

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

**STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY**

June 30, 2008

atkinson

PRECISE. PERSONAL. PROACTIVE.

State of New Mexico
Department of Information Technology

OFFICIAL ROSTER

June 30, 2008

Name	Title
Roy Soto	Department Secretary
Conny Maki	Deputy Secretary for Enterprise Services
Elisa Storie	Deputy Secretary for Enterprise Operations
Emilio D. Mike Sanchez	Administrative Services Division Director
Charles Martinez	Chief Financial Officer

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Hector H. Balderas
New Mexico State Auditor
And
Secretary Marlin Mackey
State of New Mexico
Department of Information Technology

We have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, the budgetary comparison for the general fund and the major special revenue fund of the Department of Information Technology (the Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements, as listed in the table of contents. We have also audited the budgetary comparisons of the enterprise funds and capital project fund presented as supplementary information as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The General Services Department transferred \$28,347,417 in capital assets net of accumulated depreciation to the Department in fiscal year 2008; however, no record of physical inventory was taken verifying the assets recorded exist. As such, we could not satisfy ourselves as to the existence of capital assets and the accuracy of depreciation expense reported in the Department's enterprise fund statement of net assets and business-type activities in the government-wide financial statement of net assets.

As discussed in Note A, the financial statements of the Department are intended to present the financial position and changes in financial position and, where applicable, cash flows, of only that portion of the governmental activities, business-type activities, and each major fund, of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, and the changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

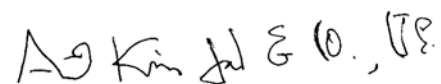
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the existence and valuation of capital asset inventory and the corresponding depreciation expense, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition in our opinion, the financial statements referred to above, presents fairly in all material respects the budgetary comparisons for the enterprise funds and capital project fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2009, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

The Management's Discussion and Analysis on pages 3 through 11 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the budgetary comparisons. The accompanying schedule of special appropriations and the memorandum of understanding listed as other supplementary information in the table of contents are presented for purposes of additional analysis and is not required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
June 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2008

The Management Discussion and Analysis of the State of New Mexico Department of Information Technology (The Department or DOIT) is designed to (a) assist the reader to focus on significant issues, (b) provide an overview of the Department's financial activity, (c) identify changes in the Department's financial position, (d) identify any material deviations from the financial plan (the approved budget), and (e) identify fund issues or concerns.

Since the Management Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the DOIT's financial statements.

This section includes information on the use of the annual report, and management's analysis of the financial position and results of operations for the Department.

FINANCIAL HIGHLIGHTS

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements used for a governmental entity's fair presentation in accordance with generally accepted accounting principles include both information reported on a government-wide basis and information presented on a fund basis.

The Department's Basic Financial Statements (BFS) are presented in four parts, in the following order:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Basic Financial Statements
4. Required Supplementary Information (RSI)

1. Government-Wide Financial Statements

The Government-wide financial statements include two basic financial statements – a statement of net assets and a statement of activities. These statements include the primary government but do not include fiduciary activities.

Basis of accounting and measurement focus: The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting for all activities. Information about the primary governmental activities and business-type activities are presented in separate columns with a total column that represents the total primary government.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

Year ended June 30, 2008

Statement of Net Assets: The statement of net assets presents assets, less liabilities, to arrive at net assets. The difference is labeled “net assets” not equity or fund balance. Assets and liabilities are presented in order of liquidity. Net assets are comprised of three components: Invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Statement of Activities: The objective of the Statement of Activities is to report the financial burden of each of the reporting government's functions on its taxpayers. It identifies the extent to which each function of the government draws from the general revenues or its self-financing through fees or intergovernmental aid. **Expense presentation** in the statement of activities presents expenses of governmental activities and business-type activities by functions which are provided by the Agency's program and general revenues. This is intended to summarize and simplify the user's analysis of the cost of services. **Revenue presentation** is distinguished between program revenues and general revenues. There are three categories into which program revenues are distinguished. 1) Charges for services. These are revenues based on exchange or exchange-like transactions. This type of program revenues arises from charges to customers who purchase, use, or directly benefit from the goods, services, or privileges provided. 2) Program-specific. These are revenues specific to grants and contributions. 3) Program-specific capital grants and contributions. These are resources restricted for capital purposes. For the year ended June 30, 2008, the Department does not have program specific or capital grants and contributions. General revenues are all those revenues not to be reported as program revenues. General revenues are reported after total net expenses of the government's functions on the statement of activities. The Governmental Activities reflect the Department's basic services of administering the Information Technology Management Act and conducting the affairs of the Department.

2. Fund Financial Statements

The Fund Financial Statements that follow the government-wide financial statements report on the financial position and changes in financial position of the individual funds used by the Department. Funds are separate accounting entities used in government accounting to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those financial resources. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on major funds, within each fund type. The Department uses two fund types to account for its financial activities: Governmental funds and Proprietary funds.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

Year ended June 30, 2008

Governmental Funds are used to account for the finances of the governmental activities reported in the Department-Wide Financial Statements. The Department uses three types of governmental funds: a general fund to account for activities not required to be accounted for in other funds, special revenue funds, to account for activities with restricted fund resources and a capital projects fund to account for projects which span more than one year. The Balance Sheet and Statement of Revenues, Expenditures, and Changes in fund balance are the required financial statements for Governmental fund types.

Proprietary funds are used to account for the Department's business type activities. Because they share a common measurement focus and basis of accounting with the private sector business enterprises, proprietary funds use the same generally accepted accounting principles as similar businesses in the private sector. The Department uses one type of proprietary fund; enterprise funds. Enterprise provides benefits to other state agencies, the federal government and local governments. The statement of net assets or balance sheet; statement of revenues, expenses, and changes in fund net assets or fund equity; and statement of cash flows are the required financial statements for proprietary fund types. General capital assets and general long-term debt are reported in proprietary funds.

3. Notes to the Financial Statements

The notes to the basic financial statements are essential to the fair presentation of the financial position, results of operations, and where applicable cash flows. They provide detailed information to support and explain key financial information presented in the department-wide and fund financial statements. The notes provide information on the activities of the Department, on the basis of accounting used and on accounting policies reflected in the financial statements, in addition to clarifying key financial information. They are integral to understanding the financial statements.

4. Required Supplementary Information

Supplemental Information such as statements, schedules, or other information that the GASB has determined to be necessary to supplement, the basic statements or is provided to demonstrate compliance with state reporting requirements from Office of the State Auditor.

FINANCIAL ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Governmental activities increased the Department's net assets by \$27,942,608 and Enterprise activities increased the Department's net assets by \$35,110,660. Key elements of these changes are as follows:

State of New Mexico
Department of Information Technology

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

STATEMENT OF NET ASSETS – SUMMARY

June 30, 2008

	Governmental Activities	Enterprise Activities	Total
Current assets	\$ 12,997,364	\$ 21,961,203	\$ 34,958,567
Capital assets (net)	<u>15,911,326</u>	<u>25,102,106</u>	<u>41,013,432</u>
 Total assets	 <u>28,908,690</u>	 <u>47,063,309</u>	 <u>75,971,999</u>
Current liabilities	939,418	10,871,772	11,811,190
Non-current liabilities	<u>26,664</u>	<u>1,080,877</u>	<u>1,107,541</u>
 Total liabilities	 966,082	 11,952,649	 12,918,731
Restricted net assets	11,849,199	-	11,849,199
Invested in capital assets	15,911,326	23,490,155	39,401,481
Unrestricted net assets	<u>182,083</u>	<u>11,620,505</u>	<u>11,802,588</u>
 Total equity	 <u>\$ 27,942,608</u>	 <u>\$ 35,110,660</u>	 <u>\$ 63,053,268</u>

One significant item that increased the capital assets of governmental activities, was the acquisition of Encanto, aka, Supercomputer, in the amount of \$10,890,000. Significant increase in capital assets of the enterprise activities was primarily the result of capital assets transferred from the General Service Department. The net book value of capital assets transferred totaled \$28,347,417. Net assets transferred from other agencies totaled \$48,426,827 in fiscal year 2008.

State of New Mexico
Department of Information Technology

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

CHANGES IN NET ASSETS

Year ended June 30, 2008

	Governmental Activities	Enterprise Activities	Total
Program revenues	\$ -	\$ 45,502,684	\$ 45,502,684
General revenues	5,906,300	900,000	6,806,300
Total revenues	5,906,300	46,402,684	52,308,984
Expenses:			
Center for Advanced Computing	77,781	-	77,781
Radio communications	270,325	-	270,325
Information Technology Management Office	1,195,425	-	1,195,425
Central Telephone Service	-	26,159,895	26,159,895
Office of Information Processing	-	17,944,466	17,944,466
ISD-OIP Human Resources	-	1,853,340	1,853,340
Program support	-	3,764,812	3,764,812
Total expenses	1,543,531	49,722,513	51,266,044
Excess (deficiency) before transfers	4,362,769	(3,319,829)	1,042,940
Transfers in	23,736,213	38,744,488	62,480,701
Transfers out	(156,374)	(313,999)	(470,373)
Change in net assets	27,942,608	35,110,660	63,053,268
Beginning net assets	-	-	-
Ending net assets	\$ 27,942,608	\$ 35,110,660	\$ 63,053,268

Significant items that increased the governmental activities net assets was transfers of net assets from the General Service Department, totaling \$9,687,819 and a transfer from the Department of Finance and Administration to the Department's Center For Advanced Computing fund (20350) in the amount of \$14,000,000, for purposes of constructing a state center for advance computing.

Significant items that increased enterprise activities were charges for services in the amount of \$45,502,684.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

Year ended June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

The Department's net investment in capital assets totaled \$41,013,432 at June 30, 2008. Amounts reflected in this category are not available to fund future spending. The Department uses these assets to provide services.

The Department's investment in capital assets for its governmental activities as of June 30, 2008 amounts to \$15,911,326 and \$25,102,106 for its Business-type activities (net of accumulated depreciation). The capitalization policy for the Department establishes a threshold of \$5,000, which is in accordance with state statutes. This investment in capital assets consists mainly of radio equipment and information technology equipment. Major capital asset events during the current year included depreciation expense of \$6,037,427. There were \$18,692,548 of capital outlay additions over \$5,000 during the year ended June 30, 2008 and additions net of accumulated depreciation via the transfer from General Services Department (GSD) totaling \$28,347,418. Capital Assets primarily consist of radio and telecommunications infrastructure as well as, information technology equipment that are used primarily by governmental units within the State of New Mexico. The use of the equipment and infrastructure via depreciation is built into the rate structure and charged to the customers over the life of the asset. The capital assets that were transferred to the Department from GSD are currently being accounted for on a subsidiary accounting system that is antiquated. The Department is looking into the acquisition of a new capital asset system that will meet all accounting requirements and assist management in being able to better manage the capital assets.

Long-Term Debt: At the end of the current fiscal year, the Department had a total long-term debt outstanding of \$1,107,541. This amount is due to compensated absences for employees which consist of accumulated balances for annual leave and sick leave eligible for payment to employees upon termination of their employment, but which is not expected to be paid until after one year and long-term capital lease obligations.

Governmental Fund Budget And Transaction Highlights

The Department's approved budget for the Information Technology Management Office (Fund 20370) was \$1,138,800 for fiscal year 2008. Due to cost savings during the course of the year, budgetary basis expenditures were \$1,122,417. Personnel costs accounted for 87.7 percent of the year's expenditures, other operation costs (travel, supplies, maintenance and capital outlay) account for 11.7 percent, and contractual costs accounted for 1 percent. Expenses were \$16,383 less than amounts budgeted for the year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

Year ended June 30, 2008

There was an unfavorable variance in other financing uses in the Information Technology Management Office (Fund 20370) in the amount of \$16,374. This is due to the fact that budget needed to be transferred in to this category and there were limitations on the Department was able to adjust.

There was an unfavorable variance in Bond Proceeds in the Center for Advanced Computing (Fund 20350) in the amount of \$1,800,000. The revenue was not received by DOIT because the source was to be from Severance Tax Bonds. DOIT did not spend any of the amounts related to this appropriation and the appropriation was repealed in the 2009 Legislative session.

