

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
June 30, 2013**

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
TABLE OF CONTENTS**

	<u>Page</u>
OFFICIAL ROSTER.....	i
INDEPENDENT AUDITORS' REPORT.....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4-9
 <i>BASIC FINANCIAL STATEMENTS</i>	
STATEMENT OF NET POSITION.....	10
STATEMENT OF ACTIVITIES	11
BALANCE SHEET – GOVERNMENTAL FUNDS.....	12
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES	13
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS.....	14
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	15
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND 04800	16
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – STB REAUTHORIZATION FUND 89200	17
NOTES TO FINANCIAL STATEMENTS	18-37
 <i>COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS</i>	
COMBINING BALANCE SHEET – NON-MAJOR FUNDS.....	38
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS.....	39

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
TABLE OF CONTENTS**

STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – SPECIAL CAPITAL OUTLAY FUND 09900	40
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – SPECIAL CAPITAL OUTLAY FUND 10000	41
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – SPECIAL CAPITAL OUTLAY FUND 10100	42
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – TRIBAL INFRASTRUCTURE PROJECTS FUND 42900	43
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – IAD GRANT FUND 66700	44
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND REAUTHORIZATION FUND 93100	45
<i>OTHER SUPPLEMENTAL INFORMATION</i>	
SCHEDULE OF CAPITAL PROJECTS – SEVERANCE TAX APPROPRIATIONS AND GENERAL FUND APPROPRIATIONS.....	46
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	47-48
SCHEDULE OF FINDINGS AND RESPONSES	49-59
EXIT CONFERENCE	60

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT**

OFFICIAL ROSTER

June 30, 2013

ADMINISTRATIVE OFFICIALS

Arthur Allison	Cabinet Secretary
Duane Duffy	Deputy Cabinet Secretary
Rosemary Whitegeese	Chief Financial Officer
Autumn Monteau	General Counsel

INDEPENDENT AUDITORS' REPORT

Mr. Arthur Allison, Cabinet Secretary
State of New Mexico Indian Affairs Department
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparisons for the general fund and major special revenue funds, and the aggregate remaining fund information of the State of New Mexico Indian Affairs Department (Department), a component unit of the State of New Mexico, as of and for the year ended June 30, 2013, and the related notes the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. I also have audited the financial statements of each of the Department's non-major governmental funds, and the budgetary comparisons for all non-major funds presented as supplemental information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, 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

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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinions

Basis for Qualified Opinion on Funds 10000, 10100, 42900, 93100

Management is unable to reconcile fiscal year 2012 and prior years' revenues and expenditures relating to capital projects reported in the Statewide Human Resource, Accounting, and Management Reporting System (SHARE) Fund 10000 (Special Capital Outlay Fund), Fund 10100 (Special Capital Outlay Fund), Tribal Infrastructure Fund 42900 and GF Reauthorization Fund 93100, in accordance with state accounting procedures for capital projects. The amount by which this departure would affect fund balances in the affected funds has not been determined.

Basis for Qualified Opinion on Funds 09900, 10000

Management is unable to identify the actual realizable value for amounts recorded as due from other state agencies in SHARE Fund 09900 (Special Capital Outlay Fund) and Fund 10000 (Special Capital Outlay Fund). Accounting principles generally accepted in the United States of America require that accounts receivable are recorded at their net realizable value. The amount by which this departure would affect the assets, fund balance, and revenues of the affected funds has not been determined.

Qualified Opinion

In my opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Special Capital Outlay Fund 10000, Special Capital Outlay Fund 10100, Tribal Infrastructure Fund 42900, GF Reauthorization Fund 93100, and Special Capital Outlay Fund 09900 of the Department as of June 30, 2013, and the changes in financial position, and the respective budgetary comparisons thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the Special Capital Outlay Fund 09900, Special Capital Outlay Fund 10000, Special Capital Outlay Fund 10100, Tribal Infrastructure Fund 42900, and the GF Reauthorization Fund 93100 and the aggregate remaining fund information of the Department, as of June 30, 2013, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and major STB Reauthorization fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the non-major IAD Grant fund as of June 30, 2013, and the respective changes in financial position thereof, and the respective budgetary comparison for the non-major IAD Grant fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements. Such 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the Department's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The Schedule of Capital Projects – Severance Tax Appropriations and State General Fund Appropriations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Capital Projects – Severance Tax Appropriations and General Fund Appropriations is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, except for the effects on the supplemental information of the qualified opinion on the basic financial statements as explained in the "Basis for Qualified Opinion" paragraph, the Schedule of Capital Projects – Severance Tax Appropriations and State General Fund Appropriations is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 3, 2013, on my consideration of the Department's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

James L. Hartogenesisis, CPA LLC

James L. Hartogenesisis, CPA LLC
Albuquerque, New Mexico
December 3, 2013

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information
June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and a section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Indian Affairs Department (Department or IAD).

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Department's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Department, reporting the Department's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services (the primary functions of the Department) were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provides details about our non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

REPORTING ON THE DEPARTMENT AS A WHOLE

Government-Wide Statements

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Department's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Department's net position and how they have changed. Net position — the difference between the Department's assets and liabilities — is one way to measure the Department's financial health or position.

- Over time, increases or decreases in the Department's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Department, additional non-financial factors such as changes in the Department's funding or the addition of new programs should be considered.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information
June 30, 2013

Reporting on the Department's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the Department's most significant funds. Funds are accounting devices that the Department uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law. The State Legislature also establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants or appropriations. The Department's funds are all governmental funds. The Balance Sheets and the Statements of Revenue, Expenditures and Changes in Fund Balances provide this information.

