



Financial Statements and Schedules

With

Independent Auditors' Report

For the Fiscal Year Ended

June 30, 2015

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
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June 30, 2015**

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**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
Official Roster
June 30, 2015**

Administrative Officials

| | |
|------------------------|------------------------------------|
| John G. Franchini | Superintendent of Insurance |
| Robert Doucette | Deputy Superintendent of Insurance |
| David P. Barton | General Counsel |
| Jolene M. Gonzales | Chief Administrative Officer |
| Bryan M. Maestas, CGFM | Chief Financial Officer |



Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

John G. Franchini, Superintendent of Insurance
Office of Superintendent of Insurance
Santa Fe, New Mexico

Report on Financial Statements

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 fund and major special revenue funds of the Office of Superintendent of Insurance (OSI) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the OSI's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the OSI's nonmajor governmental funds, fiduciary funds and the budgetary comparisons for all nonmajor funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the OSI, as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance 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 and fiduciary funds of the OSI as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparisons for all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the OSI are intended to present the financial position, and the changes in financial position, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the OSI. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2015, and the respective changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise of the OSI's basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The fiduciary combining schedules and changes in assets and liabilities – agency funds listed as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 also not a required part of the basic financial statements.

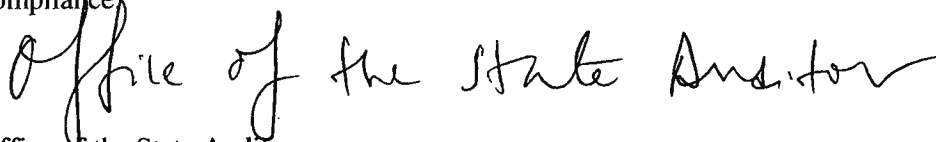
The Schedule of Expenditures of federal awards and additional schedules listed as “other supplemental information” are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information

is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of federal awards and additional schedules listed as "other supplementary information" are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The vendor schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015 on our consideration of the OSI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OSI's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Office of the State Auditor". The signature is written in black ink and is positioned above the typed name of the office.

Office of the State Auditor
Santa Fe, New Mexico
November 30, 2015

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF NET POSITION
June 30, 2015**

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Current Assets: | |
| State General Fund Investment Pool | \$ 15,937,835 |
| Investments | 46,847,837 |
| Federal Grants Receivable | 286,536 |
| Due from Agency Fund | 772,183 |
| Due from Other State Agencies | 228 |
| Prepaid Expenses | 103,778 |
| Total Current Assets | 63,948,397 |
| Capital Assets: | |
| Capital Assets, Net of Depreciation | 427,845 |
| Total Capital Assets | 427,845 |
| Total Assets | \$ 64,376,242 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable and Accrued Expenses | \$ 428,334 |
| Payroll Benefits & Taxes Payable | 91,856 |
| Accrued Wage Payable | 72,549 |
| Compensated Absences | 248,637 |
| Due to State General Fund | 6,579,165 |
| Other Liabilities | 44,560 |
| Total Current Liabilities | 7,465,101 |
| Non-current Liabilities: | |
| Patient's Compensation Fund Claims Liabilities | 56,371,461 |
| Total Non-current Liabilities | 56,371,461 |
| Total Liabilities | \$ 63,836,562 |
| NET POSITION | |
| Net Investment in Capital Assets | 427,845 |
| Restricted for Special Purposes | 111,835 |
| Unrestricted | - |
| Total Net Position | \$ 539,680 |

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

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2015**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenue</u> | | <u>Net (Expense)</u> | |
|--|-----------------|------------------------|----------------------|-----------------------|--------------|
| | | <u>Charges for</u> | <u>Operating</u> | <u>Capital Grants</u> | |
| | | <u>Services</u> | <u>Grants and</u> | <u>and</u> | |
| | | | <u>Contributions</u> | <u>Contributions</u> | |
| | | | | <u>Governmental</u> | |
| | | | | <u>Activities</u> | |
| Governmental Activities: | | | | | |
| Insurance Regulation | \$ 22,693,333 | \$ 25,151,711 | \$ 974,344 | \$ - | \$ 3,432,722 |
| Total governmental activities | 22,693,333 | 25,151,711 | 974,344 | - | 3,432,722 |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Special Appropriation | | | | | 100,000 |
| Reversions to the State General Fund | | | | | (6,579,165) |
| Insurance Tax | | | | | 1,378,597 |
| Investment Income | | | | | 871,548 |
| Total General Revenues and Special Items | | | | | (4,229,020) |
| Change in Net Position | | | | | \$ (796,298) |
| Net Position - beginning | | | | | 1,335,978 |
| Net Position - ending | | | | | \$ 539,680 |

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

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

| | <u>General</u> <u>Operating Fund -</u> <u>11690</u> | <u>Patient's</u> <u>Compensation</u> <u>Fund -11850</u> | <u>Insurance</u> <u>Operations</u> <u>Fund-11810</u> | <u>Other</u> <u>Governmental</u> <u>Funds</u> | <u>Total</u> <u>Governmental</u> <u>Funds</u> |
|--------------------------------------|---|---|--|---|---|
| ASSETS | | | | | |
| State General Fund Investment Pool | \$ 2,863,747 | \$ 2,111,223 | \$ 8,658,437 | \$ 2,304,428 | \$ 15,937,835 |
| Investments | - | 46,847,837 | - | - | 46,847,837 |
| Federal Grants Receivable | 286,536 | - | - | - | 286,536 |
| Due from Other Funds | - | - | 772,183 | - | 772,183 |
| Due from Other State Agencies | - | 228 | - | - | 228 |
| Prepaid Expenses | 103,778 | - | - | - | 103,778 |
| Total Assets | <u>\$ 3,254,061</u> | <u>\$ 48,959,288</u> | <u>\$ 9,430,620</u> | <u>\$ 2,304,428</u> | <u>\$ 63,948,397</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Voucher Payable | \$ 377,458 | \$ 50,876 | \$ - | \$ - | \$ 428,334 |
| Payroll Benefits & Taxes Payable | 91,855 | - | - | - | 91,855 |
| Accrued Wages Payable | 72,549 | - | - | - | 72,549 |
| Due to Other Funds | - | - | - | - | - |
| Due to State General Fund | 472,968 | - | 6,106,197 | - | 6,579,165 |
| Other Liabilities | 44,560 | - | - | - | 44,560 |
| Due to Other State Agencies | - | - | - | - | - |
| Total Liabilities | <u>1,059,390</u> | <u>50,876</u> | <u>6,106,197</u> | <u>-</u> | <u>7,216,463</u> |
| Fund Balances: | | | | | |
| Nonspendable: | | | | | |
| Inventory | | | | | |
| Prepaid Expenses | 103,778 | - | - | - | 103,778 |
| Restricted: | | | | | |
| Special Purposes | 2,090,893 | 48,908,412 | 3,324,423 | 2,304,428 | 56,628,156 |
| Total Fund Balances | <u>2,194,671</u> | <u>48,908,412</u> | <u>3,324,423</u> | <u>2,304,428</u> | <u>56,731,934</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,254,061</u> | <u>\$ 48,959,288</u> | <u>\$ 9,430,620</u> | <u>\$ 2,304,428</u> | <u>\$ 63,948,397</u> |

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

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2015

| | | |
|---|------------------|--------------------------|
| Total fund balance, governmental funds | | \$ 56,731,934 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Governmental Capital Assets | 932,968 | |
| Accumulated Depreciation | <u>(505,123)</u> | |
| | | 427,845 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds: | | |
| Patient's Compensation Fund Claims Liability | | (56,371,461) |
| Compensated Absences | | (248,637) |
| Net Position of Governmental Activities in the Statement of Net Position | | <u><u>\$ 539,680</u></u> |

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

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ending June 30, 2015

| | <u>General</u> <u>Operating Fund -</u> <u>11690</u> | <u>Patient's</u> <u>Compensation</u> <u>Fund -11850</u> | <u>Insurance</u> <u>Operations Fund-</u> <u>11810</u> | <u>Other</u> <u>Governmental</u> <u>Funds</u> | <u>Total</u> <u>Governmental</u> <u>Funds</u> |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ 1,378,597 | \$ 1,378,597 |
| Investment Earnings | - | 871,548 | - | - | 871,548 |
| Special Appropriation | 100,000 | - | - | - | 100,000 |
| Miscellaneous | 276 | - | - | 92 | 368 |
| Federal Revenue | 974,344 | - | - | - | 974,344 |
| Other Fees | - | 12,220,655 | 12,158,233 | 772,455 | 25,151,343 |
| Total Revenues | <u>1,074,620</u> | <u>13,092,203</u> | <u>12,158,233</u> | <u>2,151,144</u> | <u>28,476,200</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Personnel Services & Employee Benefits | 5,877,916 | 1,833 | - | - | 5,879,749 |
| Contractual Services | 1,547,647 | 218,448 | - | - | 1,766,095 |
| Other | 801,935 | 14,173,495 | - | - | 14,975,430 |
| Capital Outlay: | 65,437 | - | - | - | 65,437 |
| Total Expenditures | <u>8,292,935</u> | <u>14,393,776</u> | <u>-</u> | <u>-</u> | <u>22,686,711</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(7,218,315)</u> | <u>(1,301,573)</u> | <u>12,158,233</u> | <u>2,151,144</u> | <u>5,789,489</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating Transfers In | 7,868,700 | - | - | - | 7,868,700 |
| Reversions to State General Fund | (472,968) | - | (6,106,197) | - | (6,579,165) |
| Operating Transfers Out | - | (665,100) | (5,340,200) | (1,863,400) | (7,868,700) |
| Total Other Financing Sources and Uses | <u>7,395,732</u> | <u>(665,100)</u> | <u>(11,446,397)</u> | <u>(1,863,400)</u> | <u>(6,579,165)</u> |
| Net Change in Fund Balances | <u>177,417</u> | <u>(1,966,673)</u> | <u>711,836</u> | <u>287,744</u> | <u>(789,676)</u> |
| Fund Balances - beginning | 2,017,254 | 50,875,085 | 2,612,587 | 2,016,684 | 57,521,610 |
| Fund Balances - ending | <u>\$ 2,194,671</u> | <u>\$ 48,908,412</u> | <u>\$ 3,324,423</u> | <u>\$ 2,304,428</u> | <u>\$ 56,731,934</u> |

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

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2015

Net change in fund balances - total governmental funds: \$ (789,676)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

| | | |
|---|-----------|------------------|
| Capital Outlay | 65,437 | |
| Depreciation Expense | (80,090) | |
| Change in capital assets | | (14,653) |
| Change in Patients' Compensation Fund Liabilities | | 8,031 |
| Change in Compensated Absences | | 8,031 |
| | | |
| Change in Net Position | <u>\$</u> | <u>(796,298)</u> |

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

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL OPERATING FUND - 11690
For the Year Ending June 30, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|---------------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> | <u>Final Budget - Positive (Negative)</u> |
| REVENUES | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ - |
| Investment Earnings | - | - | - | - |
| Special Appropriation | - | - | - | - |
| Other State Funds | - | - | - | - |
| Miscellaneous | - | - | 276 | 276 |
| Federal Revenue | 1,491,400 | 4,155,102 | 974,344 | (3,180,758) |
| Total Revenues | <u>1,491,400</u> | <u>4,155,102</u> | <u>974,620</u> | <u>(3,180,482)</u> |
| EXPENDITURES | | | | |
| Personnel Services & Employee Benefits | 8,412,400 | 9,537,176 | 5,877,916 | 3,659,260 |
| Contractual Services | 934,000 | 2,849,661 | 1,547,647 | 1,302,014 |
| Other | 1,102,000 | 1,785,452 | 867,372 | 918,080 |
| Total Expenditures | <u>10,448,400</u> | <u>14,172,289</u> | <u>8,292,935</u> | <u>5,879,354</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(8,957,000)</u> | <u>(10,017,187)</u> | <u>(7,318,315)</u> | <u>2,698,872</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 8,769,500 | 8,869,500 | 7,968,700 | 900,800 |
| Reversions to State General Fund | - | - | (472,968) | 472,968 |
| Cash Balance Re-Budgeted | 187,500 | 1,147,687 | - | 1,147,687 |
| Transfers Out | - | - | - | - |
| Total Other Financing Sources and Uses | <u>8,957,000</u> | <u>10,017,187</u> | <u>7,495,732</u> | <u>2,521,455</u> |
| Net Change in Fund Balances | - | - | 177,417 | (177,417) |
| Fund Balances - beginning | - | - | 2,017,254 | (2,017,254) |
| Fund Balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,194,671</u> | <u>\$ (2,194,671)</u> |