There was an unfavorable variance in Other Financing Uses in the Center for Advanced Computing (Fund 20350) in the amount of \$140,000. This is related to 1% of the total appropriation for the Supercomputer that was required to be transferred to another agency for Arts in Public Places.

Proprietary Fund Budget And Transaction Highlights

Differences between the original budget and the final amended budget were a result of various budget adjustments and appropriations. As previously stated, the Department's budget was developed by the General Services Department (GSD) prior to the split between the two agencies. Consequently, the Department had to initiate changes to the original budget to fit the structure of the new Department. Due to percentage limitations in the Appropriations Act, the Department was unable to submit all of the budget adjustments sufficient to redistribute the original budget to where it needed to be.

As a whole, actual charges for services for enterprise funds were less than the final budget by \$1,959,569, or 4.12%. The largest percentage shortfall was in the ISD-OIP Human Resources Fund by \$571,490, or 17.75%. The Data Processing Services revenue for the ISD-OIP Human Resources Fund was limited to the authorized FTEs of customers receiving services. There simply were not enough authorized FTEs available at the rate used to compute Data Processing Services revenue to equal the level budgeted. Upon review of the enterprise funds as a whole, the actual level of expenditures was lower than the final budget by a greater amount than the revenue difference. Therefore, the actual expenditures did not exceed the actual revenues as a whole.

The variances for Personal Services were favorable in the Central Telephone Services fund and unfavorable in other funds, with an overall unfavorable variance of \$987,691, or 6.19% for all funds. This is due to the fact that budget needed to be transferred into this category, the budget was established by GSD and there were limitations on how much the Department was able to adjust.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

Year ended June 30, 2008

The variances for Contractual Services were favorable in all of the enterprise funds, with an overall favorable variance of \$3,926,414, or 36.40%. This is due to the fact that the budget was not needed in this category, the budget was established by GSD and there were limitations on how much the Department was able to adjust.

The variances for Other Costs were favorable in all of the enterprise funds, with an overall favorable variance of \$2,043,030, or 9.58%. This is due to the fact that the budget was not needed in this category, the budget was established by GSD and there were limitations on how much the Department was able to adjust.

The variances for Other Financing Sources were favorable in all of the enterprise funds, with an overall favorable variance of \$1,750,312, or 60.06%. This is due to the fact that the budget was not needed in this category, the budget was established by GSD and there were limitations on how much the Department was able to adjust.

The variances for Other Financing Uses were unfavorable in all of the funds except for the ISD-OIP-Human Resources fund and the Program Support fund, with an overall unfavorable variance of \$1,762,337, or 76.62% for all funds. This is due to the fact that budget needed to be transferred in to this category, the budget was established by GSD and there were limitations on how much the Department was able to adjust.

CURRENTLY KNOWN FACTS, DECISIONS

This is the Department's first year of existence and of reporting under GASB 34. Management notes that from fiscal year 2007 and prior, activities were under the direction of the prior department's General Services Department (GSD) and the Office of Chief Information Officer (OCIO). General Services Department transferred personnel, appropriations, and some cash during the fiscal year. Budgets were developed by GSD and the OCIO, respectively.

Fiscal year 2007 financial information was incorporated, as it was contained in the published financial statements for OCIO and GSD. Management has not attempted to recast such information, other than as such, may have been adjusted in preparation of the fiscal year 2008 financial statements and information.

The Department has continued the use of the subsidiary accounting system known as GEAC to account for Capital asset transferred from GSD and accounts receivable activity. The system is antiquated, and the Department is looking into the acquisition of a new capital asset and accounts receivable system that will meet all accounting requirements and assist management in being able to better manage the capital assets and accounts receivable.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)**

Year ended June 30, 2008

ACCOMPLISHMENTS

During fiscal year 2008, the Department was completely reorganized around best industry practices, which call for a more unified and streamlined internal structure. A new data equipment cooling system was installed to provide for expansion and backup of equipment. A new uninterruptible power supply backup system was installed. The enterprise backup services were upgraded to enable full backup data and systems for each 24-hour period. The memory allotment for SHARE Oracle Databases was increased to improve performance. 348 information technology contracts were reviewed that totaled more than \$122 million. In collaboration with the Department of Finance and Administration (DFA), the Department has made a number of changes to the Statewide Human Resource, Accounting and Management Reporting System (SHARE) equipment infrastructure that has resulted in a more stable SHARE system and increased performance. A 172 teraflop per second supercomputer named Encanto was acquired in order to help develop the state's high-tech economy and to help attract new business to the state. Wire New Mexico has merged digital microwave conversion with an effort to provide a single statewide telecommunications backbone for the state which includes the conversion of the microwave radio network from analog to digital technology, extensions of fiber from Santa Fe to El Paso, and the creation of a new fiber loop from El Paso to Albuquerque through the Southeast quadrant of the state. Fifty-five of New Mexico's ninety-nine radio communications locations have been converted from analog to digital, with four sites completed in 2008. Fiber in the Rio Grande/I-25 Corridor from Santa Fe to El Paso is nearing completion.

Request for information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Department of Information Technology, 715 Alta Vista Street, Santa Fe, New Mexico 87505.

State of New Mexico
Department of Information Technology

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Investments, State Treasurer	\$ 5,803,920	\$ 5,636,886	\$ 11,440,806
Accounts receivable, net	7,082,402	16,433,296	23,515,698
Other assets	-	2,063	2,063
Internal balances	111,042	(111,042)	-
Total current assets	12,997,364	21,961,203	34,958,567
Capital assets	16,952,995	80,396,769	97,349,764
Less accumulated depreciation	(1,041,669)	(55,294,663)	(56,336,332)
Total capital assets, (net)	15,911,326	25,102,106	41,013,432
Total assets	\$ 28,908,690	\$ 47,063,309	\$ 75,971,999
LIABILITIES			
Accounts payable	\$ 720,245	\$ 3,290,377	\$ 4,010,622
Accrued salaries and benefits payable	37,467	671,147	708,614
Due to other state agencies	140,000	1,012,535	1,152,535
State general fund investment pool overdraft	-	1,610,296	1,610,296
Due to the federal government	-	2,158,838	2,158,838
Accrued interest	-	549,990	549,990
Capital lease obligations:			
Due within one year	-	939,605	939,605
Due after one year	-	672,346	672,346
Compensated absences payable:			
Due within one year	41,706	638,984	680,690
Due after one year	26,664	408,531	435,195
Total liabilities	966,082	11,952,649	12,918,731
NET ASSETS			
Investment in capital assets, net of related debt	15,911,326	23,490,155	39,401,481
Restricted for:			
Radio communication projects	6,353,399	-	6,353,399
State center for advanced computing	5,495,800	-	5,495,800
Unrestricted	182,083	11,620,505	11,802,588
Total net assets	\$ 27,942,608	\$ 35,110,660	\$ 63,053,268

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

State of New Mexico
Department of Information Technology

STATEMENT OF ACTIVITIES

For the year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues Charges for Services
Primary government:		
Governmental activities:		
Center for Advanced Computing	\$ 77,781	\$ -
Radio communications	270,325	-
Information Technology Management	1,195,425	-
Total governmental activities	1,543,531	-
Business-type activities:		
Central Telephone Service	26,159,895	24,804,704
Office of Information Processing	17,944,466	18,048,970
ISD-OIP Human Resource	1,853,340	2,649,010
Program support	3,764,812	-
Total business-type activities	49,722,513	45,502,684
Total primary government	\$ 51,266,044	\$ 45,502,684

General revenues and transfers:

State General Fund appropriations
Internal fund transfers
Transfers in
Transfers (out)

Total general revenues and transfers
Transfers of net assets from other
other agencies

Change in net assets
Net assets, beginning of year

Net assets, end of year

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

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (77,781)	\$ -	\$ (77,781)
(270,325)	-	(270,325)
<u>(1,195,425)</u>	<u>-</u>	<u>(1,195,425)</u>
(1,543,531)	-	(1,543,531)
-	(1,355,191)	(1,355,191)
-	104,504	104,504
-	795,670	795,670
<u>-</u>	<u>(3,764,812)</u>	<u>(3,764,812)</u>
<u>-</u>	<u>(4,219,829)</u>	<u>(4,219,829)</u>
<u>\$ (1,543,531)</u>	<u>\$ (4,219,829)</u>	<u>\$ (5,763,360)</u>
\$ 5,906,300	\$ 900,000	\$ 6,806,300
(16,374)	16,374	-
14,037,500	-	14,037,500
<u>(140,000)</u>	<u>(313,999)</u>	<u>(453,999)</u>
19,787,426	602,375	20,389,801
<u>9,698,713</u>	<u>38,728,114</u>	<u>48,426,827</u>
27,942,608	35,110,660	63,053,268
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 27,942,608</u>	<u>\$ 35,110,660</u>	<u>\$ 63,053,268</u>

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

State of New Mexico
Department of Information Technology

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2008

	Major Funds		General Fund	
	Center For Advanced Computing- 20350	Radio Communications- 20340	Information Technology Management Office -20370	Total Governmental Funds
ASSETS				
Investments, State Treasurer	\$ 5,665,000	\$ 70,088	\$ 68,832	\$ 5,803,920
Due from other funds	-	197,933	-	197,933
Due from the General Service Department	-	7,082,402	-	7,082,402
	\$ 5,665,000	\$ 7,350,423	\$ 68,832	\$ 13,084,255
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ -	\$ 705,255	\$ 14,990	\$ 720,245
Accrued salaries and benefits payable	-	-	37,467	37,467
Due to other funds	29,200	41,316	16,375	86,891
Due to other state agencies	140,000	-	-	140,000
	169,200	746,571	68,832	984,603
Fund Balances				
Reserved for center for advanced computing	5,495,800	-	-	5,495,800
Reserved for radio communication projects	-	6,353,399	-	6,353,399
Unreserved	-	250,453	-	250,453
	5,495,800	6,603,852	-	12,099,652
	\$ 5,665,000	\$ 7,350,423	\$ 68,832	\$ 13,084,255

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

State of New Mexico
Department of Information Technology

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

June 30, 2008

Total fund balance, governmental funds (balance sheet) \$ 12,099,652

Amounts reported for governmental activities in the
Statement of net assets are different because:

Capital assets (net of accumulated depreciation) used in
governmental activities are not financial resources and
therefore, are not reported in the funds. 15,911,326

Compensated absences payable, are not due and payable
in the current period and, therefore, are not reported in the funds. (68,370)

Net assets of governmental activities (statement of net assets) \$ 27,942,608

June 30, 2008

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

State of New Mexico
Department of Information Technology

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

For the year ended June 30, 2008

	Major Funds		General Fund	Total Governmental Funds
	Center For Advanced Computing- 20350	Radio Communications- 20340	Information Technology Management Office -20370	
Revenues:				
Federal operating grants	\$ -	\$ -	\$ -	\$ -
Other revenues	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Current:				
Personal services and employee benefits	-	-	984,348	984,348
Contractual services	-	-	7,182	7,182
Other costs	-	149,577	130,896	280,473
Total current	-	149,577	1,122,426	1,272,003
Capital outlay	10,919,200	5,184,390	-	16,103,590
Total expenditures	10,919,200	5,333,967	1,122,426	17,375,593
Excess (deficiency) of revenues over expenditures	(10,919,200)	(5,333,967)	(1,122,426)	(17,375,593)
Other financing sources (uses):				
State general fund appropriations	2,555,000	2,250,000	1,101,300	5,906,300
Internal fund transfers in (out)	-	-	(16,374)	(16,374)
Transfers in from other agencies	14,000,000	-	37,500	14,037,500
Transfers to other agencies	(140,000)	-	-	(140,000)
Total other financing sources (uses)	16,415,000	2,250,000	1,122,426	19,787,426
Fund balance transferred from the General Service Department	-	9,687,819	-	9,687,819
Change in fund balance	5,495,800	6,603,852	-	12,099,652
Total fund balance, beginning of year	-	-	-	-
Total fund balance, end of year	<u>\$ 5,495,800</u>	<u>\$ 6,603,852</u>	<u>\$ -</u>	<u>\$ 12,099,652</u>

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

State of New Mexico
Department of Information Technology

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

For the year ended June 30, 2008

Net change in fund balances - Governmental Funds \$ 12,099,652
(statements of revenues, expenditures and changes in fund balance)

Amounts reported for Governmental activities in the statement of activities
are different because:

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

Capital Outlay	\$ 16,103,590
Net book value of capital assets transferred in	10,894
Depreciation	<u>(203,158)</u>

Excess (deficiency) of capital outlay over depreciation expense 15,911,326

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.

