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**Chester W. Mattocks**  
**Certified Public Accountant**

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**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-**  
**HEARING PERSONS**

**ANNUAL FINANCIAL REPORT AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-  
HEARING PERSONS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2007**

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**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-  
HEARING PERSONS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2007**

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**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-  
HEARING PERSONS**

**OFFICIAL ROSTER  
AS OF JUNE 30, 2007**

**Commission Members**

<u>Name</u>	<u>Position</u>
Christine "CB" Buchholz	Chairperson
Judy LeJeune	Vice- Chair
Kimberly Silva	Secretary
Raul Rodriguez	Member
Ron Stern	Member
Damian Romero	Member
Luke Walker	Member

**Administration**

<u>Name</u>	<u>Position</u>
Thomas J. Dillon, III, CPA	Executive Director

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M Chester W. Mattocks  
Certified Public Accountant

P.O. Box 25941  
Albuquerque, New Mexico 87125  
(505) 299-5233

## INDEPENDENT AUDITOR'S REPORT

State of New Mexico  
Commission for the Deaf and  
Hard of Hearing Persons  
Santa Fe, New Mexico

and

Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

I have audited the accompanying financial statements of the governmental activities, each major fund, and the respective budgetary comparisons of the General Fund and the Telecommunications Access Special Revenue Fund of the State of New Mexico, Commission for the Deaf and Hard-of-Hearing Persons (Commission) as of and for the year ended June 30, 2007, which collectively comprise the Commission's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements and the individual fund financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 1A, the financial statements of the Commission, are intended to present the financial position and changes of financial position of only that portion of the governmental activities and each major fund and respective budgetary comparisons of the State of New Mexico that are attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2007 and the changes in its financial position thereof and respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission at June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparisons of the General Fund and the Telecommunications Access Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated April 29, 2009, on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws and regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Commission has not presented its Management's Discussion and Analysis for the year ended June 30, 2007. The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements and the budgetary comparisons. The accompanying financial information listed as Additional Information - Supporting Schedule in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects, in relation to the basic financial statements.

*Chester W. Matthews, CPA*

April 29, 2009

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2007**

	<b><u>Governmental Activities</u></b>
<b><u>ASSETS</u></b>	
Current assets:	
Investment account with New Mexico State Treasurer	\$ 11,224,148
Due from other state agency	60,433
Total current assets	<u>11,284,581</u>
Capital assets:	
Total capital assets, net of accumulated depreciation	8,232
Total assets	<u>11,292,813</u>
<b><u>LIABILITIES</u></b>	
Current Liabilities:	
Investment accounts overdrafts	1,441,994
Accounts payable	560,657
Accrued payroll	8,613
Due to State of New Mexico Department of Finance and Administration	33,683
Compensated absences payable - expected to be paid within one year	12,950
Total current liabilities	<u>2,057,897</u>
Total liabilities	<u>2,057,897</u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets	8,232
Unrestricted	1,753,303
Restricted for Telecommunications Access Act	7,473,381
Total net assets	<u>\$ 9,234,916</u>

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

**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2007**

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	<u>Governmental Activities</u>
<b>EXPENSES:</b>	
General government:	
Personal services/employee benefits	\$ (652,105)
Contractual services	(1,760,685)
Other costs	(377,337)
Depreciation	(4,664)
Total expenses	<u>(2,794,791)</u>
<b>PROGRAM REVENUE</b>	-0-
Net program expense	<u>(2,794,791)</u>
<b>REVENUES:</b>	
General revenues:	3,386,861
Telecommunications relay tax	(175,000)
Transfer to other state agency	<u>3,211,861</u>
Total general revenues	417,070
Change in net assets	<u>8,817,846</u>
Net assets - beginning of year	<u>\$ 9,234,916</u>
Net assets - end of year	

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



**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2007**

	General Fund	Telecomm- unications Access Special Revenue Fund	Total Governmental Funds
<b>ASSETS</b>			
Investment account with New Mexico State Treasurer	\$ -0-	\$ 11,224,148	\$ 11,224,148
Due from other state agency	-0-	60,433	60,433
Due from other fund	3,811,200	-0-	3,811,200
<b>Total assets</b>	<b>\$ 3,811,200</b>	<b>\$ 11,284,581</b>	<b>\$ 15,095,781</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Investment accounts overdrafts	\$ 1,441,994	\$ -0-	\$ 1,441,994
Accounts payable	560,657	-0-	560,657
Accrued payroll	8,613	-0-	8,613
Due to other fund	-0-	3,811,200	3,811,200
Due to State of New Mexico Department of Finance and Administration	33,683	-0-	33,683
<b>Total liabilities</b>	<b>2,044,947</b>	<b>3,811,200</b>	<b>5,856,147</b>
<b>Fund balances:</b>			
Unreserved	1,766,253	-0-	1,766,253
Reserved for Telecommunications Access Act	-0-	7,473,381	7,473,381
<b>Total fund balances</b>	<b>1,766,253</b>	<b>7,473,381</b>	<b>9,239,634</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,811,200</b>	<b>\$ 11,284,581</b>	<b>\$ 15,095,781</b>