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

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
PATIENT'S COMPENSATION FUND - 11850
For the Year Ending June 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|---------------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> | <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u> |
| REVENUES | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ - |
| Investment Earnings | - | - | 871,548 | 871,548 |
| Special Appropriation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Federal Revenue | - | - | - | - |
| Other Fees | - | - | 12,220,655 | 12,220,655 |
| Total Revenues | <u>-</u> | <u>-</u> | <u>13,092,203</u> | <u>13,092,203</u> |
| EXPENDITURES | | | | |
| Personnel Services & Employee Benefits | 60,900 | 60,900 | 1,833 | 59,067 |
| Contractual Services | 466,400 | 466,400 | 218,448 | 247,952 |
| Other | 15,310,900 | 18,310,900 | 14,173,495 | 4,137,405 |
| Total Expenditures | <u>15,838,200</u> | <u>18,838,200</u> | <u>14,393,776</u> | <u>4,444,424</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(15,838,200)</u> | <u>(18,838,200)</u> | <u>(1,301,573)</u> | <u>17,536,627</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | - | - |
| Cash Balance Re-Budgeted | 16,503,300 | 19,503,300 | - | 19,503,300 |
| Transfers Out | (665,100) | (665,100) | (665,100) | - |
| Total Other Financing Sources and Uses | <u>15,838,200</u> | <u>18,838,200</u> | <u>(665,100)</u> | <u>19,503,300</u> |
| Net Change in Fund Balances | - | - | (1,966,673) | 1,966,673 |
| Fund Balances - beginning | - | - | 50,875,085 | (50,875,085) |
| Fund Balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 48,908,412</u> | <u>\$ (48,908,412)</u> |

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

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
INSURANCE OPERATIONS FUND - 11810
For the Year Ending June 30, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|--------------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> | <u>Final Budget - Positive (Negative)</u> |
| REVENUES | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ - |
| Investment Earnings | - | - | - | - |
| Special Appropriation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Federal Revenue | - | - | - | - |
| Other Fees | 5,340,200 | 5,340,200 | 12,158,233 | 6,818,033 |
| Total Revenues | <u>5,340,200</u> | <u>5,340,200</u> | <u>12,158,233</u> | <u>6,818,033</u> |
| EXPENDITURES | | | | |
| Personnel Services & Employee Benefits | - | - | - | - |
| Contractual Services | - | - | - | - |
| Other | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>5,340,200</u> | <u>5,340,200</u> | <u>12,158,233</u> | <u>6,818,033</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | - | - |
| Reversions to State General Fund | - | - | (6,106,197) | 6,106,197 |
| Transfers Out | (5,340,200) | (5,340,200) | (5,340,200) | - |
| Total Other Financing Sources and Uses | <u>(5,340,200)</u> | <u>(5,340,200)</u> | <u>(11,446,397)</u> | <u>6,106,197</u> |
| Net Change in Fund Balances | - | - | 711,836 | (711,836) |
| Fund Balances - beginning | - | - | 2,612,587 | (2,612,587) |
| Fund Balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,324,423</u> | <u>\$ (3,324,423)</u> |

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

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
June 30, 2015

| | <u>Agency Funds</u> |
|--|-----------------------|
| ASSETS | |
| Investments, State Treasurer Investment Pool | \$ 4,387,435 |
| Cash in Banks - Ancillary Receivership | 1,395,236 |
| Security Deposits | 477,631,700 |
| Other Receivables | <u>72,401,504</u> |
| Total Assets | <u>\$ 555,815,875</u> |
| LIABILITIES | |
| Due to State General Fund | \$ 50,485,817 |
| Due to Other Funds | 772,183 |
| Undistributed Receipts | 2,273,851 |
| Other Liabilities | 104,887 |
| Due to Other State Agencies | 23,152,201 |
| Deposits Held in Trust | <u>479,026,936</u> |
| Total Liabilities | <u>\$ 555,815,875</u> |

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

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2015**

NOTE 1: HISTORY AND FUNCTION

The Office of Superintendent of Insurance (OSI) was created on July 1, 2013, pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election and the subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1st Session of the 51st Legislature. These actions removed the insurance regulatory function from the Public Regulation Commission (where it was housed as the "Insurance Division") and placed it in a newly-created adjunct state agency entitled the "Office of Superintendent of Insurance." The enabling legislation also created an Insurance Nominating Committee to appoint the Superintendent of Insurance. The OSI has been operating as a stand-alone agency for just over one year.

The mission of the OSI is to provide consumers with convenient access to reliable insurance products which are underwritten by dependable and financially sound companies. The OSI strives to ensure that these companies have a proven history of fair and reasonable rates and are represented by trustworthy and qualified agents. The OSI is committed to consumer protection and to the deterrence and prosecution of insurance fraud.

The vision of OSI is to become one of the country's leading regulatory agencies with respect to overseeing the insurance industry in New Mexico and ensuring that New Mexico insurance consumers are treated fairly and honestly. In addition, OSI strives to be a leader with respect to the roll out of the Patient Protection and Affordable Care Act (PPACA), commonly called the Affordable Care Act (ACA) or "Obamacare" and ensuring New Mexicans have access to quality and affordable health insurance that maintains a level of minimum standards.

Administration

Administration includes the Superintendent of Insurance, Deputy Superintendent of Insurance, General Counsel, OSI Legal Staff, the Chief Administrative and Chief Financial Officers, Budget and Finance, Human Resources, Public Information, Information Technology and Records which provide all administrative support to OSI and its day-to-day operational functions

Company Licensing

The Company Licensing Bureau licenses insurance companies and other risk-bearing insurance entities. Pursuant to this, the bureau receives, reviews and renders determinations on applications from insurance companies that want to enter the New Mexico insurance market. The bureau oversees almost \$500 million in insurance company deposits held with Century Bank and the State Treasurer's Office for the protection of New Mexico policyholders. The bureau also reviews and processes documentation submitted by insurance companies for acquisitions, re-domestications, mergers and name changes. The bureau is responsible for the collection of premium taxes and policy filings from surplus lines brokers.

Producer (Agent) Licensing

The Producer (Agent) Licensing Bureau licenses approximately 100,000 insurance professionals, as well as, non-risk-bearing insurance entities. This includes insurance agents, agencies, brokers, adjusters, third party administrators, consultants, bail bondsmen, solicitors and motor clubs, as well as limited license insurance vendors such as cell phone sales agents and travel agents. To protect consumers, the bureau determines the qualifications and eligibility of applicants; approves pre-licensing and continuing education courses; tracks continuing education credits; and processes license applications, renewals and the appointment of agents by insurance companies.

NOTE 1: HISTORY AND FUNCTION CONT.

Examinations

The Examinations Bureau reviews insurance company financial statements filed with the OSI. The bureau also conducts periodic financial examinations, as well as ad hoc specialized market conduct and target financial examinations of insurance companies and agents. The Chief Examiner coordinates an internal solvency review team, consisting of financial analysts and actuaries, to review annual and quarterly financial statements filed by insurance companies domiciled in New Mexico and elsewhere and to plan examination activity.

Life & Health Product Filings

The Life & Health Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to health, life, annuities, long-term care, Medicare supplement and credit life and disability filings. The bureau approves or disapproves such filings where required, based on their compliance with insurance statutes, regulations and bulletins and with OSI policies and procedures. As a member of the Interstate Insurance Compact, New Mexico participates in multi-state reviews of many life and annuity product filings.

Property/Casualty Product Filings

The Property/Casualty Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to automobile, homeowners, workers' compensation, medical malpractice and other assorted products. The bureau approves or disapproves such filings where required, based on their compliance with insurance statutes, regulations and bulletins and with OSI policies and procedures.

Workers' Compensation

The Workers' Compensation Bureau monitors the New Mexico Workers' Compensation Assigned Risk Pool, handles complaints by employers regarding their workers' compensation class code assignments and premiums, oversees the Safety Bonus Program and represents the OSI in other matters relating to Workers' Compensation.

Consumer Assistance

The Consumer Assistance Bureau receives, processes and resolves complaints and inquiries from consumers about insurance rates and claim-handling for all insurance products other than those involving managed health care. The bureau alerts the Investigations Bureau of situations where a complaint reveals a potential violation of insurance statutes and regulations by an insurance company or other insurance licensee.

Managed Health Care

The Managed Health Care Bureau administers and enforces New Mexico's Patient Protection Act and related regulations. The bureau handles complaints and inquiries from managed health care consumers and conducts outreach presentations throughout the state to inform consumers and health care providers of their rights under the Patient Protection Act. The bureau reviews external grievance appeals, proposes rule amendments and also takes appropriate enforcement actions where merited.

Investigations

The Investigations Bureau investigates concerns arising from consumer complaints and other sources to determine whether a licensed insurance company or agent has violated insurance statutes or regulations and takes appropriate enforcement actions where merited.

NOTE 1: HISTORY AND FUNCTION CONT.

Insurance Fraud

The Insurance Fraud Bureau investigates and prosecutes, through state district courts, insurance fraud committed by insurance policyholders and applicants, medical providers, third party claimants and other perpetrators of white-collar insurance fraud crimes. The bureau collaborates with state, local and federal law enforcement and regulatory agencies in these efforts.

Title Insurance

The Title Insurance Bureau regulates the title insurance industry through rate-making and rule-making hearings held every odd numbered year. The Bureau collects and analyzes the annual agent and underwriter statistical reports, and the agent audit procedures. The Bureau annually assesses the insurers based on annual budgeting and maintenance. Periodically the Bureau performs on-site title plant inspections, affiliations, appointments, bank reconciliations, no-pay no-service documentation, and premium calculations. The Bureau performs the investigation of marketing compliance within the regulations. The Bureau regulates more than 75 licensed title insurance agents and underwriters in New Mexico. The bureau investigates complaints, allegations of defalcations, marketing non-compliance, and other infractions by title agents and insurers. The Bureau coordinates with the Investigation and Fraud Bureaus for appropriate enforcement actions.

Financial Audit

The Financial Audit Bureau Section is responsible for processing and auditing premium tax filings for approximately 2,000 insurance companies that write policies in New Mexico. All insurers authorized to transact business in New Mexico and all property bondsmen, self-insurers, title companies and risk retention groups are subject to pay premium tax on a quarterly basis. Policy filing fees for life and health insurance companies are processed in this office. The due dates for life and health filing fees are governed by policy changes and new submissions. The fees are determined by the type of policy or submission. Policy filing fees for property and casualty insurance companies are also processed in this office. Property and casualty filing fees are due annually and are determined by premiums written in applicable lines of business. Revenue Audit is responsible for receipting Examination's annual statement filing fees and the Fraud Bureau's annual fraud assessment.

ACA (Affordable Care Act) Implementation

The OSI has received two grants under the Affordable Care Act to help OSI enhance its health insurance rate review process and to assist consumers with understanding their health care options. These grants have allowed OSI to hire additional staff and actuarial consultants and to develop www.nmhealthratereview.com, a website that provides consumers with information and feedback opportunities on health rate filings. OSI has received two other federal grants for the Consumer Assistance Program to inform New Mexicans about their health insurance needs, right and responsibilities and providing consumer assistance or ombudsman programs. In addition, OSI has entered into a Memorandum of Understanding (MOU) with the New Mexico Health Insurance Exchange (NMHIX), to implement the section of the NMHIX statute that requires OSI to provide any needed regulations to govern or assist the NMHIX in providing increased access to health insurance in New Mexico. In carrying out these duties the Bureau works closely with OSI leadership and all bureaus involved in health insurance; additionally it is tasked with developing numerous new initiatives within OSI related to health insurance reform.

Patient's Compensation Fund

While its primary function is the regulation of insurance, the OSI also administers the Patient's Compensation Fund (PCF), which is a medical malpractice insurance risk-assuming function mandated by the Medical Malpractice Act.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the New Mexico Office of Superintendent of Insurance (OSI) (the Department or OSI) have been prepared in accordance 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 GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. More significant of these accounting policies are described below.

The Department complies with GASB #54. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature’s and Executive Branch’s intent to be used for specific purposes or in some cases by legislation.

The above statement did not have a significant impact on the financial statements of the Department.

A. FINANCIAL REPORTING ENTITY

The chief executive of the Department is the Superintendent of Insurance, who is appointed by the Insurance Nominating Committee. These financial statements include all funds, account groups and activities over which the Superintendent has oversight responsibility.

The Department is not included in any other governmental “reporting entity” as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. The Superintendent has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In accordance with the criteria set forth in GASB # 39 and # 61 for determining component units, the Department does not have component units.