Change in compensated absences (68,370)

Change in net assets of governmental activities (statement of activities) \$ 27,942,608

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

State of New Mexico
Department of Information Technology

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS – BUDGET TO ACTUAL –
MAJOR GOVERNMENTAL FUNDS – INFORMATION
TECHNOLOGY MANAGEMENT OFFICE FUND (FUND 20370)**

For the year ended June 30, 2008

	Information Technology Management Office (Fund 20370)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal award programs	\$ -	\$ -	\$ -	\$ -
Permits and other fees	-	-	-	-
Other - general fund	1,101,300	1,101,300	1,101,300	-
Total revenues	\$ 1,101,300	\$ 1,101,300	\$ 1,101,300	\$ -
Expenditures:				
Personal services	\$ 995,700	\$ 988,200	\$ 984,348	\$ 3,852
Contractual services	3,200	10,700	7,182	3,518
Other	139,900	139,900	130,887	9,013
Total expenditures	\$ 1,138,800	\$ 1,138,800	\$ 1,122,417	\$ 16,383
Other Finance Sources (Uses):				
Other finance sources	\$ 37,500	\$ 37,500	\$ 37,500	\$ -
Other finance uses	-	-	(16,374)	(16,374)
Total other finance sources (uses)	\$ 37,500	\$ 37,500	\$ 21,126	\$ (16,374)
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	\$ 9	\$ 9
Request to pay prior year bills from 2009 budget			(9)	
Change in fund balance per statement of revenues, expenses and changes in fund balance (GAAP Basis)			\$ -	

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

State of New Mexico
Department of Information Technology

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET TO ACTUAL – MAJOR GOVERNMENTAL FUNDS –
RADIO COMMUNICATIONS (FUND 20340)**

For the year ended June 30, 2008

	Radio Communications (Fund 20340)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal award programs	\$ -	\$ -	\$ -	\$ -
Permits and other fees	-	-	-	-
Other	-	-	-	-
Total revenues	-	-	-	-
Budgeted cash balance	9,256,432	9,256,432	9,256,432	-
Total revenues and budgeted cash balance	<u>\$ 9,256,432</u>	<u>\$ 9,256,432</u>	<u>\$ 9,256,432</u>	<u>\$ -</u>
Expenditures:				
Personal services	\$ -	\$ -	\$ -	\$ -
Contractual services	-	125,000	-	125,000
Other	11,256,432	11,381,432	5,333,967	6,047,465
Total expenditures	<u>\$ 11,256,432</u>	<u>\$ 11,506,432</u>	<u>\$ 5,333,967</u>	<u>\$ 6,172,465</u>
Other Finance Sources (Uses)				
Other finance sources	\$ 2,000,000	\$ 2,250,000	\$ 2,250,000	\$ -
Other finance uses	-	-	-	-
Total other finance sources (uses)	<u>\$ 2,000,000</u>	<u>\$ 2,250,000</u>	<u>\$ 2,250,000</u>	<u>\$ -</u>
Excess of revenues and other finance sources over expenditures and other finance uses	<u>\$ -</u>	<u>\$ -</u>	\$ 6,172,465	<u>\$ 6,172,465</u>
Net assets transferred from the General Service Department			9,687,819	
Cash carryforward not revenue for GAAP purposes			<u>(9,256,432)</u>	
Change in fund balance per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<u>\$ 6,603,852</u>	

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

State of New Mexico
Department of Information Technology

**STATEMENT OF NET ASSETS –
ENTERPRISE FUNDS**

June 30, 2008

	Major Funds				
	Central Telephone Service - 20310	Office of Information Processing - 20330	ISD-OIP- Human Resources - 20360	Program Support 20320	Total Enterprise Funds
ASSETS					
Current Assets:					
Investments, State Treasurer	\$ 3,442,539	\$ -	\$ 2,194,347	\$ -	\$ 5,636,886
Accounts receivable (net)	7,461,854	8,562,073	408,062	1,307	16,433,296
Due from other funds	180,191	53,767	18,741	1,904,512	2,157,211
Other assets	-	1,420	643	-	2,063
Total current assets	11,084,584	8,617,260	2,621,793	1,905,819	24,229,456
Noncurrent assets:					
Capital assets:					
Land improvements	53,109	-	-	-	53,109
Buildings and improvements	7,116,679	-	-	-	7,116,679
Auto and trucks	239,340	-	-	-	239,340
Machine & equipment	11,713,053	27,908	-	-	11,740,961
Data processing	1,809,630	3,370,757	658,270	-	5,838,657
Furniture & fixtures	109,101	4,259	-	-	113,360
Total capital assets (net)	21,040,912	3,402,924	658,270	-	25,102,106
Total non current assets	21,040,912	3,402,924	658,270	-	25,102,106
Total assets	\$ 32,125,496	\$ 12,020,184	\$ 3,280,063	\$ 1,905,819	\$ 49,331,562
LIABILITIES AND NET ASSETS					
Current liabilities:					
Investment pool overdraft	\$ -	\$ 158,682	\$ -	\$ 1,451,614	\$ 1,610,296
Accounts payable	1,870,047	606,579	799,219	14,532	3,290,377
Accrued salaries and benefits payable	209,480	281,599	33,341	146,727	671,147
Compensated absences-current	209,340	200,885	50,902	177,857	638,984
Due to the federal government	-	2,158,838	-	-	2,158,838
Accrued interest	-	549,990	-	-	549,990
Due to other funds	718,432	1,314,041	234,403	1,377	2,268,253
Capital lease obligations-current	-	939,605	-	-	939,605
Due to other state agencies	203,960	454,169	354,406	-	1,012,535
Total current liabilities	3,211,259	6,664,388	1,472,271	1,792,107	13,140,025
Noncurrent liabilities					
Capital lease obligations-long term	-	672,346	-	-	672,346
Compensated Absences-long term	133,841	128,434	32,544	113,712	408,531
Total liabilities	3,345,100	7,465,168	1,504,815	1,905,819	14,220,902
Net assets					
Invested in capital assets, net of related debt	21,040,912	1,790,973	658,270	-	23,490,155
Unrestricted	7,739,484	2,764,043	1,116,978	-	11,620,505
Total net assets	28,780,396	4,555,016	1,775,248	-	35,110,660
Total liabilities and net assets	\$ 32,125,496	\$ 12,020,184	\$ 3,280,063	\$ 1,905,819	\$ 49,331,562

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

State of New Mexico
Department of Information Technology

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS – ENTERPRISE FUNDS**

For the year ended June 30, 2008

	Major funds				Total Enterprise Funds
	Central Telephone Service-20310	Office of Information Processing- 20330	ISD-OIP- Human Resources- 20360	Program Support 20320	
Operating revenues:					
User fees	\$ 24,798,595	\$ 18,048,926	\$ 2,649,010	\$ -	\$ 45,496,531
Other revenues	6,109	44	-	-	6,153
Total revenues	24,804,704	18,048,970	2,649,010	-	45,502,684
Operating expenses:					
Personal services	5,531,530	7,032,559	906,795	3,467,807	16,938,691
Contractual services	622,266	5,469,684	698,260	120,600	6,910,810
Other costs	15,886,823	2,707,686	247,145	176,405	19,018,059
Depreciation expense	4,119,276	1,713,853	1,140	-	5,834,269
Total operating expenses	26,159,895	16,923,782	1,853,340	3,764,812	48,701,829
Operating income (loss):	(1,355,191)	1,125,188	795,670	(3,764,812)	(3,199,145)
Non-operating revenues (expenses):					
interest expense	-	(1,020,684)	-	-	(1,020,684)
Total non-operating revenues (expenses)	-	(1,020,684)	-	-	(1,020,684)
Income (loss) before transfers	(1,355,191)	104,504	795,670	(3,764,812)	(4,219,829)
Other financing sources (uses):					
State general fund appropriations	-	900,000	-	-	900,000
Internal fund transfers in (out)	(1,529,468)	(1,976,300)	(242,670)	3,764,812	16,374
Transfers to other agencies	-	-	(313,999)	-	(313,999)
Total other financing sources (uses)	(1,529,468)	(1,076,300)	(556,669)	3,764,812	602,375
Net assets transferred from					
General Service Department	31,665,055	5,526,812	1,536,247	-	38,728,114
Change in net assets	28,780,396	4,555,016	1,775,248	-	35,110,660
Total net assets, beginning of year	-	-	-	-	-
Total net assets, end of year	<u>\$ 28,780,396</u>	<u>\$ 4,555,016</u>	<u>\$ 1,775,248</u>	<u>\$ -</u>	<u>\$ 35,110,660</u>

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

State of New Mexico
Department of Information Technology

**STATEMENT OF CASH FLOWS –
ENTERPRISE FUNDS – ENTERPRISE-TYPE ACTIVITIES**

For the year ended June 30, 2008

	Central Telephone Service - 20310	Office of Information Processing - 20330	ISD-OIP- Human Resources - 20360	Program Support - 20320	Total Enterprise Funds
Cash flows from operating activities:					
Cash received from customers	\$ 22,035,066	\$ 14,990,288	\$ 2,295,340	\$ -	\$ 39,320,694
Cash payments to suppliers	(13,145,757)	(6,787,572)	(577,317)	(573,973)	(21,084,619)
Cash payments to employees for services	(5,567,672)	(7,077,058)	(855,903)	(3,029,511)	(16,530,144)
Net cash provided by (used in) operating activities	3,321,637	1,125,658	862,120	(3,603,484)	1,705,931
Cash flows from noncapital financing activities:					
Transfers of cash balances from the General Service Department	2,627,006	2,783,900	2,441,039	-	7,851,945
Appropriations from state general fund	-	900,000	-	-	900,000
Settlement payments to the federal government	-	(2,222,537)	-	-	(2,222,537)
Transfers (out) to other agencies	-	-	(313,999)	-	(313,999)
Internal fund transfers in (out)	(1,187,669)	(827,725)	(136,476)	2,151,870	-
Net cash provided (used) by noncapital financing activities	1,439,337	633,638	1,990,564	2,151,870	6,215,409
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(1,318,435)	(612,186)	(658,337)	-	(2,588,958)
Capital lease payments (principal)	-	(1,163,862)	-	-	(1,163,862)
Capital lease payments (interest)	-	(141,930)	-	-	(141,930)
Agency overdraft of state general fund investment pool	-	158,682	-	1,451,614	1,610,296
Net cash provided by (used in) capital and related financing activities	(1,318,435)	(1,759,296)	(658,337)	1,451,614	(2,284,454)
Net Increase in cash and cash equivalents	3,442,539	-	2,194,347	-	5,636,886
Investments, state treasurer, at beginning of the year	-	-	-	-	-
Investments, state treasurer, at end of the year	\$ 3,442,539	\$ -	\$ 2,194,347	\$ -	\$ 5,636,886
Operating income (loss)	\$ (1,355,191)	\$ 1,125,188	\$ 795,670	\$ (3,764,812)	\$ (3,199,145)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	4,119,276	1,713,853	1,140	-	5,834,269
Provision for uncollectible accounts	1,183,797	833,494	164,720	-	2,182,011
Change in assets and liabilities:					
(Increase) in accounts receivable	(2,769,638)	(3,058,682)	(353,670)	-	(6,181,990)
Decrease in inventories	-	143,169	-	-	143,169
Decrease in prepaids	-	2,120	-	-	2,120
(Increase) decrease in due from other funds/agencies	501,280	-	(18,741)	(292,877)	189,662
(Decrease) increase in accounts payable	(69,337)	(19,111)	(151,173)	14,532	(225,089)
Increase in due to other funds/agencies	1,747,592	430,126	373,282	1,377	2,552,377
(Decrease) increase in accrued payroll	(185,695)	(167,700)	(7,933)	146,727	(214,601)
Increase in compensated absences	149,553	123,201	58,825	291,569	623,148
Total adjustments	4,676,828	470	66,450	161,328	4,905,076
Net cash provided (used) by operating activities	\$ 3,321,637	\$ 1,125,658	\$ 862,120	\$ (3,603,484)	\$ 1,705,931

