



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

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

**June 30, 2009**

atkinson

PRECISE. PERSONAL. PROACTIVE.

State of New Mexico  
Department of Information Technology

**OFFICIAL ROSTER**

June 30, 2009

Name	Title
Marlin Mackey	Department Secretary
Conny Maki	Deputy Secretary for Enterprise Services
Thomas McQuillan	Deputy Secretary for Enterprise Operations
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 funds of the Department of Information Technology (the Department), as of and for the year ended June 30, 2009, 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 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 two paragraphs, 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 \$23,841,754 in capital assets net of accumulated depreciation to the Department's telecommunications fund (SHARE 20310) in fiscal year 2008; however, a complete physical inventory has not been completed as of June 30, 2009 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 of June 30, 2009.

In addition, accounts receivable in the amount of \$10,942,443 reported in the business-type activities column in the government-wide statement of net assets is \$836,544 higher than the accounts receivable recorded in the accounts receivable subsidiary ledgers. A complete reconciliation was not performed. As such, we could not satisfy ourselves as to the existence and accuracy of accounts receivable and the corresponding user fee revenue reported in the enterprise fund statement of net assets and statement of revenues, expenses and fund net assets and business-type activities in the government-wide financial statements of net assets and statement of activities.

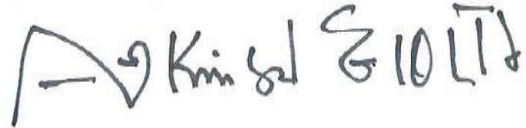
As discussed in Note A, the financial statements of the Department are intended to present the financial position and changes in financial position and, where applicable, cash flows, of only that portion of the governmental activities, business-type activities, and each major fund, of the State that 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, 2009, 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 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 in the telecommunications fund (SHARE 20310), the corresponding depreciation expense, and existence and accuracy of accounts receivable and the corresponding user fee revenue, 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, 2009, 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 funds 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 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 November 2, 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 4 through 13 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 memorandums of understandings listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a 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.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial or logo to the left.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 2, 2009



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2009

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 and Other Supplementary Information

#### 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, 2009

**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 is 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 Department'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, 2009, 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, 2009

Governmental funds are used to account for the finances of the governmental activities reported in the Department-Wide Financial Statements. The Department uses two types of governmental funds: a general fund to account for activities not required to be accounted for in other funds and special revenue funds, to account for activities with restricted fund resources. 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. DOIT's enterprise funds provide 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 and Other Supplementary Information**

Supplemental Information such as management's discussion and analysis, 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 these requirements and with state reporting requirements from Office of the State Auditor.

State of New Mexico  
Department of Information Technology

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

**BUSINESS-TYPE ACTIVITIES STATEMENT OF NET ASSETS – SUMMARY**

Year end June 30, 2009

	Business-Type Activities June 30, 2008	Business-Type Activities June 30, 2009	Change
<b>ASSETS</b>			
Current assets	\$ 21,961,203	\$ 23,924,948	\$ 1,963,745
Capital assets, net	<u>25,102,106</u>	<u>20,178,388</u>	<u>(4,923,718)</u>
Total assets	<u>47,063,309</u>	<u>44,103,336</u>	<u>(2,959,973)</u>
<b>LIABILITIES</b>			
Current liabilities	10,871,772	5,677,015	(5,194,757)
Long-term liabilities	<u>1,080,877</u>	<u>865,071</u>	<u>(215,806)</u>
Total liabilities	<u>11,952,649</u>	<u>6,542,086</u>	<u>(5,410,563)</u>
<b>NET ASSETS</b>			
Invested in capital assets, net	23,490,155	19,506,042	(3,984,113)
Restricted	-	-	-
Unrestricted	<u>11,620,505</u>	<u>12,458,472</u>	<u>837,967</u>
Net assets	<u>\$ 35,110,660</u>	<u>\$ 31,964,514</u>	<u>\$ (3,146,146)</u>

State of New Mexico  
Department of Information Technology

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

**BUSINESS – TYPE ACTIVITIES CHANGES NET ASSETS – SUMMARY**

Year ended June 30, 2009

	Business-Type Activities Year ended June 30, 2008	Business-Type Activities Year ended June 30, 2009	Change
Program Revenues	\$ 45,502,684	\$ 51,166,519	\$ 5,663,835
General revenues	900,000	2,896,600	1,996,600
<b>Total revenues</b>	<b>46,402,684</b>	<b>54,063,119</b>	<b>7,660,435</b>
<b>Expenses:</b>			
Central Telephone Services	26,159,895	25,789,614	(370,281)
Office of the Information Processing	17,944,466	19,544,716	1,600,250
ISD-OIP Human Resources	1,853,340	2,193,624	340,284
Program Support	3,764,812	3,690,160	(74,652)
<b>Total expenses</b>	<b>49,722,513</b>	<b>51,218,114</b>	<b>1,495,601</b>
<b>Excess (deficiency) before transfers</b>	<b>(3,319,829)</b>	<b>2,845,005</b>	<b>6,164,834</b>
Transfers in	38,744,488	45,385	(38,699,103)
Transfers out	(313,999)	(439,800)	(125,801)
<b>Change in net assets</b>	<b>35,110,660</b>	<b>2,450,590</b>	<b>(32,660,070)</b>
<b>Beginning net assets</b>	<b>-</b>	<b>35,110,660</b>	<b>35,110,660</b>
<b>Ending net assets</b>	<b>\$ 35,110,660</b>	<b>\$ 37,561,250</b>	<b>\$ 2,450,590</b>

State of New Mexico  
Department of Information Technology

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

**GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS-SUMMARY**

Year ended June 30, 2009

	Governmental Activities <u>June 30, 2008</u>	Governmental Activities <u>June 30, 2009</u>	<u>Change</u>
<b>ASSETS</b>			
Current assets	\$ 12,997,364	\$ 13,275,831	\$ 278,467
Capital assets, net	<u>15,911,326</u>	<u>14,208,906</u>	<u>(1,702,420)</u>
Total assets	<u>28,908,690</u>	<u>27,484,737</u>	<u>(1,423,953)</u>
<b>LIABILITIES</b>			
Current liabilities	939,418	660,679	(278,739)
Long-term liabilities	<u>26,664</u>	<u>69,545</u>	<u>42,881</u>
Total liabilities	<u>966,082</u>	<u>730,224</u>	<u>(235,858)</u>
<b>NET ASSETS</b>			
Invested in capital assets, net	15,911,326	14,208,906	(1,702,420)
Restricted	11,849,199	12,130,290	281,091
Unrestricted	<u>182,083</u>	<u>415,317</u>	<u>233,234</u>
Net assets	<u>\$ 27,942,608</u>	<u>\$ 26,754,513</u>	<u>\$ (1,188,095)</u>

State of New Mexico  
Department of Information Technology

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

**GOVERNMENTAL ACTIVITIES CHANGES IN NET ASSETS-SUMMARY**

Year ended June 30, 2009

	Governmental Activities Year ended June 30, 2008	Governmental Activities Year ended June 30, 2009	Change
General revenues	\$ 5,906,300	\$ 6,072,009	\$ 165,709
Expenses:			
Center for Advanced Computing	77,781	4,350,098	4,272,317
Radio Communications	270,325	921,633	651,308
Information Technology Management Office	1,195,425	1,021,753	(173,672)
Total expenses	1,543,531	6,293,484	4,749,953
Excess (deficiency) before transfers	4,362,769	(221,475)	(4,584,244)
Transfers in	23,736,213	22,100	(23,714,113)
Transfers out	(156,374)	(988,720)	(832,346)
Change in net assets	27,942,608	(1,188,095)	(29,130,703)
Beginning net assets	-	27,942,608	27,942,608
Ending net assets	\$ 27,942,608	\$ 26,754,513	\$ (1,188,095)

**FINANCIAL ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Governmental activities decreased the Department's net assets by \$1,188,095 and Enterprise activities increased the Department's net assets by \$2,450,590. Key elements of these changes are as follows:

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

Year ended June 30, 2009

**FINANCIAL ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS – CONTINUED**

Governmental Activities:

Governmental activities decreased the Department's net assets by \$1,188,095 primarily due to increased expenditures for the State's Center for Advanced Computing. The Department expended \$2,239,864 for staffing and operating expenses associated with the State Center for Advanced Computing. In addition, the Department transferred \$925,729 to the University of New Mexico for operational cost associated with the State Center for Advanced Computing.

Enterprise Activities:

Program revenues increased \$5,663,835 primary due to the new wireless phone product line provided to state agencies and increases in radio service rates. A 47% rate increase took effect for radio services in fiscal year 2009. In addition, revenue from the new wireless phone product line totaled \$1,913,576. Other financing sources decreased significantly as net assets of \$38,744,488 were transferred in the prior year from the General Services Department during the Department's first year of inception.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The Department's net investment in capital assets totaled \$33,714,948 at June 30, 2009. 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, 2009 amounts to \$14,208,906 and \$19,506,042 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 \$8,147,434. There were \$2,266,232 of capital outlay additions in FY09 compared with \$18,692,548 of capital outlay additions in FY08. The decrease in capital outlay additions in the current year is attributed to the purchase of Encanto supercomputer in the prior year in the amount of \$10,890,000. 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



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

Year ended June 30, 2009

**CAPITAL ASSET AND DEBT ADMINISTRATION – CONTINUED**

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 \$934,616. 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. Capital lease obligations now consist of only short-term maturities.