Governmental Funds — All of the Department's basic services are accounted for in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent pages that explain the relationships (or differences) between them.

The Department maintains its fund structure in the State of New Mexico's Statewide Human Resources, Accounting and Management Reporting (SHARE) System. The Department maintains the General Fund (Fund No. 04800) and eight (8) special revenue funds as follows:

- Special Capital Outlay Fund (Fund No. 09900)
- Special Capital Outlay Fund (Fund No. 10000)
- Special Capital Outlay Fund (Fund No. 10100)
- Special Tribal Infrastructure Capital Projects Fund (Fund No. 42900)
- Special Capital Outlay Fund (Fund No. 53100)
- Special IAD Grant Fund (Fund No. 66700)
- STB Reauthorization Fund (Fund No. 89200)
- GF Reauthorization Fund (Fund No. 93100)

Financial Analysis of the Department as a Whole

Statement of Net Position

An increase in the amount of active capital appropriations statewide resulted in more funding for the Department, while expenditures/disbursements to existing projects increased proportionately.

The statement of net assets summarizes the Department's net position for the fiscal year ending June 30, 2013. The following compares the current year with the prior year.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information
June 30, 2013

Condensed Statements of Net Position
Governmental Activities

	<u>FY2013</u>	<u>FY2012</u>	<u>Change</u>
Assets			
Current assets	\$ 7,004,909	\$ 7,309,398	\$ (304,489)
Capital assets, net	18,988	37,368	(18,380)
Total assets	<u>\$ 7,023,897</u>	<u>\$ 7,346,766</u>	<u>\$ (322,869)</u>
Liabilities			
Current liabilities	\$ 7,750,824	\$ 7,763,347	\$ (12,523)
Long-term liabilities	-	-	-
Total liabilities	<u>\$ 7,750,824</u>	<u>\$ 7,763,347</u>	<u>\$ (12,523)</u>
Net Position			
Investment in capital assets	\$ 18,988	\$ 37,368	\$ (18,380)
Restricted	425,130	712,249	(287,119)
Unrestricted (deficit)	(1,171,045)	(1,166,198)	(4,847)
Total net position	<u>\$ (726,927)</u>	<u>\$ (416,581)</u>	<u>\$ (310,346)</u>

Analysis of Financial Position (Statement of Net Position)

Current assets decreased by \$322,869, or 4.3% from a year ago. This is mainly attributable to the increase in cash received from the Board of Finance due to an increase in Severance Tax Bond fund projects and the establishment of cash through project expenditures in fund 89200.

Current liabilities decreased by \$12,523 or 1.5% from a year ago. This is mainly attributable to the increase in accounts payable of \$1,656,084, offset by payment on capital expenditures for funds 89200 and 93100. Current liabilities of \$7,750,824 consist primarily of accounts payable \$4,920,575, due to the State General Fund \$1,400,741 and a bank overdraft of \$1,062,286.

Net position decreased significantly by \$310,346 from \$(416,581) to \$(726,927). This is a result of an increase in cash disbursements for capital outlay projects in funds 10000, 10100, 42900 and 93100.

Changes in Net Position

The statement of activities summarizes the Department's changes in net position for the fiscal year ending June 30, 2013 and June 30, 2012.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information
June 30, 2013

Condensed Statements of Activities

	FY2013	FY2012	Change
Federal grants	\$ -	\$ -	\$ -
Private gifts and grants	11,997	85,720	(73,723)
Total program and revenues	<u>11,997</u>	<u>85,720</u>	<u>(73,723)</u>
General revenues and transfers:			
Transfers:			
State general fund appropriations	2,399,900	2,400,123	(223)
Severance tax bond appropriations (net of reversions)	7,250,609	6,028,259	1,222,350
Other appropriations - tobacco settlement funds	249,300	254,207	(4,907)
Reversions to State General Fund - FY2013	(304,344)	-	(304,344)
Other income (loss)	(11,996)	-	(11,996)
Total general revenues and transfers	<u>9,583,469</u>	<u>8,682,589</u>	<u>900,880</u>
Total program, general revenue and transfers	<u>9,595,466</u>	<u>8,768,309</u>	<u>827,157</u>
Expenses:			
General government	<u>9,905,812</u>	<u>9,468,458</u>	<u>437,354</u>
Changes in net position	(310,346)	(700,149)	389,803
Net position, beginning of year	<u>(416,581)</u>	<u>283,568</u>	<u>(700,149)</u>
Net position, end of year	<u><u>\$ (726,927)</u></u>	<u><u>\$ (416,581)</u></u>	<u><u>\$ (310,346)</u></u>

The Department's governmental activities program revenue has significantly declined from a year ago and decreased by \$73,723, from \$85,720 to \$11,997. The Department received a private-grant from the Kellogg Foundation that was originally awarded in 2010. The private-grant terminated and the Department did not receive additional funding from this Foundation.

The Department's general revenue and transfers improved by an increased amount of \$900,880 or 10.3%. The reason for the significant increase in amount is attributed to an increase in Severance Tax Bond sales and a flat general operating budget. The cost of governmental activities this year was \$9,905,812 compared to \$9,468,458 last year resulting in an increase in the amount of \$437,354. This is a result of activity in funds 04800, 42900, 89200 and 93100 and the closing of various capital outlay and Tribal Infrastructure Fund projects during the fiscal year.

