STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Financial Statements and Schedules
With Independent Auditor's Report

For Fiscal Year Ended June 30, 2011.

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OFFICE OF THE SECRETARY OF STATE

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STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Official Roster

June 30, 2011

Name	Title
Dianna J. Duran	Secretary of State
Mary Quintana	Deputy Secretary of State
Ken Ortiz	Chief of Staff
Ellie Ortiz	Director of Finance and Administration

INDEPENDENT AUDITOR'S REPORT

Mr. Hector H. Balderas
New Mexico State Auditor
and
Ms. Dianna J. Duran
New Mexico Secretary of State

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons for the general funds and major special revenue funds of the State of New Mexico, Office of the Secretary of State (Office) as of and for the year ended June 30, 2011, which collectively comprise the Office's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Office's non-major governmental fund as of and for the year ended June 30, 2011 as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Office of the Secretary of State are intended to present the financial position and changes in financial position of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the entire state of New Mexico as of June 30, 2011 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Secretary of State, as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the general funds and the 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 present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Office as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

The Management's Discussion and Analysis on pages 3 to 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally 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 individual fund financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information have 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.

Zlotnick, Laws & Sandoval, P.C

Zlotnick, Laws & Sandoval PC
November 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2011

Management's discussion and analysis (MDA) of the Office of the Secretary of State is designed to assist the reader in focusing on significant issues, providing an overview of the Office's financial activity, and identifying changes in the Office's financial position for the fiscal year ended June 30, 2011.

This discussion and analysis is designed to focus on current fiscal year activities.

FINANCIAL HIGHLIGHTS
The Office of the Secretary of State's assets exceeded liabilities at the close of the 2011 fiscal year (June 30, 2011) by $2,726,491 (net assets) compared to $8,137,693 at June 30, 2010. The decrease in net assets was primarily due to of $4,149,502 of depreciation of capital assets. The Office of the Secretary of State receives its revenues from general fund appropriations and federal revenue from the Help America Vote Act (HAVA). Federal funding under HAVA has been significantly reduced, and is no longer available for many of the types of assets previously purchased using HAVA funds, such as voting systems.

OVERVIEW OF THE FINANCIAL STATEMENTS
The financial statements have three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains supplementary information as listed in the table of contents.

Government-Wide Financial Statements
Government-wide financial statements report information about the Office of the Secretary of State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the agency's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Fund Financial Statements
The fund financial statements provide more detailed information about the Office of the Secretary of State's most significant funds. Funds are accounting devices that the Office of the Secretary of State uses to keep track of specific sources of funding and spending for particular purposes. The Office of the Secretary of State has three major funds and one non-major fund.

The Office of the Secretary of State has the following funds:

- Governmental funds - Most of the Office of the Secretary of State's basic services are included in governmental funds, which focus on how cash and other financial assets that can be easily converted to cash and the (nonreverting) balances left at year-end that are available for spending.
- Fiduciary funds - The Office of the Secretary of State maintains one fund to account for monies held on behalf of others. The fund is purely custodial in nature and is not included as a measurement of the results of operations.

Condensed Financial Information

Statement of Net Assets

Assets	2011	2010	Change
Current assets	$ 3,330,639	4,917,565	(1,586,926)
Capital assets	1,564,854	4,860,068	(3,295,214)
Total assets	4,895,493	9,777,633	(4,882,140)
Liabilities			
Current liabilities	1,125,700	977,935	147,765
Long-term liabilities	1,043,302	662,005	381,297
Total liabilities	2,169,002	1,639,940	529,062
Net Assets			
Invested in capital assets	1,564,854	4,860,068	(3,295,214)
Restricted	2,257,165	4,042,568	(1,785,403)
Unrestricted deficit	(1,095,528)	(764,943)	(330,585)
Total net assets	$ 2,726,491	8,137,693	(5,411,202)

Statement of Activities

Revenues	2011	2010	Change
Program revenues	$ 120,352	1,333,249	(1,212,897)
General revenue, net of transfers	7,087,571	6,308,775	778,796
	7,207,923	7,642,024	(434,101)
Expenses			
Program expenses	12,619,125	10,051,310	2,567,815
Change in net assets	(5,411,202)	(2,409,286)	(3,001,916)
Net assets, beginning of year	8,137,693	10,546,979	(2,409,286)
Net assets, end of year	$ 2,726,491	8,137,693	(5,411,202)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2011

Financial Highlights

The financial position and results from operation for the Office of the Secretary of State during the year ended June 30, 2011 are detailed above. Total assets at June 30, 2011, were $4,895,493, including Interest in State General Fund Investment Pool of $3,306,197, due from other state agencies of $192, supply and postage inventory of $24,250 and capital assets of $1,564,854, net of accumulated depreciation of $19,790,004. Total liabilities were $2,169,002, including current liabilities of $1,125,700 and long-term liabilities of $1,043,302. Net assets include unrestricted net assets of ($1,095,258), restricted net assets of $2,257,165 and capital assets investments of $1,564,854.

Total revenues for the year ended June 30, 2011 were $7,207,923**.** This included $5,332,152 from general revenue, net of reversion, loan payment and prior year advances to the HAVA fund, revenue of $1,749,951 from other financing sources, $5,468 in interest income and program revenue of $120,352. Total expenditures were $12,619,125. The total change in net assets for the year was a decrease of $5,411,202, resulting in a net asset balance of $2,726,491 as of June 30, 2011. The amount due to the State General Fund was $275,964, which represents $41,916 from regular, special and deficiency appropriations in fiscal year 2011, a prior year reversion of $70,166 and $163,882, which represents advances to the HAVA fund.

Total fund equity was $2,281,415, which includes $24,250 for supply and postage inventory, $2,151,162 from the restricted public election fund, $75,749 from the restricted HAVA grant, and $30,254 from the arbitration fund. Special revenue funds, including the public election fund, the HAVA grant and the non-major arbitration fund are nonreverting funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Office of the Secretary of State is responsible for monitoring and maintaining the notary fund. The fund is not an operating fund but is purely custodial and thus does not involve a measurement of results of operations. The fund is deposited into the State general fund.

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the Office of the Secretary of State. Budget adjustments require approval by the New Mexico Department of Finance and Administration. These budget adjustments fall into the following three categories:

- Amendments approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Budget adjustment requests that increase or decrease other State funds based on actual revenues.
- Increases or reallocations of appropriations to prevent budget overruns.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2011

In fiscal year 2011, the Office of the Secretary of State requested an $11.5 million operating budget and was appropriated $4.5 million after an additional budget reduction. In Laws 2010, the Office of the Secretary of State received a $1 million special appropriation for use in fiscal year 2011 for election related expenses. The Laws of 2011 also included a $300 thousand supplemental appropriation for the same purpose.

In January 2011, a new administration entered office and learned that the previous administration terminated its voter registration election management system (VREMS) maintenance and support agreement. Additionally, $575,000 in past due payments related to county operation of VREMS was owed to the vendor as a result of an omission in that contract. The past due payments had accumulated over a three year period. The new administration negotiated a lesser amount owed for VREMS maintenance and support; its budget could not absorb the expense. It requested and received a loan from Board of Finance in the amount of $466,146.44.

General fund revenue, inclusive of all General Appropriation Act revenues and Board of Finance loans for fiscal year 2011 totaled $6,254,046.

Capital Assets

The Office of the Secretary of State net capital assets for the year ended June 30, 2011 were $1,564,854, including voting systems, furniture and equipment.

It appears that the prior administration did not maintain a comprehensive listing of capital assets. The agency worked with its current auditor to obtain the asset list used by the previous auditor when it prepared the fiscal year 2010 financial statements. While the prior auditor's list of furniture and equipment included identification numbers for each item, staff was unable to locate any identification tags on any furniture and equipment in the office. Staff has since tagged and inventoried the furniture and equipment and will maintain an up-to-date list, as well as verify inventory annually.