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

State of New Mexico
Department of Information Technology

**STATEMENT OF CASH FLOWS –
ENTERPRISE FUNDS – ENTERPRISE-TYPE ACTIVITIES – CONTINUED**

SCHEDULE NONCASH TRANSACTIONS

For the year ended June 30, 2008

Noncash assets received:	
Accounts receivable (net)	\$ 12,432,010
Due from other funds	702,042
Other assets	147,352
Capital assets	90,494,921
Accumulated depreciation	<u>(62,147,504)</u>
 Total noncash assets received	 41,628,821
 Liabilities assumed:	
Accounts payable	2,117,646
Payroll taxes and benefits payable	885,748
Due to other agencies	469,608
Stale dated warrants	26,859
Due to the federal government	4,052,611
Capital lease obligations	2,775,812
Compensated absences	<u>424,368</u>
 Less liabilities assumed	 10,752,652
 Plus cash transferred from General Service Department	 <u>7,851,945</u>
 Equals total net assets transferred to enterprise funds	 <u>\$ 38,728,114</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A – ORGANIZATION

The Department of Information Technology was created by the Legislature of the State of New Mexico under House Bill 959 in the Laws of 2007 and enactment of the Department of Information Technology Act. The purpose of the Act was to create a single, unified executive branch department to administer all laws and exercise all functions formerly administered by the Agency of the chief information office, the information technology commission, pursuant to the Information Technology Management Act, and the communications division, information systems division, radio communications bureau and telecommunications bureau of the General Services Department to consolidate enterprise information technology services duplicated within executive agencies and provide additional information technology services and functionality to improve and streamline the executive branch's information technology systems.

The Department provides enterprise information technology services to state government's executive branch. This includes the communications infrastructure, the state Data Center, and oversight for information technology projects to help state agencies better serve the public.

Services include:

- Data Center Services
 - Mainframe
 - Open Systems and UNIX Systems
 - Hosting and Administration
 - Data Storage Services

- Communication Services
 - E-mail and Calendar
 - Mobile Phone and BlackBerry
 - Radio
 - Voice

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE A – ORGANIZATION – CONTINUED

- Network Services
 - Wide Area Network
 - Local Area Network
 - Internet Access

- Application and Professional Services
 - Web Hosting
 - Application Development and Maintenance
 - Desktop Support Services
 - Enterprise Project Management
 - Database Administration
 - Enterprise Support Desk

- Security Services
 - Firewall
 - Virtual Private Network

- Oversight and Compliance
 - Agency IT Planning Guidance
 - Project Certification and Oversight
 - Project Management Guidance
 - Review and Approval of IT Contracts

The chief executive of the Department is the Department Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's cabinet. The Department's functions are administered by the Agency of the Secretary, and through the Enterprise Applications and Enterprise Network Service Programs. Overall support is provided by the Administrative Services Division. There are no component units of the Department.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE A – ORGANIZATION – CONTINUED

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. Even though the Governor appoints the Department Secretary, the Secretary has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and is primarily accountable for fiscal matters.

The Department is part of the primary government of the State of New Mexico, and its financial data is included with the financial data in the State of New Mexico's Comprehensive Annual Financial Report. These financial statements present financial information that is attributable to the Department and does not purport to present the financial position of the State of New Mexico.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Department of Information Technology (Department) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Department applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncement and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The more significant of the Department's accounting policies are described below:

1. 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. GASB 14 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASB 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."

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Financial Reporting Entity – Continued

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

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

2. Basis Financial Statements – Government-Wide Statements

The Department’s basic financial statements include both information on a government-wide basis and information presented on a fund basis. Government-Wide Financial Statements include two basic financial statements – a statement of net assets and a statement of activities. These statements do not include the fiduciary activities as they do not represent resources available to fund the Department’s programs. The Department has no Fiduciary fund activity.

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental funds or business-type. In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Department’s net assets are reported in three parts - invested in capital assets; restricted net assets; and unrestricted net assets. When applicable, the effect of interfund activity is removed from the statement of net assets in order to avoid a grossing-up effect on assets and liabilities within the statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis Financial Statements – Government-Wide Statements – Continued

The objective of the statement of activities is to report the relative financial burden of each of the reporting government's functions on its taxpayers. The format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees or intergovernmental aid.

The statement of activities presents governmental and business-type activities by function. The governmental functions of the Department have been defined as the center for advanced computing, radio communications, and information technology management. The business-type functions include central telephone services, information processing, human resources accounting, and program support.

The resources and activities accounted for and reported in business-type funds permit for any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis when the reporting government is the predominant participant in the activity. Program revenues included in the statement of activities reduce the cost of the function to be financed from general revenues. Items not properly identified as program revenues are reported instead as general revenues. Program revenues include charges to state agencies, the federal government, and local governments for information technology services.

The Department reports all direct expenses by program in the statement of activities. Direct expenses are those clearly identifiable with a function.

3. Basic Financial Statements – Fund Financial Statements

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

The financial transactions of the Department are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The reporting model under GASB 34 sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. Due to the fund structure of the Department, all funds are considered major funds and are included under two types of funds being Governmental funds and Proprietary funds.

The following fund types are used by the Department:

GOVERNMENTAL FUND TYPES

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

The Information Technology Management Office (SHARE 20370). This fund is the general operating fund of the Department and 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 and a budget is legally adopted for this fund. This is a reverting fund.

Section 15-38-16 NMSA 1978 created the Radio Communications fund (SHARE 20340). This is a special revenue fund that is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified radio communications projects. This is a non-reverting-fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

Laws of 2007, chapter 42, section 62, item 7, authorized the creation of the Center for Advanced Computing fund (SHARE 20350). This fund is capital projects fund used to account for resources appropriated for purposes of planning, designing, constructing, and renovating a state center for advance computing. This fund is a non-reverting fund.

PROPRIETARY FUND TYPES

Proprietary funds use the economic measurement focus and the full accrual basis of accounting and are used to report the Department's service activities that charge customers a fee. Customers include other state agencies, federal, and local governments. Like the government-wide financial statements, they report all assets (including capital assets), liabilities (short and long-term), revenues, expenses, gains and losses. They report the services included the business-type activities in the government-wide financial statements. The Department uses one kind of proprietary fund, enterprise funds, to account for services provided to external customers.

Laws of 2007, Ch 290, HB 959, transferred the Central Telephone Services Division (SHARE 20310) to the Department in fiscal year 2008. This division is responsible for designing, establishing and maintaining voice and data telecommunication systems for New Mexico State Government and other governmental entities. This is a non-reverting fund.

Laws of 2007, CH 290, HB 959, transferred the Office of information processing fund (SHARE 20330) to the Department in fiscal year 2008. The fund provides automated data processing services for state agencies and other local federal governmental units. This is a non-reverting fund.

Laws of 2007, CH 290, HB 959, transferred the ISD–OIP Human Resources fund (SHARE 20360) to the Department in fiscal year 2008. The fund accounts for the costs of operating the Human Resource System. The Information Systems Division provides professional technical services, and the operation is administered jointly by the Department of Finance and Administration and the State Personnel Office. The costs are recovered through assessments, based on a per-employee cost, to all agencies subject to their oversight. This is a non-reverting fund.

Laws of 2007, CH 290, HB 959, created the program support fund (SHARE 20320) provides financial, purchasing, budget and personnel-related services for the enterprise funds listed above. This is a non-reverting fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

GOVERNMENT-WIDE

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

All governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resources increments are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the governmental funds in the fund financial statements are presented on a modified accrual basis. Under the accrual method of accounting revenues, expenses, gains, losses, assets and liabilities resulting from exchange and non-exchange transactions are recognized in accordance with full accrual accounting and with the requirements of GASB 33, Accounting and Financial Reporting for Non-exchange Transactions.

Available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are available if collected within sixty days of the end of the fiscal year.

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

ENTERPRISE FUNDS

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result for providing information technology services to customers which include state agencies, federal and local governments. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

5. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Department which lapse at fiscal year-end. Legal compliance is monitored through the establishment of a budget and financial control system which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

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

- a. No later than September 1, the Department submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgets and Budgetary Accounting – Continued

- b. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcomes of those hearings are incorporated into the state's General Appropriations Act.
- c. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, as which time the approved budget becomes a legally binding document.
- d. No later than May 1, the Department submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1. All subsequent budgetary adjustments must be approved by the Director of the DFA Budget Division and by LFC.
- e. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
- f. Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of next year's budget. Encumbrances related to single year appropriations lapse at year-end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget.
- g. The original budget differs from the final budgets presented in the budget comparison statements by any amendments made during the fiscal year.
- h. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30th.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Accrued Compensated Absences

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes. 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. Qualified employees accumulate annual leave to a maximum of 240 hours as follows:

Years of Service	Hours Earned Per Pay Period
Between 1 month to 3 years	3.08
Over 3 to 7 years	3.69
Over 7 and 11 years	4.61
Over 11 to 15 years	5.54
Over 15 years/beyond	6.15

When applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and a long-term portion. The current portion is in the amount expected to be expended during fiscal year 2008. It is an estimate management determined by applying a percentage to the June 30, 2008 liability. Department General Fund and Enterprise fund resources have been used to liquidate accrued compensated absences.

7. Reversions

The General Appropriation Act of 2005, Section 3, Subsection N, states that "For the purpose of administering the General Appropriation Act of 2005, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's "*Basis of Accounting-Modified Accrual and the Budgetary Basis*," the Department has accrued as payables amounts owed for goods and services received by June 30, 2008. Any State General Fund appropriations remaining in the general fund (SHARE 20370) fund balance not reserved is reverted to the state general fund. As of June 30, 2008, there was no fund balance to revert to the state general fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Equity

In the government-wide financial statement, net assets consist of three components: invested in capital assets, net of related debt; restricted; and unrestricted. The Department has no debt related to capital assets; therefore net assets invested in capital assets equal the capital assets, net of accumulated depreciation.

The Department financial statement show net assets restricted of \$6,353,399 for Radio Communication Projects and \$5,495,800 for the State Center for Advanced Computing.

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

Legal enforceability means the government can be impelled by an external party-such as citizens, public interest groups or the judiciary – to use resources for the purposes specified by the legislation.

The amount of net assets restricted by enabling legislation is \$11,849,199, which represents all restricted net assets reported on page 12.

These resources remaining in net assets were received or earned with the explicit understanding between the Department and the resource provider (grantor, contributor, other government or enabling legislation) that the funds would be used for a specific purpose. The Department'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.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

In the **fund financial statements** reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated for (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance account are summarized on the next page:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Equity - Continued

Reserved for the Center for Advanced Computing – Fund balance reserved for purposes of planning, designing, constructing, and renovating a state center for advanced computing.

Reserved for Radio Communications Projects – Fund balance reserved for future cost associated with the development of a digital microwave communication backbone for the state.

9. Use of Estimates

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

10. Investments in State General Fund Investment Pool

The Department is required by statute to deposit any money received into the State Treasury. Balances maintained at the end of the day are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements that disclose the collateral pledged to secure these deposits, categories of risk involved and the market value of purchased investments. Consequently the Department reports its share of the investment pool maintained at the State Treasurer on the enterprise statement of net assets and the statement of cash flows. Investments are considered liquid investments with original maturities of less than 90 days for cash flow statement purposes.

11. Capital Assets

Capital assets are stated at cost or estimated historical cost, and include data processing, buildings, furniture, office equipment and machinery & equipment constructed with Department resources and acquired with State appropriations. They also include assets transferred from General Services Department of the State of New Mexico under the provisions of House Bill 959. Capital asset additions made through governmental funds are recorded as capital outlay expenditures in the respective funds and recorded in the government-wide financial statements. The Department does not own any infrastructure assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Capital Assets - Continued

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978, was amended effective June 19, 2005, changing the capitalization threshold of movable chattels and equipment from items costing more than \$1,000 to items costing more than \$5,000. Old inventory items that do not meet the new capitalization threshold will remain on the inventory list and continue to be depreciated. Any items received after July 1, 2005, have been added to the inventory only if they meet the new capitalization policy. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment in accordance with NMAC 2.20.1.9C(5).