In summary, net position decreased by \$310,346 as a result of the aforementioned items.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information
June 30, 2013

THE DEPARTMENT'S FUNDS

Governmental Funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As mentioned previously, funds are used by the Department to keep track of specific sources of funding and spending for a particular purpose.

For the current year, the Department had nine governmental funds. Seven of the Department's governmental funds are used to account for the capital outlay projects and the Tribal Infrastructure fund projects for 22 Native American Tribes and Pueblos of the State of New Mexico funded by the State Legislature, the Severance Tax bonds and the General Obligation Bonds. One of the Department's governmental funds is used to account for specific private gifts and grants. The final governmental fund of the Department is its General Operating fund.

As the Department completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance amount of \$(715,597) which is significantly higher than last year's combined negative fund balance amount of \$(428,478). The primary reason for the declined fund balance amount of \$287,119 is mainly attributable to the increase in activity in several capital outlay projects - special revenue funds, specifically funds 42900, 66700, and 93100.

The General Fund of the Department reflects no change in fund balance from the prior year. Since the General Fund is a "reverting" fund, only balances appropriated into future fiscal years may be retained by the Department. The Department reverted \$304,344 to the State General Fund from unused State General Fund appropriations, compared to \$696,455 in the prior year. Both revenues and expenditures increased due to less funding availability compared to the prior year.

General Fund Budgetary Highlights

The State Legislature makes annual appropriations to the Department. Adjustments to the budget require approval by the Budget Division of the Department of Finance and Administration. During the fiscal year 2013, the Department did not require a budget revision or an adjustment.

Analysis of Significant Budget Variations

The original General Fund budget was \$2,399,900. There were no budget increases and budget adjustments were not necessary. The final operating budget for the general funding remained at \$2,399,900.

Capital Assets and Debt Administration

Capital Assets

The Department's investments in capital assets for its governmental activities as of June 30, 2013 amounted to \$18,988 (net of accumulated depreciation). This investment in capital assets consists mainly of furniture, fixtures, and data processing equipment. There were no additions of capital assets

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information
June 30, 2013

during the fiscal year. However, the Department had capital assets deletions in the amount of \$101,974 during the fiscal year. The reason for the significant deletion amount is due to the removal of four vehicles from the capital assets listing. The four passenger vehicles are leased from the General Services Department State Motor Pool and are not capital assets of the Department.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Regarding the FY 2015 Appropriation Budget Request, the IAD Chief Financial Officer (CFO) worked with the Cabinet Secretary and with various staff to compile the FY 2015 General Fund operating budget including the expansion requests. The proposed budget appropriations request was submitted to DFA – State Budget Division and to the Legislative Finance Committee on September 3, 2013. The Department's Cabinet Secretary and Chief Financial Officer and staff provided testimony on the FY 2015 budget request on October 24, 2013 to the Legislative Finance Committee.

The Executive Budget proposal request was equivalent to the FY 2014 operating budget. The appropriation amount for the Tobacco Settlement Program Fund regarding the tobacco cessation and prevention programs for Native American communities will remain consistent to the amount in the prior year.

In accordance with the State Procurement Code and 2.2.2 NMAC "Requirements for Contracting and Conducting Audits of Agencies" the Department engaged James L. Hartogensis, CPA, CGFM to perform the annual financial audit for FY 2013. The financial audit report is designed to provide citizens and taxpayers of New Mexico with a general overview of the Department's revenues and expenditures to demonstrate the Department's accountability for the money it receives and expends. The audit process involved the preparation of supporting documentation such as the A611 – trial balance and several accounting records from the fiscal year. The CFO and Department's staff assisted the CPA with providing random selection testing information and preparation of financial documents. The Department received a Qualified Opinion for their FY 2012 financial audit report. It is the Department's responsibility to submit the current fiscal year audit to the State Auditor's office by the due date of December 7, 2013.

Contacting the Department's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Department.

Indian Affairs Department
Wendell Chino Building
1220 South St. Francis Drive
Santa Fe, NM 87505

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities
ASSETS	
Current Assets:	
Investment in State Treasurer General Fund Investment Pool	\$ 2,887,748
Due from other agencies	4,117,161
Total current assets	7,004,909
Non-current assets	
Capital assets, net of accumulated depreciation	18,988
Total assets	\$ 7,023,897
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 4,920,575
Bank overdraft	1,062,286
Accrued salaries payable	16,562
Payroll taxes payable	3,652
Payroll benefits payable	6,246
Due to State General Fund	1,400,741
Due to other state agencies	276,574
Other liabilities	9,838
Deferred revenue	24,032
Current portion of compensated absences	30,318
Total current liabilities	7,750,824
NET POSITION	
Investment in capital assets	18,988
Restricted	425,130
Unrestricted	(1,171,045)
Total net position	\$ (726,927)

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Governmental Activities
EXPENSES:	
Governmental activities:	
General government	\$ 9,899,427
Depreciation	6,385
Total expenses	<u>9,905,812</u>
 PROGRAM REVENUES:	
Private gifts and grants	<u>11,997</u>
 Net program revenues (expenses)	 <u>(9,893,815)</u>
 GENERAL REVENUES AND TRANSFERS:	
Transfers:	
State General Fund appropriation	2,399,900
Severance tax bond appropriation	7,250,609
Other appropriations - tobacco settlement funds	249,300
Reversions to State General Fund - FY 2013	(304,344)
Other income (loss)	<u>(11,996)</u>
Total general revenues and transfers	9,583,469
 Change in net position	 (310,346)
Net position, beginning of year	<u>(416,581)</u>
 Net position, end of year	 <u><u>\$ (726,927)</u></u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2013