The voting system assets list, also obtained from the previous auditor, contained $19.3 million of voting system assets. This list referenced identification numbers for $8.3 million of voting systems, however the remaining $11 million of voting systems were not listed. The lack of identification numbers on 57 percent of the voting systems was a significant concern to the new administration. It located an inventory list of voting systems that appeared to have been generated by one of the agency's vendors. While that list reflected all the assets, it was dated March 2009, more than two years old. The agency will work with county clerks, who are responsible for storing the state-owned systems, to develop an accurate inventory list.

Long Term Liabilities

The Office of the Secretary of State's long-term debt consists primarily of outstanding Board of Finance loans totaling $1.1 million. Repayment of the loans will require additional general fund appropriations or conversion of the loans into grants.

Agency Highlights

There was an administration change in the middle of fiscal year 2011. The new administration encountered issues of great concern related to agency financials and governance. Within the first sixty days of her administration, Secretary of State Dianna J. Duran scheduled a meeting with the State Auditor to make him aware of those concerns. The incoming administration also reviewed prior year agency audit reports and noted that no findings had been issued. The agency chose to contract with a neutral third-party independent public accountant that could provide a thorough audit of the agency's financials and internal controls. The new administration's objective is to ensure that all financial and management issues are fully and completely addressed and the agency is fully compliant with state and federal directives.

The list below summarizes some of the issues the administration has either addressed or is addressing.

- The Department of Finance and Administration (DFA) informed the agency of uncollected balances dating as far back as fiscal year 2007. According to DFA, amounts owed to it by the Secretary of State included travel advances that occurred in fiscal years 2007 through 2010. In June 2011, the agency paid the amount owed and the issue is resolved.
- Between April 2008 and June 2010, the agency requested and received six Board of Finance (BOF) loans totaling $1.5 million. The first loan the agency requested was for 2008 primary election expenses. Although the agency received a $550.1 thousand loan in April 2008, it never expended the funds. In the latter half of fiscal year 2011, the unspent funds were transferred back to the Board of Finance, subsequently reducing its outstanding loan balance to $1.1 million.
- The previous administration terminated its voter registration election management system (VREMS) maintenance and support agreement and over a three year period accumulated $575,000 of past due payments for VREMS. The new administration negotiated down the amount owed on VREMS and turned to Board of Finance for a $466,146.44 loan.
- Equipment has been inventoried and an inventory list is maintained.
- The agency is working with the county clerks, who are responsible for storing the state-owned systems, to develop an accurate voting system inventory list.

- The current administration is working with county clerks to reduce the costs of election supplies. This includes making certain election materials available electronically for county clerks' offices to print as needed and eliminating outdated forms. Additionally, the agency is seeking ways to reduce the printing costs of voter registration forms.
- Up until 2007 the agency drew down reimbursements on its valid HAVA disability expenditures. Because grant awards expire after five years and draw downs were not made between 2007 and 2010 a $100,000 grant, likely the 2005 award, was lost. In 2011, the current administration drew down all remaining eligible federal funds but because a $100,000 grant expired there was not sufficient grant money to cover $36,000 in expenditures made by the prior administration.
- The administration has conducted a review of all campaign reporting practices. It determined that many candidates from prior elections still had open accounts in the on-line reporting system. Those candidates were contacted and outdated accounts have been closed. Many candidates and political action committees (PAC) had not filed any number of required reports for the 2010 Primary and General election cycles, as well as for prior years. Those candidates and PACs have been contacted and required to bring their campaign reports current. Improvements have been made to the Campaign Reporting Information System to include electronic signatures, electronic filing by lobbyists and lobbyists employers, and correction of a number of deficiencies in the system's software. Electronic filing of reports by lobbyists will improve transparency and result in cost savings to the agency.

Requests for Information

This financial report is designed to provide a general overview of the Office of the Secretary of State's finances for all those with an interest in the Office of the Secretary of State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Secretary of State, 325 Don Gaspar, Suite 300, Santa Fe, New Mexico 87501.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Statement of Net Assets
June 30, 2011

		Governmental Activities
ASSETS		
Investment in SGFIP	$	3,306,197
Due from other state agencies		192
Supplies inventory		24,250
Capital assets, net		1,564,854
Total assets	$	4,895,493
LIABILITIES		
Accounts payable	$	557,637
Loans payable - current		86,069
Accrued payroll		127,934
Due to state general fund		275,964
Compensated absences - current		76,476
Other liabilities		1,620
Compensated absences - noncurrent		26,953
Loans payable - noncurrent		1,016,349
Total liabilities		2,169,002
NET ASSETS		
Invested in Capital Assets		1,564,854
Restricted for public election fund		2,151,162
Restricted for HAVA program		75,749
Restricted for arbitration fund		30,254
Unrestricted (deficit)		(1,095,528)
Total net assets	$	2,726,491

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Statement of Activities
For the Year Ended June 30, 2011

		Governmental Activities
Expenses:		
Executive:		
Administrative services	$	2,856,568
Elections program		2,406,637
2010 general election		3,206,418
Depreciation		4,149,502
Total expenses		12,619,125
Program Revenues:		
Miscellaneous income		16,414
Federal grants - operating		103,938
Total program revenues		120,352
Net program expenses		(12,498,773)
General Revenues and Transfers:		
General fund appropriation		5,787,900
Other financing sources		1,749,951
Interest income		5,468
Loan payments		(86,069)
Other financing uses		(163,882)
FY11 Reversion to state general fund		(205,797)
Total general revenues and transfers		7,087,571
Change in net assets		(5,411,202)
Net assets at beginning of year		8,137,693
Net assets at end of year	$	2,726,491

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

FUND FINANCIAL STATEMENTS

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Balance Sheet -- Governmental Funds
June 30, 2011

	Major Funds			Non-Major	
	General Fund (18000)	Public Election Fund (81200)	HAVA Fund (90300)	Arbitration Fund (02500)	Total Governmental Funds
ASSETS					
Investment in SGFIP	$ 866,669	$2,174,576	$234,701	$ 30,251	$ 3,306,197
Due from other funds	163,882	597	4,930	-	169,409
Due from other state agencies	-	189	-	3	192
Supplies inventory	24,250	-	-	-	24,250
Total assets	$1,054,801	$2,175,362	$239,631	$ 30,254	$ 3,500,048
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 557,637	$ -	$ -	$ -	$ 557,637
Accrued payroll	127,934	-	-	-	127,934
Loans payable to Board of Finance	86,069	-	-	-	86,069
Due to other funds	5,527	-	163,882	-	169,409
Due to State General Fund	251,764	24,200	-	-	275,964
Other liabilities	1,620	-	-	-	1,620
Total liabilities	1,030,551	24,200	163,882	-	1,218,633
Fund Balances:					
Nonspendable	24,250	-	-	-	24,250
Restricted:					
Public election fund	-	2,151,162	-	-	2,151,162
HAVA program	-	-	75,749	-	75,749
Arbitration fund	-	-	-	30,254	30,254
Total fund balances	24,250	2,151,162	75,749	30,254	2,281,415
Total liabilities and fund balances	$1,054,801	$2,175,362	$239,631	$ 30,254	$ 3,500,048

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total fund balances of governmental funds		$ 2,281,415
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of the following:		
Voting systems under the care and custody of the Counties	$ 19,268,330	
Computer equipment	2,086,528	
Accumulated depreciation	(19,790,004)	
Total capital assets		1,564,854
Some liabilities are not due and payable in the current period, and therefore are not reported in the funds. These liabilities consist of the following:		
Board of Finance loans		(1,016,349)
Compensated absences		(103,429)
Net Assets of Governmental Activities		$ 2,726,491