**General Fund Budget And Transaction Highlights**

The Department's approved budget for the Information Technology Management Office (Fund 20370) was \$1,052,100 for fiscal year 2009. Due to cost savings during the course of the year, budgetary basis expenditures were \$1,006,706. Personnel costs accounted for 98.7% of the year's expenditures, other operation costs (travel, supplies, maintenance and capital outlay) account for 1.38%. Accrual expenses were \$45,394 greater than amounts budgeted for the year due to increased cost associated with program support allocated to general fund. Differences between the original budget and the final budget include reductions in general fund appropriation due to laws of 2009, Chapter 3, Senate Bill 79 which authorized transfer of monies from other state funds to the state general fund in order to support state budget deficits.

**ACCOMPLISHMENTS**

During fiscal year 2009, 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

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

Year ended June 30, 2009

**ACCOMPLISHMENTS - CONTINUED**

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 2009. Fiber in the Rio Grande/I-25 Corridor from Santa Fe to El Paso is nearing completion.

**CURRENTLY KNOWN FACTS, DECISIONS**

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.

**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, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Investments, State Treasurer	\$ 12,824,443	\$ 14,133,367	\$ 26,957,810
Accounts receivable, net	526	10,242,443	10,242,969
Other assets	-	-	-
Internal balances	450,862	(450,862)	-
<b>Total current assets</b>	<b>13,275,831</b>	<b>23,924,948</b>	<b>37,200,779</b>
Capital assets	17,801,273	93,468,093	111,269,366
Less accumulated depreciation	(3,592,367)	(73,289,705)	(76,882,072)
<b>Total capital assets, (net)</b>	<b>14,208,906</b>	<b>20,178,388</b>	<b>34,387,294</b>
<b>Total assets</b>	<b>\$ 27,484,737</b>	<b>\$ 44,103,336</b>	<b>\$ 71,588,073</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 593,533	\$ 2,282,716	\$ 2,876,249
Accrued salaries and benefits payable	45,831	702,712	748,543
Due to other state agencies	13,715	189,918	203,633
State general fund investment pool overdraft	-	1,584,625	1,584,625
Capital lease obligations:			
Due within one year	-	672,346	672,346
Due after one year	-	-	-
Compensated absences payable:			
Due within one year	7,600	244,698	252,298
Due after one year	69,545	865,071	934,616
<b>Total liabilities</b>	<b>730,224</b>	<b>6,542,086</b>	<b>7,272,310</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	14,208,906	19,506,042	33,714,948
Restricted for:			
Radio communication projects	6,517,689	-	6,517,689
State center for advanced computing	5,612,601	-	5,612,601
Capital replacement	-	5,596,736	5,596,736
Unrestricted	415,317	12,458,472	12,873,789
<b>Total net assets</b>	<b>\$ 26,754,513</b>	<b>\$ 37,561,250</b>	<b>\$ 64,315,763</b>

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, 2009

Functions/Programs	Expenses	Program Revenues Charges for Services
Primary government:		
Governmental activities:		
Radio Communications	\$ 921,633	\$ -
Information Technology Management	1,021,753	-
Center for Advanced Computing	4,350,098	-
Total governmental activities	6,293,484	-
Business-type activities:		
Central Telephone Service	25,789,614	30,698,167
ISD-OIP Human Resource	2,193,624	2,700,430
Office of Information Processing	19,544,716	17,767,922
Program Support	3,690,160	-
Total business-type activities	51,218,114	51,166,519
Total primary government	\$ 57,511,598	\$ 51,166,519

General revenues and transfers:

State general fund appropriations

Transfers in

Internal fund transfers

Reversion-FY09

Transfers (out)

Total general revenues and transfers

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>
\$ (921,633)	\$ -	\$ (921,633)
(1,021,753)	-	(1,021,753)
(4,350,098)	-	(4,350,098)
<u>(6,293,484)</u>	<u>-</u>	<u>(6,293,484)</u>
-	4,908,553	4,908,553
-	506,806	506,806
-	(1,776,794)	(1,776,794)
<u>-</u>	<u>(3,690,160)</u>	<u>(3,690,160)</u>
<u>-</u>	<u>(51,595)</u>	<u>(51,595)</u>
<u>(6,293,484)</u>	<u>(51,595)</u>	<u>(6,345,079)</u>
6,072,009	2,896,600	8,968,609
22,100	-	22,100
(45,385)	45,385	-
(17,606)	-	-
<u>(925,729)</u>	<u>(439,800)</u>	<u>(1,365,529)</u>
5,105,389	2,502,185	7,625,180
(1,188,095)	2,450,590	1,262,495
<u>27,942,608</u>	<u>35,110,660</u>	<u>63,053,268</u>
<u>\$ 26,754,513</u>	<u>\$ 37,561,250</u>	<u>\$ 64,315,763</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, 2009

	Major Funds		General Fund	
	Center For Advanced Computing- 20350	Radio Communications- 20340	Information Technology Management Office -20370	Total Governmental Funds
<b>ASSETS</b>				
Investments, State Treasurer	\$ 5,914,650	\$ 6,859,323	\$ 50,470	\$ 12,824,443
Due from other funds	-	526,008	57,129	583,137
Other Assets	-	526	-	526
	<b>\$ 5,914,650</b>	<b>\$ 7,385,857</b>	<b>\$ 107,599</b>	<b>\$ 13,408,106</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$ 259,143	\$ 334,390	\$ -	\$ 593,533
Accrued salaries and benefits payable	-	-	45,831	45,831
Due to other funds	29,200	41,316	61,759	132,275
Due to other state agencies	13,706	-	9	13,715
	302,049	375,706	107,599	785,354
<b>Fund Balances</b>				
Reserved for center for advanced computing	5,612,601	-	-	5,612,601
Reserved for radio communication projects	-	6,517,689	-	6,517,689
Unreserved	-	492,462	-	492,462
	5,612,601	7,010,151	-	12,622,752
<b>Total liabilities and fund balances</b>	<b>\$ 5,914,650</b>	<b>\$ 7,385,857</b>	<b>\$ 107,599</b>	<b>\$ 13,408,106</b>

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, 2009

Total fund balance, governmental funds (balance sheet)	\$ 12,622,752
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.	14,208,906
Compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(77,145)</u>
Net assets of governmental activities (statement of net assets)	<u>\$ 26,754,513</u>

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, 2009

	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	-	-	992,843	992,843
Contractual services	2,158,562	62,145	-	2,220,707
Other costs	6,311	500,278	13,872	520,461
Total current	2,164,873	562,423	1,006,715	3,734,011
Capital outlay	74,991	773,287	-	848,278
Total expenditures	2,239,864	1,335,710	1,006,715	4,582,289
Excess (deficiency) of revenues over expenditures	(2,239,864)	(1,335,710)	(1,006,715)	(4,582,289)
Other financing sources (uses):				
State general fund appropriations	3,300,000	1,742,009	1,030,000	6,072,009
Internal fund transfers in (out)	-	-	(45,385)	(45,385)
Reversions-FY09	(17,606)	-	-	(17,606)
Transfers in from other agencies	-	-	22,100	22,100
Transfers to other agencies	(925,729)	-	-	(925,729)
Total other financing sources	2,356,665	1,742,009	1,006,715	5,105,389
Change in fund balance	116,801	406,299	-	523,100
Total fund balance, beginning of year	5,495,800	6,603,852	-	12,099,652
Total fund balance, end of year	<u>\$ 5,612,601</u>	<u>\$ 7,010,151</u>	<u>\$ -</u>	<u>\$ 12,622,752</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, 2009

Net change in fund balances - governmental funds \$ 523,100  
(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	\$ 848,278
Depreciation	<u>(2,550,698)</u>

Excess (deficiency) of capital outlay over depreciation expense (1,702,420)

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	<u>(8,775)</u>
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Change in net assets of governmental activities (statement of activities) \$ (1,188,095)

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, 2009

	Information Technology Management Office (Fund 20370)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Federal award programs	\$ -	\$ -	\$ -	\$ -
Permits and other fees	-	-	-	-
Other - general fund	-	-	-	-
<b>Total revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Expenditures:</b>				
Personal services	\$ 1,079,100	\$ 978,000	\$ 992,843	\$ (14,843)
Contractual services	-	59,600	-	59,600
Other	-	14,500	13,863	637
<b>Total expenditures</b>	<b>\$ 1,079,100</b>	<b>\$ 1,052,100</b>	<b>\$ 1,006,706</b>	<b>\$ 45,394</b>
<b>Other Finance Sources (Uses):</b>				
Other finance sources	\$ 1,079,100	\$ 1,052,100	\$ 1,052,100	\$ -
Other finance uses	-	-	-	-
<b>Total other finance sources</b>	<b>\$ 1,079,100</b>	<b>\$ 1,052,100</b>	<b>\$ 1,052,100</b>	<b>\$ -</b>
Excess of revenues and other finance sources over expenditures and other finance uses	<u>\$ -</u>	<u>\$ -</u>	\$ 45,394	<u>\$ 45,394</u>
Request to pay prior year bills from 2009 budget			(9)	
Additional program support assessment			<u>(45,385)</u>	
Change in fund balance per statement of revenues, expenses and changes in fund balance (GAAP Basis)			<u>\$ -</u>	