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

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS -  
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES  
AS OF JUNE 30, 2007**

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Total fund balances - Governmental Funds  
(Balance Sheet - Governmental Funds) \$ 9,239,634

Amounts reported for governmental activities  
in the Statement of Net Assets are different  
at June 30, 2007 because:

Capital assets used in governmental activities  
are not financial resources and therefore are  
not reported in the fund financial statements.  
These assets consist of:

Capital assets	84,888	
Less accumulated depreciation	<u>(76,656)</u>	
Total capital assets, net of accumulated depreciation		8,232

Some liabilities are not due and payable in the  
current period and therefore are not reported  
in the governmental funds:

Compensated absences payable	<u>(12,950)</u>
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Net assets of Governmental activities (Statement of Net Assets)	<u>\$ 9,234,916</u>
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>General Fund</u>	<u>Telecommu- nications Access</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Telecommunications relay tax	\$ -0-	\$ 3,386,861	\$ 3,386,861
Other			
Total revenues	<u>-0-</u>	<u>3,386,861</u>	<u>3,386,861</u>
<b>EXPENDITURES</b>			
Current:			
General government:			
Personal services/employee benefits	659,000	-0-	659,000
Contractual services	1,760,685	-0-	1,760,685
Other costs	377,337	-0-	377,337
Capital outlay	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total expenditures	<u>2,797,022</u>	<u>-0-</u>	<u>2,797,022</u>
Excess (deficiency) of revenues over Expenditures	<u>(2,797,022)</u>	<u>3,386,861</u>	<u>589,839</u>
Other financing sources (uses):			
Operating transfer in	3,811,200	-0-	3,811,200
Operating transfers out	-0-	(3,811,200)	(3,811,200)
Transfer to other state agency	<u>(175,000)</u>	<u>-0-</u>	<u>(175,000)</u>
Total other financing sources (uses)	<u>3,636,200</u>	<u>(3,811,200)</u>	<u>(175,000)</u>
Net change in fund balances	<u>839,178</u>	<u>(424,339)</u>	<u>414,839</u>
Fund balances- beginning	<u>927,075</u>	<u>7,897,720</u>	<u>8,824,795</u>
Fund balances - ending	<u>\$ 1,766,253</u>	<u>\$ 7,473,381</u>	<u>\$ 9,239,634</u>

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

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENT OF  
 ACTIVITIES - GOVERNMENTAL ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2007**

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Net change in fund balances (Statement of Revenues,  
 Expenditures and Changes in Fund Balances) \$ 414,839

Amounts reported for governmental activities in the  
 Statement of Activities are different for the year  
 ended June 30, 2007 because:

In the Statement of Activities, certain operating expenses -  
 compensated absences payable - are measured by the amounts  
 earned during the year. In the Governmental Funds, however,  
 expenditures are measured by the amount of financial resources  
 used (essentially the amounts actually paid). The decrease in  
 the liability for compensated absences payable for the year  
 was: 6,895

The Governmental Funds report capital outlays as  
 expenditures. However, in the Statement of Activities,  
 the cost of capital assets is allocated over  
 their estimated useful lives and reported as  
 depreciation expenses. In the current year, these  
 amounts were:

Capital outlay expenditures which were capitalized	\$	-0-	
Depreciation		(4,664)	
			<u>(4,664)</u>
Deficiency of capital outlay expenditures over depreciation			<u>(4,664)</u>
Change in net assets of Governmental Activities (Statement of Activities)	\$		<u>417,070</u>

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

**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Other	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total revenues	-0-	-0-	-0-	-0-
<b>EXPENDITURES:</b>				
Current:				
General Government:				
Personal svcs/Employee benefits	715,200	715,200	659,000	56,200
Contractual services	2,650,000	2,485,000	1,542,242	942,758
Other costs	271,000	436,000	351,252	84,748
Total expenditures	3,636,200	3,636,200	2,552,494	1,083,706
Excess (deficiency) of revenues over expenditures	(3,636,200)	(3,636,200)	(2,552,494)	1,083,706
Other financing sources (uses):				
Operating transfer in	3,811,200	3,811,200	3,811,200	-0-
Operating transfer out	(175,000)	(175,000)	(175,000)	-0-
Total other financing sources and uses	3,636,200	3,636,200	3,636,200	-0-
Net change in fund balance	\$ -0-	\$ -0-	\$ 1,083,706	\$ 1,083,706