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Statement of Revenues, Expenditures and Changes in Fund Balances -- Governmental Funds
June 30, 2011

	Major Funds			Non-Major	
	General Fund (18000)	Public Election Fund (81200)	HAVA Fund (90300)	Arbitration Fund (02500)	Total Governmental Funds
REVENUES					
Miscellaneous income	$ 13,290	$ 3,123	$ -	$ 1	$ 16,414
Federal grants - operating	-	-	103,938	-	103,938
Interest income	-	4,158	1,255	55	5,468
Total revenues	13,290	7,281	105,193	56	125,820
EXPENDITURES					
Current:					
Personal services and benefits	2,343,845	-	-	-	2,343,845
Contractual services	1,215,938	-	369,698	-	1,585,636
Other costs	2,523,688	1,911,633	130,062	-	4,565,383
Capital Outlay	31,631	-	822,657	-	854,288
Total expenditures	6,115,102	1,911,633	1,322,417	-	9,349,152
Excess (deficiency) of revenues over expenditures	(6,101,812)	(1,904,352)	(1,217,224)	56	(9,223,332)
OTHER FINANCING SOURCES (USES)					
General fund appropriation	5,787,900	-	-	-	5,787,900
Other financing sources (uses)	630,028	1,500,000	(163,882)	-	1,966,146
Loan payments	(86,069)	-	-	-	(86,069)
Reversion - FY11	(205,797)	-	-	-	(205,797)
Total other financing sources (uses)	6,126,062	1,500,000	(163,882)	-	7,462,180
Net change in fund balances	24,250	(404,352)	(1,381,106)	56	(1,761,152)
Fund balances at beginning of year	-	2,555,514	1,456,855	30,198	4,042,567
Fund balances at end of year	$ 24,250	$ 2,151,162	$ 75,749	$ 30,254	$ 2,281,415

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net Change in fund balances - total governmental funds		$ (1,761,152)
Amounts reported for governmental activities in the statement of activities are different because:		
Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or are allocated over their estimated useful lives. In the current period these amounts are:		
Capital outlay	$ 854,288	
Depreciation expense	(4,149,502)	
Excess of depreciation expense over capital outlay		(3,295,214)
Net increase in long-term loans from Board of Finance		(380,077)
Expenses recognized in the Statement of Activities, not reported in governmental funds:		
(Increase) decrease in compensated absences		25,241
Change in Net Assets of Governmental Activities		$ (5,411,202)

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	General Fund (18000)			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Miscellaneous income	$ -	$ -	$ 13,290	$ 13,290
General fund appropriation	5,751,200	5,751,200	5,787,900	36,700
Other financing sources	-	-	163,882	163,882
Board of Finance short-term loan	-	466,146	466,146	-
Total revenues	5,751,200	6,217,346	6,431,218	213,872
EXPENDITURES				
Administrative Services:				
Personal services & benefits	2,548,800	2,360,800	2,343,092	17,708
Contractual services	569,900	1,111,546	1,073,739	37,807
Other costs	237,000	349,500	343,541	5,959
Elections program	1,095,500	1,095,500	1,084,195	11,305
2010 general election	1,300,000	1,300,000	1,294,785	5,215
Total expenditures	$5,751,200	$6,217,346	6,139,352	$ 77,994
Excess of revenue and other financing sources over expenditures and transfers			291,866	
Less loan payment to Board of Finance			(86,069)	
Less reversion FY11			(205,797)	
Add supplies inventory			24,250	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			$ 24,250	

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

Public Election Fund (81200)

	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Miscellaneous income	$450,000	$ 450,000	$ 3,123	$ (446,877)
Interest income	-		4,158	4,158
Other financing sources	-		1,500,000	1,500,000
Total revenues	450,000	450,000	1,507,281	1,057,281
Fund balance		1,912,000	1,912,000	
Total resources		2,362,000	3,419,281	
EXPENDITURES				
2010 general election:				
Other Costs	450,000	2,362,000	1,911,633	450,367
Total expenditures	$450,000	$2,362,000	1,911,633	$ 450,367
Excess of revenue and other financing sources over expenditures and transfers			1,507,648	
Less prior year fund balances not revenue for GAAP purposes			(1,912,000)	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			$ (404,352)	

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	HAVA Fund (90300)			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Federal grants - operating	$ -	$ 1,331,235	$ 103,938	$ (1,227,297)
Interest income	-	-	1,255	1,255
Total revenues	-	1,331,235	105,193	(1,226,042)
Fund balance		106,363	106,363	
Total revenues (budgetary basis)		1,437,598	211,556	
EXPENDITURES				
Elections program:				
Contractual Services	-	1,116,755	1,020,035	96,720
Other Costs	-	320,843	302,382	18,461
Other Financing Uses	-	-	163,882	(163,882)
Total expenditures	$ -	$ 1,437,598	1,486,299	$ (48,701)
Excess of revenue and other financing sources over expenditures and transfers			(1,274,743)	
Less prior year fund balances not revenue for GAAP purposes			(106,363)	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			$(1,381,106)	

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

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Statement of Fiduciary Assets and Liabilities - Agency Fund (79900)
June 30, 2011

	AGENCY FUND
ASSETS	
Investment in State general fund pool	$ 747,696
Total	$ 747,696
LIABILITIES	
Due to State general fund	$ 747,696

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

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

In accordance with the constitution and laws of the State of New Mexico, the Office of the Secretary of State (the Office) shall supervise, administer and furnish supplies for elections; publish the statistical Blue Book; act as depository for legislative records; supervise the publication of Session Laws; record and file all public official bonds, oaths and executive names and trademarks; commission notaries public; serve as statutory agent for services of process for non-resident motorists and foreign corporations; publish the Election Code and State Constitution with amendments; file musical copyrights; handle trading stamp registrations; administer Uniform Commercial Code, etc.; file instruments for Public Utilities and Railroads; furnish and file forms relating to the Conflict of Interest Act; and administer the Lobby Registration Act.

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

A primary government is any state government or general purpose local government and the organization that make up its legal entity. The Office is not included in any other governmental "reporting entity" as defined by GASB. The Secretary is elected by the public and has decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Criteria for determining the entity for financial reporting purposes are whether the governing body exercises oversight responsibility. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The financial statements include all the fund and account groups of the Office over which the Secretary exercises operational control. The Office has no blended or discretely presented component units.

The Secretary of State is a component unit of the State and these financial statements include all funds and activities over which the Secretary of State has oversight responsibility.

The financial statements of the Office of the Secretary of State have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Accounting- GASB Statement No. 34

The basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as governmental activities.

Government-Wide Financial Statements
The statement of net assets and the statement of activities display information about the Office, the primary government, as a whole, without displaying individual funds or fund types. Generally, these statements distinguish between activities that are governmental and those that are considered business-type activities. The Office has no business-type activities; therefore these statements only reflect governmental activities. Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

The government-wide statements are prepared using the "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. Grants revenue is recorded when all applicable eligibility or reimbursement requirements are met.

B. Basis of Presentation - Fund Accounting

Fund Financial Statements
The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days in order to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

The Office's fiduciary fund (agency fund) is presented in the fund financial statements. The agency fund is presented on the accrual basis of accounting. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide financial statements.

The accounts of the Office are organized on a fund basis, 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 equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which spending activities are controlled. The Office's three major governmental funds are as follows:

Governmental Funds

General Fund – the general fund is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. Any unexpended balance remaining in the General Fund at the end of the fiscal year reverts to the General Fund of the State of New Mexico. The SHARE fund number is #18000.