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, 2009

	Radio Communications (Fund 20340)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Federal award programs	\$ -	\$ -	\$ -	\$ -
Permits and other fees	-	-	-	-
Other	-	-	-	-
Total revenues	-	-	-	-
Budgeted fund balance	6,353,399	6,353,399	6,353,399	-
Total revenues and budgeted fund balance	<u>\$ 6,353,399</u>	<u>\$ 6,353,399</u>	<u>\$ 6,353,399</u>	<u>\$ -</u>
<b>Expenditures:</b>				
Personal services	\$ -	\$ -	\$ -	\$ -
Contractual services	685,175	685,175	62,145	623,030
Other	6,666,224	6,666,224	1,273,565	5,392,659
Total expenditures	<u>\$ 7,351,399</u>	<u>\$ 7,351,399</u>	<u>\$ 1,335,710</u>	<u>\$ 6,015,689</u>
<b>Other Finance Sources</b>				
Other finance sources	\$ 998,000	\$ 998,000	\$ 1,742,009	\$ (744,009)
Other finance uses	-	-	-	-
Total other finance sources	<u>\$ 998,000</u>	<u>\$ 998,000</u>	<u>\$ 1,742,009</u>	<u>\$ (744,009)</u>
Excess of revenues and other finance sources over expenditures and other finance uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,759,698</u>	<u>\$ 5,271,680</u>
Fund balance not revenue for GAAP purposes			<u>(6,353,399)</u>	
Change in fund balance per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<u>\$ 406,299</u>	

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 –  
CENTER FOR ADVANCED COMPUTING (FUND 20350)**

For the year ended June 30, 2009

	Center for Advanced Computing (Fund 20350)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Bond proceeds	\$ -	\$ -	\$ -	\$ -
Prior year fund balance	5,495,800	5,495,800	5,495,800	-
<b>Total revenues</b>	<b>\$ 5,495,800</b>	<b>\$ 5,495,800</b>	<b>\$ 5,495,800</b>	<b>\$ -</b>
<b>Expenditures:</b>				
Personal services	\$ -	\$ -	\$ -	\$ -
Contractual services	5,104,778	5,104,778	2,233,553	2,871,225
Other	60,000	60,000	6,311	53,689
<b>Total expenditures</b>	<b>\$ 5,164,778</b>	<b>\$ 5,164,778</b>	<b>\$ 2,239,864</b>	<b>\$ 2,924,914</b>
<b>Other Finance Sources (Uses)</b>				
Other finance sources	\$ 3,296,100	\$ 3,296,100	\$ 3,300,000	\$ 3,900
Other finance uses	(3,627,122)	(3,627,122)	(925,729)	2,701,393
<b>Total other finance sources (uses)</b>	<b>\$ (331,022)</b>	<b>\$ (331,022)</b>	<b>\$ 2,374,271</b>	<b>\$ 2,705,293</b>
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	5,630,207	\$ 5,630,207
Prior year fund balance not revenue for GAAP purposes			(5,495,800)	
Reversion expense			(17,606)	
Change in fund balance per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<u>\$ 116,801</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, 2009

	Central Telephone Service - <u>20310</u>	Office of Information Processing - <u>20330</u>	ISD-OIP- Human Resources - <u>20360</u>
<b>ASSETS</b>			
Current Assets:			
Investments, State Treasurer	\$ 11,350,359	\$ 1,170,631	\$ 1,612,377
Accounts receivable	6,312,286	3,884,863	43,987
Due from other funds	179,850	320,471	18,741
Other assets	-	-	-
	<u>17,842,495</u>	<u>5,375,965</u>	<u>1,675,105</u>
Total current assets			
Noncurrent assets:			
Capital assets:			
Buildings and improvements	6,730,241	-	-
Auto and trucks	143,144	-	-
Machine & equipment	9,330,693	26,602	-
Data processing	1,442,512	1,918,970	498,538
Furniture & fixtures	87,094	594	-
	<u>17,733,684</u>	<u>1,946,166</u>	<u>498,538</u>
Total capital assets			
	<u>17,733,684</u>	<u>1,946,166</u>	<u>498,538</u>
Total non current assets			
	<u>17,733,684</u>	<u>1,946,166</u>	<u>498,538</u>
Total assets	<u>\$ 35,576,179</u>	<u>\$ 7,322,131</u>	<u>\$ 2,173,643</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Investment pool overdraft	\$ -	\$ -	\$ -
Accounts payable	1,206,324	966,095	105,348
Accrued salaries and benefits payable	203,920	321,810	24,878
Compensated absences-current	92,258	97,962	33,627
Due to the federal government	-	-	-
Accrued interest	-	-	-
Due to other funds	5,029,823	3,051,607	520,501
Capital lease obligations-current	-	672,346	-
Due to other state agencies	189,918	-	-
	<u>6,722,243</u>	<u>5,109,820</u>	<u>684,354</u>
Total current liabilities			
	<u>6,722,243</u>	<u>5,109,820</u>	<u>684,354</u>
Noncurrent liabilities:			
Capital lease obligations-long term	-	-	-
Compensated absences-long term	446,974	117,715	26,333
	<u>446,974</u>	<u>117,715</u>	<u>26,333</u>
Total liabilities	<u>7,169,217</u>	<u>5,227,535</u>	<u>710,687</u>
Net assets			
Invested in capital assets	17,733,684	1,273,820	498,538
Unrestricted	10,673,278	820,776	964,418
Restricted for capital replacement	-	-	-
	<u>28,406,962</u>	<u>2,094,596</u>	<u>1,462,956</u>
Total net assets			
	<u>28,406,962</u>	<u>2,094,596</u>	<u>1,462,956</u>
Total liabilities and net assets	<u>\$ 35,576,179</u>	<u>\$ 7,322,131</u>	<u>\$ 2,173,643</u>

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

Program Support 20320	Equipment Replacement Fund 96880	Equipment Replacement Fund 96870	Total Enterprise Funds
\$ -	\$ -	\$ -	\$ 14,133,367
1,307	-	-	10,242,443
2,303,012	5,437,003	159,733	8,418,810
-	-	-	-
2,304,319	5,437,003	159,733	32,794,620
-	-	-	6,730,241
-	-	-	143,144
-	-	-	9,357,295
-	-	-	3,860,020
-	-	-	87,688
-	-	-	20,178,388
-	-	-	20,178,388
<u>\$ 2,304,319</u>	<u>\$ 5,437,003</u>	<u>\$ 159,733</u>	<u>\$ 52,973,008</u>
\$ 1,584,625	\$ -	\$ -	\$ 1,584,625
4,949	-	-	2,282,716
152,104	-	-	702,712
20,851	-	-	244,698
-	-	-	-
-	-	-	-
267,741	-	-	8,869,672
-	-	-	672,346
-	-	-	189,918
2,030,270	-	-	14,546,687
-	-	-	-
274,049	-	-	865,071
2,304,319	-	-	15,411,758
-	-	-	19,506,042
-	-	-	12,458,472
-	5,437,003	159,733	5,596,736
-	5,437,003	159,733	37,561,250
<u>\$ 2,304,319</u>	<u>\$ 5,437,003</u>	<u>\$ 159,733</u>	<u>\$ 52,973,008</u>

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, 2009

	Central Telephone Service-20310	Office of Information Processing- 20330	ISD-OIP- Human Resources- 20360
Operating revenues:			
User fees	\$ 30,698,167	\$ 17,767,915	\$ 2,700,430
Other revenues	-	7	-
Total revenues	30,698,167	17,767,922	2,700,430
Operating expenses:			
Other costs	16,216,218	5,479,713	222,803
Personal services	4,779,934	6,644,377	811,128
Contractual services	652,384	5,086,381	999,960
Depreciation expense	3,701,120	1,735,883	159,733
Total operating expenses	25,349,656	18,946,354	2,193,624
Operating income (loss):	5,348,511	(1,178,432)	506,806
Non-operating (expenses):			
interest expense	-	(293,384)	-
Loss on disposal of capital assets	(439,958)	(304,978)	-
Total non-operating (expenses)	(439,958)	(598,362)	-
Income (loss) before transfers	4,908,553	(1,776,794)	506,806
Other financing sources (uses):			
State general fund appropriations	-	2,896,600	-
Internal fund transfers in (out)	(5,281,987)	(3,580,226)	(379,298)
Transfers to other agencies	-	-	(439,800)
Total other financing sources (uses)	(5,281,987)	(683,626)	(819,098)
Change in net assets	(373,434)	(2,460,420)	(312,292)
Total net assets, beginning of year	28,780,396	4,555,016	1,775,248
Total net assets, end of year	\$ 28,406,962	\$ 2,094,596	\$ 1,462,956