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

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL - SPECIAL REVENUE FUND -  
TELECOMMUNICATIONS ACCESS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Telecommunications relay tax appropriations	\$ 3,811,200	\$ 3,811,200	\$ 3,386,861	\$ (424,339)
Total revenues	<u>3,811,200</u>	<u>3,811,200</u>	<u>3,386,861</u>	<u>(424,339)</u>
<b>EXPENDITURES:</b>				
Current:				
Other	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	<u>3,811,200</u>	<u>3,811,200</u>	<u>3,386,861</u>	<u>(424,339)</u>
Other financing sources (uses):				
Operating transfer out	<u>(3,811,200)</u>	<u>(3,811,200)</u>	<u>(3,811,200)</u>	<u>-0-</u>
Total other financing sources and uses	<u>(3,811,200)</u>	<u>(3,811,200)</u>	<u>(3,811,200)</u>	<u>-0-</u>
Net change in fund balance	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (424,339)</u>	<u>\$ (424,339)</u>

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

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**NOTES TO FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2007**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Commission for Deaf and Hard-of-Hearing Persons (Commission) was created by Laws of 1991, Chapter 72 (Section 28-11B-1 to 28-11B-4). The Commission consists of seven members, a majority of whom are deaf or hard-of-hearing persons, including three ex-officio members and four members appointed by the governor.

The ex-officio members are the president of the New Mexico Association for the deaf or his designee; the superintendent of the New Mexico school for the deaf or his designee; and, the director of the vocational rehabilitation division of the state department of public education or his designee who shall be knowledgeable in areas of deafness. Appointed members are a parent of a deaf or hard-of-hearing child; a professional person who is deaf or hard-of-hearing; a deaf or hard-of-hearing person who resides in southern New Mexico; and, a deaf or hard-of-hearing person who resides in northern New Mexico.

The Commission's primary purpose is to identify the needs of the deaf and hard-of-hearing population of New Mexico, educate state agencies about deafness, coordinate services with other state agencies for the deaf, advocate equal access and opportunities, provide continuing education for deaf adults, assist in the development of state-wide interpreter referral services and coordinate the certification and evaluation process for interpreters.

In addition, until June 30, 2005, the Commission, along with the General Services Department (GSD), also had administrative oversight of the State's Telecommunications Relay, including full administration of the Equipment Distribution Program under Laws of 1993, Chapter 54.

Effective July 1, 2005, Laws of 2004, Chapter 106, transferred the administration of the Telecommunications Access Act from the General Services Department to the Commission for Deaf and Hard-of-Hearing Persons and provided that the Telecommunications Access Fund is appropriated to the Commission for the purposes of carrying out the provisions of the Telecommunications Access Act. All records, equipment, supplies and other property of the General Services Department relating to the Department's duties pursuant to the Telecommunications Access Act were transferred to the Commission. All General Services Department contracts relating to the Department's duties pursuant to the Telecommunications Access Act are binding on the Commission. Sections 63-9F-5 and 63-9F-7 NMSA 1978 (being Laws 1993, Chapter 54, Sections 5 and 7, as amended) were repealed.

The financial statements for the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement #34 "Basic Financial Statements and Management Discussion and Analysis for State

and Local Governments.” This Statement provided for the most significant change in financial reporting in over twenty years.

The Commission implemented the provisions of GASB #34 effective July 1, 2001. As a part of this Statement, there is a new reporting requirement regarding the government’s infrastructure (road, bridges, etc.) The Commission does not own any infrastructure assets and therefore is unaffected by this requirement. The Commission also implemented the provisions of the later related GASB statements #37 and #38 which affect GASB #34 and its implementation.

#### A. Financial Reporting Entity

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

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

A primary government is any state government or general-purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Commission, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

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

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

No entities were noted that should be considered component units of the Commission. No entities were specifically excluded from the Commission because no entities were noted as meeting any of the criteria for potential inclusion.

The Commission does not have any fiduciary funds or any component units that are fiduciary in nature. If the Commission did have any such funds, they would not be included in the government-wide financial statements.



## B. Basic Financial Statements - GASB Statement #34

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. The new reporting model focus is on either the Commission 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. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Commission did not have any business-type activities during the year ended June 30, 2007, and the Commission has decided not to apply any FASB pronouncements issued after November 30, 1989.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Commission had no program revenues during the year ended June 30, 2007. The Commission includes only one function (general government).