Special Revenue Funds

Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes. No expenditures can be made from special revenue funds for operations of the Office. Unexpended amounts at year end are restricted for future program expenditures in the statement of net assets.

Public Election Fund (SHARE 81200) - The public election fund is funded through State appropriations and was established by legislation at 1-19A-10 NMSA for the purposes of:

a. Financing the campaigns of certified candidates for covered offices;
b. Paying administrative and enforcement costs of the Voter Action Act (1-19A-1 to 1-19A-17 NMSA 1978); and
c. Carrying out all other specified provisions of the Voter Action Act.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

This is a non-reverting fund. The fund receives certain fee income from inspection and supervision fees pursuant to 62-8-8 NMSA 1978, utility and carrier inspection fees pursuant to 63-7-20 NMSA 1978, and insurance premium tax pursuant to 59A-6-2 NMSA 1978. See 1-19A-10D NMSA 1978.

Help America Vote Act Fund (HAVA) (SHARE 90300) - The HAVA fund is used to account for the Federal funds received relating to the Help America Vote Act. Federal funds received in advance are recognized as deferred revenue. Revenue is recorded when the expenditure is incurred, using the modified accrual basis of accounting. The HAVA fund also receives state funds pursuant to federal matching requirements. This is a non-reverting fund, restricted to specific purposes by the Help America Vote Act.

The Office's non-major special revenue fund is as follows:

Arbitration Fund (SHARE 02500) - Chapter 112 Laws 1997 - An arbitration hearing shall be conducted by a single arbitrator selected within ten days by the person against whom the penalty has been imposed from a list of five arbitrators provided by the Secretary of State. Neither the Secretary of State nor a person subject to the Lobbyist Regulation Act, Campaign Reporting Act, or Financial Disclosure Act may serve as an arbitrator. Arbitrators shall be considered to be independent contractors, not public officers or employees, and shall not be paid per diem or mileage. This is a non-reverting fund. This is a non-budgeted fund for fiscal year ending 2011.

Fiduciary Funds

Fiduciary Fund Type (SHARE 79900) - for Notary Public and other fees, an agency fund is used to report assets held for others that are not available to support office activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is used to collect various fees under 8-4-4 NMSA 1978 that are remitted to the State general fund.

C. Assets, Liabilities and Equity

Cash in Bank
The Office's bank account is used to deposit fees collected by the office; this account is swept nightly by the State Treasurer's Office.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity (continued)

Receivables
All receivables are fully collectible.

Supplies Inventory
Supplies inventory consists of non-resale paper, postage and office supplies. The Office uses the purchases method to account for its inventory. At year end, the Office had a net increase of $24,250 to its supplies inventory.

Capital Assets
In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated assets which are recorded at their estimated fair value at the date of donation. Capital assets with a value exceeding $5,000 are capitalized and depreciated. Assets purchased before 2006 were capitalized if cost exceeded $1,000. Capital assets acquired in the current year in the governmental funds are recorded as capital outlay expenditures in the governmental fund financial statements.

Capital assets of the Office are depreciated on the straight-line method over the estimated useful life of three years for computer equipment, and over five years for voting systems under the care and custody of the Counties.

Long-term Liabilities

Compensated Absences

The Office's policies regarding annual leave permits employees to accumulate earned but unused annual leave. The liability for these compensated absences is recorded as current and noncurrent liabilities in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources. Vacation and sick leave earned and not taken is cumulative; however, sick pay up to 600 hours is forfeited upon termination of State service and vacation time is limited to 240 hours. Sick leave accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50 percent of their hourly rate, Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. Historically, all compensated absences have been paid out of the general fund.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity (continued)

Equity

Government-Wide Statements
Equity is classified as net assets and displayed in three components:

i. *Invested in capital assets* consists of capital assets net of accumulated depreciation and reduced by any outstanding debt. The Office has no outstanding debt relating to capital assets.

ii. *Restricted net assets*, consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

iii. *Unrestricted net assets* are all other net assets that do not meet the definition of "restricted" or "invested in capital assets." The deficit reflected in the statement is caused primarily by outstanding loans from the Board of Finance and unfunded compensated absences at year end.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Office first uses restricted resources then unrestricted resources.

Fund Financial Statements
In the governmental fund financial statements the Office classifies fund balances into spendable and non-spendable classifications. The non-spendable classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The spendable classifications are as follows:

Restricted Fund Balances
In the governmental fund financial statements restrictions of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. The amount of net assets restricted due to enabling legislation at June 30, 2011 is summarized below:

Restricted for public election fund (18000)	$ 2,151,162
Restricted for HAVA program (90300)	75,749
Restricted for arbitration fund (02500)	30,254
Total	$ 2,257,165

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity (continued)

Committed fund balances
Committed fund balances consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Secretary of State through policy action). The Office has no committed fund balances as of June 30, 2011.

Assigned fund balances
Assigned fund balances consist of fund balances which are constrained by the government intent to be used for specific purposes, but are neither committed nor restricted. Intent can be expressed by (a) the governing body itself, or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Office has no assigned fund balances as of June 30, 2011.

Unassigned fund balances
Unassigned fund balances consist of all other fund balances which have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes within the general fund. The Office has no unassigned fund balances as of June 30, 2011. Generally, the policy of the Office is to first apply committed resources when an expense is incurred for purposes which have committed, assigned, or unassigned fund balances available for use.

D. Program Revenues

Program revenues include federal and state grants, charges for copies, other miscellaneous fees and interest income collected per statute designated for operations. Grant revenues are recognized when all eligibility requirements have been met.

E. Budgets and Budgetary Accounting

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

1. Prior to September 1, the Office submits to State Budget – Finance Control Division, Department of Finance and Administration (DFA), and the Legislative Finance Committee (LFC) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.

2. Following their budget hearings with the Office, the DFA and the LFC prepare their own budget recommendations to the legislature.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. <u>Budgets and Budgetary Accounting</u> (continued)

3. Budget hearings are then scheduled before the finance committee of the New Mexico House of representatives and senate. The final outcome of these hearings is incorporated into the general appropriations act.

4. The Office then submits, on or before May 1, an annual operating budget request to the state Budget division which reviews the request and subsequently approves the budget based upon the appropriations made by the legislature. The DFA approved operating budget becomes effective on July 1. All subsequent budget transfers and increases must be authorized by the Director of the State Budget Division

5. Budgetary control is exercised by the Office at the appropriations unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.

6. Legal budgetary control for expenditures and encumbrances is by category or line item.

7. The non-budgeted funds for the Office are the Arbitration and the Agency funds.

8. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30th or are multi-year appropriations.

F. <u>Use of Estimates</u>

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. <u>Inter-fund Activity</u>

Amounts due to and due from other funds were created because special revenue funds were used to pay for matching requirements that should have been paid by the general fund. Inter-fund receivables or payables at year end are netted as part of the reconciliation to the government-wide financial statements.

(2) INVESTMENTS, STATE TREASURER

Investments of the Office consist of its interest in the State general fund investment pool, which is managed by the New Mexico State Treasurer by statute. The fair value of the investments maintained at the New Mexico State Treasurer's Office at June 30, 2011 is as follows:

SHARE Fund No.	Fund Description	Fair Value
18000	General Fund	$ 866,669
81200	Public Election Fund	2,174,576
90300	HAVA Fund	234,701
02500	Arbitration Fund	30,251
	Total investment in SGFIP	$ 3,306,197

The Office did not have any other investments during the year. For additional GASB 40 disclosures, information related to the above investment pool, including interest rate risk, and credit risk, the reader should refer to the separate audit report of the New Mexico State Treasurer for the fiscal year ended June 30, 2011.