B. BASIC FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The reporting model focus is on either the Department as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. The Department is a single purpose government entity and has no business-type activities. In the government-wide Statement of Net Position, the governmental activities column are presented on a consolidated basis by column using the economic resources measurement focus and the accrual basis of accounting and incorporates long-term assets and receivables as well as long-term debt and obligations. Additionally internal activity has been eliminated at this level of presentation.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (education, labor, transportation, etc.), which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation expense on capital assets) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function which consists of grants and fees.

The net cost is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc). Historically, the previous model did not summarize or present net cost by function or activity. The Department does not currently employ indirect cost allocation systems.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

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

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds of the governmental categories. Non-major funds (by category) or fund type are summarized into a single column. The Department's major funds are the General Fund, Insurance Operations Fund, and the Patients Compensation Fund.

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

The Department's fiduciary fund (agency fund) is presented in the fund financial statements in total. 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 into the government-wide statements.

C. BASIS OF PRESENTATION

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

The Department uses the following fund types:

Governmental Fund Types

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

The **General Fund** is the general operating fund of the Department and considered a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. This is a reverting fund, with the exception of amounts received from federal grants and other proceeds legally restricted. The General Fund is SHARE System fund 11690.

Special Revenue Funds: The Special Revenue Funds is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue non-major funds are SHARE System fund 11830, 11840, 11860, and 11880. These funds are non-reverting.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

Patients' Compensation Fund: A major special revenue fund to account for funds accumulated for payments of claims for bodily injury or death due to malpractice by a health care provider insured under the Medical Malpractice Act. This fund was created by Section 41-5-1 through 42-528, NMSA 1978 "Medical Malpractice Act". The purpose of the act is to promote the health and welfare of the people of New Mexico by making available professional liability insurance for health care providers in New Mexico. The Patients' Compensation is SHARE System fund 11850. This fund is non-reverting.

Insurance Operations Fund: A major special revenue fund to account for the collection of fees, licenses, penalties, and taxes. This fund was created by Section 59A-6-5, NMSA 1978. The "insurance operations fund" is created in the state treasury. The fund shall consist of the distributions made to it. The legislature shall annually appropriate from the fund to the division those amounts necessary for the division to carry out its responsibilities pursuant to the Insurance Code and other laws. Any balance in the fund at the end of a fiscal year greater than one-half of that fiscal year's appropriation shall revert to the general fund. The Insurance Operations Fund is SHARE System fund 11810.

Fiduciary Fund Types

Fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support Department programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds.

Agency funds are used to account for assets held by the Department in the capacity of trustee or agent. The agency funds are SHARE System fund 11820 (Insurance Suspense Fund) and SHARE System fund 11870 (Trust Account) and are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Non-Current Governmental Assets/Liabilities

GASB Statement #34 eliminated the presentation of Account Groups for fixed assets and long-term debt but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Position.

D. BASIS OF ACCOUNTING

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

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

Accrual

Under the accrual method of accounting revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

All governmental funds utilize the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and other governmental fund resource increments are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the current fiscal period; "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Department considers funds available if received within "60 days" after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

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

Program revenues consist of federal grants. Charges for services consist primarily of fees charged to regulated entities.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are accrued as current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principle described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions* the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

E. BUDGETS AND BUDGETARY ACCOUNTING

The New Mexico State Legislature makes annual appropriations to the Department, which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget (modified accrual basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the program appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitation as specified in the General Appropriation Act. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

The budget is adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of next year's budget. A reconciliation of budgetary basis of GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Department has not included such reconciliation for fiscal year 2015 as all payables were paid by the statutory deadline.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

The budgetary basis differs from the basis of accounting required by Generally Accepted Accounting Principles (GAAP). Significant differences between the budgetary basis and GAAP include the following:

1. The budget does not consider reversions to the State General Fund.
2. The budget includes encumbrances (obligations for unperformed contracts for goods or services). GAAP does not include encumbrances, for multi-year appropriations only.
3. The budget statements are presented on modified accrual basis.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

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

1. No later than September 1, the Department submits to the Legislative Finance Committee (LFC), and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
2. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriation Act.
3. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
4. Not later than May 1, the Department submits to DFA an annual operating budget by appropriation unit and account code based upon the appropriation made by the Legislature. The Budget Division of DFA reviews and approves the operating budget, which becomes effective on July 1. All subsequent budget adjustments must be approved by the Director of the DFA-State Budget Division and LFC.
5. Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds. Agency funds are not budgeted as they have no expenditure activity.

F. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. All current year encumbrances lapsed at year-end. In cases where the appropriations do not lapse at year-end, the encumbrances outstanding are re-encumbered for the same amount outstanding at year-end and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The Department does have an appropriation, which is multiple year and does not lapse at year-end.

G. ASSETS, LIABILITIES AND FUND BALANCE

1. Cash and Cash Equivalents

The Department's interest in the pooled cash on deposit with the State Treasurer's Office (STO) and Ancillary Receivership Accounts on deposit with area banks is considered cash and cash equivalents. The Ancillary Receivership Accounts represent funds held in trust for the payment of claims for insurance companies, which are in receivership.

2. Investments

Security Investments Held in Trust. Investments recorded in the Trust Funds are security deposits of insurance companies, which are required by statute. The securities are recorded at fair market value.

Investments in the Patient's Compensation Fund are held with the State Investment Council. The Investment Council operates in accordance with appropriate State law and regulations.

3. Receivables

Interest on investments is recorded as revenue in the year the interest is earned.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

4. Federal Grants Receivable:

Various reimbursement procedures are used for federal awards received by the Department. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent amounts expended during the fiscal year that are related to a federal grant, however the reimbursement for the expenditure was not received prior to the end of the fiscal year.

5. Inter-fund Receivables and Payables

Short-term amounts owed between funds are classified as "Due to/from Other Funds".

6. Prepaid Items

These amounts represent prepayment of postage, which has benefit to the OSI beyond the fiscal year, ending June 30, 2015. Prepaid items are expensed when consumed under the consumption method. Therefore, these items are allocated to the fiscal year in which they are used. A portion reported in nonspendable fund balance represents a prepaid item.

7. Capital Assets

Property, plant and equipment purchased or acquired at a value of \$5,000 or greater are capitalized per Section 12-6-10 NMSA 1978. Assets are carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value. The Department utilized American Appraisal to determine the useful lives based on generally accepted useful lives for the different classes and types of assets.

Machinery and Equipment

- Other Personal Property – 12 years
- Computer Equipment (including software) – 3 to 10 years
- Furniture, Fixtures, and Accessories – 6 to 20 years

Automotive – 8 years

The Department utilizes a building that is owned by the Facilities Management Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB Statement #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The Department does not own any infrastructure assets.

8. Compensated Absences

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon length of service and employee's hire date. A maximum of thirty working days (240 hours) of accumulated annual leave may be carried forward into the beginning of the calendar year and any excess leave is lost.

When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to a maximum of 240 hours.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave that an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50% of accrued sick leave in excess of 600 up to 720 hours, but not to exceed 120 hours (net 60 hours can be paid). At retirement, employees can receive 50% payment up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, only sick leave which has been accrued represents the hours earned at June 30, 2015, over 600 hours. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences.

Compensatory time may be granted to individuals when overtime is needed.

The non-current portion (the amount estimated to be used in subsequent fiscal years) for Governmental Funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

9. Deferred Inflows/Outflows

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption net position that applies to a future period(s) and so will not be recognized as an outflows of resources (expense/expenditures) until then. The Department did not have any items that qualified for reporting in this category as of June 30, 2015.

In addition to liabilities the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents a consumption net position that applies to a future period(s) and so will not be recognized as an inflows of resources (revenue) until then. The Department did not have any items that qualified for reporting in this category as of June 30, 2015.

10. Reservations of Fund Balance

The Department complies with GASB 54—Fund Balance Reporting and Governmental Fund Type Definitions. The pronouncement provides modifications to, and additional types of, fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds. The definition of each classification is summarized below:

Non-Spendable Fund Balance

The nonspendable fund balance classification is the portion of fund balance that 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 “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted Fund Balance

The restricted fund balance classification is the portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

The committed fund balance classification is the portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

Assigned Fund Balance

The assigned fund balance classification is the portion of fund balance that are constrained by the government's *intent* to be used for specific purposes, but that are neither restricted nor committed.

Unassigned Fund Balance

The unassigned fund balance classification is the portion of fund balance that is residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

H. NET POSITION

The government-wide Fund Financial Statements utilize a net position presentation. Net position are categorized as investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt.

Restricted Net Position – are liquid assets (generated from revenues and not bond proceeds), which have third-party 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 limiting their use.

The Department complies with GASB 46 "Net Assets Restricted by Enabling Legislation". The amount of net position restricted by enabling legislation is \$7,719,751.

Unrestricted Net Position (Deficit) – represent all other unrestricted liquid assets that do not meet the definition of "restricted net position" or "net invested in capital assets". Unrestricted deficit results mainly from the recording of the compensation absences liability and litigation liability for which future appropriations will pay the liability.

I. USE OF ESTIMATES

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

NOTE 3: CASH AND INVESTMENTS

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office (STO). At June 30, 2015 the Department had the following invested in the State General Fund Investment Pool:

| | |
|---|--------------|
| State General Fund Investment Pool (SGFIP): | \$20,325,270 |
|---|--------------|

The OSI believes the cash invested in the State General Fund Investment Pool is represented fairly and with no material misstatements due to the reconciliation done by the Department. The Department has established internal processes applying the State of New Mexico Manual of Model Accounting Practices (MAP). These processes are designated to implement necessary and mandatory controls to avert accounting errors and violations of state and federal laws and rules related to financial matters. In addition, the Department ensures that any disbursement of funds does not exceed the unencumbered funds at its disposal. Incorporating the State's financial software system (SHARE) and monthly internal reporting and reconciliation throughout the fiscal year, OSI maintains optimum fiscal safeguards. This ensures that the

NOTE 3: CASH AND INVESTMENTS CONT.

cash balances in SHARE are correct to the extent that OSI has control (i.e. collection, depositing, reconciling, and documentation of outstanding items) of the cash, its receipts and transfers to the state general fund and other state agencies pursuant to state statute. Any discrepancies are researched immediately. Expenditure support is retained with all transactions. Due to these controls, the Department believes the value of its share of the SGFIP at June 30, 2015 materially approximates \$20,325,270, including agency funds. Adjustments, if any, that might be required are not known currently.

The following is a summary of the Department’s interest in the State Treasurer General Fund Investment Pool

| Name of Depository | Account Name | SHARE System Fund No. | Type of Deposit | Interest Bearing | Bank/DFA Statement Balance at 06/30/15 | Reconciled Book Balance at 06/30/15 |
|-------------------------------|------------------------------|-----------------------|-----------------|------------------|--|-------------------------------------|
| General Fund: | | | | | | |
| NM State Treasurer | Insurance Operating Fund | 11690 | State Treasury | No | \$ 2,863,747 | \$ 2,863,747 |
| Total General Fund | | | | | <u>2,863,747</u> | <u>2,863,747</u> |
| Special Revenue Funds: | | | | | | |
| NM State Treasurer | Insurance Operations Fund | 11810 | State Treasury | No | 8,658,436 | 8,658,436 |
| NM State Treasurer | Insurance Licensee Cont Educ | 11830 | State Treasury | No | 1,119,604 | 1,119,604 |
| NM State Treasurer | Insurance Examination Fund | 11840 | State Treasury | No | 1,387 | 1,387 |
| NM State Treasurer | Patients' Compensation Fund | 11850 | State Treasury | Yes | 2,111,223 | 2,111,223 |
| NM State Treasurer | Title Ins Maintenance Assess | 11860 | State Treasury | No | 349,542 | 349,542 |
| NM State Treasurer | Insurance Fraud Fund | 11880 | State Treasury | No | 833,895 | 833,895 |
| Total Special Revenue Funds | | | | | <u>13,074,087</u> | <u>13,074,087</u> |
| Agency Fund: | | | | | | |
| NM State Treasurer | Insurance Suspense Fund | 11820 | State Treasury | No | 4,387,435 | 4,387,435 |
| Total Agency Fund | | | | | <u>4,387,435</u> | <u>4,387,435</u> |
| Department Total | | | | | <u>\$ 20,325,269</u> | <u>\$ 20,325,269</u> |

Interest Rate Risk: The Department does not have an investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The New Mexico State Treasurer’s Office does have an investment policy that limits investments maturities to five years and less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk: The New Mexico State Treasurer’s Office pool is not rated.

For additional GASB 40 disclosure regarding cash held by the New Mexico State Treasurer’s Office, the reader should refer to separate audited financial statements prepared by the New Mexico Treasurer’s Office for the fiscal year ended June 30, 2014 which will disclose the categories of risk involved.

