fair value:

<u>Fund Type</u>	<u>Location</u>	<u>SHARE No./ Description</u>	<u>Per Depository</u>	<u>Warrants/ Checks</u>	<u>Financial Statements</u>
General	STO	21000-13500	\$ 270,603	-	270,603
Total investments on deposit with State Treasurer			\$ 270,603	-	270,603

There were no deposits in transit. The STO accounts are interest-bearing but the Office did not receive any interest for the year ended June 30, 2016.

The New Mexico State Treasurer monitors the collateral for deposits held by it for other state entities, which would include the investment account of the Office. The Office of the State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Office is not permitted to have any investments other than what is held at the State Treasurer's Office and the Office did not have any other investments during the year ended June 30, 2016. There is no credit risk at the Office's level since the cash and cash equivalents amount is under the contract of the New Mexico State Treasurer.

3. RECEIVABLES

The Office has no receivables

4. COMPENSATED ABSENCES PAYABLE

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

	<u>2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>2016</u>	<u>Current Portion</u>
Compensated absences payable \$	-	62,602	29,354	33,248	29,354

See the current portion of the liability above as noted above that is presented in the Statement of Net Position. In prior years, the General Fund was used to liquidate compensated absences.

5. INSURANCE COVERAGE (CONTINGENCIES)

The Office obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. The coverage is designed to satisfy the requirements of the State Tort Claims Act. All employees of the Office are covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2015, through June 30, 2016.

6. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

There were no differences between the budgetary basis and the modified GAAP basis for the General Fund for the year ended June 30, 2016.

7. LITIGATION

The Office is not a party to any litigation for the year ended June 30, 2016.

8. CAPITAL ASSETS

The Office had no capital assets for the year ended June 30.

STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

9. PENSION PLAN—PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of the Office’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (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, NM 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy: Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Office are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Office’s contributions to PERA for the fiscal year ending June 30, 2016, was \$130,031, respectively, which equal the amount of the required contributions for the 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 required for employee and employer contributions shall become the period of time between the employer’s effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

**STATE OF NEW MEXICO
 NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2016**

premium rate schedule can be obtained from the RHCA or viewed on their website at 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 statute required each participating employer to contribute 2.5% of each participating employee’s 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 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’s contributions to the RHCA for the years ended June 30, 2016, was \$15,307-, respectively, which equal the required contributions for each year.

11. COMMITMENTS—OPERATING LEASES

The Office entered into a lease agreements with the New Mexico Taxation and Revenue Department for facilities, mailroom services, and IT services, all of which are for a 12 month period. See the Schedule of Joint Powers Agreements and Government Agreements for further information.

All leases may be terminated at any time with sixty days of notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Office decides that termination is necessary to protect the best interests of the State of New Mexico.

The Office has also entered into copier leases for 5 years. The minimum lease commitments for the copiers are as follows:

<u>Year Ending June 30</u>	<u>Copiers</u>
2017 \$	7,632
2018	2,423
2019	-
Total \$	<u>10,055</u>

Rental expenditures for the year ended June 30, 2016 under the copier leases were \$12,778.

**STATE OF NEW MEXICO
 NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2016**

12. INTER-AGENCY TRANSFERS

The Office received appropriations from DFA. There were no operating transfers in the current year.

Description	Agency Transferred			Reference	Appropriation Period	Amount Transferred In
	From	From Fund	To Fund			
General Fund Appropriation	DFA			Laws of 2015, Chapter 101, section 4	FY 16	\$ 1,545,500
Total Other Financing Sources						1,545,500

Description	Agency Transferred			Reference	Appropriation Period	Amount Transferred Out
	To	From Fund	To Fund			
General Fund Reversion	DFA	13500	34100	Reversion of FY 16 appropriation	FY 16	*(148,010)
						<u>\$ 1,397,490</u>

*Transfer will take place in FY17

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**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

13. MEMORANDUMS OF UNDERSTANDING (MOUs)

The Office had the following MOUs in force for the year ended June 30, 2016.