However, the Commission did receive telecommunications access relay taxes during the year ended June 30, 2007. Revenue is recognized when taxes are collected by the State of New Mexico Taxation and Revenue Department.

The net cost (by function or business-type activity) is normally covered by general revenues (intergovernmental revenues or other revenue, etc.). Historically, the previous mode did not summarize or present net cost by function or activity. The Commission does not currently employ indirect cost allocation systems. The Commission's policy for when an expense is incurred for purposes for which both restricted and unrestricted assets are available is to utilize the restricted assets first.

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

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. The General Fund is required to be a major program, and the Special Revenue Fund also is required to be a major fund. Therefore, there are no nonmajor funds. The Commission has no fiduciary funds, but if the Commission did, they would not be included in the government-wide financial statements.

The governmental fund statements are presented on a current financial resources 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 Commission's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column on the governmental-wide presentation.

Interfund accounts which are on the fund financial statements have been eliminated in the government-wide financial statements. They consisted of \$3,811,200 owed to the General Fund by the Telecommunications Access Special Revenue Fund for the operating transfer related to the budget which had not been made as of June 30, 2007.

### C. Basis of Presentation

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

The new reporting model, GASB Statement 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined. All these governmental funds have been classified as major funds by the Authority after considering the criteria for major funds. Only individual governmental or individual enterprise funds can be considered for major fund status.

#### 1. Governmental Fund Types

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

The Commission reports the following major governmental funds.

General Fund – The General Fund (SIARE FUND # 04600- nonreverting as of July 1, 2005) is the general operating fund of the Commission for Deaf and Hard-of-Hearing Persons. It is used to account for all financial resources except those required to be accounted for in another fund. This fund is nonreverting per Laws of 2006, Chapter 109, Section 10 (c).

Special Revenue Fund- The Special Revenue Fund (SHARE FUND # 08000-nonreverting) is the Telecommunications Access Fund, established pursuant to 63-9F-12 and is funded through telecommunications relay service surcharges, related penalties and gifts, grants, fees or bequests. This fund is nonreverting per Laws of 2006, Chapter 109, Section 10 (c).

#### 2. Non-Current Governmental Assets/Liabilities

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

#### 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 applied.

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

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, which was also adopted as of July 1, 2001 by the Commission, 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. Budgetary Accounting

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

1. No later than September 1<sup>st</sup>, the Commission prepares a budget appropriation request by category to be presented to the next Legislature.
2. The appropriation request is submitted to the New Mexico Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which then becomes the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings are incorporated into the General Appropriations Act.

7. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
8. The Commission submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
9. All subsequent budget adjustments must be approved by the Commission and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
10. Legal budget control for expenditures and encumbrances is by category of line item.
11. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Fund.
12. The budget is adopted on a modified accrual basis of accounting that is consistent with accounting principles generally accepted in the United States of America. This change was implemented with the laws of 2004, Chapter 114, Section 3, paragraph N and paragraph O. It is effective for fiscal years beginning July 1, 2004. However, there is a statutory exception per the General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable must be paid out of the next year's budget. There were \$244,528 of these accounts payable at June 30, 2007.
13. The Commission's General Fund and Special Revenue Fund are not reverting funds per the Laws of 2006, Chapter 109, Section 10 (c).

f. Capital Assets

Property, plant and equipment including software, purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software, are added to the capital accounts, is \$5,000 which is a change in policy effective July 1, 2005. However, all capital outlay purchases may not necessarily be capitalized. The Commission does not capitalize any interest in regards to its capital assets.

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

Machinery and Equipment	5 years
Computer equipment (including software)	4 to 8 years
Furniture and fixtures	10 years

GASB Statement #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The Commission does not own any infrastructure assets.

G. Encumbrances Accounting

Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and is employed as an extension of formal budgetary control in the General Fund and the Special Revenue Fund. Encumbrances not recorded as vouchers payable at year end lapse.

H. Compensated Absences Payable

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The compensated absences payable is included in the government-wide financial statements.

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

<u>Years of Service</u>	<u>Hours Earned Per Pay Period</u>
Less than 3 years	3.08
Between 3 and 7 years	3.69
Between 7 and 11 years	4.61
Between 11 and 15 years	5.54
Over 15 years	6.15

I. Due to State of New Mexico General Fund (Reversions)

The Commission does not have any reverting funds.

J. Reservations of Fund Balances

Reservations of fund balances on the Governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that cannot be appropriated for future expenditures. The only reservation of fund balance accounts at June 30, 2007 was:

Reserved for Telecommunications Access Act— Represents funds held in accordance with the Telecommunications Access Act.