	General Fund 04800	STB Reauthor- ization Fund 89200	Other Govern- mental Funds	Total Govern- mental Funds
ASSETS				
Investment in State Treasurer				
General Fund Investment Pool	\$ 1,819,850	\$ 407,822	\$ 660,076	\$ 2,887,748
Due from other funds	37,875	-	122,187	160,062
Due from other agencies	-	3,365,982	751,179	4,117,161
Total assets	<u>\$ 1,857,725</u>	<u>\$ 3,773,804</u>	<u>\$ 1,533,442</u>	<u>\$ 7,164,971</u>
LIABILITIES				
Accounts payable	\$ 634,143	\$ 3,773,804	\$ 512,628	\$ 4,920,575
Bank overdraft	-	-	1,062,286	1,062,286
Accrued salaries payable	16,562	-	-	16,562
Payroll taxes payable	3,652	-	-	3,652
Payroll benefits payable	6,246	-	-	6,246
Deferred revenue	-	-	24,032	24,032
Other liabilities	9,838	-	-	9,838
Due to other funds	-	-	160,062	160,062
Due to State General Fund	1,187,284	-	213,457	1,400,741
Due to other state agencies	-	-	276,574	276,574
Total liabilities	<u>1,857,725</u>	<u>3,773,804</u>	<u>2,249,039</u>	<u>7,880,568</u>
FUND BALANCES (DEFICIT)				
Restricted	-	-	425,130	425,130
Unassigned	-	-	(1,140,727)	(1,140,727)
Total fund balances (deficit)	<u>-</u>	<u>-</u>	<u>(715,597)</u>	<u>(715,597)</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,857,725</u>	<u>\$ 3,773,804</u>	<u>\$ 1,533,442</u>	<u>\$ 7,164,971</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
June 30, 2013

Total fund balance (deficit) - governmental funds \$ (715,597)

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets and related accumulated depreciation used in governmental activities are not current financial resources and, therefore, are not reported in the funds

Capital assets	\$ 94,288	
Accumulated depreciation	<u>(75,300)</u>	
Net capital assets		18,988

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	<u>(30,318)</u>
--	-----------------

Net position (deficit) of governmental activities \$ (726,927)

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year ended June 30, 2013

	General Fund 04800	STB Reauthor- ization Fund 89200	Other Govern- mental Funds	Total Govern- mental Funds
REVENUES:				
Intergovernmental:				
Private gifts and grants	\$ -	\$ -	\$ 11,997	\$ 11,997
EXPENDITURES:				
General government:				
Current:				
Personal services	916,567	-	-	916,567
Contractual services	333,421	-	-	333,421
Other costs	1,094,868	6,389,916	1,159,809	8,644,593
Capital outlay	-	-	-	-
Total expenditures	<u>2,344,856</u>	<u>6,389,916</u>	<u>1,159,809</u>	<u>9,894,581</u>
Excess (deficiency) of revenues over expenditures	<u>(2,344,856)</u>	<u>(6,389,916)</u>	<u>(1,147,812)</u>	<u>(9,882,584)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out):				
State General Fund appropriation	2,399,900	-	-	2,399,900
Severance tax bond appropriations	-	6,389,916	860,693	7,250,609
Other appropriations - tobacco settlement funds	249,300	-	-	249,300
Reversion to State General Fund FY 2013	<u>(304,344)</u>	<u>-</u>	<u>-</u>	<u>(304,344)</u>
Total other financing sources (uses)	<u>2,344,856</u>	<u>6,389,916</u>	<u>860,693</u>	<u>9,595,465</u>
Net change in fund balances	-	-	(287,119)	(287,119)
Fund balance (deficit), beginning of year	<u>-</u>	<u>-</u>	<u>(428,478)</u>	<u>(428,478)</u>
Fund balance (deficit), end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (715,597)</u>	<u>\$ (715,597)</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
June 30, 2013

Net change in fund balances - governmental funds \$ (287,119)

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

Changes in accrued compensated absences are not recorded
in the current year in the governmental funds, however
the corresponding amount is recorded in the government-wide
statement of activities:

(Increase) decrease in compensated absences (4,847)

Loss on disposal of capital assets (11,996)

Capital outlays are reported as expenditures in the
governmental funds. However, in the government-wide
statement of activities, the cost of capital assets is allocated
over their useful estimated lives as depreciation expense.