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

Program Support Fund 20320	Equipment Replacement Fund 96880	Equipment Replacement Fund 96870	Total Enterprise Funds
\$ -	\$ -	\$ -	\$ 51,166,512
-	-	-	7
-	-	-	51,166,519
200,523	-	-	22,119,257
3,431,623	-	-	15,667,062
58,014	-	-	6,796,739
-	-	-	5,596,736
<u>3,690,160</u>	<u>-</u>	<u>-</u>	<u>50,179,794</u>
(3,690,160)	-	-	986,725
-	-	-	(293,384)
-	-	-	(744,936)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,038,320)</u>
(3,690,160)	-	-	(51,595)
-	-	-	2,896,600
3,690,160	5,437,003	159,733	45,385
-	-	-	(439,800)
<u>3,690,160</u>	<u>5,437,003</u>	<u>159,733</u>	<u>2,502,185</u>
-	5,437,003	159,733	2,450,590
-	-	-	35,110,660
<u>\$ -</u>	<u>\$ 5,437,003</u>	<u>\$ 159,733</u>	<u>\$ 37,561,250</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, 2009

	Central Telephone Service - 20310	Office of Information Processing - 20330	ISD-OIP- Human Resources - 96880
Cash flows from operating activities:			
Cash received from customers	\$ 30,885,117	\$ 20,153,997	\$ 3,110,185
Cash payments to suppliers	(16,583,750)	(7,164,033)	(2,316,078)
Cash payments to employees for services	<u>(4,589,442)</u>	<u>(6,717,808)</u>	<u>(843,077)</u>
Net cash provided by (used in) operating activities	9,711,925	6,272,156	(48,970)
Cash flows from noncapital financing activities:			
Appropriations from state general fund	-	2,896,600	-
Settlement payments to the federal government	-	(2,906,825)	-
Transfers (out) to other agencies	-	-	(313,999)
Internal fund transfers in (out)	<u>(970,255)</u>	<u>(3,313,522)</u>	<u>(219,001)</u>
Net cash provided by (used in) noncapital financing activities	(970,255)	(3,323,747)	(533,000)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(833,850)	(584,104)	-
Capital lease payments (principal)	-	(939,604)	-
Capital lease payments (interest)	-	(95,388)	-
Agency overdraft of state general fund investment pool	<u>-</u>	<u>(158,682)</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	(833,850)	(1,777,778)	-
Net Increase in cash and cash equivalents	7,907,820	1,170,631	(581,970)
Investments, state treasurer, at beginning of the year	<u>3,442,539</u>	<u>-</u>	<u>2,194,347</u>
Investments, state treasurer, at end of the year	<u>\$ 11,350,359</u>	<u>\$ 1,170,631</u>	<u>\$ 1,612,377</u>
Operating income (loss)	\$ 5,348,511	\$ (1,178,432)	\$ 506,806
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,701,120	1,735,883	159,733
Provision for uncollectible accounts	962,618	2,291,135	(45,680)
Change in assets and liabilities:			
Decrease in accounts receivable	186,949	2,386,075	409,754
Decrease in inventories	-	1,420	-
Decrease in prepaids	-	-	643
(Increase) decrease in due from other funds/agencies	(14,042)	-	-
(Decrease) increase in accounts payable	(663,723)	359,516	(693,871)
Increase (decrease) in due to other funds/agencies	-	749,990	(354,406)
(Decrease) increase in accrued payroll	(5,558)	40,211	(8,463)
Increase (decrease) in compensated absences	<u>196,050</u>	<u>(113,642)</u>	<u>(23,486)</u>
Total adjustments	<u>4,363,414</u>	<u>7,450,588</u>	<u>(555,776)</u>
Net cash provided (used) by operating activities	<u>\$ 9,711,925</u>	<u>\$ 6,272,156</u>	<u>\$ (48,970)</u>

There were no noncash transactions for the year-ended June 30, 2009.

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

Program Support - 20320	Equipment Replacement 96880	Equipment Replacement 96870	Total Enterprise Funds
\$ -	\$ -	\$ -	\$ 54,149,299
1,212,686	-	-	(24,851,175)
(3,422,915)	-	-	(15,573,242)
(2,210,229)	-	-	13,724,882
-	-	-	2,896,600
-	-	-	(2,906,825)
-	-	-	(313,999)
2,077,218	-	-	(2,425,560)
2,077,218	-	-	(2,749,784)
-	-	-	(1,417,954)
-	-	-	(939,604)
-	-	-	(95,388)
133,011	-	-	(25,671)
133,011	-	-	(2,478,617)
-	-	-	8,496,481
-	-	-	5,636,886
\$ -	\$ -	\$ -	\$ 14,133,367
\$ (3,690,160)	\$ -	\$ -	\$ 986,725
-	-	-	5,596,736
-	-	-	3,208,073
-	-	-	2,982,778
-	-	-	1,420
-	-	-	643.00
1,214,442	-	-	1,200,400
(9,583)	-	-	(1,007,661)
266,364	-	-	661,948
5,377	-	-	31,567
3,331	-	-	62,253
1,479,931	-	-	12,738,157
\$ (2,210,229)	\$ -	\$ -	\$ 13,724,882

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

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2009

**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 Department of the chief information officer, 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, 2009

**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 Department 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, 2009

**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, 2009

**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, 2009

**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, 2009

**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 or 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 reverting fund.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**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 special revenue 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 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, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

3. Basic Financial Statements – Fund Financial Statements – Continued

Laws of 2008, CH 84, HB 517, created the equipment replacement funds (SHARE 96880 and SHARE 96870) in order to plan for the expenditure of capital investments necessary to provide goods and services to the state and its agencies and to local public bodies and other enterprise customers. Replacement funds in 96880 are intended to replace equipment in the Central Telephone Service fund (SHARE 20310) and the Office of Information Processing fund (SHARE 20330). Replacement funds in 96870 are intended to replace equipment in the ISD-OIP Human Resources fund (SHARE 20360). These funds are non-reverting funds and no budgets were required to be presented in fiscal year 2009 due to inactivity.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

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.

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 2008, Chapter 3, 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. There were no budgets required to be presented for Equipment Replacement funds (SHARE 96880 and SHARE 96870) due to inactivity.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

5. Budgets and Budgetary Accounting – Continued

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.
- 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

5. Budgets and Budgetary Accounting – Continued

- h. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30<sup>th</sup>.
- i. New funds 96880 and 96870 for equipment replacements have no budget requirements as revenues are restricted for specific equipment replacement purposes.

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:

<b>Years of Service</b>	<b>Hours Earned Per Pay Period</b>
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 2009. It is an estimate management determined by applying a percentage to the June 30, 2009 liability. Department General Fund and Enterprise fund resources have been used to liquidate accrued compensated absences.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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, 2009. Any State General Fund appropriations remaining in the general fund (SHARE 20370) fund balance not reserved is reverted to the state general fund.

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 \$6,517,689 for Radio Communication Projects and \$5,612,601 for the State Center for Advanced Computing. Additionally, \$5,596,736 is restricted for capital replacement.

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 \$17,727,026, which represents all restricted net assets reported on page 14.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

8. Net Assets/Fund Equity – Continued

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 below:

***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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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.

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
Super computer	5 years



State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

12. New Accounting Standard

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, 2009
Info/Tech Management Office	Investment	36100-20370	\$ 50,470	\$ 50,470	\$ 50,470
Center for Advanced Computing	Investment	36100-20350	5,914,650	5,914,650	5,914,650
Radio Communications-Special	Investment	36100-20340	6,859,323	6,859,323	<u>6,859,323</u>
Total governmental funds					12,824,443
Central Telephone Services	Investment	36100-20310	11,350,359	11,350,359	11,350,359
Program Support	Investment	36100-20320	-	-	-
Off. Of Information Processing	Investment	36100-20330	1,170,631	1,170,631	1,170,631
ISD-OIP-Human Resources	Investment	36100-20360	1,612,377	1,612,377	<u>1,612,377</u>
Total proprietary funds					<u>14,133,367</u>
Total Share of State General Fund Investment Pool					<u>\$ 26,957,810</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, 2009

**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, 2009. There is no custodial risk at the Department level since the account is under the control of the New Mexico State Treasurer. Other requirements of GASB 40, including disclosure of interest rate risk and credit risk are met at the level of the New Mexico State Treasurer.