Capital assets acquired by Business-type funds are reported in those funds at cost.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Department estimates the useful lives on capital assets as follows:

Buildings and improvements	10 to 40 years
Data processing equipment and software	4 years
Machinery & equipment	5 years
Office furniture & fixtures	7 years
Auto & trucks	5 years

12. New Accounting Standards

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions*, was adopted by the Department for the year ended June 20, 2008.

The Plan administered by the New Mexico Retiree Health Care Authority is a cost-sharing multiple employer plan as defined in GASB 45. Cost-sharing employers such as the Department are required to recognize other post employment benefit expense on the accrual basis or modified accrual of accounting for their contractually required contributions. Contributions are set by the legislation and are not based on actuarial calculation. The legislature periodically reviews the contribution rates pursuant to 10-7c-156 NMSA 1978. The effects of GASB 45 are not significantly different from the previous pay as you go requirement for monthly contributions.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. New Accounting Standards – Continued

GASB 51 *Accounting and Financial Reporting for Intangible Assets* is effective for financial statements for fiscal year 2010. The statement establishes account standards and reduces inconsistencies in practice for intangible assets.

The Department is considering the effects of this new standard on its financial reporting for future periods.

NOTE C – INVESTMENTS, STATE TREASURER

The following is a summary of the Department's investment account of the State General Fund Investment Pool held by the New Mexico State Treasurer as reported by the New Mexico Department of Finance and Administration (DFA):

	Type of Account	SHARE Fund Number	June 30, 2009 Account Balance	June 30, 2009 Account Reconciled	Financial Statement Balances at June 30, 2008
Info/Tech Management Office	Investment	36100-20370	\$ 68,832	\$ 68,832	\$ 68,832
Total governmental fund					<u>68,832</u>
Center for Advanced Computing	Investment	36100-20350	5,665,000	5,665,000	5,665,000
Radio Communications-Special		36100-20340	70,088	70,088	<u>70,088</u>
Total special revenue funds					<u>5,735,088</u>
Central Telephone Services	Investment	36100-20310	3,442,539	3,442,539	3,442,539
Program Support		36100-20320	(1,451,614)	(1,451,614)	-
Off. Of Information Processing		36100-20330	(158,682)	(158,682)	-
ISD-OIP-Human Resources		36100-20360	2,194,347	2,194,347	<u>2,194,347</u>
Total proprietary funds					<u>5,636,886</u>
Total Share of State General Fund Investment Pool					<u>\$ 11,440,806</u>

The New Mexico State Treasurer monitors the collateral for deposits held by it for other state entities in its various pools, which would include the investment account of the Department. The New Mexico State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these accounts is disclosed. That report may be obtained by writing to the New Mexico State Treasurer, P.O. Box 608, Santa Fe, NM 87504-0608.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE C – INVESTMENTS, STATE TREASURER – CONTINUED

The Department is not permitted to have any investments, and the Department did not have any investments of its own during the year ended June 30, 2008. There is no custodial risk at the Department level since the account is under the control of the New Mexico State Treasurer. The requirements of GASB 40 are met at the level of the New Mexico State Treasurer.

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 for the Department’s enterprise funds including the applicable allowances for uncollectible accounts are as follows:

	Central Telephone Service - 20310	Office of Information Processing - 20330	ISD-OIP - Human Resources - 20360	Program Support 20320	Total Enterprise Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Receivables:					
Due from state agencies	\$ 8,581,736	\$ 9,391,072	\$ 572,782	\$ 1,307	\$ 18,546,897
Due from the federal government	63,915	-	-	-	63,915
Due from local governments	<u>-</u>	<u>4,495</u>	<u>-</u>	<u>-</u>	<u>4,495</u>
Gross receivables	8,645,651	9,395,567	572,782	1,307	18,615,307
Less allowance for uncollectible:	<u>(1,183,797)</u>	<u>(833,494)</u>	<u>(164,720)</u>	<u>-</u>	<u>(2,182,011)</u>
Receivables (net)	<u>\$ 7,461,854</u>	<u>\$ 8,562,073</u>	<u>\$ 408,062</u>	<u>\$ 1,307</u>	<u>\$ 16,433,296</u>

In addition the Radio Communications fund (20340) reports \$7,082,402 in amounts owed from the General Service Department. This amount represents the Department’s share of the state general investment pool currently recorded in the General Service Department funds. Per agreement between the Department and the General Service Department, the amount is to be transferred to the Department prior to June 30, 2009. The allowance for uncollectible accounts consist principally of accounts greater than 1 year old for which budgetary authority and resources may not exist.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE E – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2008, is as follows:

	Governmental Activities				
	Balance June 30, 2007	Transfers In	Additions in FY 08	Deletions in FY 08	Balance June 30, 2008
Capital assets					
Data processing	\$ -	\$ 827,014	\$ 12,105,133	\$ -	\$ 12,932,147
Buildings and improvements	-	-	2,955,181	-	2,955,181
Machinery & equipment	-	22,391	1,043,276	-	1,065,667
Total capital assets	\$ -	\$ 849,405	\$ 16,103,590	\$ -	\$ 16,952,995
Accumulated depreciation					
Data processing	\$ -	\$ (817,534)	\$ (136,040)	\$ -	\$ (953,574)
Buildings and improvements	-	-	(53,807)	-	(53,807)
Machinery & equipment	-	(20,977)	(13,311)	-	(34,288)
Total accumulated depreciation	\$ -	\$ (838,511)	\$ (203,158)	\$ -	\$ (1,041,669)
Net capital assets					
Data processing	\$ -	\$ 9,480	\$ 11,969,093	\$ -	\$ 11,978,573
Buildings and improvements	-	-	2,901,374	-	2,901,374
Machinery & equipment	-	1,414	1,029,965	-	1,031,379
Net capital assets	\$ -	\$ 10,894	\$ 15,900,432	\$ -	\$ 15,911,326

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE E – CAPITAL ASSETS – CONTINUED

Business-type Activities:					
	Balance June 30, 2007	Transfers In	Additions in FY 08	Deletions in FY 08	Balance June 30, 2008
Capital assets					
Data processing	\$ -	\$ 22,052,407	\$ 2,588,958	\$ -	\$ 24,641,365
Land improvements	-	71,944	-	-	71,944
Buildings and improvements	-	9,465,793	-	-	9,465,793
Auto and trucks	-	1,637,337	-	-	1,637,337
Machinery & equipment	-	56,937,631	-	-	56,937,631
Furniture and office equipment	-	329,809	-	-	329,809
	<u>-</u>	<u>329,809</u>	<u>-</u>	<u>-</u>	<u>329,809</u>
Total capital assets	<u>\$ -</u>	<u>\$ 90,494,921</u>	<u>\$ 2,588,958</u>	<u>\$ -</u>	<u>\$ 93,083,879</u>
Accumulated depreciation					
Data processing	\$ -	\$(16,580,924)	\$(2,221,784)	\$ -	\$(18,802,708)
Land improvements	-	(15,966)	(2,869)	-	(18,835)
Buildings and improvements	-	(1,897,846)	(451,268)	-	(2,349,114)
Auto and trucks	-	(1,264,464)	(133,533)	-	(1,397,997)
Machinery & equipment	-	(42,193,411)	(3,003,259)	-	(45,196,670)
Furniture and office equipment	-	(194,893)	(21,556)	-	(216,449)
	<u>-</u>	<u>(194,893)</u>	<u>(21,556)</u>	<u>-</u>	<u>(216,449)</u>
Total accumulated depreciation	<u>\$ -</u>	<u>\$ (62,147,504)</u>	<u>\$ (5,834,269)</u>	<u>\$ -</u>	<u>\$ (67,981,773)</u>
Net capital assets					
Data processing	\$ -	\$ 5,471,483	\$ 367,174	\$ -	\$ 5,838,657
Land improvements	-	55,978	(2,869)	-	53,109
Buildings and improvements	-	7,567,947	(451,268)	-	7,116,679
Auto and trucks	-	372,873	(133,533)	-	239,340
Machinery & equipment	-	14,744,220	(3,003,259)	-	11,740,961
Furniture and office equipment	-	134,916	(21,556)	-	113,360
	<u>-</u>	<u>134,916</u>	<u>(21,556)</u>	<u>-</u>	<u>113,360</u>
Net capital assets	<u>\$ -</u>	<u>\$ 28,347,417</u>	<u>\$ (3,245,311)</u>	<u>\$ -</u>	<u>\$ 25,102,106</u>

Land related to buildings and improvements totaled \$454,332 is included in the building and improvement category and is not depreciated.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE E – CAPITAL ASSETS – CONTINUED

Depreciation was charged to the function/programs of the primary government as follows:

Governmental activities:

Center for Advanced Computing	\$	77,781
Radio communications		120,748
Information Technology Management Office		<u>4,629</u>
Total depreciation expense-governmental activities		203,158

Business-type activities:

Central Telephone Service		4,119,276
Office of Information Processing		1,713,853
ISD-OIP Human Resource		1,140
Program support		<u>-</u>
Total depreciation expense-enterprise activities		<u>5,834,269</u>
Total depreciation expense	\$	<u><u>6,037,427</u></u>

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE F – INTERNAL BALANCES

The purpose of all internal balances is to record the services the Program Support fund provides to the Department's enterprise funds. All interfund transactions are expected to be settled within one year.

Due from and to other funds as of June 30, 2008, are as follows:

		DUE TO FUNDS		
		Governmental Funds		
		Information Tech. Mgt. Office 20370	Radio Communications 20340	Center for Advanced Computing 20350
DUE FROM FUNDS		20370	20340	20350
Enterprise Funds				
20310	Central Telephone Services	\$ -	\$ 41,316	\$ 29,200
20320	Program support	16,375	-	-
20330	Office of Information Processing	-	-	-
20360	ISD-OIP Human Resources	-	-	-
Enterprise fund totals		<u>16,375</u>	<u>41,316</u>	<u>29,200</u>
Governmental Funds				
20340	Radio communications	-	-	-
Governmental fund totals		<u>-</u>	<u>-</u>	<u>-</u>
AGENCY TOTALS		<u><u>\$ 16,375</u></u>	<u><u>\$ 41,316</u></u>	<u><u>\$ 29,200</u></u>

Enterprise Funds				
Central Telephone Services 20310	Office of Information Processing 20330	ISD-OIP Human Resources 20360	Program Support 20320	Totals
\$ -	\$ -	\$ 109,334	\$ 341	\$ 180,191
460,768	1,302,300	125,069	-	1,904,512
52,731	-	-	1,036	53,767
7,000	11,741	-	-	18,741
<u>520,499</u>	<u>1,314,041</u>	<u>234,403</u>	<u>1,377</u>	<u>2,157,211</u>
<u>197,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197,933</u>
<u>197,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197,933</u>
<u>\$ 718,432</u>	<u>\$ 1,314,041</u>	<u>\$ 234,403</u>	<u>\$ 1,377</u>	<u>\$ 2,355,144</u>

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE G – INTERNAL BALANCE SUMMARY

Proprietary Funds:		Due from	Due to	Net
Fund Name	Fund Number	Other Funds	Other Funds	Amount
Central Telephone Services	20310	\$ 180,191	\$ (718,432)	\$ (538,241)
Program support	20320	1,904,512	(1,377)	1,903,135
Office of info. Processing	20330	53,767	(1,314,041)	(1,260,274)
ISD-OIP Human Resources	20360	18,741	(234,403)	(215,662)
	Total enterprise funds	2,157,211	(2,268,253)	(111,042)
Governmental Funds:		Due from	Due to	Net
Fund Name	Fund Number	Other Funds	Other Funds	Amount
Radio communications	20340	197,933	(41,316)	156,617
Center for Advanced Computing	20350	-	(29,200)	(29,200)
General fund	20370	-	(16,375)	(16,375)
	Total governmental funds	197,933	(86,891)	111,042
	Grand Totals	<u>\$ 4,076,793</u>	<u>\$ (4,076,793)</u>	<u>\$ -</u>