Capital outlay -
Depreciation (6,385)

Rounding 1

Change in net position of governmental activities \$ (310,346)

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
GENERAL FUND
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State General Fund appropriations	\$ 2,399,900	\$ 2,399,900	\$ 2,399,900	\$ -
Tobacco settlement appropriations	<u>249,300</u>	<u>249,300</u>	<u>249,300</u>	<u>-</u>
Total revenues	<u>\$ 2,649,200</u>	<u>\$ 2,649,200</u>	<u>\$ 2,649,200</u>	<u>\$ -</u>
EXPENDITURES:				
General government:				
Personal services	1,063,900	1,063,900	\$ 916,567	147,333
Contractual services	411,900	411,900	333,421	78,479
Other costs	<u>1,173,400</u>	<u>1,173,400</u>	<u>1,094,868</u>	<u>78,532</u>
Total expenditures	<u>\$ 2,649,200</u>	<u>\$ 2,649,200</u>	<u>\$ 2,344,856</u>	<u>\$ 304,344</u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 14			\$ 2,649,200	
Adjustments			<u>-</u>	
Budget basis revenues			<u>\$ 2,649,200</u>	
GAAP basis expenditures, page 14			\$ 2,344,856	
Adjustments			<u>-</u>	
Budget basis expenditures			<u>\$ 2,344,856</u>	

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS) (MULTI-YEAR)
MAJOR SPECIAL REVENUE FUND – STB REAUTHORIZATION FUND 89200
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	
REVENUES:				
Severance tax bond appropriations	<u>\$ 13,321,965</u>	<u>\$ 13,321,965</u>	<u>\$ 5,100,344</u>	<u>\$ (8,221,621)</u>
Total revenues	<u><u>\$ 13,321,965</u></u>	<u><u>\$ 13,321,965</u></u>	<u><u>\$ 5,100,344</u></u>	<u><u>\$ (8,221,621)</u></u>
EXPENDITURES:				
General government:				
Other costs	<u>\$ 13,321,965</u>	<u>\$ 13,321,965</u>	<u>\$ 3,409,797</u>	<u>\$ 9,912,168</u>
Total expenditures	<u><u>\$ 13,321,965</u></u>	<u><u>\$ 13,321,965</u></u>	<u><u>\$ 3,409,797</u></u>	<u><u>\$ 9,912,168</u></u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 14			\$ 6,389,916	
Adjustments			<u>(1,289,572)</u>	
Budget basis revenues			<u><u>\$ 5,100,344</u></u>	
GAAP basis expenditures, page 14			\$ 6,389,916	
Adjustments			<u>(2,980,119)</u>	
Budget basis expenditures			<u><u>\$ 3,409,797</u></u>	

Note: The budget basis revenues did not include a GAAP basis adjustment in the amount of \$1,289,572. The budget basis expenditures did not include a request to pay prior year invoices in the amount of \$2,980,119.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – HISTORY AND FUNCTION

The Commission on Indian Affairs was created by statute in 1953 by the New Mexico State Legislature. The statute established a state agency, the Office of Indian Affairs (OIA), which would serve as a vehicle between the State's governor and legislature to the twenty-two separate and distinct tribal groups of New Mexico and from the tribal governments to state government. Executive Order No. 2003-022 was signed on June 20, 2003, elevating the OIA to the Indian Affairs Department (IAD), a cabinet-level department. In 2004, House Bill 39 was passed, establishing the Indian Affairs Department (Department) by legislative statute, to be led by a Cabinet Secretary appointed by the Governor with consent of the Senate. The department is the lead coordinating agency for intergovernmental and interagency programs concerning tribal governments and the state.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Indian Affairs Department (Department) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies are described below.

A. Reporting Entity

The Department is a department of the primary government, the State of New Mexico. These financial statements present the financial position and results of operations of only those Statewide Human Resources, Accounting and Management Reporting System (SHARE) funds over which the Indian Affairs Department has oversight responsibility. The Department does not have any component units.

The Department is a user organization of the State of New Mexico Statewide Human Resource, Accounting, and Management Reporting System (SHARE). The service organization is the Department of Finance and Administration (DFA).

B. Basic Financial Statements

The Department's basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental, business type, or fiduciary. The Department is a single purpose government entity and has no business type activities or fiduciary funds. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets as well as long-term debt and obligations. The Department's net position is reported in three parts: invested in capital assets, restricted net position, and unrestricted net position. When applicable, the effect of interfund activity between two funds is removed from the Statement of Net Assets in order to avoid a grossing-up effect on the assets and liabilities within the statement.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basic Financial Statements (continued)

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government), which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (general government). Program revenues include: 1) charges to applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The appropriation from the State General Fund not included among program revenues and is reported instead as general revenue. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. The revenue recognition policy for grants occurs when the eligibility requirements have been met, and costs have been incurred.

The net cost by function is normally covered by general revenue.

The government-wide focus is more on the sustainability of the Department as an entity and the change in the Department's net position resulting from the current year's activities.

Restricted net position are those assets with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis is on the major funds of the governmental agency. Non-major funds are summarized into a single column. The Department's major funds are the general fund and one special revenue fund (STB Reauthorization Fund 89200).

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Department's actual experience conforms 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 activities column of the government-wide 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.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basic Financial Statements (continued)

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

The GASB 34 reporting model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The Department, at its discretion, may elect to present a fund as a major fund. The non- major funds are combined in a column in the fund financial statements and detailed in the combining section.

The Department uses the following fund types:

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is made up of the following SHARE fund:

General Operating (Fund 04800) - The operating account for the Department. Except for special appropriations, which may extend into subsequent fiscal years, this is a reverting fund. There were no special appropriations during the fiscal year ending June 30, 2013.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources, particularly capital projects, that are legally restricted to expenditures for specified purposes. The Department's Special Revenue Funds are as follows:

Special Capital Outlay Fund (Fund 09900) - This fund is used to account for capital outlay projects appropriated by Laws of 1999. Unexpended funds revert at the end of the authorization period. There was no activity in this fund during the fiscal year ending June 30, 2013; this fund is pending a formal closure as there will be no activity going forward.