#### K. Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. No allowance for doubtful accounts for the Due from other state agencies was necessary because this amount was due from bond proceeds held by another state agency, and it is considered fully collectible by management.

Expenditures are recognized when the related fund liability is incurred.

#### L. Net Assets

The government-wide financial statements utilize a net asset presentation. Net Assets are categorized as invested in fixed assets, restricted and unrestricted.

**Invested 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. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Commission did not have any related debt during the year ended June 30, 2007.

**Unrestricted Net Assets** - represent the net assets of the Commission at June 30, 2007 that are not invested in capital assets and that are not restricted.

**Restricted for Telecommunications Access Act** - represent the net assets reserved due to the Telecommunications Access Act.

#### M. Use of Estimates

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

#### N. Due to State of New Mexico, Department of Finance & Administration ( DFA)

This amount is for payroll withholdings and for payroll liabilities owed by the Commission to DFA but not taken out of the Commission's investment accounts with the New Mexico State Treasurer as of June 30, 2007.

## 2. INVESTMENT (OVERDRAFT) ACCOUNTS AND INVESTMENT POLICY

### Investment (Overdraft) Accounts With State Treasurer

The following is a summary of the investment (overdraft) accounts of the Authority with the New Mexico State Treasurer which represent the Authority's interest in the State of New Mexico General

Fund Investment Pool as reported by the New Mexico Department of Finance and Administration (DFA):

	<u>SHARE FUND Number</u>	<u>Financial Statement Balances</u>
General Fund	60400-04600	\$ (1,441,994)
Telecommunications Access Special Revenue Fund	60400-08000	11,224,148
Total		<u>\$ 9,782,154</u>

The New Mexico State Treasurer monitors the collateral for deposits held by it for other state entities, which would include the investment accounts of the Commission which represent the Commission's interest in the General Fund Investment Pool. The Office of the State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these accounts is disclosed. That report may be obtained by writing to the State of New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, New Mexico 87504-0608. The Commission is not permitted to have any other investments, and the Commission did not have any other investments during the year ended June 30, 2007. There is no custodial risk in relations to the accounts at the Commission's level. The custodial risk would belong to the New Mexico State Treasurer.

### 3. DUE FROM OTHER STATE AGENCY

The Telecommunications Access Special Revenue Fund (Fund) was owed \$60,433 by the State of New Mexico, Taxation and Revenue Department at June 30, 2007 for taxes collected for this Fund but not yet remitted at June 30, 2007.

### 4. CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007 as follows:

<u>Capital Assets</u>	<u>Balance at 6/30/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/2007</u>
Machinery and equipment	\$ 18,594	\$ -0-	\$ -0-	\$ 18,594
Computer equipment	63,394	-0-	-0-	63,394
Furniture and fixtures	2,900	-0-	-0-	2,900
Total	<u>84,888</u>	<u>-0-</u>	<u>-0-</u>	<u>84,888</u>
<u>Accumulated Depreciation</u>				
Machinery and equipment	(13,164)	(1,641)	-0-	(14,805)
Computer equipment	(55,928)	(3,023)	-0-	(58,951)
Furniture and fixtures	(2,900)	-0-	-0-	(2,900)
Total accumulated depreciation	<u>(71,992)</u>	<u>(4,664)</u>	<u>-0-</u>	<u>(76,656)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 12,896</u>	<u>\$ (4,664)</u>	<u>\$ -0-</u>	<u>\$ 8,232</u>

Depreciation expense for the year ended June 30, 2007 was \$4,664. All of the depreciation expense of \$4,664 was allocated to the Commission's general government function. All capitalized assets were depreciated during the year ended June 30, 2007.

**5. COMPENSATED ABSENCES PAYABLE**

A summary of changes in the compensated absences payable for the year ended June 30, 2007 is as follows:

	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Compensated Absences Payable	\$ 19,845	\$ 16,886	\$ (23,781)	\$ 12,950	\$ 12,950

\$12,950 has been classified as a current liability in the Statement of Net Assets. In prior years, the General Fund has been used to liquidate compensated absences. The General Fund is expected to continue to do so in the future.

**6. RETIREMENT PLAN**

*Plan Description.* Substantially all of the full-time employees of the Commission participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*Funding Policy.* Plan members are required to contribute 7.42% of their gross salary. The Commission is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Commission are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The Commission's contribution to PERA for the years ended June 30, 2007, 2006 and 2005 was \$73,075, \$66,411 and \$49,415, respectively, which was equal to the amount of the required contribution for each year.