(3) DUE FROM / DUE TO

Due from in the Statement of Net Assets consists of grants and other receivables from external parties at year end.

The due to State General Fund in the Statement of Net Assets of $275,964 includes $163,882 for prior year advances to the HAVA fund (the Office is waiting for approval from the DFA to use this amount to reduce loans payable), $36,700 for current fiscal year reversion, $70,167 for prior year reversion and $5,215 of unexpended special and deficiency appropriations that will be remitted to the state general fund.

Due from/to other funds consist of inter-fund transfers in the fund financial statements as follows:

	Due To:	
	General Fund (18000)	HAVA Fund (90300)
Due From:		
HAVA Fund (903000)	$ 4,930	$ -0-
Public Election Fund (81200)	597	-0-
General Fund (18000)	-0-	163,882
Total	$ 5,527	$ 163,882

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Non-depreciable Assets:				
Computer equipment	$ -0-	$ 195,161	$ -0-	$ 195,161
Depreciable Assets:				
Computer equipment, software and furniture	1,232,240	659,127	-0-	$ 1,891,367
Voting systems under the care and custody of the Counties	19,268,330	-0-	-0-	19,268,330
Total capital asset	20,500,570	854,288		21,354,858
Less accumulated depreciation				
Computer equipment, software and furniture	(983,766)	(295,836)	-0-	(1,279,602)
Voting systems under the care and custody of the Counties	(14,656,736	(3,853,666)	-0-	(18,510,402)
Total accumulated depreciation	(15,640,502)	(4,149,502)	-0-	(19,790,004)
Net capital assets	$ 4,860,068	$ (3,295,214)	$ -0-	$ 1,564,854

Non-depreciable assets above represent computer servers purchased during the year that have not been placed in service as of year end.

Depreciation expense for the year ended June 30, 2011 was $4,149,502. The Office does not own any infrastructure assets as of June 30, 2011.

(5) CHANGES IN LONG-TERM OBLIGATION

The following is a summary of transactions for the compensated absences for the year ended June 30, 2011, which the general fund will pay in future years:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Annual leave	$ 99,315	$ 70,269	$ 71,751	$ 97,833
Sick leave	3,939	55,320	54,626	4,633
Compensatory leave	25,417	-0-	24,454	963
Total	$ 128,671	$ 125,589	$ 150,831	$ 103,429

The current portion of the compensated absences balance is $76,476.

(6) ADVANCE LOANS FROM BOARD OF FINANCE

Fiscal Year	June 30, 2010	Additions	Deletions	June 30, 2011	Short-term
2008	$ 550,105	$ -0-	$ 550,105	$ -0-	$ -0-
2009	250,411	-0-	-0-	250,411	-0-
2010	385,861	-0-	-0-	385,861	-0-
2011	-0-	466,146	-0-	466,146	86,069
	$ 1,186,377	$ 466,146	$ 550,105	$ 1,102,418	$ 86,069

In fiscal year 2008 the Office received emergency loans in the amount of $550,105 for costs associated with the primary election held in June 2008. The loan was paid off during the year.

In fiscal year 2009, the Office received loans total $250,411, including $150,000 for purposes of paying for additional ballots used in the general election, $41,111 for purposes of paying for an election recount and $59,300 to pay for Oracle licensing fees for VREMS and maintenance and support services for the public financial reporting system. The loans are expected to be repaid in future years and will require the appropriation of additional funds.

In fiscal year 2010, the Office received an emergency loan of $385,861 for shortfalls related to the 2010 primary election. The loan is expected to be repaid in future years and will require the appropriation of additional funds.

In fiscal year 2011, the Office received a loan of $466,146 to pay Election System and Software for prior year maintenance services of the voter registration system. The loan is expected to be repaid in future years and will require the appropriation of additional funds.

(7) POST RETIREMENT BENEFITS - RETIREE HEALTH CARE

<u>Plan Description</u>

The Office of the Secretary of State 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.

(7) POST RETIREMENT BENEFITS - RETIREE HEALTH CARE (continued)

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 Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

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

Funding Policy

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

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.

During the fiscal year ended June 30, 2011, the statute requires each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee is required to contribute .833% of their salary. In the fiscal year ending June 30, 2012 through June 30, 2013 the contribution rates for the employees and employers will rise as follows:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY12	1.834%	.917%
FY13	2.000%	1.000%

Employees joining the plan 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.

(7) POST RETIREMENT BENEFITS - RETIREE HEALTH CARE (continued)

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 Office's contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were $26,876, $22,953 and $21,269, respectively, which equals the required contributions for each year.

(8) RETIREMENT BENEFITS – PERA

<u>Plan Description</u>
Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability 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.

<u>Funding Policy</u>
Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Office are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office's contributions to PERA for the years ending June 30, 2011, 2010 and 2009 were $238,677, $282,457and $313,942, respectively, equal to the amount of the required contributions for each fiscal year.

(9) DEFERRED COMPENSATION

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and those local government and school district employees whose employers have elected participation in the plan, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are employees that are making contributions to the Deferred Compensation Plan. Neither the Office nor the State of New Mexico makes any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Office have been paid to the New Mexico Public Employees Retirement Association, which administers the plan.

(10) COMMITMENTS AND CONTINGENCIES

Operating Leases

The Secretary of State leases certain equipment under operating leases. Leases are subject to future appropriations and as such are cancellable by the Secretary of State at the end of a fiscal year. Rental expense under operating leases for the year ended June 30, 2011 was $29,005. Future lease payments are as follows:

2012	$ 16,878
2013	15,878
2014	4,879
2015	3,173
2016	-0-
Total	$ 40,808

Risk Management

The office is exposed to various risks of loss for which the office carries insurance (auto; unemployment compensation; crime; general liability, civil rights; property; and worker's compensation). The Office obtains coverage through the State of New Mexico Risk Management Division (RMD); claims are processed through RMD. There are no material matters outstanding at June 30, 2011.

(11) SPECIAL AND DEFICIENCY APPROPRIATIONS

The Office received a special appropriation under Laws of 2010, Chapter 6, Section 5 for fiscal year 2011 for $1,000,000 to run the 2010 general election. As of June 30, 2011, the Office had expended $999,996 and reverting $4 to the state general fund, which is reflected in the accompanying financial statements.

The Office also received a deficiency appropriation under Laws of 2011, Chapter 179, Section 6 for $300,000 to cover the 2010 election shortfall. The Office expended $294,789 as of year end, and reverting $5,211 to the state general fund, which is reflected in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Schedule of Changes in Fiduciary Assets and Liabilities
For the Year Ended June 30, 2011

	Beginning Balance	Increase	Decrease	Ending Balance
Assets -				
Interest in SGFIP	$ 5,650	$1,362,414	$ 620,368	$ 747,696
Due from other funds	744,218	-	744,218	-
Total	$ 749,868	$1,362,414	$1,364,586	$ 747,696
Liabilities -				
Due to State general fund	$ 749,868	$1,362,414	$1,364,586	$ 747,696

See Auditor's Report

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Schedule of Operating Transfers
June 30, 2011

	SHARE Fund	Agency	Transfer In	Transfer Out
General Fund (18000)				
(1)	85300	Dept. of Finance & Administration	$ 3,355,700	$ -
(2)	85300	Dept. of Finance & Administration	1,132,200	-
(3)	85300	Dept. of Finance & Administration	1,000,000	-
(4)	85300	Dept. of Finance & Administration	300,000	-
(5)	20900	Board of Finance	466,146	86,069
(6)	20900	Dept. of Finance & Administration	-	205,797
(10)	90300	HAVA Fund	163,882	-
Public Election Fund (81200)				
(7)	71000	Taxation and Revenue Dept.	1,200,000	-
(8)	50800	Public Regulation Commission (PRC)	100,000	-
(9)	50600	Public Regulation Commission	200,000	-
HAVA Fund (90300)				
(10)	18000	General Fund	-	163,882
		Total	$ 7,917,928	$ 455,748

(1) General fund appropriations, Laws of 2010, Chapter 6, Section 4.
(2) General fund appropriations, Laws 2010, 2nd Special Session, Chapter 6, Section 4-Election.
(3) Special appropriations, Laws 2010, 2nd SS, Chapter 6, Session 5, item 3. For 2010 general election.
(4) Supplemental and deficiency appropriations, Laws 2011, Chapter 179, Section 6, item 4.
(5) Board of Finance - loans and payments.
(6) Reversion to State general fund.
(7) Distribution from the Tax Administration Suspense Fund under Section 7-1-6.58 NMSA 1978.
(8) Public election fund from PRC per Section 1-19A-10 NMSA 1978.
(9) Public election fund from PRC per Section 1-19A-10 NMSA 1978.
(10) Payment of prior year advances from the general fund.