Special Capital Outlay Fund (Fund 10000) - This fund is used to account for capital outlay projects appropriated from the state general fund from the Laws of 2004-2011. Unexpended funds revert at the end of the authorization period. There was no activity in this fund during the fiscal year ending June 30, 2013.

Special Capital Outlay Fund (Fund 10100) - This fund is used to account for capital outlay projects appropriated for severance tax bonds issued from the Laws of 2004-2011. Unexpended funds revert at the end of the authorization period.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basic Financial Statements (continued)

Special Tribal Infrastructure Capital Projects (Fund 42900) - This fund was legislatively created by the Laws of 2005 and is used to account for capital outlay projects appropriated from the state general fund and from severance tax bonds (STB) from the Laws of 2007-2011, as well as projects reauthorized from other funds or state agencies. Unexpended funds revert at the end of the authorization period.

Special Capital Outlay Fund (Fund 53100) - This fund is used to account for capital outlay projects appropriated by Laws of 1998. Unexpended funds revert at the end of the authorization period. All projects associated with this fund were closed in fiscal year 2011. There was no activity in this fund in fiscal year 2013 and there are no balances to report. For these reasons, SHARE Fund 53100 is not presented in this report.

Special IAD Grant Fund (Fund 66700) - This fund is used to account for private gifts and grants. Unexpended funds revert at the end of the grant term, unless otherwise authorized, in accordance with the respective granting agency provisions.

STB Reauthorization Fund (Fund 89200) - This fund was established in fiscal year 2011 by Senate bill 373 to administer projects funded by severance tax bonds. Unexpended funds revert at the end of the appropriation period.

General Fund Reauthorization (Fund 93100) - This fund was established in fiscal year 2011 by Senate bill 373 to administer projects funded by general fund appropriations. Unexpended funds revert at the end of the appropriation period.

C. Basis of Accounting

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the Statement of Activities, internal balances have been eliminated.

The government-wide financial statements are presented on an accrual basis of accounting using an economic resources measurement focus. The governmental funds in the fund financial statements are presented on a modified accrual basis using a current financial resources measurement focus. Internal activity and balances between funds is eliminated in the government-wide presentation.

Under the modified accrual method, revenues and other governmental fund financial 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 is defined as soon enough after year end to pay liabilities of the current period.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Basis of Accounting (continued)

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

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, Accounting and Financial Reporting for Non-Exchange 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 requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

D. Budgets and Budgetary Accounting

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

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

1. No later than September 1, the Department prepares a budget request for the subsequent fiscal year by appropriation unit to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature for approval of the final budget plan.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Budgets and Budgetary Accounting (continued)

5. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
6. The budget for the General Fund and all special revenue funds are adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is a statutory exception. 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 require approval to pay prior year bills out of the FY 2013 budget. At June 30, 2013, there were payables of \$3,217,086 that were paid subsequent to 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.

Budgetary comparison statements for major funds are included with the basic financial statements.

E. Capital Assets

Capital assets of the Department include data processing equipment, furniture and fixtures, equipment and automobiles. Capital assets are defined in Section 12-6-10 NMSA 1978. Per Section 12-6-10 NMSA 1978, items costing more than \$5,000 are capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment. The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Department does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the capital assets. Capital assets of the Department are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	10
Equipment and machinery	5
Data processing equipment	3

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Capital Assets (continued)

The Department utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico, General Services Department via a space assignment understanding. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets.

F. Compensated Absences

Qualified employees accumulate annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned Per Month</u>	<u>Days Earned Per Month</u>	<u>Maximum Days of Accrual</u>
1-3	6.16	0.83	30
4-6	7.38	1.00	30
7-10	9.22	1.25	30
11-14	11.08	1.50	30
15th/beyond	12.3	1.67	30

Thirty days of accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is forfeited. When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to a maximum of thirty days (240 hours). Accrued annual leave is recorded as a liability in the government-wide financial statements.

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours on July 1 or January 1 of each year. However, sick leave is paid at fifty percent of the employee's regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, the only leave which has been accrued represents the hours earned at June 30, 2013, over 600 hours up to 120 hours per employee. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a liability in the government-wide financial statements.

Fair Labor Standards Act (FLSA) nonexempt employees accumulate compensatory time at the rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensatory time at the same rate as the number of hours worked. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. Fund Balance Classifications

Fund balances in the governmental fund statements are classified as follows:

Restricted - amounts that have constraints placed on the use of the resources either by external sources such as creditors, grantors, contributors, laws or regulations, or by enabling legislation.

Committed - amounts that have constraints placed on the use of the resources by formal action of the government's highest level of decision making authority, which is the Advisory Board. The board does not actively exercise the authority to make internal commitments.

Assigned - amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed; these assignments would be exercised by the Advisory Board if there was need to do so.

Unassigned - represents amounts that do not meet the definition of restricted, committed, or assigned.

The agency has not developed an internal policy to determine whether amounts expended are considered to have been spent from committed, assigned, or unassigned fund balances when amounts from any of these fund balance types are available.

As of June 30, 2013, SHARE funds 10000 and 10100 reported deficit fund balances which resulted from prior year expenditures exceeding prior year revenues. These deficits are reported as unassigned deficits in accordance with GASB 54.

H. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as investments in capital assets, restricted and unrestricted.

Investment in Capital Assets - Is intended to reflect the portion of net assets which are associated with non-liquid, capital assets, which amounted to \$18,988 for fiscal year ending June 30, 2013.