Cash in Banks – Ancillary Receivership. The following is a listing of the Department’s Ancillary Receivership cash balances on deposit at a local financial institution. The amounts are reported in the SHARE 11870 Trust fund. These balances are grouped by depository financial institutions as of June 30, 2014.

Century Bank of Santa Fe – Deposit Account \$1,395,236

There were no reconciling items on this bank account. The OSI has entered into a custodial agreement with the above financial institution and the New Mexico

NOTE 3: CASH AND INVESTMENTS CONT.

State Treasurer. According to this agreement, the State Treasurer is responsible for approving all changes in the pledged collateral, monitoring the collateral requirements, and ensuring that all collateral meets the requirements of state law. As of June 30, 2015, the State Treasurer reported that the cash account was adequately collateralized in accordance with state statutes. Please refer to the separately issued financial statements of the State Treasurer's Office for additional information.

Deposits Held in Trust. Section 59A-10-4, NMSA 1978 requires insurance companies to deposit with the Department, certain securities to be held in trust for the benefit of insurance company policy holders and creditors. If an insurance company is placed in receivership, the Superintendent of Insurance has the authority to seize those securities which are held in trust for payment of claims made by policyholders and creditors.

Security deposits recorded in the Trust funds with the OSI amounting of \$477,631,700 are from insurance companies which are required by statute. The deposits consist of federal government securities and are recorded at fair value. While these assets are held in trust, the type of investment income and other investment decisions are controlled by the insurance companies. The amount reported in the Trust fund with the Department is in SHARE fund 11870.

Pooled Investments. The OSI has entered into an agreement with the State Investment Council pursuant to Section 6-8-1.G, NMSA 1978 to participate in the investment pool. The Pool is not registered with the SEC and is managed by the State Investment Council. The investments are valued at fair market value based on quoted market prices at the valuation date. The reported value of the pooled shares is the same as the fair value of the pooled shares.

The value of the investments maintained at the State Investment Council External Pooled Investment Funds is as follows at June 30, 2015:

| | <u>Market Value</u> |
|-------------------------|----------------------|
| Core Bond Fund | \$ 27,992,681 |
| Large Cap Index | 10,850,635 |
| Non US Developed Index | 2,982,771 |
| Non US Emerging Markets | 2,224,380 |
| Mid/Small Cap | <u>2,797,370</u> |
| | <u>\$ 46,847,837</u> |

Concentration of Credit Risk: The OSI places no limit on the amount the OSI may invest in any one issuer.

Please see the financial statements of the State Investment Council for a further discussion of the risks of the pooled investments. Their audit report may be obtained by contacting the State Investment Council at 41 Plaza La Prensa #A, Santa Fe, New Mexico 87507.

NOTE 4: DUE FROM AND DUE TO OTHER FUNDS

Due from and due to other funds represent inter-fund receivables and payables arising from interdepartmental transfers primarily due to statutory requirements for transferring funds collected by one fund and expended by another. These are routine transactions that occur monthly or annually. These amounts are eliminated on the government-wide financial statements. Agency funds are excluded from governmental funds and governmental-wide financial statements. All inter-fund balances are expected to be repaid in the next fiscal year.

NOTE 4: DUE FROM AND DUE TO OTHER FUNDS CONT.

Inter-fund Receivables

| <u>Fund Type</u> | <u>SHARE Fund Number</u> | <u>Due From Other Funds</u> | <u>Due From SHARE Fund Number</u> | <u>Amount</u> |
|------------------|----------------------------------|---------------------------------|---|---------------|
| Special Revenue | 11810 | \$ 772,183 | 11820 | \$ 772,183 |
| Totals | | \$ 772,183 | | \$ 772,183 |

Inter-fund Payables

| <u>Fund Type</u> | <u>SHARE Fund Number</u> | <u>Due to Other Funds</u> | <u>Due to SHARE Fund Number</u> | <u>Amount</u> |
|------------------|----------------------------------|-------------------------------|---|---------------|
| Agency Fund | 11820 | \$ 772,183 | 11810 | \$ 772,183 |
| Totals | | \$ 772,183 | | \$ 772,183 |

NOTE 5: CAPITAL ASSETS

The changes in capital assets for the year are as follows:

| | <u>Beginning Balance 07/01/14</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance 06/30/15</u> |
|---|---|------------------|------------------|--|
| Governmental-type Activities: | | | | |
| Computer Equipment | \$ 302,695 | \$ 65,437 | \$ - | \$ 368,132 |
| Furniture and Fixtures | 18,718 | - | - | 18,718 |
| Automotive | 546,118 | - | - | 546,118 |
| Total Capital Assets at Historical Cost | 867,531 | 65,437 | - | 932,968 |
| Less: Accumulated Depreciation | | | | |
| Computer Equipment | 100,496 | 46,480 | - | 146,976 |
| Furniture and Fixtures | 5,261 | 936 | - | 6,197 |
| Automotive | 319,276 | 32,674 | - | 351,950 |
| Total Accumulated Depreciation | 425,033 | 80,090 | - | 505,123 |
| Governmental Activities Capital Assets, Net | \$ 442,498 | \$ (14,653) | \$ - | \$ 427,845 |

All Capital Assets listed above are being depreciated. The Office of Superintendent of Insurance does not have any Capital Assets that are not being depreciated, such as land.

Depreciation expense for the current year is \$80,090 for the governmental funds.

NOTE 6: PATIENTS' COMPENSATION FUND CLAIMS

The New Mexico Patients' Compensation Fund (PCF) serves a vital role in supporting the overall health of the medical professional liability insurance (PSLI) system in New Mexico. The PCF provides excess coverage that stabilizes the operating results of participating insurers and encourages competition which leads to greater availability and affordability of coverage. In New Mexico and other states, a competitive MPLI market tends to attract new physicians leading to greater access to care. The coverage provided by the PCF requires the use of an occurrence coverage form, preferred by healthcare providers, with limits that provide comprehensive coverage to ensure that injured patients receive appropriate compensation for their injuries. As a result, all stakeholders in the New Mexico healthcare system benefit in some way from a healthy PCF.

One way that the Office of Superintendent of Insurance ensures the ongoing health of the PCF is to conduct is to mandatory biennial actuarial review. The review examines several aspects of the PCF including analyses of indicated reserves for unpaid losses, appropriate assessment surcharges for upcoming policy periods, the impact of potential legislative changes and an examination of the competitive landscape for MPLI in New Mexico and surrounding areas.

The actuarial analysis will be conducted by a third party on the Patient's Compensation Fund during fiscal year 2016. There are significant actuarial assumptions used in estimating potential liabilities, including the rate of return on investment and the number and cost of claims, among others. The differences in any of the assumptions and actual results may significantly change the potential liabilities. All claim liabilities are paid out of the Patients' Compensation Fund.

NOTE 7: SPECIAL APPROPRIATIONS

The following describes the status of special appropriations the Department received.

**State of New Mexico
Office of Superintendent of Insurance
Schedule of Special Appropriations
June 30, 2015**

| Appropriation | Appropriation End Date | Current Year Revenue | Amount Appropriated | Current Year Expenditures | Project to Date Expenditures | Unexpended Portion |
|---|------------------------|----------------------|---------------------|---------------------------|------------------------------|--------------------|
| Laws of 2014, Chapter 63, Section 7 | 6/30/2016 | \$ - | \$ 590,000 | \$ 210,187 | \$ 590,000 | \$ - |
| Laws of 2015, Chapter 101, Section 7 | 6/30/2017 | \$ - | \$ 750,000 | \$ 416,214 | \$ 416,214 | \$ 333,786 |
| Laws of 2015, Chapter 101, Section 5 | 6/30/2016 | \$ 100,000 | \$ 100,000 | \$ - | \$ - | \$ 100,000 |

- Laws of 2014, Chapter 63, Section 7, Item 10 extended the appropriation to 6/30/16 originally established under Laws of 2012, Chapter 19, Section 7, item 11. The purpose of the appropriation is to migrate the insurance system and processes towards a paperless, web-based environment. The appropriation is from the assessments authorized by Section 59A-6-1-1, NMSA 1978 for an insurance division licensing and revenue accounting system. The appropriation was budgeted within the general operating fund 11690 (Z20711).

NOTE 7: SPECIAL APPROPRIATIONS CONT.

- Laws of 2015, Chapter 101, Section 7, Item 17 extended the appropriation to 6/30/17 originally established under Laws of 2013, Chapter 227, Section 7, item 13. The purpose of the appropriation is to migrate the insurance system and processes towards a paperless, web-based environment. The appropriation is from the assessments authorized by Section 59A-6-1-1, NMSA 1978 for an insurance division licensing and revenue accounting system. The appropriation was budgeted within the general operating fund 11690 (Z30713). The remaining budget balance of \$333,786 will re-budgeted in fiscal year 2016.
- Laws of 2015, Chapter 101, Section 5, Item 27 extended the appropriation to 6/30/16 originally established under Laws of 2014, Chapter 63, Section 5, item 39. The purpose of the appropriation is to perform an audit of premium tax collections. The appropriation will be re-budgeted in fiscal year 2016 within the general operating fund 11690 (Z40539).

NOTE 8: CHANGES IN SHORT-TERM LIABILITIES

The changes in short-term liabilities for government type activities are as follows:

| | <u>Balance</u> <u>Beginning</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balances</u> <u>Ending *</u> |
|------------------------------|------------------------------------|-------------------|---------------------|------------------------------------|
| Compensated Absences: | | | | |
| Annual Leave | \$ 226,253 | \$ 277,230 | \$ (264,756) | \$ 238,727 |
| Compensatory Leave | 25,083 | 18,440 | (37,839) | 5,684 |
| Sick Leave | 5,332 | 3,334 | (4,440) | 4,226 |
| Total Short-Term Liabilities | <u>\$ 256,668</u> | <u>\$ 299,004</u> | <u>\$ (307,035)</u> | <u>\$ 248,637</u> |

*The estimated amount expected to be paid for Compensated Absences within one year is \$248,637, which is listed on the Statement of Net Position.

NOTE 9: DUE TO AND DUE FROM OTHER STATE AGENCIES

The following are short-term amounts owed between state agencies and are classified as due to and due from other state agencies.

Interagency Receivables

| <u>Fund Type</u> | <u>SHARE Fund Number</u> | <u>Due From Other Agencies</u> | <u>Due From SHARE Agency Number</u> | <u>Due From SHARE Fund Number</u> |
|------------------|----------------------------------|--|---|---|
| General Fund | 11850 | \$ 228 | 39400 | 80100 |
| Totals | | <u>\$ 228</u> | | |

Interagency Payables

| <u>Fund Type</u> | <u>SHARE Fund Number</u> | <u>Due to Other Agencies</u> | <u>Due to SHARE Agency Number</u> | <u>Due to SHARE Fund Number</u> |
|------------------|----------------------------------|----------------------------------|---|---|
| Agency Fund | 11820 | \$ 50,485,817 | 34101 | 85300 |
| Agency Fund | 11820 | 18,865,950 | 43000 | 57800 |
| Agency Fund | 11820 | 4,282,156 | 34100 | 73600 |
| Agency Fund | 11820 | 4,095 | 34100 | 04500 |
| Totals | | <u>\$ 73,638,018</u> | | |

NOTE 10: REVERSIONS

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale dated warrants and prior year reimbursements are also due to the State General Fund. Amounts due to the State General Fund for the year ending June 30, 2015 were paid in September 2015.

Current year reversions Due to the State General Fund as June 30, 2015:

| General Fund | <u>SHARE System Fund 11810</u> | <u>SHARE System Fund 11690</u> | <u>Total</u> |
|--|--|--|---------------------|
| Current Year: | | | |
| FY 15 Reversions | \$ 3,493,610 | \$ 472,968 | \$ 3,966,578 |
| Prior Year Reversions | <u>2,612,587</u> | <u>-</u> | <u>2,612,587</u> |
| Total Reversions Due to the State General Fund | <u>\$ 6,106,197</u> | <u>\$ 472,968</u> | <u>\$ 6,579,165</u> |

NOTE 11: OTHER FINANCING SOURCES AND USES

During the fiscal year, the Department transferred funds that were recorded as "Other Financing Sources/Uses". The purpose of the transfers from the special revenue funds to the general fund were to comply with the allocated operating budget.