NOTE H – DUE TO OTHER AGENCIES

A summary of amounts owed to other agencies as of June 30, 2008 is detailed below:

Due To Fund	Agency	Agency No.	Fund No.	Amount	Purpose
20360	Department of Finance and Administration	341	01900	<u>\$ 354,406</u>	Software and maintenance fees
20310	Department of Public Safety	790	12800	\$ 137,800	Leasing of office space for communication tower
20310	General Service Department	350	17400	39,301	Net overpayment for information technology services
20310	State General fund	341	85200	<u>26,859</u>	State dated warrants
	Total			<u>\$ 203,960</u>	
20350	Department of Finance and Administration	341	1900	<u>\$ 140,000</u>	Arts in public places
20330	General Service Department	350	17400	\$ 51,535	Net overpayment for information technology services
20330	General Service Department	350	28600	70,925	Purchasing division fees
20330	General Service Department	350	36000	59,273	Surplus property services
20330	General Service Department	350	36500	28,287	Transportation services
20330	General Service Department	350	41700	4,061	State aircraft bureau services
20330	Work Force Solutions	631	33000	194,088	To purchase VOS system
20330	Department of Cultural Affairs	505	19300	<u>46,000</u>	To reimburse agency for federal draws withheld
	Total			<u>\$ 454,169</u>	

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE I – CHANGES IN LONG – TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2008, is as follows:

	Business-Type Activities				Balance June 30, 2008	Current Portion
	Balance June 30, 2007	Transfers	Increase	(Decrease)		
Capital lease obligations	\$ -	\$ 2,775,812	\$ -	\$ (1,163,862)	\$ 1,611,950	\$ 939,605
Due to the federal government	-	4,052,611	-	(1,893,773)	2,158,838	2,158,838
Compensated absences payable	-	424,368	1,047,516	(424,369)	1,047,515	638,984
	<u>\$ -</u>	<u>\$ 7,252,791</u>	<u>\$ 1,047,516</u>	<u>\$ (3,482,004)</u>	<u>\$ 4,818,303</u>	<u>\$ 3,737,427</u>
	Governmental Activities					
	Balance June 30, 2007	Transfers	Increase	(Decrease)	Balance June 30, 2008	Current Portion
Compensated absences payable	\$ -	\$ 57,487	\$ 68,370	\$ (57,487)	\$ 68,370	\$ 41,706

Capital Lease Obligations – The Department is obligated under leases for computer equipment and software that are accounted for as capital leases. Assets under capital leases at June 30, 2008 totaled \$1,833,906, net of accumulated depreciation of \$3,158,220.

The following is a schedule by year of future minimum lease payments under the capital lease at June 30, 2008:

Year ending June 30:	Lease Amount
FY09	\$ 1,034,992
FY10	697,115
FY11	-
FY12	-
FY13 and thereafter	-
Total minimum lease payments	1,732,107
Less: amounts representing interest	<u>(111,812)</u>
Present value of minimum lease payments	<u>\$ 1,620,295</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE I – CHANGES IN LONG-TERM LIABILITIES – CONTINUED

Due to the federal government – Represents amount owed to the federal government's Department of Health and Human Services for overcharges of information technology services in prior years. The principal amount reported of \$2,158,838 as of June 30, 2008 was repaid to the federal government in April of 2009.

Compensated absences payable – The compensated absence liability of the governmental funds is expected to be liquidated by the general fund. The compensated absence liabilities of the enterprise funds are expected to be liquidated by the respective enterprise funds.

NOTE J – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of the Department'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 7.42% (ranges from 4.78% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The Department of Information Technology is required to contribute 16.59% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the Department of Information Technology are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department of Information Technology's contributions to PERA for the fiscal year ending June 30, 2008 was \$1,930,898 respectively, which equal the amount of the required contribution for the fiscal year. There were no contributions for 2007 and 2006, as fiscal year 2008 was the first year of existence for the Department.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

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

Plan Description. Department of Information Technology 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 the 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 premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

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

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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals. The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature. The Department of Information Technology's contributions to the RHCA for the year ended June 30, 2008 was \$141,243, which equal the required contributions for the year. There were no contributions for 2007 and 2006 as fiscal year 2008 was the first year of existence for the Department.

NOTE L – COMMITMENTS

Operating leases

The Department has commitments greater than one year in duration for vehicles, office space and equipment under operating lease agreements. These leases are considered for accounting purposes to be operating leases. Lease expenditures/expenses for the year ended June 30, 2008 totaled approximately \$961,531. The following is a schedule by years of future minimum lease rental payments required under operating leases that initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2008.

Year ending June 30:

FY09	\$ 964,846
FY10	941,938
FY11	506,660
FY12	490,095
FY13 and thereafter	<u>365,862</u>
	<u>\$ 3,269,401</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE L – COMMITMENTS – CONTINUED

Settlement payments to the federal government

In fiscal year 2005, Department of Health and Human Services (DHHS) issued a determination concerning the federal share of billings in excess of cost for computer services provided by the General Services Department-Information Systems Division (ISD), (formerly the Office of Information Processing-OIP). The federal agency requested repayment plus interest. General Services Department appealed the claim to US District Court, who issued a Summary Judgment upholding the Department of Appeals Board. The determination issued for this case was dated June 22, 2006 and was for \$4,011,031, plus interest, and was received by General Services Department by correspondence dated February 9, 2009. During this period, the FY06 Annual Audit was being conducted for General Services and a liability in the amount of \$4,011,031 was recognized by General Services Department, which transferred across in accordance to the provisions of HB 959 to the Department of Information Technology. During fiscal year 2008, the Department of Information Technology made \$2,222,537 in payments, against the liability to the DHHS and submitted a Supplemental Request to the NM Legislature in the 2009 session, for unpaid principal balance, plus interest, in the amount of \$2,896,600. The Legislature approved the Department request, and appropriated \$2,896,600 to the Department of Information Technology for payment to the federal government. The final payment including accrued interest was made to DHHS by the Department on April 29, 2009.

Risk Management

The Department 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 coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2007 through June 30, 2008. There have been no settlements in excess of insurance coverage as of June 30, 2008.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE M – TRANSFERS

The following amounts were transferred between funds within the Department's fund structure for purposes of covering the cost of program support (SHARE 20320).

Internal transfers in (out)			Gen Fund	Enterprise Funds				Total
State Agency	Fund	Purpose	Info Tech Management Office (20370)	Program Support (20320)	Central Telephone Services (20310)	ISD-OIP Human Resources (20360)	Office of info. Processing (20330)	
DOIT	20310	Program Support Assessment	\$ -	\$ 1,529,467	\$ (1,529,467)	\$ -	\$ -	\$ -
DOIT	20330	Program Support Assessment	-	1,976,300	-	-	(1,976,300)	-
DOIT	20360	Program Support Assessment	-	242,670	-	(242,670)	-	-
DOIT	20370	Program Support Assessment	(16,374)	16,374	-	-	-	-
			<u>\$ (16,374)</u>	<u>\$ 3,764,811</u>	<u>\$ (1,529,467)</u>	<u>\$ (242,670)</u>	<u>\$ (1,976,300)</u>	<u>\$ -</u>

Transfers from other agencies				General Fund	Enterprise Fund	Special Revenue Fund	Capital Projects Fund	Total
State Agency	Agency No.	Fund No.	Purpose	Info Tech Management Office (20370)	Office of info. Processing (20330)	Radio Communications Special (20340)	Center for Advanced Computing (20350)	
DFA	34100	85300	Computer System Enhancement Funds	\$ -	\$ -	\$ -	\$ 14,000,000	\$ 14,000,000
DFA	34100	85300	To restore fund balance of a federal claim	-	900,000	-	-	900,000
DFA	34100	85300	State general fund appropriations	1,101,300	-	-	-	1,101,300
DFA	34100	85300	Staffing and operation expenses for the computing	-	-	-	2,555,000	2,555,000
DFA	34100	85300	Special Appropriation - Analog to Digital	-	-	2,000,000	-	2,000,000
DFA	34100	85300	Special Appropriation - Trusted State Network	-	-	250,000	-	250,000
DFA	34100	85300	Compensation Package	37,500	-	-	-	37,500
Totals				<u>\$ 1,138,800</u>	<u>\$ 900,000</u>	<u>\$ 2,250,000</u>	<u>\$ 16,555,000</u>	<u>\$ 20,843,800</u>

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE M – TRANSFERS – CONTINUED

The following schedule details transfers to and from other agencies.

State Agency	Unit	Fund No.	Purpose	Transfers to other agencies			Special Revenue	Capital Projects	Total
				Gen Fund	Proprietary Fund	Fund	Fund		
				Info Tech Management Office (20370)	Office of info. Processing (20330)	Radio Communications Special (20340)	Center for Advanced Computing (20350)		
DFA	34100	85200	Art in public places - Laws of 2007 ch 42 sec 61	\$ -	\$ -	\$ -	\$ 140,000	\$ 140,000	
DFA	34100	85200	Fiscal management and oversight program	-	-	-	313,999	313,999	
Totals				<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 453,999</u>	<u>\$ 453,999</u>	

TRANSFER OF ASSETS AND LIABILITIES

On July 1, 2007, New Mexico House Bill 959 became effective creating the Department of Information technology (Department). In addition to the creation of the Department, the bill also authorized the transfer of the following IT-related Department resources and liabilities to the Department as of the effective date: personnel, appropriations, money, records, equipment, supplies, capital assets, and contractual obligations from the telecommunications bureau of the General Service Department and the Office of the Chief Information Officer. The transfer of assets and liabilities increased the net assets of the following funds during fiscal year 2008 as follows: On May 26, 2009 the Department entered into an agreement with the General Service Department to close out the General Service Department funds and transfer the remaining assets to the Department by June 30, 2009.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE M – TRANSFERS – CONTINUED

Agency Transferring	Agency Number	Transferring Fund	Receiving Fund	Fund Description	Net Assets Transferred
General Service Department	350	369	20310	Central Telephone Services	\$ 31,665,055
General Service Department	350	362	20330	Office of the information processing	5,526,812
General Service Department	350	385	20360	ISD-OIP Human Resources	<u>1,536,247</u>
Total net assets transferred to enterprise funds					38,728,114
General Service Department	350	366	20340	Radio communications	9,687,819
Office of the Chief Information Officer	361	225	20370	Info. Technology Mgt. Office	<u>10,894</u>
Total net assets transferred to governmental funds					<u>9,698,713</u>
Total net assets transferred to Department					<u>\$ 48,426,827</u>

RECONCILIATION OF NET ASSETS TRANSFERS

The ending net asset balances per the June 30, 2007 General Services Department (GSD) financial statements were adjusted before entry into the records of the Department to reflect certain corrections for prior fiscal years or to eliminate balances that could not be transferred. The principal adjustments were the reduction of deferred revenue corresponding to revenue previously recognized and the elimination of balances for allowance for bad debt and compensated absences that could not be transferred to the Department. The following table shows a reconciliation of the GSD balances as previously reported to the actual amounts transferred to the Department as reported on pages 17 and 22.

State of New Mexico
Department of Information Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

NOTE M – TRANSFERS – CONTINUED

INCREASE (DECREASE) IN NET ASSETS

	20310	20330	20360	20340
Total net assets - June 30, 2007	\$ 29,452,925	\$ 4,844,648	\$ 1,338,886	\$ 5,015,756
Corrections not on FY07 financials:				
Revenue misposted	38,516			
Revenue misposted	(1,947)			
Revenue misposted	(5,164)			
Unrecorded receivable		45,000		
Unrecorded liability		(41,580)		
Revenue posted twice			(10,010)	
Revenue misposted				(38,516)
Unrecorded receivable				5,008
Adjust deferred revenue				4,705,571
Add reversal of GAAP adjustments:				
Allowance for doubtful accounts	1,987,097	472,626	182,750	
Compensated absences	193,628	206,118	24,621	
Total transferred net assets	\$ 31,665,055	\$ 5,526,812	\$ 1,536,247	\$ 9,687,819

NOTE N – SUBSEQUENT EVENT

During fiscal year 2009, there was a change in administration. Department Secretary, Roy Soto, resigned and Marlin Mackey was appointed by the Governor. The Administrative Services Director, Emilio Sanchez, retired, as did Deputy Secretary Enterprise Operations, Elisa Storie.