**NOTE D – ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2009 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	\$ 8,402,735	\$ 6,878,081	\$ 163,027	\$ 1,307	\$ 15,445,150
Due from the federal government	55,965	-	-	-	55,965
Due from local governments	<u>1</u>	<u>6,721</u>	<u>-</u>	<u>-</u>	<u>6,722</u>
Gross receivables	8,458,701	6,884,802	163,027	1,307	15,507,837
Less allowance for uncollectible	<u>(2,146,415)</u>	<u>(2,999,939)</u>	<u>(119,040)</u>	<u>-</u>	<u>(5,265,394)</u>
Receivables (net)	<u>\$ 6,312,286</u>	<u>\$ 3,884,863</u>	<u>\$ 43,987</u>	<u>\$ 1,307</u>	<u>\$ 10,242,443</u>

The allowance for uncollectible accounts consist principally of accounts greater than 1 year old for which budgetary authority and resources may not exist. During fiscal year 2009 the Department wrote off \$124,690 in amounts owed from the General Services Department for inventory never received.

State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE E – CAPITAL ASSETS**

The capital assets activity for the year ended June 30, 2009, is as follows:

	Governmental Activities			
	Balance June 30, 2008	Additions in FY 09	Deletions in FY 09	Balance June 30, 2009
Capital assets				
Data processing	\$ 12,932,147	\$ 208,089	\$ -	\$ 13,140,236
Buildings and improvements	2,955,181	580,283	-	3,535,464
Machinery and equipment	<u>1,065,667</u>	<u>59,906</u>	-	<u>1,125,573</u>
Total capital assets	<u>\$ 16,952,995</u>	<u>\$ 848,278</u>	<u>\$ -</u>	<u>\$ 17,801,273</u>
Accumulated depreciation				
Data processing	\$ (953,574)	\$ (2,287,608)	\$ -	\$ (3,241,182)
Buildings and improvements	(53,807)	(151,502)	-	(205,309)
Machinery and equipment	<u>(34,288)</u>	<u>(111,588)</u>	-	<u>(145,876)</u>
Total accumulated depreciation	<u>\$ (1,041,669)</u>	<u>\$ (2,550,698)</u>	<u>\$ -</u>	<u>\$ (3,592,367)</u>
Net capital assets				
Data processing	\$ 11,978,573	\$ (2,079,519)	\$ -	\$ 9,899,054
Buildings and improvements	2,901,374	428,781	-	3,330,155
Machinery and equipment	<u>1,031,379</u>	<u>(51,682)</u>	-	<u>979,697</u>
Net capital assets	<u>\$ 15,911,326</u>	<u>\$ (1,702,420)</u>	<u>\$ -</u>	<u>\$ 14,208,906</u>

State of New Mexico  
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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE E – CAPITAL ASSETS – CONTINUED**

	Business-type Activities			
	Balance June 30, 2008	Additions in FY 09	Deletions/ Adjustments in FY 09	Balance June 30, 2009
<b>Capital assets</b>				
Data processing	\$ 24,641,365	\$ 1,100,033	\$ (995,445)	\$ 24,745,953
Buildings and improvements	9,537,737	-	(46,425)	9,491,312
Auto and trucks	1,637,337	41,000	-	1,678,337
Machinery and equipment	56,937,631	276,921	14,196	57,228,748
Furniture and office equipment	329,809	-	(6,066)	323,743
	<u>\$ 93,083,879</u>	<u>\$ 1,417,954</u>	<u>\$ (1,033,740)</u>	<u>\$ 93,468,093</u>
<b>Accumulated depreciation</b>				
Data processing	\$ (18,787,535)	\$(2,341,538)	\$ 243,140	\$ (20,885,933)
Buildings and improvements	(2,368,074)	(391,330)	(1,667)	(2,761,071)
Auto and trucks	(1,397,997)	(139,600)	2,404	(1,535,193)
Machinery and equipment	(45,210,319)	(2,701,643)	40,509	(47,871,453)
Furniture and office equipment	(217,848)	(22,625)	4,418	(236,055)
	<u>\$ (67,981,773)</u>	<u>\$ (5,596,736)</u>	<u>\$ 288,804</u>	<u>\$ (73,289,705)</u>
<b>Net capital assets</b>				
Data processing	\$ 5,853,830	\$(1,241,505)	\$ (752,305)	\$ 3,860,020
Buildings and improvements	7,169,663	(391,330)	(48,092)	6,730,241
Auto and trucks	239,340	(98,600)	2,404	143,144
Machinery and equipment	11,727,312	(2,424,722)	54,705	9,357,295
Furniture and office equipment	111,961	(22,625)	(1,648)	87,688
	<u>\$ 25,102,106</u>	<u>\$ (4,178,782)</u>	<u>\$ (744,936)</u>	<u>\$ 20,178,388</u>

Adjustments were made to the outstanding balances for capital assets as part of DOITs ongoing procedures during the year to verify asset existence and reconcile assets to capital asset schedules. These adjustments were for capital assets in funds 20330 and 20310. Fund 20360 capital assets balances were not adjusted as reconciliation procedures have not started for the fund. These adjustments reduced capital assets by \$1,033,740 and decreased accumulated depreciation by \$288,804. Net capital assets decreased by \$744,936.

State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE E – CAPITAL ASSETS – CONTINUED**

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

**Governmental activities:**

Center for Advanced Computing	\$ 2,185,225
Radio Communications	359,210
Information Technology Management Office	<u>6,263</u>
 Total depreciation expense-governmental activities	 2,550,698

**Business-type activities:**

Central Telephone Service	3,701,120
Office of Information Processing	1,735,883
ISD-OIP Human Resource	159,733
Program Support	<u>-</u>
 Total depreciation expense-business-type activities	 <u>5,596,736</u>
 Total depreciation expense	 <u><u>\$ 8,147,434</u></u>

State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**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 and to record the amount due to equipment replacement funds. All interfund transactions are expected to be settled within one year.

Due from and to other funds as of June 30, 2009 are as follows:

DUE FROM FUNDS		DUE TO FUNDS		
		Governmental Funds		
		Information Tech. Mgt. Office 20370	Radio Communications 20340	Center for Advanced Computing 20350
Enterprise Funds				
20310	Central Telephone Services	\$ -	\$ 41,316	\$ 29,200
20320	Program Support	61,759	-	-
20330	Office of Information Processing	-	-	-
20360	ISD-OIP Human Resources	-	-	-
96880	Equipment Replacement Fund	-	-	-
96870	Equipment Replacement Fund	-	-	-
Enterprise fund totals		61,759	41,316	29,200
Governmental Funds				
20370	Information Tech. Mgt Office	-	-	-
20340	Radio Communications	-	-	-
Governmental fund totals		-	-	-
<b>AGENCY TOTALS</b>		<b>\$ 61,759</b>	<b>\$ 41,316</b>	<b>\$ 29,200</b>

Enterprise Funds

Central Telephone Services 20310	Office of Information Processing 20330	ISD-OIP Human Resources 20360	Program Support 20320	Totals
\$ -	\$ -	\$ 109,334	\$ -	\$ 179,850
685,836	1,303,983	251,434	-	2,303,012
52,730	-	-	267,741	320,471
7,000	11,741	-	-	18,741
3,701,120	1,735,883	-	-	5,437,003
-	-	159,733	-	159,733
4,446,686	3,051,607	520,501	267,741	8,418,810
57,129	-	-	-	57,129
526,008	-	-	-	526,008
583,137	-	-	-	583,137
<u>\$ 5,029,823</u>	<u>\$ 3,051,607</u>	<u>\$ 520,501</u>	<u>\$ 267,741</u>	<u>\$ 9,001,947</u>

State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**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	\$ 179,850	\$ (5,029,823)	\$ (4,849,973)
Program Support	20320	2,303,012	(267,741)	2,035,271
Office of info. Processing	20330	320,471	(3,051,607)	(2,731,136)
ISD-OIP Human Resources	20360	18,741	(520,501)	(501,760)
Equipment Replacement Fund-OIP	96880	5,437,003	-	5,437,003
Equipment Replacement Fund ISD/Telecom	96870	159,733	-	159,733
Total enterprise funds		<u>\$ 8,418,810</u>	<u>\$ (8,869,672)</u>	<u>\$ (450,862)</u>
Governmental Funds:		Due from	Due to	Net
Fund Name	Fund Number	Other Funds	Other Funds	Amount
Radio Communications	20340	\$ 526,008	\$ (41,316)	\$ 484,692
Center for Advanced Computing	20350	-	(29,200)	(29,200)
General Fund	20370	57,129	(61,759)	(4,630)
Total governmental funds		<u>\$ 583,137</u>	<u>\$ (132,275)</u>	<u>\$ 450,862</u>
Grand totals		<u>\$ 9,001,947</u>	<u>\$ (9,001,947)</u>	<u>\$ -</u>

**NOTE H – DUE TO OTHER AGENCIES**

A summary of amounts owed to other agencies as of June 30, 2009 is detailed below:

Due To Fund	Agency	Agency No.	Fund No.	Amount	Purpose
20310	Department of Public Safety	790	12800	\$ 137,800	Leasing of office space for communication tower
20310	General Service Department	350	17400	25,259	Net overpayment for information technology services
20310	State General Fund	341	85200	26,859	Stale dated warrants
20350	State General Fund	341	85200	<u>13,715</u>	Reversion payable FY09
Total				<u>\$ 203,633</u>	



State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE I – CHANGES IN LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Business-Type Activities				
	Balance June 30, 2008	Increase	(Decrease)	Balance June 30, 2009	Current Portion
Capital lease obligations	\$ 1,611,950	\$ -	\$ (939,604)	\$ 672,346	\$ 672,346
Due to the federal government	2,158,838	-	(2,158,838)	-	-
Compensated absences payable	1,047,515	606,922	(544,688)	1,109,749	244,699
	<u>\$ 4,818,303</u>	<u>\$ 606,922</u>	<u>\$ (3,643,130)</u>	<u>\$ 1,782,095</u>	<u>\$ 917,045</u>
	Governmental Activities				
	Balance June 30, 2008	Increase	(Decrease)	Balance June 30, 2009	Current Portion
Compensated absences payable	\$ 68,370	\$ 43,750	\$ (34,975)	\$ 77,145	\$ 7,600

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, 2009 totaled \$837,481 net of accumulated depreciation of \$4,154,645.