Other financing sources and uses consist of the following:

Other financing sources and uses consist of the following:

| | Transfers | |
|-----------------------------------|---------------------|---------------------|
| | In | Out |
| Insurance Operating Fund | \$ 7,868,700 | \$ - |
| Insurance Operations Fund | - | 5,340,200 |
| Patients' Compensation Fund | - | 665,100 |
| Title Ins Maintenance Asses. Fund | - | 502,500 |
| Insurance Fraud Fund | - | 1,360,900 |
| Grand Total | <u>\$ 7,868,700</u> | <u>\$ 7,868,700</u> |

NOTE 12: OPERATING LEASE COMMITMENTS

The Department is obligated for the lease of mailing equipment, which is being accounted for as operating lease. Operating leases do not give rise to property rights or lease obligations; therefore, this lease agreement includes a cancellation clause and is contingent upon legislative appropriation.

Future minimum annual payments under the operating lease agreement for the mailing equipment are as follows:

| Year Ended June 30, | |
|------------------------------|---------------------|
| 2016 | \$ 167,791 |
| 2017 | 159,081 |
| 2018 | 150,374 |
| 2019 | 149,958 |
| 2020 | 128,330 |
| Subsequent Years | <u>386,474</u> |
| Total Minimum Lease Payments | <u>\$ 1,142,008</u> |

NOTE 13: RETIREMENT PLANS (STATE PERA)

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico (the State) has implemented the standard for the fiscal year ending June 30, 2015.

The Office of Superintendent of Insurance, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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

NOTE 14: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE

Plan Description. The Office of Superintendent of Insurance contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act. The Office of Superintendent of Insurance's contributions to the RHCA for the years ended June 30, 2015 and 2014 were \$80,197 and \$72,155, respectively, which equal the required contributions for each year.

NOTE 15: FUND BALANCE

Government Fund Balances - Restricted and Committed

The OSI's fund balances represent: (1) *Restricted Fund Balance*, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other government or imposed by law through constitutional provisions or enabling legislation; (2) *Committed Fund Balance*, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; (3) *Non-Spendable Fund Balance*, which 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; (4) *Unassigned Fund Balance*, which includes a portion of fund balance that is residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amount in any of the unrestricted fund balance classification could be used.

The following is a summary of the Restricted Fund Balance amounts by fund type at June 30, 2015:

| | |
|---|----------------------|
| Governmental Funds | |
| Major Governmental Funds: | |
| General Operating Fund (11690) | \$ 2,090,893 |
| Insurance Operations Fund (11810) | 3,324,423 |
| Patients' Compensation Fund (11850) | 48,908,412 |
| Nonmajor Governmental Funds: | |
| Insurance Licensee Cont. Educ. Fund (11830) | 1,119,604 |
| Insurance Examinations Fund (11840) | 1,387 |
| Title Ins. Maintenance Assess Fund (11860) | 349,542 |
| Insurance Fraud Fund (11880) | 833,895 |
| | <u>\$ 56,628,156</u> |

The OSI did request the use of \$18,149,600 in its fiscal year 2016 request. This amount requested was in the Patients' Compensation Fund 11850, thereby reducing the amount of the appropriation request.

The Department also requested the use of \$1,200,100 and \$18,730,100 in its fiscal year 2017 request. These amounts requested were in the Insurance Operating Fund 11690 and in the Patients' Compensation Fund 11850, respectively, thereby reducing the amount of the appropriation request.

The OSI has a portion of fund balance in the amount of \$103,778 that is Nonspendable. This amount consists of prepaid expenses.

NOTE 16: GENERAL FUND INVESTMENT POOL NOT RECONCILED

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's office (STO). Claims on the SGFIP are reported as financial assets by the various investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phrase I the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year-end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

1. The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used;
2. Agency claims on the SGFIP will be honored in their entirety. Any adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

NOTE 17: NEW ACCOUNTING STANDARDS

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The OSI will implement this standard during the fiscal year ended June 30, 2016. The OSI is still evaluating how this pronouncement will affect the financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The OSI is still evaluating how this pronouncement will affect the agency.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for financial statements for fiscal years beginning after June 15, 2016. The OSI is still evaluating how this pronouncement will affect the agency.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The OSI is still evaluating how this pronouncement will affect the agency.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The OSI will implement this standard during the fiscal year ended June 30, 2016. The OSI is still evaluating how this pronouncement will affect the agency.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The OSI will implement this standard during the fiscal year ended June 30, 2017. The OSI is still evaluating how this pronouncement will affect the financial statements.

NOTE 18: RISK MANAGEMENT AND LITIGATION

The OSI is exposed to various risks of losses related to torts; theft of, and damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been created which allow RMD to insure, self-insure or use a combination of both. Any claims are processed through RMD. There are not pending or known threatened legal proceedings involving material matters to which the OSI is a party.

NOTE 19: SUBSEQUENT EVENTS

The Department received a special appropriation of one hundred thousand dollars (\$100,000) from the internal services funds/interagency transfers in Subsection 39 of Section 5 of Chapter 63 of Laws 2014 for an audit of premium tax collections. House Bill 2 in 2015 extended the deadline to complete the premium tax audit through fiscal year 2016, subject to oversight by the state auditor. The premium tax audit will assess current and past operations of premium tax reporting, collections and distributions. As of the date of this annual financial audit, the Department has selected an Independent Public Accountant (IPA) firm to conduct the special premium tax audit, but the work has not begun yet. In addition, OSI's Financial Audit Bureau (Premium Tax) conducts reviews of tax reporting and collections of the current and past periods on an ongoing basis. Based on the results of the reviews in process by the Department's Financial Audit Bureau and possibly other personnel of the Department, as well as the results of the special premium tax audit which will be conducted by the IPA, there may be tax assessments, penalties, refunds or credits which are either unknown or are under review and impractical to measure. The potential impact of such is not reflected in the financial statements and/or in the notes to the financial statements at this time.

NOTE 20: MEMORANDUM OF UNDERSTANDING (MOU) DISCLOSURE

2015 Financial Audit – MOU between the OSI and the Office of the State Auditor (OSA) to perform the 2015 Financial and Compliance Audit.

- o Responsible Party for Operations: OSI / OSA
- o Time Period: August 11, 2015 – August 11, 2016
- o Total Estimated Amount of Project and portion applicable to OSI: \$55,000.00
- o Amount Agency Contributed in Fiscal Year 2015: \$-0-
- o Audit Responsibility: OSI / OSA
- o Revenue Reported: OSA
- o Expenditure Reported: OSI

Representation for Collective Bargaining Issues – MOU between the OSI, Multiple Agencies and the State Personnel Office (SPO) to provide representation during collective bargaining negotiations.

- o Responsible Party for Operations: OSI / SPO
- o Time Period: September 22, 2014 – Indefinite
- o Total Estimated Amount of Project and portion applicable to OSI: \$206.05
- o Amount Agency Contributed in Fiscal Year 2015: \$206.05
- o Audit Responsibility: OSI / SPO
- o Revenue Reported: SPO
- o Expenditure Reported: OSI

Human Resource Management – MOU between the OSI and the State Personnel Office (SPO) to provide human resource management services for fiscal year 2015.

- o Responsible Party for Operations: OSI / SPO
- o Time Period: July 1, 2014 – June 30, 2015

- Total Estimated Amount of Project and portion applicable to OSI: \$87,600.00
- Amount Agency Contributed in Fiscal Year 2015: \$69,350.00
- Audit Responsibility: OSI / SPO
- Revenue Reported: SPO
- Expenditure Reported: OSI

Implementation Assistance of the Affordable Care Act – MOU between the OSI and the New Mexico Health Insurance Exchange (NMHIX) to provide a mechanism to support regulatory and quasi-regulatory activities carried out by the OSI in support of the NMHIX and the New Mexico’s implementation of the Affordable Care Act with funds received by the NMHIX.

- Responsible Party for Operations: OSI / NMIX
- Time Period: March 14, 2014 – December 31, 2019
- Total Estimated Amount of Project and portion applicable to OSI: \$2,445,000.00
- Amount Agency Contributed in Fiscal Year 2015: \$-0-
- Audit Responsibility: OSI / NMIX
- Revenue Reported: OSI
- Expenditure Reported: OSI

Geographic Information System Project – Collaboration between the OSI and the University of New Mexico (UNM) Earth Data Analysis Center (EDAC) to provide the planning and development of a Geographic Information System (GIS) prototype project.

- Responsible Party for Operations: OSI / UNM
- Time Period: January 20, 2015 – December 31, 2016
- Total Estimated Amount of Project and portion applicable to OSI: \$148,535
- Amount Agency Contributed in Fiscal Year 2015: \$-0-
- Audit Responsibility: OSI / UNM
- Revenue Reported: UNM
- Expenditure Reported: OSI

Background and Criminal Identification System – User agreement between the OSI and the Department of Public Safety (DPS) to obtain criminal history record information.

- Responsible Party for Operations: OSI / DPS
- Time Period: January 14, 2014 – November 5, 2016
- Total Estimated Amount of Project and portion applicable to OSI: \$-0-
- Amount Agency Contributed in Fiscal Year 2015: \$-0-
- Audit Responsibility: OSI / DPS
- Revenue Reported: Agreement only, no funds transferred
- Expenditure Reported: Agreement only, no funds transferred

Occupancy and Space Assignment – Agreement between the OSI and the General Services Department (GSD) to use the designated premises as office space for OSI’s staff and contractors to carry out its statutory responsibilities.

- Responsible Party for Operations: OSI / GSD
- Time Period: November 13, 2013 – Indefinite
- Total Estimated Amount of Project and portion applicable to OSI: \$-0-
- Amount Agency Contributed in Fiscal Year 2015: \$-0-
- Audit Responsibility: OSI / GSD
- Revenue Reported: Agreement only, no funds transferred
- Expenditure Reported: Agreement only, no funds transferred

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
NON MAJOR GOVERNMENTAL FUNDS
June 30, 2015

Insurance Examination Fund (11840) To account for funds received from insurance companies and insurance agencies which have been financially audited and examined for financial solvency and claim payment practices. These funds are used to defray travel and per diem costs pursuant to Section 59A-4-14 NMSA 1978 and is non-reverting.

Insurance Licensee Continuing Education Fund (11830) To account for funds received and expended for the purpose of administering the continuing education program pursuant to the provisions of Section 59A-12-26 NMSA 1978. The fund is non-reverting.

Title Insurance Maintenance Fund (11860) To account for fees relating to the New Mexico Title Insurance Law, Section 59A-30-1 through 59A-30-15 NMSA 1978. The Superintendent of Insurance determines a rate of assessment and collects a maintenance fee that does not exceed 1% of the gross title insurance premiums on policies written in New Mexico. The fee is deposited into the "Title Insurance Maintenance Assessment Fund" for use in paying expenses incurred in regulating and administering the New Mexico Title Insurance Law, including compensation and expenses of personnel and consultants. The purpose of the program is to promulgate rules and regulations to protect consumers and purchasers of title insurance pursuant to the McCarran-Ferguson Act (P.L. 79-15, U.S.C. Section 1001-1015). The fund is non-reverting.

Insurance Fraud Fund (11880) To account for all fees collected under the provisions of the Insurance Fraud Act, Section 59A-16C-1 through 59A-16C-16, NMSA 1978, which shall be deposited in the fund and are subject to appropriation for use in paying the expenses incurred by the Office of Superintendent of Insurance in carrying out the provisions of the Insurance Fraud Act. The fund is a continuing, nonreverting fund.