A memorandum of understanding (MOU) was entered into on September 19, 2008 between DOIT, the New Mexico Computing Applications Center, Inc. (NMCAC), a nonprofit organization, and the University of New Mexico (as receiving agent), in relation to the fiscal and other responsibilities surrounding the purchase of a supercomputer referred to as Encanto and to support the capital needs and operations of a New Mexico Computing Applications Center. The Department's responsibilities are to own the supercomputer and to approve the transfer of appropriated funds to the receiving agent for the NMCAC. The supercomputer was purchased in FY2008 and is reported in fund 20350.

SUPPLEMENTARY INFORMATION

State of New Mexico
Department of Information Technology

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET TO ACTUAL – MAJOR ENTERPRISE FUNDS –
CENTRAL TELEPHONE SERVICES (FUND 20310)**

For the year ended June 30, 2008

Fund 20310 - Central Telephone Services				
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal award programs	\$ -	\$ -	\$ -	\$ -
Central Telephone Services	29,576,500	25,628,900	24,798,595	(830,305)
Other	-	-	6,109	6,109
Total revenues	\$ 29,576,500	\$ 25,628,900	\$ 24,804,704	\$ (824,196)
Expenditures:				
Personal services	\$ 6,979,300	\$ 6,750,700	\$ 5,531,530	\$ 1,219,170
Contractual services	3,933,700	1,033,700	622,266	411,434
Other	17,122,600	16,775,800	15,747,714	1,028,086
Total expenditures	\$ 28,035,600	\$ 24,560,200	\$ 21,901,510	\$ 2,658,690
Other Finance Sources (Uses)				
Other finance uses	\$ (1,540,900)	\$ (1,068,700)	\$ (1,529,468)	\$ (460,768)
Total other finance sources (uses)	\$ (1,540,900)	\$ (1,068,700)	\$ (1,529,468)	\$ (460,768)
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	\$ 1,373,726	\$ 1,373,726
Request to pay prior year bills from 2009 budget			(139,109)	
Depreciation expense			(4,119,276)	
Net assets transferred from the General Service Department			31,665,055	
Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			\$ 28,780,396	

State of New Mexico

Department of Information Technology

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET TO ACTUAL – MAJOR ENTERPRISE FUNDS –
OFFICE OF INFORMATION PROCESSING (FUND 20330)**

For the year ended June 30, 2008

	OFFICE OF INFORMATION PROCESSING (FUND 20330)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal award programs	\$ -	\$ -	\$ -	\$ -
Data processing services	11,450,000	18,606,700	18,048,926	(557,774)
Other - General Fund	-	-	44	44
Total revenues	\$ 11,450,000	\$ 18,606,700	\$ 18,048,970	\$ (557,730)
Expenditures:				
Personal services	\$ 5,959,500	\$ 6,776,000	\$ 7,032,559	\$ (256,559)
Contractual services	3,184,100	8,587,300	5,469,684	3,117,616
Other	3,004,600	3,469,400	3,118,006	351,394
Total expenditures	\$ 12,148,200	\$ 18,832,700	\$ 15,620,249	\$ 3,212,451
Other Finance Sources (Uses):				
Other finance sources	\$ 900,000	\$ 900,000	\$ 900,000	\$ -
Other finance uses	(201,800)	(674,000)	(1,976,300)	(1,302,300)
Total other finance sources (uses)	\$ 698,200	\$ 226,000	\$ (1,076,300)	\$ (1,302,300)
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	\$ 1,352,421	\$ 1,352,421
Accrued Interest not contractually due			(549,990)	
Request to pay prior year bills from 2009 budget			(60,374)	
Depreciation expense			(1,713,853)	
Net assets transferred from the General Service Department			5,526,812	
Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			\$ 4,555,016	

State of New Mexico
Department of Information Technology

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET TO ACTUAL – MAJOR ENTERPRISE FUNDS –
ISD-OIP HUMAN RESOURCES (FUND 20360)**

For the year ended June 30, 2008

ISD-OIP HUMAN RESOURCES (FUND 20360)				
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
Revenues:				
Data processing services	\$ 1,753,000	\$ 3,220,500	\$ 2,649,010	\$ (571,490)
Other	-	-	-	-
Total revenues	\$ 1,753,000	\$ 3,220,500	\$ 2,649,010	\$ (571,490)
Expenditures:				
Personal services	\$ 390,300	\$ 841,500	\$ 906,795	\$ (65,295)
Contractual services	290,400	963,800	649,556	314,244
Other	514,900	857,800	247,145	610,655
Total expenditures	\$ 1,195,600	\$ 2,663,100	\$ 1,803,496	\$ 859,604
Other Finance Sources (Uses)				
Other finance sources	\$ -	\$ -	\$ -	\$ -
Other finance uses	(557,400)	(557,400)	(556,669)	731
Total other finance sources (uses)	\$ (557,400)	\$ (557,400)	\$ (556,669)	\$ 731
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	\$ 288,845	\$ 288,845
Request to pay prior year bills from 2009 budget			(48,704)	
Depreciation expense			(1,140)	
Net assets transferred from the General Service Department			1,536,247	
Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			\$ 1,775,248	

State of New Mexico
Department of Information Technology

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET TO ACTUAL – MAJOR ENTERPRISE FUNDS –
PROGRAM SUPPORT (FUND 20320)**

For the year ended June 30, 2008

	Fund 20320 - Program Support			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal award programs	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Personal services	\$ 1,582,800	\$ 1,582,800	\$ 3,467,807	\$ (1,885,007)
Contractual services	202,400	202,400	119,280	83,120
Other	229,300	229,300	176,405	52,895
Total expenditures	\$ 2,014,500	\$ 2,014,500	\$ 3,763,492	\$ (1,748,992)
Other Finance Sources (Uses)				
Other finance sources	\$ 2,014,500	\$ 2,014,500	\$ 3,764,812	\$ 1,750,312
Other finance uses	-	-	-	-
Total other finance sources (uses)	\$ 2,014,500	\$ 2,014,500	\$ 3,764,812	\$ 1,750,312
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	\$ 1,320	\$ 1,320
Request to pay prior year bills from 2009 budget			\$ (1,320)	
Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			\$ -	

State of New Mexico
Department of Information Technology

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET TO ACTUAL – MAJOR GOVERNMENTAL FUNDS –
CENTER FOR ADVANCED COMPUTING (FUND 20350)**

For the year ended June 30, 2008

	Center for Advanced Computing (Fund 20350)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
Revenues:				
Bond proceeds	\$ 1,800,000	\$ 1,800,000	\$ -	\$ (1,800,000)
Other - General Fund	-	-	-	-
Total revenues	\$ 1,800,000	\$ 1,800,000	\$ -	\$ (1,800,000)
Expenditures:				
Personal services	\$ -	\$ -	\$ -	\$ -
Contractual services	16,299,500	16,212,500	10,919,200	5,293,300
Other	2,055,500	2,142,500	-	2,142,500
Total expenditures	\$ 18,355,000	\$ 18,355,000	\$ 10,919,200	\$ 7,435,800
Other Finance Sources (Uses)				
Other finance sources	\$ 16,555,000	\$ 16,555,000	\$ 16,555,000	\$ -
Other finance uses	-	-	(140,000)	(140,000)
Total other finance sources (uses)	\$ 16,555,000	\$ 16,555,000	\$ 16,415,000	\$ (140,000)
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	\$ 5,495,800	\$ 5,495,800
Change in fund balance per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<u>\$ 5,495,800</u>	

State of New Mexico
Department of Information Technology

SCHEDULE OF SPECIAL APPROPRIATIONS

June 30, 2008

Description	Authority	Appropriation Period	SHARE Fund
To continue the development of a digital microwave communications backbone for the state	Laws of 2003 Ch 429, Sec 17	2003-2008	20340
Upgrade of the state's analog system to a digital system	Laws of 2004 Ch 126 sec 36, item 3	Extended through FY 2009	20340
To convert analog microwave radio system to digital	Laws of 2005 Ch 347 sec 40	Extended through FY 2010	20340
To continue telecommunication infrastructure	Laws of 2006 Ch 109 sec 7, item 6	Extended through FY 2010	20340
To continue the analog-to-digital microwave tower construction	Laws of 2007 Ch 28 sec 7, item 10	2008-2010	20340
To implement a trusted state network to authenticate users	Laws of 2007 Ch 28 sec 7, item 9	Extended through FY 2010	20340
To plan, design, construct, renovate, improve, purchase and equip a state center for advanced computing	Laws of 2007 Ch 42, sec 61, item 7	2007-2010	20350
For staffing and operating expenses for the New Mexico Computing Applications Center	Laws of 2008 Ch 3 sec 5, item 38	2008-2009	20350
To restore fund balance for payment of a federal claim for overcharges of information technology services	Laws of 2008 Ch 3 sec 6, item 8	2007-2008	20330

<u>Total</u> <u>Appropriations/</u> <u>Bond Proceeds</u>	<u>GSD</u> <u>Prior Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Expenditures</u>	<u>Prior Year</u> <u>Reversion</u> <u>Amount</u>	<u>Current Year</u> <u>Reversion</u> <u>Amount</u>	<u>Outstanding</u> <u>Encumbrances</u>	<u>Unencumbered</u> <u>Balance</u>
\$ 2,000,000	\$ 1,757,991	\$ 242,009	\$ -	\$ -	\$ -	\$ -
5,000,000	4,165,010	616,846	-	-	-	218,144
5,000,000	1,374,027	3,550,900	-	-	-	75,073
4,800,000	11,607	176,126	-	-	-	4,612,267
2,000,000	-	726,730	-	-	-	1,273,270
250,000	-	75,355	-	-	-	174,645
14,000,000	-	11,059,200	-	-	-	2,940,800
2,555,000	-	-	-	-	-	2,555,000
900,000	900,000	-	-	-	-	-

State of New Mexico
Department of Information Technology

MEMORANDUM OF UNDERSTANDING

For the year ended June 30, 2008

Participant: Department of Finance and Administration

Party responsible for operation: Department of Information and Technology

Purpose: To plan, design, construct, renovate, improve, purchase, and improve a state center for advanced computing

Dates of agreement: July 1, 2007 – June 30, 2010

Total estimated amount of project: \$14,000,000

Amount agency contributed during this fiscal year: \$11,059,200

Audit responsibility: Department of Information and Technology

Fiscal agent: Department of Information and Technology

Agency where revenues/expenditures are reported: Department of Information and Technology



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENTAL AUDITING STANDARDS**

Hector H. Balderas
New Mexico State Auditor
And
Secretary Marlin Mackey
State of New Mexico
Department of Information Technology

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund and special revenue fund, of the Department of Information Technology (The Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons of the enterprise funds and capital project fund presented as supplementary information as listed in the table of contents.

We have issued our report thereon dated June 15, 2009 which has qualified because we could not satisfy ourselves about capital asset existence and valuation and the corresponding depreciation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures 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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies of material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. They can be referenced as findings 08-01, 08-02, 08-03, 08-04 and 08-08.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that findings 08-01 and 08-02 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we perform 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 08-05, 08-07 and 08-09.

We noted a certain matter that is required to be reported under *Government Auditing Standards*, paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which is described in the accompanying schedule of findings and responses as finding 08-06.

The Department's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Department's response and, accordingly, we express no opinion on it.

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



Atkinson & Co., Ltd.

Albuquerque, New Mexico
June 15, 2009

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2008

RESOLUTION OF PRIOR YEAR FINDINGS

None – inception for DOIT, July 1, 2007

CURRENT YEAR AUDIT FINDINGS

Financial statement findings required by *Government Auditing Standards* – All findings except for 08-06, which is required by 2.2.2 NMAC

08-01 Capital Assets not Inventoried; not Properly Tracked (Material Weakness)

Condition

\$90,494,921 of capital assets previously reported and managed by other agencies and consolidated into DOIT have not been inventoried and reconciled to capital asset records. Additionally, capital assets have not been analyzed for impairments of the carrying amount of capital assets. DOIT does not have a complete depreciation schedule of their capital assets to properly track additions, deletions, and depreciation.