The following is a schedule by year of future minimum lease payments under the capital lease at June 30, 2009:

	Lease Amount
Year ending June 30: FY10 and thereafter	\$ 697,115
Total minimum lease payments	697,115
Less: amounts representing interest	(24,769)
Present value of minimum lease payments	\$ 672,346

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**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](http://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 years ending June 30, 2009 and June 30, 2008 was \$1,925,928 and \$1,930,898, respectively, which equal the amount of the required contribution for those fiscal years. There were no contributions for 2007, as fiscal year 2008 was the first year of existence for the Department.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**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](http://www.nmrhca.state.nm.us).

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**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 January 1, 1998 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 years ended June 30, 2009 and June 30, 2008 were \$141,909 and \$141,243, respectively, which equal the required contributions for those years. There were no contributions for 2007 as fiscal year 2008 was the first year of existence for the Department.

**NOTE L – COMMITMENTS AND CONTINGENCIES**

**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, 2009 totaled approximately \$260,167. 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, 2009.

Year ending June 30:

FY10	\$	269,551
FY11		275,211
FY12		279,958
FY13		285,892
FY14 and thereafter		<u>292,493</u>
	\$	<u>1,403,105</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE L – COMMITMENTS AND CONTINGENCIES – 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, 2008 through June 30, 2009. There have been no settlements in excess of insurance coverage as of June 30, 2009.

**Account Payable Contingency**

DOIT has outstanding billings from a software support company, Software AG, Inc., that are in review by DOIT and the State Purchasing Division for procurement issues. There is no amount recorded in accounts payable for these outstanding billings. The amount of the billings, actual and estimated, total \$445,713 through June 30, 2009. The amount that might be paid to the vendor is uncertain at this time.

State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**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) and to record amounts due to the equipment replacement funds (SHARE 96870 and SHARE 96880).

Internal transfers in (out)			Gen Fund	Enterprise Funds							
State Agency	Fund	Purpose	Info Tech Management Office (20370)	Program Support (20320)	Central Telephone Services (20310)	ISD-OIP Human Resources (20360)	Equipment Replacement Funds (96870)	Equipment Replacement Funds (96880)	Office of Info. Processing (20330)	Total	
DOIT	20310	Program Support Assessment	\$ -	\$ 1,580,867	\$ (1,580,867)	\$ -	\$ -	\$ -	\$ -	\$ -	
DOIT	20330	Program Support Assessment	-	1,844,343	-	-	-	-	(1,844,343)	-	
DOIT	20360	Program Support Assessment	-	219,565	-	(219,565)	-	-	-	-	
DOIT	20370	Program Support Assessment	(45,385)	45,385	-	-	-	-	-	-	
DOIT	96870	Equipment Replacement	-	-	-	(159,733)	159,733	-	-	-	
DOIT	96880	Equipment Replacement	-	-	(3,701,120)	-	-	5,437,003	(1,735,883)	-	
			<u>\$ (45,385)</u>	<u>\$ 3,690,160</u>	<u>\$ (5,281,987)</u>	<u>\$ (379,298)</u>	<u>\$ 159,733</u>	<u>\$ 5,437,003</u>	<u>\$ (3,580,226)</u>	<u>\$ -</u>	

State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE M – TRANSFERS – CONTINUED**

The following schedules details transfers to and from other agencies.

Transfers from other agencies				General Fund	Enterprise Fund	Special Revenue Fund	Special Revenue Fund	
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)	Total
DFA	34100	85300	To continue to development of a digital microwave communications backbone for the state	\$ -	\$ -	\$ 242,009	\$ -	\$ 242,009
DFA	34100	85300	To implement a trusted state network to authenticate users	-	-	1,250,000	-	1,250,000
DFA	34100	85300	For assessment and feasibility study for redundancy of most critical information technology based services and applications	-	-	250,000	-	250,000
DFA	34100	85300	For payment to the federal government for overcharged technology services	-	2,896,600	-	-	2,896,600
DFA	34100	85300	For staff and operations cost for the New Mexico computing applications center	-	-	-	3,000,000	3,000,000
		85300	Computing applications center	-	-	-	300,000	300,000
DFA	34100	85300	General fund appropriation	1,030,000	-	-	-	1,030,000
DFA	34100	85300	Compensation allowance	22,100	-	-	-	22,100
Totals				<u>\$ 1,052,100</u>	<u>\$ 2,896,600</u>	<u>\$ 1,742,009</u>	<u>\$ 3,300,000</u>	<u>\$ 8,990,709</u>

Transfers to other agencies				Enterprise Fund	Capital Projects Fund	
State Agency	Unit	Fund No.	Purpose	ISD-OIP Human Resources (20360)	Center for Advanced Computing (20350)	Total
UNM	N/A	N/A	For staffing and operating expenses for the New Mexico computing application center	\$ -	\$ (925,729)	\$ (925,729)
DFA	34100	85200	Transfer portion of FY09 HRMS fees collected by DOIT to DFA	(439,800)	-	(439,800)
Totals				<u>\$ (439,800)</u>	<u>\$ (925,729)</u>	<u>\$ (1,365,529)</u>

State of New Mexico  
Department of Information Technology

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE N – ACTUAL EXPENDITURES IN EXCESS OF APPROPRIATIONS**

The table below details actual expenditures in excess of appropriations at the appropriation unit level which is the legal level of budgetary control.

Fund Description	Fund Number	Appropriation Unit Level	Overage Amount
Central Telephone Service	20310	Personal services	\$ 83,983
Information Mgt. Technology Office	20370	Personal services	\$ 14,843

**NOTE O – SUBSEQUENT EVENTS**

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

The Department has evaluated subsequent events through November 2, 2009, which is the date the financial statements are available to be issued. No matters required adjustment or disclosure.



**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, 2009

	CENTRAL TELEPHONE SERVICES (FUND 20310)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Central Telephone Services	\$ 23,160,100	\$ 25,160,100	\$ 30,698,167	\$ 5,538,067
Total revenues and fund balance budgeted	<u>\$ 23,160,100</u>	<u>\$ 25,160,100</u>	<u>\$ 30,698,167</u>	<u>\$ 5,538,067</u>
<b>Expenditures:</b>				
Personal services	\$ 4,499,900	\$ 4,499,900	\$ 4,583,883	\$ (83,983)
Contractual services	801,400	801,400	652,384	149,016
Other	16,589,600	18,589,600	15,759,376	2,830,224
Total expenditures	<u>\$ 21,890,900</u>	<u>\$ 23,890,900</u>	<u>\$ 20,995,643</u>	<u>\$ 2,895,257</u>
<b>Other Finance Sources (Uses)</b>				
Other financing sources	\$ 86,600	\$ 86,600	\$ -	\$ (86,600)
Other finance uses	(1,355,800)	(1,355,800)	(1,355,800)	-
Total other finance sources (uses)	<u>\$ (1,269,200)</u>	<u>\$ (1,269,200)</u>	<u>\$ (1,355,800)</u>	<u>\$ -</u>
Excess of revenues and other finance sources over expenditures and other finance uses	<u>\$ -</u>	<u>\$ -</u>	\$ 8,346,724	<u>\$ 8,433,324</u>
Request to pay prior year bills from 2009 budget			-	
Depreciation expense			(3,701,120)	
Amounts owed to equipment replacement fund			(3,701,120)	
Capital asset additions			505,776	
Additional program support assessment			(225,067)	
Provision for bad debt			(962,618)	
Loss on disposal of capital assets			(439,958)	
Compensated absences year-end accrual			(196,051)	
Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			<u>\$ (373,434)</u>	