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

| | <u>Insurance Examination Fund-11840</u> | <u>Insurance Licensee Continuing Education -11830</u> | <u>Title Insurance Maintenance- 11860</u> | <u>Insurance Fraud - 11880</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|---|---|---|------------------------------------|---|
| ASSETS | | | | | |
| State General Fund Investment Pool | \$ 1,387 | \$ 1,119,604 | \$ 349,542 | \$ 833,895 | \$ 2,304,428 |
| Investments | - | - | - | - | - |
| Federal Grants Receivable | - | - | - | - | - |
| Due from Other Funds | - | - | - | - | - |
| Due from Other State Agencies | - | - | - | - | - |
| Inventories | - | - | - | - | - |
| Prepaid Expenses | - | - | - | - | - |
| Total Assets | <u>\$ 1,387</u> | <u>\$ 1,119,604</u> | <u>\$ 349,542</u> | <u>\$ 833,895</u> | <u>\$ 2,304,428</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Voucher Payable | \$ - | \$ - | \$ - | \$ - | \$ - |
| Payroll Benefits & Taxes Payable | - | - | - | - | - |
| Accrued Wages Payable | - | - | - | - | - |
| Due to Other Funds | - | - | - | - | - |
| Due to State General Fund | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - |
| Due to Other State Agencies | - | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Prepaid Expenses | - | - | - | - | - |
| Restricted for: | | | | | |
| Special Purposes | 1,387 | 1,119,604 | 349,542 | 833,895 | 2,304,428 |
| Total Fund Balances | <u>1,387</u> | <u>1,119,604</u> | <u>349,542</u> | <u>833,895</u> | <u>2,304,428</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,387</u> | <u>\$ 1,119,604</u> | <u>\$ 349,542</u> | <u>\$ 833,895</u> | <u>\$ 2,304,428</u> |

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ending June 30, 2015

| | <u>Insurance Examination Fund-11840</u> | <u>Insurance Licensee Continuing Education -11830</u> | <u>Title Insurance Maintenance- 11860</u> | <u>Insurance Fraud - 11880</u> | <u>Total-Other Governmental Funds</u> |
|--|---|---|---|------------------------------------|---|
| REVENUES | | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ 1,378,597 | \$ 1,378,597 |
| Investment Earnings | - | - | - | - | - |
| Special Appropriation | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - |
| Miscellaneous | - | - | - | 92 | 92 |
| Federal Revenue | - | - | - | - | - |
| Other Fees | - | 97,455 | 675,000 | - | 772,455 |
| Total Revenues | <u>-</u> | <u>97,455</u> | <u>675,000</u> | <u>1,378,689</u> | <u>2,151,144</u> |
| EXPENDITURES | | | | | |
| Personnel Services & Employee Benefits | - | - | - | - | - |
| Contractual Services | - | - | - | - | - |
| Other | - | - | - | - | - |
| Capital Outlay | - | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over Expenditure | <u>-</u> | <u>97,455</u> | <u>675,000</u> | <u>1,378,689</u> | <u>2,151,144</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating Transfers In | - | - | - | - | - |
| Operating Transfers Out | - | - | (502,500) | (1,360,900) | (1,863,400) |
| Total Other Financing Sources and Uses | <u>-</u> | <u>-</u> | <u>(502,500)</u> | <u>(1,360,900)</u> | <u>(1,863,400)</u> |
| Net Change in Fund Balances | <u>-</u> | <u>97,455</u> | <u>172,500</u> | <u>17,789</u> | <u>287,744</u> |
| Fund Balances - beginning | 1,387 | 1,022,149 | 177,042 | 816,106 | 2,016,684 |
| Fund Balances - ending | <u>\$ 1,387</u> | <u>\$ 1,119,604</u> | <u>\$ 349,542</u> | <u>\$ 833,895</u> | <u>\$ 2,304,428</u> |

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
INSURANCE EXAMINATION FUND - 11840
For the Year Ending June 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|--------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> | <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u> |
| REVENUES | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ - |
| Investment Earnings | - | - | - | - |
| Special Appropriation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Federal Revenue | - | - | - | - |
| Other Fees | - | - | - | - |
| Total Revenues | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXPENDITURES | | | | |
| Personnel Services & Employee Benefits | - | - | - | - |
| Contractual Services | - | - | - | - |
| Other | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | - | - |
| Transfers Out | - | - | - | - |
| Total Other Financing Sources and Uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | - | - | - | - |
| Fund Balances - beginning | - | - | 1,387 | (1,387) |
| Fund Balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,387</u> | <u>\$ (1,387)</u> |

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
INSURANCE LICENSEE CONTINUING EDU. FUND - 11830
For the Year Ending June 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|--------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> | <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u> |
| REVENUES | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ - |
| Investment Earnings | - | - | - | - |
| Special Appropriation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Federal Revenue | - | - | - | - |
| Other Fees | - | - | 97,455 | 97,455 |
| Total Revenues | <u>-</u> | <u>-</u> | <u>97,455</u> | <u>97,455</u> |
| EXPENDITURES | | | | |
| Personnel Services & Employee Benefits | - | - | - | - |
| Contractual Services | - | - | - | - |
| Other | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>-</u> | <u>-</u> | <u>97,455</u> | <u>97,455</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | - | - |
| Transfers Out | - | - | - | - |
| Total Other Financing Sources and Uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | - | - | 97,455 | (97,455) |
| Fund Balances - beginning | - | - | 1,022,149 | (1,022,149) |
| Fund Balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,119,604</u> | <u>\$ (1,119,604)</u> |

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
TITLE INSURANCE MAINTENANCE FUND - 11860
For the Year Ending June 30, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|------------------|------------------------|-----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> | <u>Final Budget -</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| REVENUES | | | | |
| Insurance Tax | \$ - | \$ - | \$ - | \$ - |
| Investment Earnings | - | - | - | - |
| Special Appropriation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Federal Revenue | - | - | - | - |
| Other Fees | 502,500 | 502,500 | 675,000 | 172,500 |
| Total Revenues | <u>502,500</u> | <u>502,500</u> | <u>675,000</u> | <u>172,500</u> |
| EXPENDITURES | | | | |
| Personnel Services & Employee Benefits | - | - | - | - |
| Contractual Services | - | - | - | - |
| Other | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>502,500</u> | <u>502,500</u> | <u>675,000</u> | <u>172,500</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | - | - |
| Transfers Out | (502,500) | (502,500) | (502,500) | - |
| Total Other Financing Sources and Uses | <u>(502,500)</u> | <u>(502,500)</u> | <u>(502,500)</u> | <u>-</u> |
| Net Change in Fund Balances | - | - | 172,500 | (172,500) |
| Fund Balances - beginning | - | - | 177,042 | (177,042) |
| Fund Balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 349,542</u> | <u>\$ (349,542)</u> |

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
INSURANCE FRAUD FUND - 11880
For the Year Ending June 30, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|--------------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> | <u>Final Budget - Positive (Negative)</u> |
| REVENUES | | | | |
| Insurance Tax | \$ 1,360,900 | \$ 1,360,900 | \$ 1,378,597 | \$ 17,697 |
| Investment Earnings | - | - | - | - |
| Special Appropriation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Miscellaneous | - | - | 92 | 92 |
| Federal Revenue | - | - | - | - |
| Other Fees | - | - | - | - |
| Total Revenues | <u>1,360,900</u> | <u>1,360,900</u> | <u>1,378,689</u> | <u>17,789</u> |
| EXPENDITURES | | | | |
| Personnel Services & Employee Benefits | - | - | - | - |
| Contractual Services | - | - | - | - |
| Other | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>1,360,900</u> | <u>1,360,900</u> | <u>1,378,689</u> | <u>17,789</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | - | - |
| Transfers Out | (1,360,900) | (1,360,900) | (1,360,900) | - |
| Total Other Financing Sources and Uses | <u>(1,360,900)</u> | <u>(1,360,900)</u> | <u>(1,360,900)</u> | <u>-</u> |
| Net Change in Fund Balances | - | - | 17,789 | (17,789) |
| Fund Balances - beginning | - | - | 816,106 | (816,106) |
| Fund Balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 833,895</u> | <u>\$ (833,895)</u> |

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
AGENCY FUNDS
June 30, 2015

Agency funds are used to account for assets held as an agent for other governmental units, for claimants and for other funds. The agency funds of the Department are as follows:

Trust Funds with the Superintendent of Insurance Fund (11870) Section 59A-10-4, NMSA 1978 requires insurance companies to deposit with the State Treasurer, through the Office of Superintendent of Insurance, certain securities to be held in trust for the benefit of all its policy holders and creditors. Since the Office of Superintendent of Insurance is acting in a fiduciary capacity, a separate agency fund has been set up to reflect the assets held and related liability. There are no revenues collected on these funds as any earnings are forwarded to the insurance companies and no expenses are attributed to this fund.

Insurance Suspense Fund (11820) To account for the collection of fees, licenses, penalties and taxes and payments to the Fire Protection Fund and other various state agencies with the excess transferring to the State General Fund.

STATE OF NEW MEXICO
OFFICE OF SUPERINTENDENT OF INSURANCE
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - ALL AGENCY FUNDS
June 30, 2015

| TRUST FUNDS WITH SUPERINTENDENT (11870) | Balance July 1, 2014 | Additions | (Deletions) | Balance June 30, 2015 |
|--|---------------------------------|-----------------------|-------------------------|----------------------------------|
| ASSETS | | | | |
| Cash in banks - anacillary receivership | \$ 727,110 | \$ 699,101 | \$ (30,975) | \$ 1,395,236 |
| Security deposits | 471,554,000 | 124,628,300 | (118,550,600) | 477,631,700 |
| Total assets | <u>\$ 472,281,110</u> | <u>\$ 125,327,401</u> | <u>\$ (118,581,575)</u> | <u>\$ 479,026,936</u> |
| LIABILITIES | | | | |
| Deposits held in trust | \$ 472,281,110 | \$ 125,327,401 | \$ (118,581,575) | \$ 479,026,936 |
| Total liabilities | <u>\$ 472,281,110</u> | <u>\$ 125,327,401</u> | <u>\$ (118,581,575)</u> | <u>\$ 479,026,936</u> |
| INSURANCE SUSPENSE (11820) | | | | |
| ASSETS | | | | |
| Investments, State Treasurer Investment Pool | \$ 1,780,334 | \$ 282,719,391 | \$ (280,112,290) | \$ 4,387,435 |
| Other Receivables | - | 72,401,504 | - | 72,401,504 |
| Total assets | <u>\$ 1,780,334</u> | <u>\$ 355,120,895</u> | <u>\$ (280,112,290)</u> | <u>\$ 76,788,939</u> |
| LIABILITIES | | | | |
| Vouchers Payable | \$ - | \$ 12,140,025 | \$ (12,140,025) | \$ - |
| Due to state general fund | 725,498 | 74,940,386 | (25,180,067) | 50,485,817 |
| Due to other agency funds | - | - | - | - |
| Due to other Funds | 274,412 | 1,130,711 | (632,940) | 772,183 |
| Due to local government | 79,265 | 1,768,098 | (1,847,363) | - |
| Due to external parties-governmental funds | - | - | - | - |
| Due to other state agencies | 701,159 | 39,436,223 | (16,985,181) | 23,152,201 |
| Undistributed receipts | - | 309,105,925 | (306,832,074) | 2,273,851 |
| Other Liabilities | - | 104,887 | - | 104,887 |
| Total liabilities | <u>\$ 1,780,334</u> | <u>\$ 438,626,255</u> | <u>\$ (363,617,650)</u> | <u>\$ 76,788,939</u> |

Office of Superintendent of Insurance

Schedule of Vendor Information for Purchases Exceeding \$60,000 (excluding GRT)

| RFB#/RFP#/State-Wide Price Agreement # | Type of Procurement | Awarded Vendor | \$ Amount of Awarded Contract | \$ Amount of Amended Contract | Name and Physical Address of ALL Vendor(s) that responded | In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition) | Was the vendor in-state and chose Veteran's preference (Y or N) | Brief Description of the Scope of Work |
|--|---------------------------------|----------------|-------------------------------|-------------------------------|---|---|---|--|
| RFP 15-440-50-00001 | Competitive Sealed Proposal/PSC | Michael Demers | \$ 200,000.00 | N/A | Michael A. Demers; 735 Canal Blvd, SW Los Lunas, NM 87031 | Y | N | Provide claims adjustments for Patient's Compensation Fund |



Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Mr. John G. Franchini, Superintendent of Insurance
Office of Superintendent of Insurance
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons for the general fund and major special revenue funds, of the Office of Superintendent of Insurance's (OSI), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the OSI's basic financial statements, and the combining and individual funds and related budgetary comparisons of the OSI presented as supplemental information, and have issued our report thereon dated November 30, 2015.

Internal Control over Financial Reporting

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

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

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

accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency as item 2014-001.

Compliance and Other Matters

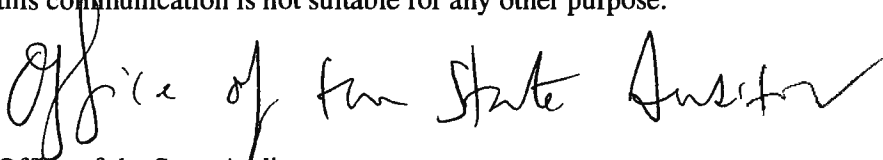
As part of obtaining reasonable assurance about whether the OSI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-002, 2014-003, 2014-004, 2015-001, and 2015-002.

OSI's Responses to the Findings

The OSI's responses to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The OSI's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Office of the State Auditor
Santa Fe, New Mexico
November 30, 2015



Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mr. John G. Franchini, Superintendent of Insurance
Office of Superintendent of Insurance
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the Office of Superintendent of Insurance's (OSI) 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 the OSI's major federal programs for the year ended June 30, 2015. The OSI's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for OSI's major federal program based on our audit of the types of compliance requirements referred to above. 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 OSI'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the OSI's compliance.

Opinion on the Major Federal Program

In our opinion, the OSI, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items FA2015-003, FA2015-004, and FA2015-005. Our opinion on each major federal program is not modified with respect to these matters.