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Memorandum of Understanding

June 30, 2011

Participants	Operation Responsibility	Description	Term	Total Estimated Amount	Secretary of State Contribution	Audit Responsibility
Secretary of State &:						
Governor's Commission on Disability (GCD)	GCD	to provide accessibility training at the polling sites.	7/1/2010 - 6/30/2011	$ 5,990	$ 5,990	GDC

(1) Reporting is the responsibility of all parties involved.

(2) The revenues and expenditures are reported in the books of the responsible party.

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

	Federal Grantor/ Program Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
	Department of Health & Human Services			
	Help America Vote Act (HAVA):			
	Title II, Subtitle D, Section 291			
	(Protection and Advocacy)	93.617	G-0903NMVOTE	$ 126,519
	US Election Assistance Commission			
*	Help America Vote Act (HAVA):			
	Title III (Voting System Standards)	90.401	NM0809RP01	1,076,616
	Interest income	90.401		119,282
			Subtotal	1,195,898
			Total	$ 1,322,417

* Denotes Major Program

Note 1> Basis of Presentation
The accompanying schedule of expenditures of federal awards has been prepared on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2> Outstanding Loans and Subrecipients
The Office does not receive any non-cash assistance; has no outstanding loan and does not provide federal awards for subrecipients.

See Auditor's Report

OTHER REPORTS

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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 GOVERNMENT AUDITING STANDARDS

Mr. Hector H. Balderas
New Mexico State Auditor
and
Ms. Dianna J. Duran
New Mexico Secretary of State

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of the State of New Mexico, Office of the Secretary of State (Office) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. 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 Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs*, as items 2011-01 and 2011-2 to be material weaknesses.

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A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* as items 2011-03 and 2011-04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 questioned costs* as items 2011-05 to 2011-08.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying *schedule of findings and questioned costs* as findings 2011-09 to 2011-11.

The Office's responses to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. We did not audit the Office's responses and, accordingly, we express no opinion on them.

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

Zlotnick, Laws & Sandoval, P.C

Zlotnick, Laws & Sandoval, P.C.
November 30, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Hector H. Balderas
New Mexico State Auditor
and
Ms. Dianna J. Duran
New Mexico Secretary of State

Compliance

We have audited the State of New Mexico, Office of the Secretary of State 's (Office) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Office's major federal programs for the year ended June 30, 2011. The Office's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Office's management. Our responsibility is to express an opinion on the Office's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Office's compliance with those requirements.

As described in items 2011-12 and 2011-13 in the accompanying schedule of findings and questioned costs, the Office did not comply with requirements regarding *equipment management, reporting and Procurement and Suspension and Debarment* that are applicable to its HAVA program, CFDA 90-401. Compliance with such requirements is necessary, in our opinion, for the Office to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Office complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

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<u>Internal Control Over Compliance</u>
Management of the Office is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Office's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-12 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-13 to be a significant deficiency.

The Office's responses to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. We did not audit the Office's responses and, accordingly, we express no opinion on then.

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

Zlotnick, Laws & Sandoval, P.C

Zlotnick, Laws & Sandoval, P.C.
November 30, 2011

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	*Unqualified Opinion*	
Internal control over financial reporting:		
A. Material weaknesses identified	__X__ Yes	_____ No
B. Significant deficiencies identified that are not considered to be material weaknesses?	__X__ Yes	_____ No
Noncompliance material to the financial statements noted?	__X__ Yes	_____ No

Federal Awards

Internal control over major programs:		
A. Material weaknesses identified?	__X__ Yes	_____ No
B. Significant deficiencies identified that are not considered to be material weaknesses?	__X__ Yes	_____ No
Type of auditors' report issued on compliance for major programs:	*Qualified Opinion*	
Any audit findings disclosed that are required to be reported in accordance with 510(a) of Circular A-133?	__X__ Yes	_____ No

Identification of major programs:

CFDA Numbers	*Name of Federal Program or Cluster*
90.401	Help America Vote Act

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualified as low-risk auditee?	____ Yes	__X__ No

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Summary of Findings and Questioned Costs
For the Year Ended June 30, 2011

<u>Section II & III Financial Statements Findings</u>

No.	Title	Status of Prior Year Findings	Significant Deficiency	Material Weakness	Compliance	Other Matters	Section II Financial Statement Finding	Section III Federal Awards Finding
Prior Year Findings:								
	No matters were reported.							
Current Year Findings:								
2011-01	Cash Drawdown	n/a	yes	yes	no	no	x	
2011-02	Capital Assets Management (xref 2011-12	n/a	yes	yes	yes	no	x	
2011-03	Gas Card Statement	n/a	yes	no	no	no	x	
2011-04	Voucher Test	n/a	yes	no	no	no	x	
2011-05	Cash Receipts	n/a	no	no	yes	no	x	
2011-06	Payroll Test	n/a	no	no	yes	no	x	
2011-07	Reversion	n/a	no	no	yes	no	x	
2011-08	*Not Used*							
2011-09	Fraud Policy	n/a	no	no	no	yes	x	
2011-10	Inventory Exempt Items	n/a	no	no	no	yes	x	
2011-11	Vehicle Usage	n/a	no	no	no	yes	x	
2011-12	Equipment Management	n/a	yes	yes	yes	no		x
2011-13	Reporting Requirements	n/a	yes	no	yes	no		x

See Auditor's Report

Section II – Financial Statement Findings

MATERIAL WEAKNESSES

2011-01

Cash Drawdown

Condition:
The Office has been awarded a reimbursement grant under the Help America Vote Act (HAVA), Title II, Subtitle D, Section 261-265. Each annual award is for $100,000, except for 2004 when the award was for $61,504. The grant is open for five years. Any funds that have not been requested for reimbursements carryover to the succeeding grant year. Reimbursements can be requested any time until the grant lapses 5 years later. Through inquiry of the federal management payment system, we discovered the following:

Grant Period	Award	Federal Payment	Amount Cancelled	Expenditures	Balance
2003-2005	$ 261,504	$ 161,504	$ (100,000)	$ 141,528	$ (19,976)
2006-2010	500,000	500,000	-0-	556,482	56,482
Total	$ 761,504	$ 661,504	$ (100,000)	$ 698,010	$ 36,506

Between 2003 thru 2005 grant periods, the Office was awarded $261,504, expended $141,528 and drew down $161,504, which included reimbursement for some expenditures incurred prior to 2003, leaving a $100,000 unused and unavailable balance. The federal management payment system does not provide sufficient detail to show which of the grant periods between 2003 and 2005 had lapsed, but the Office concluded that it was the $100,000 from 2005. If that is true, the money could have been drawn anytime during the 5 year period ending September 30, 2010. Between 2006 and 2010, the Office was awarded $500,000 and expended $556,482. The Office drew down $186,750 in 2006. After the new administration took office in 2011, all remaining funds that were available in the amount of $313,250 were drawn. This draw completed the grants for periods 2005 to 2010. The final result is that the adjusted awards between 2003 and 2010 were $661,504; the office expended $698,010 during the same period, leaving an unfunded federal balance of $36,506. The unfunded federal expenditures were absorbed by the State HAVA fund, a non-reverting fund, used to account for the federal and state matching requirement of the HAVA program.