Restricted Assets - are liquid assets (generated from revenues and bond proceeds appropriations), which have third-party (statutory enabling legislation or granting agency) limitation on their use, and which are legally enforceable as to their use. Restricted net position amounted to \$425,130 for the fiscal year ending June 30, 2013.

Unrestricted Assets - represent unrestricted liquid assets. The remaining net position deficit is reported as unrestricted net position (deficit) for the fiscal year ending June 30, 2013.

The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Use of Estimates

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

NOTE 3 – CASH AND COLLATERAL

Cash accounts on deposit with the State Treasurer in the State General Fund Investment Pool consist of the following:

SHARE Account Number	Account Name	Balance Per Treasurer	Balance Per Books
04800	General Fund	\$ 1,819,850	\$ 1,819,850
09900	Special Capital Outlay Fund	(68,221)	(68,221)
10000	Special Capital Outlay Fund	(162,284)	(162,284)
10100	Special Capital Outlay Fund	(831,781)	(831,781)
42900	Tribal Infrastructure Fund	99,902	99,902
66700	IAD Grant Fund	44,064	44,064
89200	STB Reauthorization Fund	407,822	407,822
93100	General Fund Reauthorization Fund	516,110	516,110
		<u>\$ 1,825,462</u>	<u>\$ 1,825,462</u>

Cash accounts on deposit with the New Mexico State Treasurer do not require collateral to be pledged because they are deposits with another governmental entity. The Department is not authorized to make investments. However, certain cash accounts are authorized to earn interest and are deposited by DFA into the New Mexico State Treasurer's Office Interest Bearing Pool. The pool invests in repurchase agreements secured at 102% by U.S. Treasury notes and bills, certificates of deposit, and other interest bearing instruments. Because all monies are held by another governmental entity, Governmental Accounting Standards Board Statement #3, "Deposit with Financial Institutions Investments (Including Repurchase Agreements)," and "Reverse Purchase Agreements" is not applicable. Deposits do not have to be classified according to custodial credit risk.

The State Treasurer has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through P, NMSA 1978, as amended. The State Treasurer with the advice and consent of the state board of finance can invest money held in demand deposits and investments not immediately needed for the operation of state government in:

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 3 – CASH AND COLLATERAL – CONTINUED

- A. Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;
- B. Contracts for the present purchase and resale at specified time in the future, not to exceed one year or, in the case of bond proceeds appropriations, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. no such contract shall be invested in unless the contract is fully secured by obligations of the united states or other securities backed by the united states having a market value of at least one hundred two percent of the amount of the contract;
- C. Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. no such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on the same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm, or recognized institutional investor has a net worth in excess of five hundred million dollars;
- D. Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated 'prime" quality by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;
- E. Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or
- F. Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 3 – CASH AND COLLATERAL – CONTINUED

No public funds can be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall be paid out unless there is a contemporaneous transfer of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of uncertificated securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable third-party safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser.

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or 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 pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2013.

NOTE 4 – STATE GENERAL FUND INVESTMENT POOL

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 4 – STATE GENERAL FUND INVESTMENT POOL - CONTINUED

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

Management in FY 2012 recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

The Department has adopted policies and procedures in order to mitigate the risk of misstatement in their interest in the General Fund Investment Pool. These include tracking cash receipts and disbursements outside of SHARE and reconciling the activity to SHARE on a monthly basis.

At year end, the Department had deficit cash balances of \$1,062,286. The Department is currently reconciling the negative cash balances in Funds 09900, 10000 and 10100. The project requires reconciling the Department's capital project funds that go back several years. This process will take a significant amount of time as these funds are comprised of numerous capital outlay projects.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 5 – DUE FROM/TO OTHER STATE AGENCIES

The following are short-term amounts due from/to other state agencies:

	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
<u>Fund 09900 - Special Capital Outlay Fund</u> DFA/BOF 34100/01900	Severance tax bond proceeds	\$ 68,221	\$ -
<u>Fund 10000 - Special Capital Outlay Fund</u> DFA/BOF 34100/01900	Severance tax bond proceeds	87,828	-
<u>Fund 10100 - Special Capital Outlay Fund</u> DFA/BOF 34100/01900	Severance tax bond proceeds	392,656	-
	Refund for overpaid capital outlay projects from 2007-2012	-	88,489
<u>Fund 42900 - Tribal Infrastructure Fund</u> DFA/BOF 34100/01900	Severance tax bond proceeds	202,474	-
	Reversion to DFA/BOF for closed tribal infrastructure projects	-	188,085
<u>Fund 89200 - STB Reauthorization Fund</u> DFA/BOF 34100/01900	Severance tax bond proceeds	<u>3,365,982</u>	<u>-</u>
		<u>\$ 4,117,161</u>	<u>\$ 276,574</u>

Management has determined that all balances due from other state agencies are fully collectible.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 6 – DUE FROM/TO OTHER FUNDS

Due from and due to other funds represent interfund receivables and payables arising from interdepartmental transactions. These amounts have been eliminated on the government-wide statements.