**7. POST-EMPLOYMENT BENEFITS**

*Plan Description.* The Commission contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment 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, NMSA1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate



optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Commission's contributions to the RHCA for the years ended June 30, 2002, 2006 and 2005 were \$5,726, \$5,204 and \$3,872 respectively, which equal the required contributions for each year.

## **8. INSURANCE COVERAGE**

The Commission obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Commission are covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2006, through June 30, 2007.

**9. COMMITMENTS - OPERATING LEASES**

During the fiscal year ended June 30, 2007, the Commission had operating leases for a telephone system, a postage machine and two office building spaces. Effective September 13, 2004 and January 1, 2005, the Commission leased office spaces in Santa Fe and Albuquerque, respectively. The five-year Santa Fe lease terminates September 12, 2009 and has an annual rental cost of \$22,856. The lease includes an option to renew for an additional five years subject to the same terms and conditions.

The ten-year Albuquerque lease terminates December 31, 2014 and has an annual rental cost of \$49,188. The lease includes an option to renew for two five-year renewals subject to the same terms and conditions.

Future rental expenditures for the initial term only under this leases are as follows:

Year Ending June 30	Payments		
	Santa Fe	Albuquerque	Total
2008	\$ 22,586	\$ 49,188	\$ 71,774
2009	22,586	49,188	71,774
2010	11,430	49,188	60,618
2011	-0-	49,188	49,188
2012	-0-	49,188	49,188
Thereafter	-0-	122,970	122,970
Total	\$ 56,602	\$ 368,910	\$ 425,512

Effective with the Albuquerque office building lease mentioned above, the Commission leased a telephone system for sixty (60) months at \$365 per month. The lease terminates in December 2009, with an option to renew for an additional three years. The Commission also rents a postage meter, beginning December 29, 2004 at \$62 per month for 48 months.

Future minimum lease payments on the telephone system and postage meter are as follows:

Year Ending June 30,	Amounts
2008	\$ 4,748
2009	2,006
Total	\$ 6,754

Total lease expenditures for the fiscal year ended June 30, 2007 were \$83,238.

**10. OPERATING TRANSFERS**

The Commission receives operating transfers for various reasons. Transfers in are done to receive from the State of New Mexico, Taxation and Revenue Department to receive taxes due to the Telecommunications Access Special Revenue Fund. Transfers out are done to provide a match for federal funds used to provide deaf and hard-of-hearing services.

	<u>From</u>	<u>To</u>
State of New Mexico, Taxation and Revenue Department (Fund #82600)	\$ 3,650,871	
Commission's Telecommunication Access Special Revenue Fund (Agency 60400, Fund 08000)		\$ 3,650,871
To transfer tax funds		
Commission's General Fund (Agency 60400, Fund 04600)	175,000	
State of New Mexico,		
Division of Vocational Rehabilitation (Fund #50000)		175,000
To transfer funds to match federal funds used to provide deaf and hard-of-hearing services.		

**11. OPERATING TRANSFERS WITHIN THE AGENCY**

Each year the Commission transfers funds from the Special Revenue Fund (SHARE# 08000) to the General Fund (SHARE #04600) to cover operating costs. The transfer is based on the legislatively approved budget. For fiscal year 2007, the amount of the transfer was \$3,811,200. It was not made before June 30, 2007 so interfund accounts have been utilized.

**12. RECONCILIATION OF GAAP STATEMENT TO BUDGET STATEMENT**

There is no need for a reconciliation for the Telecommunication Access Special Revenue Fund or for revenues of the General Fund. However, a reconciliation is needed for expenditures of the General Fund:

	<u>General Fund</u>
Expenditures per budget statement	\$ 2,552,494
Accounts payable- expenditures charged to 2008 budget but which were GAAP accounts payable at 6/30/07	<u>244,528</u>
Expenditures per GAAP Statement	<u>\$ 2,797,022</u>

**ADDITIONAL INFORMATION**  
**-SUPPORTING SCHEDULE**

**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**SCHEDULE OF MEMORADUM OF UNDERSTANDING  
FOR THE YEAR ENDED JUNE 30, 2007**

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**Participants**

Commission for Deaf and Hard-of-Hearing Persons (Commission) and the Public Education Department/Division of Vocational Rehabilitation (DVR).

**Responsible Party for Operations**

Commission for Deaf and Hard-of-Hearing Persons and Division for Vocational Rehabilitation.

**Description**

The Commission will transfer \$175,000 as appropriated to the DVR. The DVR will use the \$175,000 to match federal funds to support and enhance deaf and hard-of-hearing rehabilitation services, including a) collaborative efforts with education agencies to enhance school to work transition of deaf and hard of hearing children; and, b) fund care and support of an additional caseload which specifically focuses on services for deaf and hard of hearing persons including students transitioning from the New Mexico School for the Deaf.