Criteria:
The federal grant agreement specified that the reimbursement request be made within a five year period.

Effect:
The Office did not have resources available to address other priorities because of the over expenditure of federal funds.

Section II – Financial Statement Findings

Cause:
Because $100,000 of the grant in the years 2003 to 2005 was cancelled or elapsed, there was not sufficient grant money available to cover grant expenditures incurred.
Recommendation:
Procedures should be in place to ensure that cash drawdown requests for valid expenditures occur on a regular basis.

Agency Response:
Every year since 2003, the agency has been awarded a reimbursement grant under the Help America Vote Act (HAVA), Title II, Subtitle D, Section 261-265. Up until 2007 the agency drew down reimbursements on its valid HAVA disability expenditures. Because grant awards expire after five years and draw downs were not made between 2007 and 2010, a $100,000 grant, likely the 2005 award, was lost. In 2011, the current administration drew down all remaining eligible federal funds but because a $100,000 grant expired there was not sufficient grant money to cover $36,000 in expenditures made by the prior administration. The loss of funds as a result of the inaction by the former administration negatively impacts disability services related to elections. The agency will establish written procedures for proper oversight of all grants and ensure the agency timely draws down available funds to comply with federal requirements and prevent any loss of funding which benefits disabled voters.

2011-02

Capital Assets Management

Condition:
As described in the accompanying *schedule of findings and questioned costs* as item 2011-12, *Equipment Management*, the Office did not have a complete and accurate listing of capital assets. In addition, a physical inventory of capital assets was not performed.

Criteria:
Section 12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment at the end of each fiscal year. The agency is required to certify the correctness of the inventory after the physical inventory is completed. This certification should be provided to the agency's auditors.

Effect:
Since no physical inventory has been performed in the past few years, adjustments to the financial statements may be required to reflect asset deletions or obsolescence.

Cause:
The prior administration did not leave a detailed listing of capital assets. The lists provided by other sources were also not complete in every detail.

Recommendation:
The Office needs to tag all computer equipment and voting machines; complete a physical inventory of all capital assets and reconcile physical counts to the capital asset listings. In addition, the Office should revise the capital asset listings to be more descriptive as to make, model, serial number and location of each asset. The Office may want to invest in a capital assets and deprecation software that would make it easier to track capital assets.

Agency Response:
A listing of assets was not maintained by the prior administration. The current administration worked with its current auditor to obtain the asset lists used by the prior auditor when it prepared the fiscal year 2010 audit. The equipment and furniture asset list provided by the previous auditor referenced identification numbers for the assets but agency staff could not locate identification numbers on the current assets in the office. The agency will compile a listing of assets and assigned tags to those assets. It will also conduct an annual physical inventory.

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

2011-03

Gas Card Statements

Condition:
We examined sixty (60) payment vouchers for expenditures. We found three gas card statements in the amount of $3,798 that were not reconciled to actual gas card receipts.

Criteria:
In order to prevent fraud or abuse of gas cards, the detail of amounts shown on the gas card statement must be examined to verify that the charge is for gas only.

Effect:
Gas card charges may have included unauthorized and inappropriate items.

Cause:
The Office felt that review of the statement charges was adequate control; however, the statement does not show sufficient detail to identify improper charges.

Recommendation:
We recommend that employees who make gas card purchases be required to provide the receipt and that the receipts be reviewed and matched to the charges on the statement.

Agency Response:
The agency will reconcile actual gas card receipts with monthly statement to prevent unauthorized usage.

2011-04

Voucher Test

Condition:
We examined sixty (60) payment vouchers for expenditures. We found three vouchers totaling $563,251for capital outlay items that were posted to the wrong accounts (IT services or professional services instead of information technology equipment).

Criteria:
Effective internal control over expenditures and payments for capital outlay items requires proper classifications of the expenditures.

Effect:
Capital assets could have been understated on the financial statements.

Cause:
Purchase Orders prepared by the Office and approved by DFA did not catch the classification errors.

Recommendation:
We recommend that the Office always post capital outlay expenditures for assets over $5,000 to the correct capital outlay line items in the chart of accounts.

Agency Response:
The prior administration implemented an electronic poll book pilot project and purchased hardware and licenses for the Voter Registration and Election Management System. The purchases were made prior to January 1, 2011and were incorrectly posted. The agency will post capital outlay expenditures for assets to the correct capital outlay line items in the chart of accounts.

Section II – Financial Statement Findings

COMPLIANCE

2011-05

Cash Receipts

Condition:
We selected 42 deposit days to test cash received at the Secretary of State Office. We found thirty-six (36) instances totaling $97,002 where the cash receipts were not deposited within the 24 hour time requirement, an error rate of 85%.

Criteria:
The Public Money Act [Chapter 6-10-3 NMSA 1978] requires that state agencies receiving any money for or on behalf of the state shall remit the money received to the State Treasurer before the close of the next succeeding business day after the receipt of money.

Effect:
The Office did not comply with the law.

Cause:
Operators are collecting only the fees that are assigned to their functions, and don't always close out and balance their accounts on a daily basis.

Recommendation:
The Office must change procedures to close out and balance their accounts on a daily basis so that the deposit can be made timely.

Agency Response:
The agency implemented procedures and now requires operators to close out and balance their accounts daily and the agency deposits cash receipts within 24 hours.

Section II – Financial Statement Findings

2011-06

Payroll Test

Condition:
We selected twenty-four (24) personnel files for testing. We found 15 files or 62.5 percent where annual performance reviews for classified employees were not performed in a timely manner.

Criteria:
The State Personnel Act, 1.7.9 NMAC and the Secretary of State Employee Policies and Procedures Handbook state that evaluations for career employees should be performed annually and reviewed semi-annually by the immediate supervisor.

Effect:
The Office did not comply with the State Personnel Act and the employee handbook.

Cause:
A new management team took office in January 2011 and needed more time to evaluate employee performances.

Recommendation:
Management needs to perform the employee evaluations and turn them into the HR office in a timely manner.

Agency Response:
In December 2010, the previous administration left office, leaving the majority of staff without an annual performance evaluation. In most cases, an evaluation was never initially opened and many did not have a closed-out evaluation from FY2010. When the new administration took office in January 2011, staff workload and job assignments were evaluated and necessary adjustments were made. In fiscal year 2012, a strong effort is being made by management to open all performance evaluations for employees. It is the agency's expectation to have all performance evaluations for classified employees opened, on file and subsequently completed on the employee's anniversary date.

Section II – Financial Statement Findings

2011-07

Reversion

Condition:
Prior fiscal years reversions totaling $70,166 ($45,966 for fiscal year 2010 and $24,200 for fiscal year 2009) have not been transferred to the State General Fund.

Criteria:
The Office may adjust the reversion within 45 days of release of the audit report for that fiscal year.

Effect:
The Office did not comply with State law.

Cause:
The prior administration did not make the prior fiscal year reversions.

Recommendation:
The Office should make the reversion of unexpended State appropriations as provided by State law in a timely manner.

Agency Response:
The agency will make the reversions of unexpended state appropriations as provided by State law. Since the prior administration did not make the fiscal year 2009 or fiscal year 2010 reversions, and the agency's independent auditor at that time did not report the agency's failure to comply with State law, the current administration will make the reversions.