Name of Entity	Description of Services	Beginning Date	End Date	Total Estimated Project Amount/Amount Applicable to Agency	Amount Contributed by AHO Current FY	Termination Clause
NM Tax and Revenue Department	Office facilities and equipment	7/1/2015	6/30/2016	25% of monthly rate for ABQ, \$591/month for Las Cruces	\$ 23,188.99	Termination upon end date unless modified
NM Tax and Revenue Department	Use of TRD's mailroom services	7/1/2015	6/30/2016	\$ 52,470.69	\$ 52,470.69	Termination upon end date unless modified
NM Tax and Revenue Department	Use of TRD's IT services	7/1/2015	6/30/2016	\$ 51,430.56	\$ 51,430.56	Termination upon end date unless modified
State Personnel Office	Human Resource functions	7/1/2015	6/30/2016	\$ 8,890.00	\$ 8,890.00	Upon 30-day written notice by either party
Multiple Agencies and Hinkle Shanor, LLP	Collective bargaining negotiations and contract administration	7/1/2015	6/30/2016	\$ 10.00	\$ 10.00	In effect until terminated by Office of the Governor
NM Secretary of State's Office	AHO to conduct admin. hearings for SoS	3/1/2016	6/30/2016	150/hr.	\$ -	Upon 30-day written notice by either party

14 EVALUATION OF SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Office recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Office's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Office has evaluated subsequent events through November 28, 2016, which is the date the financial statements were available to be issued.

**STATE OF NEW MEXICO
 NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
 SCHEDULE OF VENDOR INFORMATION
 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 the Scope of Work</i>
NONE								

See auditor's independent auditor report



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 GOVERNMENT AUDITING STANDARDS

Mr. Brian VanDenzen, Chief Hearings Officer
New Mexico Administrative Hearings Office
and
Mr. Tim Keller, New Mexico State Auditor
Albuquerque, NM

We have audited, in accordance with the 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, the budgetary comparison of the general fund of the State of New Mexico, New Mexico Administrative Hearings Office (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 28, 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 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 agency'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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 to be material weaknesses.

November 28, 2016

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 GOVERNMENT AUDITING STANDARDS, continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item: 2016-001.

The Office's Response to Findings

The Office's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Office's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
November 28, 2016

**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016**

Summary Schedule of Current and Prior Audit Findings

Findings	Status of Current and Prior Year Findings
No prior year findings	N/A

CURRENT YEAR FINDING

2016-001—Purchase of Professional Services

Type of Finding: D

Statement of Condition

The Office did not obtain three written offers before selecting a contractor for professional services. The amount of the contract awarded was \$49,875, excluding gross receipts tax.

Criteria

An entity under New Mexico Department of Finance Authority’s Model of Accounting Practices (MAPS), such as the Administrative Hearings Office, is required to obtain three written quotes for professional services greater than \$5,000 but not exceeding \$50,000 before selecting a contractor for professional services.

Cause

The Office was not aware of the procurement requirement.

Effect

The Office is not in compliance with the MAPs regarding the procurement.

Recommendation

We recommend that the Office implement the proper procurement processes when obtaining goods and services.

Management Response

AHO agrees the best practice is to obtain three quotes in this situation. AHO notes that the relevant code uses the word “encourage” which suggests a best practice rather than a mandatory requirement. In order to ensure best practice is followed, AHO will not proceed with future contracts that meet this same requirement unless the supporting documentation includes copies of three quotes. The chief financial officer will attend trainings to ensure that procurement policies and best practices are followed properly.

Finding Resolution Timeline:

Immediately

Designated Employee Position:

Chief Finance Officer

**STATE OF NEW MEXICO
NEW MEXICO ADMINISTRATIVE HEARINGS OFFICE
EXIT CONFERENCE
For the Year Ended June 30, 2016**

An exit conference was held in a closed conference on November 28, 2016.

Attending were the following:

State of New Mexico, Administrative Hearings Office

Brian VanDenzen, Chief Hearing Officer

Cindy Hudzik Chief Financial Officer

Hinkle + Landers, P.C.

Farley Vener, CPA, CFE, CGMA, Managing Shareholder

FINANCIAL STATEMENT PREPARATION

The financial statements were primarily prepared from the original books and records of the Office as of June 30, 2016 by Hinkle + Landers, PC. The financial statements are the responsibility of management.