The agreement shall terminate on June 30, 2007, unless earlier terminated by mutual agreement of the parties. The agreement may be terminated by either of the parties for any reason whatsoever upon written notice delivered to the other party at least ten (10) days prior to the intended date of termination. By such termination none of the parties may nullify obligation already incurred for performance or failure to perform prior to the date of termination. The MOU may be amended in writing by mutual consent of both parties.

**Beginning and Ending Dates of Agreement**

July 1, 2006 to June 30, 2007.

**Total Estimated Amount of Project and Portion Applicable to the Commission**

\$175,000 and \$175,000.

**Amount Commission Contributed in FY 2007**

\$175,000.

**Audit Responsibility and Name of Government Agency where revenues and expenditures are reported**

The Commission for Deaf and Hard-of-Hearing Persons and DVR.

**OTHER REPORT**

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=W  
M Chester W. Mattocks  
Certified Public Accountant

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

State of New Mexico  
Commission for the Deaf and  
Hard-of-Hearing Persons  
Santa Fe, New Mexico

and

Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

I have audited the financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the General Fund and the Telecommunications Access Special Revenue Fund of the State of New Mexico, Commission for the Deaf and Hard-of-Hearing Persons (Commission) as of and for the year ended June 30, 2007 which collectively comprise the Commission's basic financial statements, and have issued my report thereon dated April 29, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Commission's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. I consider the following deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting: Items 2007-1, 2007-3, 2007-4, 2007-5, 2007-6, and 2007-7.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider items 2007-5 and 2007-6 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, I noted an instance of noncompliance that is required to be reported under Government Auditing Standards paragraphs 5.14 and 5.16 and Section 12-6-5, NMSA, 1978, and which is described in the accompanying Schedule of Findings and Responses as items 2007-1 and 2007-2.

The Commission's response to the findings identified in my audit is described in the accompanying Schedule of State Compliance Findings and Responses. I did not audit the Commission's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the Commission, the management of the Commission, the State of New Mexico, Public School Capital Outlay Council, the State of New Mexico Department of Finance and Administration, the State of New Mexico Office of the State Auditor, the State of New Mexico Legislative Finance Committee, and the State of New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

*Chester W. Matlock, CPA*

April 29, 2009



**STATE COMPLIANCE SECTION**

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**SCHEDULE OF STATE COMPLIANCE FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**2007-1- LATE AUDIT REPORT**

**Statement of condition:** The Commission's audit report was submitted late on May 8, 2009.

**Criteria:** The State Auditor's Rule, SAO Rule 2.2.2.9 A(3), requires the audits of State Agencies to be submitted by December 15, 2007.

**Effect:** The audit report was not available for management, regulations and legislators to utilize.

**Cause:** There were problems with the originally selected auditor as the contract was lost. Then there were problems contacting this auditor who subsequently left the audit field.

**Recommendation:** The Commission should establish procedures to ensure a timely audit report.

**Management's Response:** The Commission formed two committees assuming the responsibility in assuring that procedures are established. The Finance and Auditing Committees will oversee the function and work closely with the Executive Director.

**2007-2- FORM I-9**

**Statement of condition:** One Form I-9, effective for the fiscal year ended June 30, 2007, was not signed by the employer but only by the employee.

**Criteria:** The Immigration Reform and Control Act of 1986 (IRCA) requires that a properly completed Form I-9 be on file for any employees hired after November 6, 1986.

**Effect:** The Commission was not in compliance with IRCA regulations regarding the Form I-9. An employer who fails to maintain properly completed Form I-9s can be fined \$100 per missing item for each form, up to \$1,000 per form, even if the employee is legally authorized to work in the United States.

**Cause:** Forms were apparently not reviewed after completion.

**Recommendation:** All of the Form I-9s should be properly completed.

**Management's Response:** Commission Finance staff will review the current procedures and make sure all I-9s are completed properly and in a timely manner as required.

**2007-3- POTENTIAL OVERPAYMENTS TO VENDORS**

**Statement of finding:** Out of a sample of seventy-six vouchers, three vouchers were noted as having potential overpayments:

1. Voucher No. 49- Potential overpayment of \$75. Voucher notes 3 hours times \$25 or \$75 but invoice is for \$150.

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**SCHEDULE OF STATE COMPLIANCE FINDINGS AND RESPONSES (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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2. Voucher No. 542- Potential overpayment of \$214.64. Voucher is for \$787.23, but \$214.64 is unsupported.
3. Voucher No. 603- Potential overpayment is \$170.10. Voucher is for \$3,111.68, but \$170.10 is unsupported.