Section II – Financial Statement Findings

2011-08

Not Used

Section II – Financial Statement Findings

OTHER MATTERS

2011-09

Fraud Policy

Condition:
The Secretary of State employee handbook addresses some elements of fraud. However, The Office has not established a formal fraud policy that includes a management assessment of fraud, monitoring, and procedures whereby employees can report fraud.

Criteria:
The Office is responsible for creating an atmosphere of honesty and ethical behavior. SAS No. 99 created responsibilities for management to formalize their response to the possibility of fraud.

Cause:
SAS No. 99 was effective for the fiscal year ending 2004, but the matter has not yet been addressed by the Office.

Effect:
Management of the Office is not doing all they might do to prevent fraud in the workplace.

Recommendation:
We recommend that the Office formalize a response to fraud in accordance with SAS No. 99 as soon as possible.

Agency Response:
The agency will install in its break room a comment box and issue an email notifying staff that it is a mechanism that they can use to report fraud, waste or abuse. The agency will also act on the audit recommendation to formalize a procedure for reporting fraud, which it will include in its employee handbook.

2011-10

Inventory Exempt Items

Condition:
The Office currently does not have a listing of assets below the capitalization threshold of $5,000. In addition, tags should be issued and placed on each asset.

Criteria:
Proper internal control requires the Office to keep track of all assets under its custody, and all assets should be tagged with a unique identification number.

Effect:
Inventory exempt assets may have been stolen. If so, the theft could not be substantiated.

Cause:
The prior administration did not leave a listing of non-capitalized assets; as a result, a physical inventory could not be performed.

Recommendation:
The Office needs to compile a listing of non-capitalized assets and assigns tags to those assets.

Agency Response:
A listing of non-capitalized assets was not left by the prior administration. Staff recently tagged and inventoried equipment and the inventory list is modified when the inventory is added, disposed of or moved.

2011-11

Vehicle Usage

Condition:
The Office expended $13,724 ($9,083 during the 1st half of the year (7/1/2010 to 12/31/2010) and $4,641 during the 2nd half of the year (1/1/2011 to 6/30/2011) for vehicles and related charges during the year. The Office did not have a log to show whether vehicles were used for business or personal purposes.

Criteria:
Proper internal control requires the Office to keep track of vehicle usage and prohibit personal use.

Effect:
Vehicles may have been used for personal purposes, such as commuting.

Cause:
The prior administration did not exercise any control over vehicle usage.

Recommendation:
The newly elected Secretary of State has already established a vehicle log and internal controls over vehicles. The number of vehicles in the fleet has been reduced from 5 to 2. We concur with the changes and recommend that internal controls continue to be monitored.

Agency Response:
Immediately upon taking office, the current administration cut the number of leased vehicles from five down to two and established a tracking system for vehicle usage and tracking fuel purchases. The agency's policy prohibits personal use of vehicles. As of January 1, 2011, no state vehicles are used for commuting by the Secretary, or any agency officials or employees.

Section III – Federal Awards Findings

FEDERAL AWARDS FINDING

2011-12

Equipment Management

Help America Vote Act (HAVA) - CFDA #90.401
Questioned costs - None

Condition:
The Office has over $21 million in capital assets at year end; the majority of the assets purchased were funded by the HAVA grants. The Office did not have a complete and accurate listing of capital assets. They requested and received the capital asset listings, one for voting machines and the other for computer and equipment, from the prior year auditor. However, the assets itemized on the computer and equipment listing were not tagged and the descriptions were too vague to determine the makes and models of the items or their locations. Also, prior year assets did not show whether federal funding was used to purchase those items.

The capital assets listing for voting machines totaled about $19.3 million. The Office decided not to use the listing obtained from the prior auditor, but instead used a listing obtained from AES, a vendor who is currently providing maintenance services for those machines. That listing has not been updated since March 2009. The Office also obtained a certified listing of all voting machines from the Counties. Unfortunately, the Counties listings and the vendor listing did not agree. The Office is currently trying to reconcile those differences.

Criteria:
Section 12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment at the end of each fiscal year. The agency is required to certify the correctness of the inventory after the physical inventory is completed. This certification should be provided to the agency's auditors.

Effect:
Since no physical inventory has been performed in the past few years, the actual amounts may differ from the amounts on the financial statements.

Cause:
The prior administration did not leave a detailed listing of capital assets. The lists provided by other sources were also not complete in every detail.

Recommendation:
The Office needs to tag all computer equipment and voting machines; complete a physical inventory of all capital assets and reconcile physical counts to the capital asset listings. In addition, the Office should revise the capital asset listings to be more descriptive as to make, model, serial number and location of each asset. The Office may want to invest in a capital assets and deprecation software that would make it easier to track capital assets.

Agency Response and Corrective Action:
The previous auditor provided its voting system asset list, which identified $19.3 million of voting system assets. The list referenced identification numbers for $8.3 million worth of voting systems but the remaining $11 million of voting systems were not listed. The voting system inventory list found within the agency, which appeared to have been generated by one of the agency's vendors, reflected all the assets as of March 2009, but that list is more than two years old. The agency is currently working with the county clerks, who are responsible for storing the state-owned systems, to develop an accurate inventory list.

Section III – Federal Awards Findings

2011-13

Reporting Requirements

Help America Vote Act (HAVA) - CFDA #90.401
Questioned costs - None

Condition:
The Office cannot locate or did not prepare the federal financial status report (SF-425) for expenditures incurred in the last federal fiscal year ended September 30, 2010.

Criteria:
Under the Help America Vote Act (HAVA), Section 258, reports are due annually. Expenditure reports (Financial Status Report SF-425) are due by December 31 and cover the preceding period from October 15th to September 30th. Narrative reports are also due with the SF-425 and consist of a summary of expenditures by each category of activities described in Title III of HAVA, a list of voting equipment obtained with the funds, and a description of how the funded activities conform to the State plan.

Effect:
The Office is not in compliance with the grant agreement. Noncompliance with the grant could jeopardize the receipt of future HAVA funding.

Cause:
The prior administration may or may not have prepared the federal financial status report. However, the current administration cannot locate those files.

Recommendation:
Unless the federal financial status report and the accompanying narrative for federal fiscal year ending September 30, 2010 can be located quickly the Office will need to prepare and file them. The financial report for fiscal year ending September 30, 2011 is due in December.

Agency Response and Corrective Action:
The agency submitted its Federal Financial Reports (FFR) for Section 251 funds for FY 2010 and FY 2011 in December 2011. The U.S. Election Assistance, upon receipt of the reports, informed the agency that it had not received an FFR for Section 101 funds for FY 2009 – FY 2011. It indicated that the last FFR on file for Section 101 funds was for FY 2008 and it was not marked as ‘Final’. Previous audit reports reflected no findings related to the failure to meet federal reporting deadlines. The current administration will submit an FFR for Section 101 funds for fiscal years 2009, 2010 and 2011 and will submit the final report for Section 101 funds.

STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE

Financial Statement Preparation and Exit Conference

Year Ended June 30, 2011

Financial Statement Preparation

The financial statements were prepared by the auditors, Zlotnick, Laws & Sandoval, P.C.; however, the financial statements are the responsibility of management. 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

The contents of this report were discussed at an exit conference held on December 13, 2011 with the following in attendance:

Office of the Secretary of State

Dianna J. Duran, Secretary of State
Mary Quintana, Deputy Secretary of State
Ken Ortiz, Chief of Staff
Ellie Ortiz, Director of Finance and Administration

Zlotnick, Laws & Sandoval, P.C.

Asa Laws, CPA
Ban Trinh, CPA