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, 2009

	OFFICE OF INFORMATION PROCESSING (FUND 20330)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Data processing services	\$ 20,956,600	\$ 20,345,800	\$ 17,767,915	\$ (2,577,885)
Other - General Fund	-	-	7	7
 Total revenues and budgeted fund balance	<u>\$ 20,956,600</u>	<u>\$ 20,345,800</u>	<u>\$ 17,767,922</u>	<u>\$ (2,577,878)</u>
 <b>Expenditures:</b>				
Personal services	\$ 6,765,700	\$ 6,900,500	\$ 6,758,019	\$ 142,481
Contractual services	7,960,000	6,883,500	5,086,381	1,797,119
Other	4,120,500	4,370,900	3,770,323	600,577
 Total expenditures	<u>\$ 18,846,200</u>	<u>\$ 18,154,900</u>	<u>\$ 15,614,723</u>	<u>\$ 2,540,177</u>
 <b>Other Finance Sources (Uses):</b>				
Other finance sources	\$ -	\$ -	\$ 2,896,600	\$ 2,896,600
Other finance uses	(2,110,400)	(2,190,900)	(2,110,399)	80,501
 Total other finance sources (uses)	<u>\$ (2,110,400)</u>	<u>\$ (2,190,900)</u>	<u>\$ 786,201</u>	<u>\$ 2,977,101</u>
 Excess of revenues and other finance sources over expenditures and other finance uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,939,400</u>	<u>\$ 2,939,400</u>
 Request to pay prior year bills from 2009 budget			(2,358)	
Depreciation expense			(1,735,883)	
Amounts owed to equipment replacement fund			(1,735,883)	
Capital asset additions			584,103	
Additional program support assessment (decrease in FY09)			266,056	
Provision for bad debt			(2,291,135)	
Compensated absences year-end accrual (decrease in FY09)			113,642	
Interest expense			(293,384)	
Loss on disposal of capital assets			(304,978)	
 Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			<u>\$ (2,460,420)</u>	

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, 2009

	ISD-OIP HUMAN RESOURCES (FUND 20360)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Data processing services	\$ 2,660,600	\$ 3,056,200	\$ 2,700,430	\$ (355,770)
Other	-	-	-	-
Total revenues	\$ 2,660,600	\$ 3,056,200	\$ 2,700,430	\$ (355,770)
<b>Expenditures:</b>				
Personal services	\$ 863,600	\$ 863,600	\$ 834,614	\$ 28,986
Contractual services	705,000	1,100,600	999,960	100,640
Other	559,000	438,800	268,483	170,317
Total expenditures	\$ 2,127,600	\$ 2,403,000	\$ 2,103,057	\$ 299,943
<b>Other Finance Sources (Uses)</b>				
Other finance sources	\$ -	\$ -	\$ -	\$ -
Other finance uses	(533,000)	(653,200)	(533,000)	120,200
Total other finance sources (uses)	\$ (533,000)	\$ (653,200)	\$ (533,000)	\$ 120,200
Excess of revenues and other finance sources over expenditures and other finance uses	\$ -	\$ -	\$ 64,373	\$ 64,373
Request to pay prior year bills from 2009 budget			-	
Depreciation expense			(159,733)	
Amounts due to equipment replacement			(159,733)	
Additional program support assessment			(126,365)	
Provision for bad debt (decrease in FY09)			45,680	
Compensated absences year-end accrual (decrease in FY09)			23,486	
Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			\$ (312,292)	

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, 2009

	PROGRAM SUPPORT (FUND 20320)			
	Original Budget	Final Budget	Budgetary Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Other	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Expenditures:</b>				
Personal services	\$ 3,136,400	\$ 3,434,300	\$ 3,428,292	\$ 6,008
Contractual services	170,000	87,300	58,014	29,286
Other	253,000	253,000	200,523	52,477
Total expenditures	<u>\$ 3,559,400</u>	<u>\$ 3,774,600</u>	<u>\$ 3,686,829</u>	<u>\$ 87,771</u>
<b>Other Finance Sources (Uses)</b>				
Other finance sources	\$ 3,559,400	\$ 3,774,600	\$ 3,690,160	\$ (84,440)
Other finance uses	-	-	-	-
Total other finance sources (uses)	<u>\$ 3,559,400</u>	<u>\$ 3,774,600</u>	<u>\$ 3,690,160</u>	<u>\$ (84,440)</u>
Excess of revenues and other finance sources over expenditures and other finance uses	<u>\$ -</u>	<u>\$ -</u>	\$ 3,331	<u>\$ 3,331</u>
Request to pay prior year bills from 2010 budget			-	
Compensated absences year-end accrual			<u>(3,331)</u>	
Change in net assets per statement of revenues, expenses and changes in net assets (GAAP Basis)			<u>\$ -</u>	

State of New Mexico  
Department of Information Technology

**SCHEDULE OF SPECIAL APPROPRIATIONS**

June 30, 2009

Description	Authority	Appropriation Period	SHARE Fund
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
For staffing and operating expenses for the New Mexico Computing Applications Center	Laws of 2008 Ch 3 sec 5, item 38	2008-2009	20350
For assessment and feasibility study for redundancy of most critical information technology based services and applications	Laws of 2008 Ch 3 sec 7, item 13	2009-2010	20340
For computing applications center staffing and operating expenses	Laws of 2008 Ch 6 sec 9	2008-2009	20350
For payment to the federal government for overcharged technology services	Laws of 2009 Ch 124 sec 6, item 8	2008-2009	20330
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 staff and operations cost for the New Mexico computing applications center	Laws of 2009 Ch 124 sec 5, item 19	2009-2010	20350

<u>Total Appropriations/ Bond Proceeds</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Prior Year Reversion Amount</u>	<u>Current Year Reversion Amount</u>	<u>Outstanding Encumbrances</u>	<u>Unencumbered Balance</u>
\$ 5,000,000	\$ 4,781,856	\$ 218,144	\$ -	\$ -	\$ -	\$ -
5,000,000	4,924,927	72,446	-	-	-	2,627
4,800,000	187,733	350,000	-	-	-	4,262,267
2,000,000	726,730	451,724	-	-	-	821,546
1,500,000	75,355	160,272	-	-	-	1,264,373
2,555,000	-	2,541,294	-	13,706	-	-
250,000	-	83,124	-	-	-	166,876
300,000	-	296,100	-	3,900	-	-
<u>2,896,600</u>	<u>-</u>	<u>2,896,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 24,301,600</u>	<u>\$ 10,696,601</u>	<u>\$ 7,069,704</u>	<u>\$ -</u>	<u>\$ 17,606</u>	<u>\$ -</u>	<u>\$ 6,517,689</u>
\$ 14,000,000	\$ 11,059,200	\$ 328,199	\$ -	\$ -	\$ -	\$ 2,612,601
<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
<u>\$ 17,000,000</u>	<u>\$ 11,059,200</u>	<u>\$ 328,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,612,601</u>

State of New Mexico  
Department of Information Technology

**MEMORANDUMS OF UNDERSTANDING**

For the year ended June 30, 2009

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: \$328,199

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

Participants: Department of Finance and Administration, University of New Mexico, New Mexico Computing Applications Center

Party responsible for operation: New Mexico Computing Applications Center

Purpose: Development of the New Mexico Computing Applications Center

Date of agreement: September 19, 2008 – Term effective unless terminated

Total estimated amount of project: \$5,855,000

Amount agency contributed during this fiscal year: \$296,100

Audit responsibility: Department of Information and Technology

Fiscal agent: Department of Information and Technology and University of New Mexico

Agency where revenues/expenditures are reported: Pass-through revenue/expenditures by 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 other special revenue funds, of the Department of Information Technology (the Department or DOIT), as of and for the year ended June 30, 2009, 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 presented as supplementary information as listed in the table of contents.

We have issued our report thereon dated November 2, 2009 which has qualified because we could not satisfy ourselves about capital asset existence and valuation and the corresponding depreciation and the existence and accuracy of accounts receivable and corresponding revenue. 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 or 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, 08-08, 08-09, 09-01, and 09-03.

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.

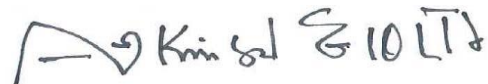
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 08-07, 08-09, and 09-01.

We noted certain matters that are required to be reported under *Government Auditing Standards*, paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings 08-03, 08-06, and 09-02.

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  
November 2, 2009

**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2009

**RESOLUTION OF PRIOR YEAR FINDINGS**

**Financial statement findings required by *Government Auditing Standards***

- 08-01 Capital Assets Not Inventoried; Not Properly Tracked (Material Weakness) - repeated and modified
- 08-02 Accounts Receivable Reconciliation (Material Weakness) - repeated and modified
- 08-04 Late Submission of Audit Report (Significant Deficiency) - resolved
- 08-05 Cell Phone Policy Testing - resolved
- 08-07 Information Technology Documented Policies - repeated
- 08-08 Unbilled Receivables for Telephone Usage (Significant Deficiency) - repeated and modified
- 08-09 Internal Procurement Policies and Procedures (Significant Deficiency) - repeated and modified

**Findings required by 2.2.2 NMAC**

- 08-03 Budget Overspending - repeated and modified
- 08-06 Cash Receipts - repeated and modified

**CURRENT YEAR AUDIT FINDINGS**

**Financial statement findings required by *Government Auditing Standards***

- 09-01 Procurement Violation Software AG, Inc. (Significant Deficiency)
- 09-03 Segregations of Duties - Accounts Payable (Significant Deficiency)

**Findings required by 2.2.2 NMAC**

- 09-02 Performance Evaluation

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**09-01 Procurement Violation Software AG, Inc. (Significant Deficiency)**

Condition

During our procurement testwork of 40 disbursements we noted Software AG USA, Inc. (Software AG) continued to provide software maintenance services without a properly executed contract in place. The services were provided from September 7, 2008 through December 31, 2008 and Software AG billed the Department \$115,928 for software maintenance services rendered. (\$38,643 per month for 3 months). The contract with Software AG expired on September 6, 2008.