**Criteria:** Supporting documentation should completely support the entire disbursement on a payment voucher.

**Effect:** Potential overpayments of a total of \$459.74 were noted on three payment vouchers.

**Cause:** Apparently, errors were made in comparing the payment vouchers to the supporting documentation.

**Recommendation:** Payment voucher review procedures should be reviewed to determine their effectiveness. The Commission should review the three payment vouchers and then request refunds or additional supporting documentation.

**Management's Response:** The Audit Committee will work closely with the Executive Director in reviewing the procedures and improve internal controls for this function.

**2007-4- NEGATIVE INVESTMENT ACCOUNT AND BUDGETED TRANSFER**

**Statement of condition:** One of the Commission's investment (formerly cash) accounts was negative at June 30, 2007.

**Criteria:** Negative accounts should not be maintained without written approval from DFA in advance, per CFRAS Chapter 6, 3.2, D-2, as authorized by Section 6-5-2, NMSA 1978.

**Effect:** Cash management does not appear to be effective as possible.

**Cause:** The budgeted transfer between the two funds of the Commission was not made timely during the fiscal year.

**Recommendation:** Funds should be transferred. Negative investment accounts should not be allowed to occur.

**Management's Response:** Commission Finance staff will provide the Executive Director a report at the end of each month monitoring the investment accounts as well as others to make sure negative balances do not occur.

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**SCHEDULE OF STATE COMPLIANCE FINDINGS AND RESPONSES (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**2007-5- USE OF CONTRACTS**

**Statement of condition:** Many professional services and other services for amounts under \$20,000 were not supported by formal contracts during the fiscal year ended June 30, 2007. Invoices for these services were usually approved by the Executive Director on an individual basis.

**Criteria:** All professional services and other services should be supported by formal contracts to the extent possible. These contracts should contain the rate to be paid, length and period of contract, listing of deliverables, and the total amount which may be paid.

**Effect:** Compliance with the State Procurement Code cannot be verified. Also, sufficiency of deliverables cannot be verified.

**Cause:** A prior administration thought that this was effective apparently.

**Recommendation:** All professional services and other services should be documented by a formal contract containing the elements described under criteria.

**Management's Response:** The Executive Director will work closely with administrative personnel to make sure that procedures are in place for a more effective system.

**2007-6- PERSONNEL FILES**

**Statement of condition:** The Commission did not have complete personnel files available for inspection for the fiscal year ended June 30, 2007 for all personnel. They did have files with timesheets and with paystubs. They also had a file with Form I-9s. They did not have any files supporting payroll deductions such as PERA applications and other items such as W-4s for all personnel.

**Criteria:** The Commission should have the proper documentation to support all deductions in their files.

**Effect:** Payroll deductions could not be verified.

**Cause:** Turnover of personnel appears to be the major cause.

**Recommendation:** Complete personnel files should be maintained.

**Management's Response:** The new Executive Director has been working on this case. The Human Resources manager will ensure that all files are up to date and a more efficient system in place.

STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS

SCHEDULE OF STATE COMPLIANCE FINDINGS AND RESPONSES (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007

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2007-7- PAYMENT OF CURRENT YEAR ACCOUNTS PAYABLE IN NEXT BUDGET YEAR

**Statement of finding:** The Commission paid \$244,528 in expenditures related to fiscal year ended June 30, 2007 in the next fiscal year. These expenditures were changed to the 2008 budget year and were 8.7% of GAAP expenditures for the fiscal year ended June 30, 2007.

**Criteria:** Expenditures should be charged to the proper budget year.

**Effect:** Budgeted expenditures were understated in the fiscal year ended June 30, 2007 and overstated in the fiscal year ended June 30, 2008 because expenditures were not paid timely.

**Cause:** Turnover of significant personnel and the implementation of a new computer system were major causes.

**Recommendation:** The Commission should implement procedures to ensure that all significant accounts payable have been recorded for each year-end.

**Management's Response:** Commission Finance staff will develop a finance operation manual to be used for all finance staff to make sure all functional procedures are in place. The manual will be reviewed by the finance committee.

**STATE OF NEW MEXICO**  
**COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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None were reported.

**STATE OF NEW MEXICO  
COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS**

**EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2007**

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An exit conference was held on May 8, 2009. Attending were the following:

State of New Mexico, Commission for the Deaf and Hard-of-Hearing Persons

Mr. Mark Apodaca, President of the Commission  
Ms. Barbara J. Wood, Executive Director

Independent Auditor

Mr. Chester W. Mattocks, CPA

Note: The financial statements presented in this report were substantially prepared by the independent auditor, Chester W. Mattocks, CPA.