The OSI's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The OSI's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

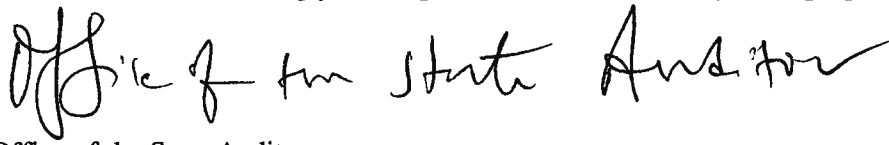
Management of the OSI, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the OSI, the OSI's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 OSI's internal control over compliance.

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 a 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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items FA2015-003, FA2015-004, and FA2015-005 that we consider to be significant deficiencies.

The OSI's responses to the internal control over compliance identified in our audit are described in the accompanying schedule of findings and questioned costs. The OSI's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Office of the State Auditor". The signature is written in a cursive, flowing style.

Office of the State Auditor
Santa Fe, New Mexico
November 30, 2015

**Office of Superintendent of Insurance
Schedule of Expenditures of Federal Awards
For the Year Ending June 30, 2015**

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|--------------------------------|---|---------------------------------|
| Department of Health and Human Services | | | |
| Direct Programs: | | | |
| Health Insurance Rate Review Cycle II | 93.511 | None | \$ 909,094 |
| Affordable Care Act Consumer Assistance Program | 93.519 | None | 65,250 |
| Total Department of Health and Human Services | | | <u>974,344</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 974,344</u> |

Note to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Office of Superintendent of Insurance and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits 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 financial statements.

2. Sub-recipients

The Office of Superintendent of Insurance did not provide any federal awards to subrecipients during the fiscal year.

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENENT OF INSURANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

PRIOR YEAR FINDINGS

**2014-001 CONTROLS OVER PAYROLL - MODIFIED AND REPEATED
2014-002 PAYROLL DOCUMENTATION - MODIFIED AND REPEATED
2014-003 TRAVEL AND PER DIEM - MODIFIED AND REPEATED
2014-004 TRAVEL AND PER DIEM-OTHER TRAVEL- MODIFIED AND REPEATED
2014-005 UN-TIMELY DEPOSIT – RESOLVED**

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENENT OF INSURANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal Control over Financial Reporting | |
| a. Material Weakness Identified? | No |
| b. Significant Deficiencies not considered to be material weakness? | Yes |
| c. Noncompliance Material to the financial statements noted? | No |

Federal Programs:

- | | |
|---|------------|
| 1. Internal Control over major programs: | |
| a. Material Weakness Identified? | No |
| b. Significant Deficiencies not considered to be material weakness? | Yes |
| 2. Type of auditor's report issued on compliance for major program | |
| | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | |
| | Yes |

4. Identification of Major Programs:

| <u>Program Name</u> | <u>CFDA Number</u> |
|---|--------------------|
| Health Insurance Rate Review Cycle II | 93.511 |
| Affordable Care Act Consumer Assistance Program | 93.519 |

- | | |
|--|-----------|
| 5. The threshold for distinguishing Types A & B programs: | \$300,000 |
| 6. The Department was determined to be a low-risk auditee? | No |

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENENT OF INSURANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

CURRENT YEAR FINDINGS

2014-001 CONTROLS OVER PAYROLL (SIGNIFICANT DEFICIENCY)

CONDITION

During our testwork pertaining to controls over payroll, six, out of twelve, supervisors did not have documentation of authorization of leave taken by employees under their supervision. Our testwork identified this issue with twenty one out of forty one, or total two hundred and twenty eight hours, in the items tested.

The OSI did not document overtime approval for five out of six, or forty three hours, items tested.

Based on testwork performed it does not appear that the corrective action plan from prior year is being followed by all employees.

CRITERIA

Per Section 6-5-2(C) NMSA 1978, "State agencies shall implement internal accounting controls designed to prevent accounting errors and violation of state and federal law and rules related to financial matters. In addition, implement controls to prevent the submission of processing documents to the financial control division that contain errors or that are for a purpose not authorized by law."

Per Manual of Accounting Practices 2014, HR 4.1, "Employees must enter exception time into SHARE HCM module for each pay period by FCD's stipulated deadline. State agency Managers/Timekeepers may enter exception time in lieu of employee entry." Furthermore, per 6-5-2(B) NMSA 1978, "state agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed."

EFFECT

Employees could be paid for time they did not work or be compensated for leave that was not accrued.

CAUSE

Supervisors were not properly verifying that leave and overtime were approved.

RECOMMENDATION

The OSI should implement a formal control Department wide, such as a leave request form to ensure all leave actually taken is reflected in SHARE and properly reviewed and approved by the employee's supervisor in addition to the SHARE approval. Furthermore, the OSI should ensure overtime is not accrued for employees that do not have an authorized overtime request form.

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENENT OF INSURANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

MANAGEMENT RESPONSE

The OSI concurs and recognizes the significance of the finding. The OSI will implement a formal control process to ensure all overtime and all leave actually taken is properly reflected in SHARE and properly reviewed and approved by the respective supervisor. The OSI will remind all personnel who authorize leave and/or approve timesheets of the importance, responsibility and liability they are undertaking when authorizing leave and/or approving timesheets. Of equal importance, each OSI employee will also be reminded that each are accountable to properly and correctly report their time worked and leave taken in SHARE. All employees will be informed that falsifying time sheet and approval of such can lead to disciplinary action. Human Resources along with the respective supervisor will be given the responsibility to oversee the corrective action. The OSI is transitioning from the State Personnel Office Shared Services to its own Human Resources; hence, the timeline will begin once the OSI human resources staff becomes familiar with the OSI.

2014-002 PAYROLL DOCUMENTATION (OTHER MATTERS)

CONDITION

During our review of 25 employee personnel files, we noted one employee's Form I-9, *Employment Eligibility Verification*, was signed in FY16 rather than in FY15 at the time of the OSI's internal review of personnel files.

Based on the testwork performed, it appears that OSI has made improvements towards mitigating the condition of the prior year's finding, however, the process is not complete yet.

CRITERIA

The Immigration Reform and Control Act of 1986 (IRCA) requires employers to complete a Form I-9 to document verification of the identity and employment authorization of each new employee (both citizen and noncitizen) hired after November 6, 1986, to work in the United States. In addition, the employer is responsible for completing and retaining the Form I-9.

EFFECT

The OSI was in violation of IRCA in FY15.

CAUSE

The OSI overlooked this employee's file during their internal review of personnel files.

RECOMMENDATION

Management should ensure an updated I-9 is maintained for all employees.

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENENT OF INSURANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

MANAGEMENT RESPONSE

The OSI concurs and recognizes the importance in complying with all federal regulations. The OSI will ensure all of its personnel files are complete and contain all necessary and required payroll documentation. The Human Resources Manager will be given the responsibility to oversee the corrective action. The OSI is transitioning from the State Personnel Office Shared Services to its own human resources; hence, the timeline will begin once the OSI human resource staff becomes familiar with the OSI.

2014-003 TRAVEL AND PER DIEM (OTHER MATTERS)

CONDITION

The OSI did not maintain written documentation for the approval of reimbursements over \$1,500, individually or in the aggregate, for one out of five employees tested.

Based on the testwork performed, it appears that OSI has made improvements towards mitigating the condition of the prior year's finding, however, the process is not complete yet.

CRITERIA

Per section 10-8-5(I) NMSA 1978 a state employee may not be reimbursed more than \$1,500, singly or in the aggregate, in any one year "until the person furnishes in writing to his department head or, in the case of a department head or board or commission member, to the governor or, in the case of a member of the legislature, to the New Mexico legislative council an itemized statement on each separate instance of travel covered within the reimbursement, the place to which traveled and the executive, judicial or legislative purpose served by the travel."

EFFECT

There is an increased risk that employees might be reimbursed for travel not approved creating an opportunity for abuse or non-compliance with laws and regulations.

CAUSE

Travel reimbursements were not monitored to ensure management approval was obtained for employees with reimbursements approaching \$1,500.

RECOMMENDATION

The OSI should ensure total reimbursements by employees are being properly monitored to ensure; management approval is documented and implement a mechanism to require approval when necessary.

**STATE OF NEW MEXICO
OFFICE OF SUPERINTENENT OF INSURANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

MANAGEMENT RESPONSE

The OSI concurs with the recommendation and has implemented a data base consisting of all travel conducted by OSI employees and will implement audit procedures to ensure compliance with state statute. The Chief Financial Officer is responsible to oversee the corrective action. The corrective action implementation has begun.

2014-004 TRAVEL AND PER DIEM-OTHER TRAVEL (OTHER MATTERS)

CONDITION

The Office of the Superintendent of Insurance (OSI) is a member of the National Association of Insurance Commissioners (NAIC). OSI paid a membership fee of \$13,543 during fiscal year 2015 and NAIC made available \$20,000 of grant funds for calendar year 2015 to defray the costs of tuition and related travel expenses to NAIC sponsored education and training programs. The travel reimbursements were submitted by OSI employees and payments were made from NAIC directly to the employee.

The following travel reimbursements made by NAIC to OSI employees were in excess of and not consistent with OSI's policy issued on September 14, 2014 (revised March 30, 2015) governing how all travel reimbursements should be processed regardless of the source of funds being used to reimburse employees. The following was noted in six of the nine reimbursements reviewed.

1. Reimbursement #2
 - a. The employee stayed an additional night during the travel without proper budget verification and pre-approval by Budget and Finance.
2. Reimbursement #3:
 - a. No documentation was provided supporting a total of \$357.20 in mileage reimbursement.
 - b. The employee did not properly submit a travel request prior to the employee leaving on travel. In addition, the employee submitted their expense report directly to the NAIC before Budget and Finance were able to review and pre-audit for accuracy and ensuring all expenses were allowed by law.
3. Reimbursement #5:
 - a. Mileage was reimbursed at a rate of \$0.560 instead of 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.
 - b. No calculation for partial per diem for the last day of travel.
 - c. The employee submitted their expense report directly to the NAIC before Budget and Finance were able to review and pre-audit for accuracy.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

4. Reimbursement #7:
 - a. Reimbursed meals for one day totaled \$49.88 which is over the amount set by allowed by policy.
 - b. The documentation provided did not support a total of \$32.40 in meal reimbursements.
 - c. Reimbursed meals for one day included cab fare of \$14.16.
 - d. Mileage was reimbursed at a rate of \$0.560 instead of 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.
 - e. No calculation for partial per diem for the last day of travel.
 - f. The employee followed policy and submitted their expense report to Budget and Finance for review and pre-audit. Changes were then made to the original report and given back to the employee. The employee ignored the changes made during Budget and Finance's review and submitted the original expense report, without corrections, to the NAIC for reimbursement.

5. Reimbursement #8:
 - a. Mileage was reimbursed at a rate of \$0.560 instead of 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.
 - b. Reimbursed meals for one day included an alcoholic beverage of \$11.00 for a total meal reimbursement of \$38.08 which is in violation of policies.
 - c. The employee submitted their expense report directly to the NAIC before Budget and Finance were able to review and pre-audit for accuracy.

6. Reimbursement #9:
 - a. The reimbursement did not provide any documentation, even after the state statute was brought to their attention, to support a total of \$18.00 in tips, gratuities and parking fee reimbursements.

OSI implemented a travel policy relating to all employee travel regardless of source of funds, however, it appears that some employees repeatedly disregard adherence to the pertinent policy. It appears that management did not follow through the corrective action plan to mitigate prior year's finding.

CRITERIA

State agencies must follow Section 2.42.2.11 NMAC regarding the reimbursement of actual expenses in lieu of per diem rates as well as the policies and procedures developed by OSI policy #OSI FIN-01.

EFFECT

OSI is not in compliance with travel related policy OSI FIN-01. The employee's failure to follow these policies and procedures can result in these grant funds not being utilized to their full potential. In addition, by circumventing the required pre-audit of the travel vouchers, it is possible for employees to receive funds they are not eligible to receive, and further, it is possible that employees can be reimbursed more than once

**STATE OF NEW MEXICO
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June 30, 2015**

for the same travel. Travel involving upper management is especially susceptible to management's override of controls as well as fraud waste and abuse.

CAUSE

Employees did not follow OSI's policies and procedures of policy #OSI FIN-01 and the Mileage and Per Diem Act.

RECOMMENDATION

OSI should ensure the Department's policies and procedures for travel reimbursements by employees are being properly monitored and appropriate approval is obtained when necessary in a timely manner.