Criteria

According to 12-6-10 NMSA 1978 governing authorities are required to conduct a physical inventory of the capital assets. Model Accounting Practices FIN 6 - Asset Management prescribes standards for accounting for assets.

Effect

Capital assets are at potential risk of loss without accountability that observation, reconciliation, and impairment analysis provides. External auditors could not satisfy themselves regarding capital assets resulting in a qualified opinion.

Cause

Capital assets transferred to DOIT were not tracked and reconciled sufficiently prior to the time of adoption by DOIT. Final capital assets information was received after a significantly amount of the year lapsed. Management did not complete all reconciliation accounting and other observation procedures in relation to capital assets transferred.

Recommendation

DOIT should complete its reconciliation of capital assets including update them periodically. DOIT should implement policy to provide ongoing compliance with 12-6-10 NMCA 1978.

Management's Response

Management agrees with the finding. DOIT is in process of implementing policy and procedures to more effectively manage its capital assets. In addition, a corrective action plan will be put in place to ensure compliance. The Agency has also initiated physical inventories that are addressing the weakness.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

08-02 Accounts Receivable Reconciliation (Material Weakness)

Condition

DOIT did not complete its reconciliations of customer accounts receivable until June 2009 for the year ended June 30, 2008.

Criteria

It is the responsibility of the Department to keep books and records including the necessary adjusting entries to properly state the financial position of the Department. Under Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matter in an Audit*, it is considered a control deficiency if material misstatements exist in the financial statements. Model Accounting Practices FIN 3 general ledger specifically requires closing procedures.

Effect

DOIT did not have reconciled data for its accounts available during the year and through year-end. Incorrect billings may occur. Incorrect decisions are possible with incomplete or erroneous account balances. Collections of accounts receivable may be impacted or delayed.

Cause

Accounts receivable billings are not recorded in the general ledger monthly; however, the accounts receivable subsidiary ledger is updated monthly for billings. The absence of monthly billings in the general ledger precludes monthly accounts receivable reconciliations.

Recommendation

We recommend the Accounts Receivable Bureau journalize monthly billings and submit to the General Ledger Bureau for approval. The journal should mirror the accounts receivable subsidiary activity. The Accounts Receivable Bureau should perform monthly reconciliations to the accounts receivable subsidiary ledger. We recommend that DOIT follow a closing policy recommended by DFA for interim periods including the year-end closing. Priority should be given to short-term controls. Periodic reconciliations of accounts receivable to avoid extensive reconciliations at year-end.

Management's Response

Management agrees with the finding. Accounts Receivable policy and procedures will be implemented to ensure that the assets of the Department protected and accounted for properly. Reconciliations will be conducted on a monthly basis and additional will be provided as necessary.

State of New Mexico
Department of Information Technology

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

08-03 Budget Overspending (Significant Deficiency)

Condition

DOIT over expended its budget in the following funds:

Fund Description	Fund Number	Appropriation Unit Level	Overage Amount
Central Telephone Service	20310	Other financing uses	\$ 460,768
Office of Information Processing	20330	Personal services	\$ 256,559
Office of Information Processing	20330	Other financing uses	\$ 1,302,300
Program Support	20320	Personal services	\$ 1,885,007
Information Mgt. Technology Office	20370	Other financing uses	\$ 16,374
Center for Advanced Computing	20350	Other financing uses	\$ 140,000
Human Resources	20360	Personal services	\$ 65,295

Criteria

Budgetary controls, which included the timely adoption of budget adjustments, should prevent any expenditure in excess of the approved budget. In accordance with the State's Model Accounting Practices FIN 4 (4.7), state agencies must verify that sufficient budget is available prior to making the commitment.

Effect

By not complying with their budgets, other budgetary periods or fund balance reserves could be adversely or unexpectedly impacted. Budgetary controls inherent in the bar approval process are not available if bars are not submitted.

Cause

DOIT exceeded budgeted expenditure amounts for the funds listed above. DOIT's budget monitoring function did not identify the overage or need for budget or expenditure adjustments during the year. Final levels of program support expenditures were not budgeted for due to oversight.

Recommendation

DOIT should analyze these overages and its policies and procedures governing the budgetary process and their implementation in order to provide a balanced budget.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

08-03 Budget Overspending (Significant Deficiency) – Continued

Management's Response

Because the Department came into existence July 1, 2007, the budgets were developed without consideration of accounting functions required. The Department will implement budget procedures to ensure accounting functions are considered. The Department has currently initiated a process of reviewing current budget to ensure the agency does not exceed budget limits.

08-04 Late submission of audit report (Significant Deficiency)

Condition

DOIT's financial statements were not submitted to the New Mexico State Auditor's Office on or before December 15, 2008. The audit report was submitted in June 23, 2009.

Criteria

According to 2.2.2.9.A. NMAC, New Mexico state agencies are required to submit audited financial statements to the New Mexico State Auditor's Office by December 15th of that audited year.

Effect

The Department is not in compliance with New Mexico State Statutes. The financial statement users including legislators, creditors, contributors, state and federal grantors, and others are do not have a timely audit report and financial statements available for their review. Late submission may unfavorably influence funding sources.

Cause

DOIT is a newly created agency which consolidated funds from other agencies relating to information technology services for the State of New Mexico. It has recorded fund balances transferred from General Services Division effective July 1, 2007 but complete information was not received until mid 2009. Because of the year of inception, additional time was needed to reconcile all accounts balances principally accounts receivable for services from records transferred to other agencies.

Recommendation

DOIT should take necessary steps to ensure that future audit reports are submitted on time.

Management's Response

Management agrees with the finding, and Cause as stated, DOIT will complete future audits in strict compliance with 2.2.2.9.A NMAC. The transfer from the General Service Department of fund balance did not take place until May 2009.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

08-05 Cell Phone Policy Testing

Condition

Our compliance testing included cell phone disbursements. DOIT was not able to produce support documentation for 5 out of 5 disbursements included in our sample. A blanket exception policy permitted payment of cell phone bills from summaries without verification of invoice amounts for the initial year operation.

Criteria

The State of New Mexico's Model Accounting Practices section FIN 5 requires verification and support of all disbursements made by DOIT including cell phone usage. DOIT's internal policy requires reasonable and non abusive use of state owned cell phones.

Effect

DOIT could not determine if its policies are being followed. Inappropriate expenditures and personal use of telephones may be occurring.

Cause

DOIT did not comply due to large task of implementing a policy infrastructure for a new agency in its initial year of operation. It did not have an operations policy to review and approve cell phone usage based on invoice review.

Recommendation

We recommend that the Department implement procedures to review and approve cell phone disbursements. We recommend the procedures be reviewed for effectiveness during the year.

Management's Response

Management concurs with the finding. An accounts payable policy and procedures will be implemented to ensure that accounts are supported by call detail. Accounts payable policies and procedures will be instituted to reduce our liability for cell phone usage.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

08-06 Cash Receipts

Condition

During testing of 40 cash receipts, there were three receipts that were not deposited by the end of the next business day after they were received by DOIT. One deposit was not deposited for five business days after received.

Criteria

State Statute, Section 6-10-3, NMSA 1978, and Office of the Treasurer, Directive 2007-01, DOIT must deposit all monies received with the State Treasurer the close of the next business day after receipt.

Effect

Monies remitted to the State Treasurer's Office are deposited in an interest bearing account. Receipts in the amount of \$395,180, did not earn interest for one business day. Receipts in the amount of \$522,084, did not earn interest for five business days.

Cause

DOIT did not deposit the monies in a timely manner.

Recommendation

DOIT needs to ensure that all monies are deposited with the State Treasurer's Office by the next business day.

Management's Response

Management agrees with the finding. A cash receipts policy and procedures will be implemented to ensure that the assets of the Department protected and accounted for properly. Reconciliations will be conducted on a monthly basis and additional will be provided as necessary.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

Finding 08-07 Information Technology Documented Policies (Significant Deficiency)

Conditions

Certain general controls of the IT environment for DOIT could not be tested as there was no policy to test them against. The procedures followed appeared adequate but various policies were not documented.

Criteria

Statement on Auditing Standard No. 109 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* specifies internal control components including the information technology system. The Manual of Model Accounting Practices, FIN 0.9 specifies the policies and procedures including documentation and accountability of the system of internal control required for state government.

Effect

Increased accountability coming from documented policies procedures is not in place at year-end. Undocumented policies and procedures may lead to uneven performance including errors in the application of procedures. The monitoring function of internal control may be compromised due to undocumented policies and procedures.

Cause

As a new agency, policies and procedures from all transaction cycles and compliance requirements for state government had to be put in place. The process is incomplete at June 30, 2008

Recommendation

We recommend that DOIT continue drafting policies and procedures through the use of its committee structure for the coming year. All policies and procedures adopted and documented should be monitored for continued effectiveness.

Management's Response

Management agrees with the finding. DOIT is in the process of developing policies and procedures within all program areas of the Department. DOIT will continue implanting new policies and will review and update existing policies.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

08-08 Unbilled Receivables for Telephone Usage (Significant Deficiency)

Condition

DOIT has unbilled accounts receivable that are not identified by customer. Research is required to determine the correct entity to bill for telephone services utilized. This research is not completed at June 2009. The amount of unbilled receivables is approximately \$180,908.

Criteria

Model Accounting Practices FIN 11.1 and 6-5-2 NMSA 1978 require the active management of accounts receivable and the maintenance of detailed accounts receivable ledgers.

Effect

Accounts receivable billing is delayed creating negative effects on cash flow. Unauthorized telephone customers may be using state resources inappropriately.

Cause

DOIT has assumed the responsibilities of centralized telephone management for the State of New Mexico. The volume of transactions that has to be billed and managed is large and some transactions have not yet been correctly identified. Resources to review specific transactions and correct billing customers have not been consistently available.

Recommendation

We recommend that DOIT identify and commit resources to complete the identification of all billing transactions and to then periodically update their billing database.

Management's Response

Management concurs with the finding and will develop policies and procedures to ensure the "Unbilled" services are properly identified and corrected. Resources will need to be allocated to address this deficiency.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2008

08-09 Internal Procurement Policies and Procedures (Significant Deficiency)

Condition

34 out of 40 disbursements tested did not follow internal procurement policy and procedures requirements. Instances of noncompliance included missing internal purchase request forms or the absence of appropriate approvals evidenced on the form.

Criteria

The Department set its own procurement policies and procedures. NMAC 1.4.1.1 specifies required procedures for procurement. These policies and procedures mandate the use of internal purchase request forms and designated internal approval authority.

Effect

Violations to internal policies and procedures could result in violations of the procurement code, overpayments to vendors, expenditures in excess of budget, or fraudulent payments.

Cause

Internal policies and procedures were not adequately communicated to the purchasing department and monitored by management.

Recommendation

We recommend periodic training sessions be conducted to properly inform staff of internal procurement policy and procedures requirements.

Management's Response

Management concurs with the finding. During this period, DOIT was in its first year as an Agency and as a result of the transition, policies and procedures were in flux. However, there was no intent to circumvent procedures but a general desire to fulfill the goals accomplishments of a new agency. Staff has been trained and revisited to preclude this activity from reoccurring.

State of New Mexico
Department of Information Technology

FINANCIAL STATEMENT PREPARATION

June 30, 2008

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

EXIT CONFERENCE

An exit conference was held on June 15, 2009, to discuss the audit. The following individuals were in attendance:

State of New Mexico – Department of Information Technology

Marlin Mackey, Department Secretary

Conny Maki, Deputy Secretary for Enterprise Services

Charles Martinez, Chief Financial Officer

JoAnn Duran, Bureau Chief

Douglas Taylor, Financial Coordinator

Independent Auditor – Atkinson & Co., Ltd.

Martin Mathisen, CPA, Audit Director

Morgan Browning, CPA, Audit Senior

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