In addition, we noted no purchase order was initiated for services rendered between July 1, 2008 and September 6, 2008. AG Software billed the Department \$115,928 for software maintenance services rendered between July 1, 2008 and September 6, 2008. (\$38,643 per month for 6 months).

Criteria

13-1-95(c) NMSA 1978 requires all procurement not otherwise excepted by the code be conducted by the state purchasing division and the state purchasing agent. NMAC 1.4.11 specifies required procedures for procurement. These policies and procedures mandate the use of purchase orders and contracts for procurement.

Effect

Procurement violations significantly delay payments to vendors who provided vital services in good faith. Vendors who are not contractually obligated to provide these services could elect to not provide these services due to nonpayment. In addition, public money is at risk if services are procured without valid contracts in place. Lack of a valid contract in place could lead to contractor overbillings, billings for services not rendered, billing for an unfair amount, or billing for services not needed.

Cause

The Department's intention was to cancel software maintenance services with the Software AG; however, the intention was not communicated effectively or timely to Software AG who continued to provide the services. Additionally, Software AG did not contact the Department about contract coverage.

Recommendation

We recommend a member of the Enterprise Service maintain a contract log that details the term of each contract by vendor. We recommend a member of upper management in the Administrative Services Division review the contract log monthly for contracts set to expire in the following month to ensure that contracts are renewed or terminated in a timely manner. We further recommend terminations of contract be communicated to vendors in writing and copies of these communications be maintained.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**09-01 Procurement Violation Software AG, Inc. (Significant Deficiency) - Continued**

Management's Response

Management concurs with the finding and the recommendation. The Department will implement the recommendations in addition will review and update policy and procedures related to contracts and ensure Department staff is properly trained for this function.

**09-02-Performance Evaluation**

Condition

The Department did not provide a timely performance evaluation on one employee in our test sample of forty.

Criteria

Performance appraisals shall be completed on at least an annual basis per 1.7.9.9 B NMAC by the employee's anniversary date.

Cause

The performance appraisal was not completed due to oversight.

Effect

Career employees are not receiving timely performance feedback, which relates to increased quality performance benefits for both the employee and the Department.

Recommendation

The performance appraisal should be completed and the evaluation schedule reaffirmed.

Management's Response

Management agrees with the finding and the HR Bureau will enhance the tracking document tool, will notify supervisors monthly of status and upcoming performance appraisal(s) due for employees, will establish deadlines, and will notify managers of non compliance following the chain of command.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**09-03 Segregation of Duties - Accounts Payable (Significant Deficiency)**

Condition

During our walkthroughs of internal controls over cash disbursements, we noted the approval of invoices for 13 vendors out of 40 were not properly segregated from the processing and payments of invoices to vendors. The accounts payable department both approves and processes invoices for payments for the following vendors:

Vendor	Annual Purchases
AT&T	\$ 5,831
Centuryel	\$ 13,164
Enmr	\$ 418,870
Frontier	\$ 27,098
La Jicarita	\$ 37,176
Leaco	\$ 44,760
Plateu Wireless	\$ 1,216
Qwest	\$ 8,399,649
Roosevelt County	\$ 2,291
Tularosa	\$ 64,123
Verizon	\$ 1,825,655
Western NM	\$ 35,936
Windstream	\$ 415,583

Criteria

The Department's internal policy Accounts Payable Policy and Procedures Manual A, (1) requires the individual department administrator's to approve invoices for payment prior to the submission to the accounts payable department for processing.

Effect

Lack of segregation of duties could result in procurement violations, unauthorized payments to vendors, contractor overbillings, or fraudulent payments to vendors.

Cause

Responsibility for approval is not effectively communicated. As such the accounts payable approves the invoice on the invoice summary form and processes the invoice for payment.

Recommendation

We recommend top-level management reinforce internal policies to each department administrator.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**09-03 Segregation of Duties - Accounts Payable (Significant Deficiency) – Continued**

Management's Response

Management agrees with the recommendation and will ensure that individual department administrator's are trained and adhere to the established internal policy. In addition, we will immediately implement controls to address the segregation of duties.

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

Condition

\$72,798,352 of capital assets previously reported and managed by other agencies and consolidated in the Departments telecommunications fund (SHARE 20310) 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 and update them periodically. DOIT should implement a policy to provide ongoing compliance with 12-6-10 NMCA 1978.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**08-01 Capital Assets Not Inventoried; Not Properly Tracked (Material Weakness) – Continued**

*Management's Response*

Management agrees with the finding. Due to the enormous listing received from GSD, the agency was unable to adequately inventory all the assets listed. A plan has been developed to inventory the remaining assets specific to telecommunications. DOIT implemented policy and procedures to manage more effectively its capital assets and has conducted inventories for its Information Technology Assets and Radio Assets during fiscal year 2009. The plan developed will require the consolidated effort from DOIT staff.

**08-02 Accounts Receivable Reconciliation (Material Weakness)**

*Condition*

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

*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. External auditors could not satisfy themselves regarding accounts receivable resulting in a qualified opinion.

*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.



**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**08-02 Accounts Receivable Reconciliation (Material Weakness) – Continued**

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 and periodic reconciliations of accounts receivable to avoid extensive reconciliations at year-end.

Management's Response

Management agrees with the finding. General Ledger staff will conduct a training to all AR staff on developing and performing a monthly reconciliation between its subsidiary system(s) and SHARE and include the development of a monthly checklist to ensure all transactions are posted timely. AR will follow the procedures established by General Ledger Bureau who will review reconciliations, approve adjustments, and provide feedback as necessary.

**08-03 Budget Overspending**

Condition

DOIT over expended its budget in the following funds:

Fund Description	Fund Number	Appropriation Unit Level	Overage Amount
Central Telephone Service	20310	Personal services	\$ 83,983
Information Mgt. Technology Office	20370	Personal services	\$ 14,843

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.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**08-03 Budget Overspending – Continued**

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.

Management's Response

Management agrees with the finding and the recommendation. The Department will implement budget procedures to ensure accounting and HR functions are considered, and routine monthly reviews conducted. In addition, the Department will ensure all staff performing a budget function are properly trained.

**08-06 Cash Receipts**

Condition

During testing of 40 cash receipts, there were thirteen cash receipts where the date received stamp was missing.

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

By not properly stamping the warrants upon receipt, it was not possible to determine that the cash was timely deposited.

Cause

Upon receiving the warrants, DOIT did not ensure that a portion of the warrants were properly stamped.

Recommendation

DOIT should ensure that when processing the cash receipts, the proper documentation is recorded on the warrant. Reemphasis of required procedures should be made.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**08-06 Cash Receipts – Continued**

Management's Response

Management agrees with the finding and will evaluate and modify the procedures as necessary.

**08-07 Information Technology Documented Policies**

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, 2009.

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 implementing new policies and will review and update existing policies.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2009

**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 \$346,026.

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, 2009

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

Condition

17 out of 40 disbursements tested did not follow internal procurement policy and procedures requirements. Instances of noncompliance included lack of appropriate approvals evidenced on the form. In addition we noted 3 instances in which payment was made to the following vendors without sufficient supporting documentation.

Vendor	Annual Purchases
HEI	\$ 101,115
Inx	\$ 1,048,269
Altura	\$ 1,934,192

Criteria

The Department's internal policy, *Accounts Payable Policy and Procedures Manual A*, (1), requires the individual department administrator's to approve invoices for payment prior to the submission to the accounts payable department for processing. In addition the policy specifies what is considered sufficient supporting documentation.

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 responsible departments 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 and will ensure the *Accounts Payable Policy and Procedures Manual* is reemphasized to the responsible departments. In addition, ASD will provide the training necessary and work with the responsible departments to ensure all requests for payments are properly authorized and supported. For the vendors listed above the agency will work with the vendor to obtain data electronically to support requests for payments.

State of New Mexico  
Department of Information Technology

**FINANCIAL STATEMENT PREPARATION**

June 30, 2009

The financial statements were prepared by the independent certified public accounting firm 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 November 2, 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

Thomas McQuillan, Deputy Secretary for Enterprise Operations

Charles Martinez, Chief Financial Officer

JoAnn Duran, Bureau Chief

Douglas Taylor, CPA, Financial Coordinator

**Independent Auditor – Atkinson & Co., Ltd.**

Martin Mathisen, CPA, Audit Director

Morgan Browning, CPA, Audit Senior

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