MANAGEMENT RESPONSE

The OSI agrees with the finding and recommendation is aware of the importance in complying with the all provisions set forth within the Mileage and Per Diem Act and internal policies when travel is being conducted by state employees. OSI agrees there must be consistency in all staff travel regardless of the funding source. To strengthen its controls over travel, the OSI management will remind all OSI personnel that all rules set forth within the Mileage and Per Diem Act and within the internal OSI policy must be followed when conducting state business travel. In addition, the policy will be re-sent to all OSI employees directing all employees of the immediate adherence and notice of disciplinary action if not followed.

2015-001 CONTROLS OVER VEHICLE USAGE (OTHER MATTERS)

CONDITION

During our testwork over controls over State vehicle usage we noted; two vehicles, out of five tested, appear to be used for commuting, in violation of OSI's policies and IRS regulations, on a daily basis from Santa Fe to Albuquerque. The business purpose for travel in two vehicles, out of five tested, was not documented properly as follows

1. Vehicle #4
 - a. The vehicle was checked out Tuesday the 19th and returned Friday the 22nd for a total travel distance of 324 miles.
 - b. The vehicle was checked out Monday the 15th and returned Friday the 19th for a total travel distance of 318 miles.
 - c. The vehicle was checked out Wednesday the 29th and returned Thursday the 6th for a total travel distance of 376 miles. It was also noted that the vehicle was kept throughout the weekend.

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2. Vehicle #5

- a. The vehicle was checked out Monday the 1st and returned Friday the 5th for a total travel distance of 553 miles.
- b. The following week, the vehicle was checked out Tuesday the 8th and returned Friday the 12th for a total travel distance of 301 miles.
- c. The following week, the vehicle was checked out Sunday the 14th and returned Wednesday the 17th for a total travel distance of 273 miles.
- d. The vehicle was used for one days travel from Santa Fe to Albuquerque and totaled 270 miles.

CRITERIA

OSI's adopted PRC Policy #20, *Operation of State Vehicles*, establishes the guidelines for obtaining proper approval of a state vehicle for commuting purposes as well as how to properly record use of a state vehicle.

The State Audit Rule 2.2.2.10H(2)(ii) *IRS Income Tax Compliance Issues* requires that the use of a commuting vehicle be properly included on and employee's W-2.

EFFECT

The OSI is not in compliance with their vehicle use policy PBC Policy #20, IRS rule 1.61-21. Without proper controls governing the use of State Vehicles State monies are not being used efficiently. The unauthorized usage of these vehicles increases maintenance costs as well as fuel costs for the OSI. In addition, employees are not properly documenting personal use of a State vehicle and are in violation of the IRS Revenue Regulation 1.61.21.

CAUSE

The OSI employees are not properly following vehicle use policy #20 and IRS regulations.

RECOMMENDATION

Establish procedures, including segregation of duties and training, to ensure that employees comply with the vehicle use policies.

MANAGEMENT RESPONSE

The OSI concurs with the recommendation and will begin to devise a OSI policy pertaining to the use of state-owned vehicles. Within the policy it will require that vehicles are not to be used for commuting purposes. In the meantime, the OSI management will ensure its employees do not use state-owned vehicles for commuting purposes. The individual who maintains the agency's fleet will conduct periodic reviews of all vehicle logs and vehicle fuel usage in order to

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

adhere to its policy and during its review bring forth any unusual expenses. The OSI will hold employees accountable for violations of its policies and procedures pertaining to state-owned vehicles.

2015-002 CHIEF PROCUREMENT OFFICER'S REPORTING REQUIREMENT (OTHER MATTER)

CONDITION

In reviewing OSI's compliance with Section 13-1-95.2 NMSA, we noted that the agency did not have a Chief Procurement Officer during fiscal year 2015 as required. We noted that such Officer was hired in fiscal year 2016.

CRITERIA

Per section 13-1-95.2 NMSA, "On or before January 1 of each year beginning in 2014, and every time a chief procurement officer is hired, each state agency and local public body shall provide to the state purchasing agent the name of the state agency's or local public body's chief procurement officer and information identifying the state agency's or local public body's central purchasing office, if applicable. In addition, "a chief procurement officer shall pass a recertification examination approved by the secretary of general services".

EFFECT

The OSI is not in compliance with Section 13-1-95.2 NMSA.

CAUSE

The OSI was in the process of hiring a chief procurement officer during FY15, however the individual was not hired until FY 16.

RECOMMENDATION

OSI should ensure that the chief procurement officer or individual in charge of procurement is certified at any given time.

MANAGEMENT RESPONSE

The OSI concurs with the recommendation. The OSI hired a Procurement Manager who started on August 31, 2015, and will oversee the agency's Procurement functions and serve as the agency's certified procurement officer. The required certification class has since been scheduled. The Chief Financial Officer will ensure the agency has a certified procurement officer at all times under allowable circumstances.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA2015-003 LACK OF INTERNAL CONTROLS OVER REPORTING (SIGNIFICANT DEFICIENCY, NON-COMPLIANCE)

Federal program information:

Funding Department: Department of Health and Human Services

Title: Grants to Support States in Health Insurance Rate Review- Cycle II & Cycle III

CFDA Number: 93.511

Award Year: 2014

CONDITION

During our testwork over Federal Awards we noted the Federal Financial Reports and Programmatic Reports are submitted to the U.S. Department of Health and Human Services without proper documentation of review and without maintaining any documentation to verify when Programmatic Reports were submitted to the Health Insurance Rate Review Grant Program.

CRITERIA

The OMB Circular A-102 Common Rule requires that non-Federal entities receiving Federal awards (i.e., the Department's management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Per OMB Circular A-133, the Department "shall implement a process designed to provide reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and federal reports, maintain accountability over assets and demonstrate compliance with laws, regulations and other compliance requirements. Furthermore, per the grant agreement programmatic reports are due 30 days after the end of each federal fiscal quarter and the annual programmatic report is due 90 days after the end of the applicable year-end date."

CAUSE

The Department has inadequate segregation of duties and management is not adequately overseeing the submission of federal reports. There is no documentation maintained to establish when reports are submitted to the Health Insurance Rate Review Grant Program.

QUESTIONED COSTS

None

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

EFFECT

The OSI may fail to claim available funding. Clerical errors may not be identified prior to the OSI submitting reports. There is an increased risk of fraud, waste, abuse or non-compliance with laws and regulation.

RECOMMENDATION

The OSI should ensure all reports, and the supporting documentation, submitted to federal agencies should be reviewed by management prior to submission. The OSI should maintain documentation showing when federal reports are submitted.

MANAGEMENT RESPONSE

The OSI agrees with the finding and recommendation. The Program Manager who oversees the OSI's federal programs will obtain the necessary knowledge and guidance pertaining to OMB Circular requirements affecting the OSI's federal programs and to ensure that all requirements are followed. The Program Manager will also include as a standard operating procedure a separate review process to ensure all reports required to be submitted, per OMB Circular A-133, are reviewed prior to their submission as an internal control and compliance procedure. The Program Manager is now aware submission screen prints must be printed as data is submitted into to the health insurance oversight system and will do that going forward as support reports are timely submitted.

FA2015-004 SUSPENSION & DEBARMENT EXCEPTION (SIGNIFICANT DEFICIENCY AND NON-COMPLIANCE)

Federal program information:

Funding Department: Department of Health and Human Services

Title: Grants to Support States in Health Insurance Rate Review- Cycle II & Cycle III

CFDA Number: 93.511

Award Year: 2014

CONDITION

OSI does not check to see if federal monies are inappropriately awarded to suspended or debarred parties.

CRITERIA

OMB Cost Circular A-102 states: "Debarment and Suspension. Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the

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effective use of the List of Parties Excluded from Federal Procurement or Non-procurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/ or dissemination of the list to assure that their grantees and sub-grantees (including contractors) at any time do not make awards in violation of the non-procurement debarment and suspension common rule."

CAUSE

Program Manager was unfamiliar of this requirement.

QUESTIONED COSTS

None

EFFECT

OSI could unknowingly award federal assistance to applicants that are ineligible for participation in their programs, causing noncompliance with the grants and potential questioned costs.

RECOMMENDATION

We recommend that management develop policies and procedures, with appropriate training for staff, sufficient to prevent non-compliance with federal reporting requirements including OMB Circulars and their Compliance Supplements.

MANAGEMENT RESPONSE

The OSI agrees with the finding and recommendation and also recognizes and acknowledges the importance of ensuring federal funds are not being awarded to suspended or debarred parties. The Program Manager who oversees the OSI's federal programs has stated he has asked potential contractors if they have been debarred, suspended or otherwise excluded from or ineligible for participating in Federal assistance programs under Executive Order 12549 and has not previously had a protocol for obtaining external verification. The Program Manager will create and institute a protocol to ensure all contractors have met the requirements going forward and will verify all contractors to date have also met the requirements. The corrective action implementation will begin immediately.

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**FA2015-005 LACK OF INTERNAL CONTROLS OVER FEDERAL DISBURSEMENTS
(SIGNIFICANT DEFICIENCY)**

Federal program information:

Funding Department: Department of Health and Human Services

Title: Grants to Support States in Health Insurance Rate Review- Cycle II & Cycle III

CFDA Number: 93.511

Award Year: 2014

CONDITION

OSI did not document whether, or not, the program manager reviewed and approved disbursements, for eight payments totaling \$2,193 out of twenty tested, prior to payment.

CRITERIA

OMB Circular A-133 §_.300(b) requires the auditee to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

OSI's policy is for the program manager to review and approve allowable federal disbursements prior to payment.

CAUSE

OSI does not maintain adequate documentation to establish whether, or not, disbursements are properly approved by management.

QUESTIONED COSTS

None

EFFECT

OSI is unable to provide evidence, in eight instances out of twenty, to establish that disbursements were properly approved. This increases the risk of fraud, waste or abuse and may jeopardize the receipt of federal funding.

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RECOMMENDATION

The program manager should document the review of all disbursements, with approval where appropriate, prior to payment. OSI should ensure all federal disbursements are reviewed and approved by the program manager for allowablity prior to payment.

MANAGEMENT RESPONSE

The OSI concurs with the recommendation and also recognizes and acknowledges the importance of ensuring the Program Manager reviews and approves all proposed disbursements affecting federal funds prior to payment. The referenced instances were payments made for Department of Information Technology recurring services and were paid with the premise the charges were preapproved when the services were originally put into service. The agency's Chief Financial Officer will ensure all proposed invoices are reviewed by the federal Program Manager who oversees the OSI's federal programs prior to the creation of payment. The corrective action implementation has begun.

FA2015-006 MISSING TIME AND EFFORT CERTIFICATIONS (SIGNIFICANT DEFICIENCY, NON-COMPLIANCE)

Federal program information:

Funding Department: Department of Health and Human Services
Title: Grants to Support States in Health Insurance Rate Review- Cycle II & Cycle III
CFDA Number: 93.511
Award Year: 2014

CONDITION

OSI did not:

1. Maintain the minimum semiannual certification report required to substantiate time and effort where employees' time is charged 100% to a grant.
2. Maintain a personnel activity report, or equivalent, where employees worked on both federal and non-federal awards.

CRITERIA

OMB A-87 states, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

Additionally, 2 CFR Part 225 states, "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent

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documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.”

CAUSE

The program manager was unfamiliar of this requirement.

QUESTIONED COSTS

None

EFFECT

OSI may misallocate payroll expenses to federal grants which increases the risk that reported costs are non-compliant with laws, regulations or grant conditions.

RECOMMENDATION

We recommend OSI prepare, approve and maintain semiannual certification, and / or personnel activity, reports.

MANAGEMENT RESPONSE

The OSI concurs with the recommendation and the Program Manager who oversees the OSI's federal programs will review the OMB circular to ensure further required documentation is submitted per OMB A-87 beyond the data produced from the State's human resource system. A certification process will be developed immediately by the Program Manager and future certification will be completed at least semiannually as required in the Circular.

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EXIT CONFERENCE

An exit conference was held on November 24, 2015. The following were in attendance:

Representing the Department:

John G. Franchini Superintendent of Insurance
Jolene M. Gonzales Chief Administrative Officer
Bryan M. Maestas, CGFM Chief Financial Officer
Marlene Acosta, Procurement Manager
Elizabeth Bustos, Accountant/Auditor
Mary Lou Gallegos, Financial Specialist

Representing the State Auditor's Office:

Anna Williams, CPA, Financial Audit Director
Sanjay Bhakta, CPA, CFE, CGFM, CGMA, Deputy State Auditor
Christopher Garcia, Senior Auditor

PREPARATION THE FINANCIAL STATEMENTS

The accompanying financial statements of the Department have been prepared by the State Auditor's Office, the organization's independent public auditor; however, the financial statements are the responsibility of management.