	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
<u>Fund 04800 - General Fund</u>			
Due from Fund 10100	Expenditure paid out of wrong fund	\$ 25,000	\$ -
Due from Fund 66700	Expenditure paid out of wrong fund	12,875	-
<u>Fund 10000 - Special Capital Outlay Fund</u>			
Due to Fund 42900	Unused capital project proceeds	-	46,095
Due to Fund 10100	Expenditure paid out of wrong fund	-	50,586
Due to Fund 93100	Expenditure paid out of wrong fund	-	13,315
<u>Fund 10100 - Special Capital Outlay Fund</u>			
Due from Fund 10000	Expenditure paid out of wrong fund	50,586	-
Due to Fund 04800	Expenditure paid out of wrong fund	-	25,000
Due to Fund 42900	Expenditure paid out of wrong fund	-	12,191
<u>Fund 42900 - Tribal Infrastructure Fund</u>			
Due from Fund 10000	Unused capital project proceeds	46,095	-
Due from Fund 10100	Expenditure paid out of wrong fund	12,191	-
<u>Fund 66700 - IAD Grant Fund</u>			
Due to Fund 04800	Expenditure paid out of wrong fund	-	12,875
<u>Fund 93100 - GF Reauthorization Fund</u>			
Due from Fund 10000	Expenditure paid out of wrong fund	<u>13,315</u>	<u>-</u>
		<u>\$ 160,062</u>	<u>\$ 160,062</u>

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 7 – CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Cost				
Furniture and fixtures	\$ 63,122	\$ -	\$ (13,850)	\$ 49,272
Equipment and machinery	28,300	-	-	28,300
Data processing equipment	19,279	-	(2,563)	16,716
Vehicles	85,561	-	(85,561)	-
Total capital assets	<u>196,262</u>	<u>-</u>	<u>(101,974)</u>	<u>94,288</u>
Accumulated depreciation				
Furniture and fixtures	(38,390)	(4,928)	11,535	(31,783)
Equipment and machinery	(25,344)	(1,457)	-	(26,801)
Data processing equipment	(19,279)	-	2,563	(16,716)
Vehicles	(75,880)	-	75,880	-
Total accumulated depreciation	<u>(158,893)</u>	<u>(6,385)</u>	<u>89,978</u>	<u>(75,300)</u>
Net capital assets	<u>\$ 37,369</u>	<u>\$ (6,385)</u>	<u>\$ (11,996)</u>	<u>\$ 18,988</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year ended June 30, 2013 was \$6,385.

NOTE 8 – COMPENSATED ABSENCES PAYABLE

A summary of changes in compensated absences payable for the year ended June 30, 2013, is as follows:

	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>	Current <u>Portion</u>
Current compensated absences payable	<u>\$ 25,471</u>	<u>\$ 34,935</u>	<u>\$ (30,088)</u>	<u>\$ 30,318</u>	<u>\$ 30,318</u>

Historically, all compensated absences have been paid out of the general fund.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 9 – REVERSIONS – DUE TO STATE GENERAL FUND

Unexpended cash balances at year end of State General Fund monies appropriated to the Department are reverted to the State General Fund, unless otherwise specified in the appropriation language.

The General Fund 04800 receives a State General Fund appropriation annually. Any unexpended funds at the end of the year revert to the State General Fund. In 2013, the Department was appropriated \$249,300 from the tobacco settlement fund in addition to the general fund appropriation of \$2,399,900. The Indian Affairs Department did not receive a Compensation Package in FY2013. The Department also did not receive special appropriations in FY2013. Any other revenue received in the fund, which is not specifically appropriated by the legislature, also reverts to the State General Fund. Special Capital Outlay Fund 10000 receives capital project funds appropriated from the state general fund from the Laws of 2004-2011. Unexpended funds revert at the end of the authorization period. General Fund Reauthorization Fund 93100 was established in fiscal year 2011 by Senate bill 373 to administer projects funded by general fund appropriations. Unexpended funds revert at the end of the appropriation period.

Source of reversions amounts to budget fiscal year are as follows:

Budget fiscal year ended:	
June 30, 2011	\$ 183,782
June 30, 2012	696,455
June 30, 2013	304,344
Stale warrants	<u>2,703</u>
Subtotal for Fund 04800	1,187,284
Fund 10000 FY12 and prior	212,247
Fund 93100 FY12 and prior	<u>1,210</u>
Total due to State General Fund	<u>\$1,400,741</u>

NOTE 10 – NET POSITION/FUND BALANCES

The government-wide statement of net position and governmental funds balance sheet reports \$425,130 of net position restricted by enabling legislation. The statement of net position also reports (\$1,171,045) of unrestricted net position deficit. The governmental funds balance sheet includes (\$1,140,727) of unassigned fund balance deficits. These deficits are due to unreconciled prior year capital projects in the respective funds.

NOTE 11 – PENSION PLAN-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 11 – PENSION PLAN-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION - CONTINUED

2123, Santa Fe, New Mexico 87504-2123. That report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy – Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of the plan members and the Board are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's employer contributions to PERA for the years ending June 30, 2013, 2012, and 2011 were \$102,416, \$72,011, and \$86,887, respectively, equal to the amount of the required contributions for each year.

NOTE 12 – POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 12 – POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

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, 2013, the statute 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, 2013, 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 Department’s contributions to the RHCA for the years ended June 30, 2013, 2012, and 2011 were \$13,582, \$9,870, and \$9,527, respectively, which equal the required contributions for each year.

NOTE 13 – TRANSFERS TO/FROM OTHER AGENCIES

The following are transfers to/ from other state agencies:

<u>From Agency/Fund</u>	<u>To Agency/Fund</u>	<u>Purpose</u>	<u>Amount</u>
34101/85300	60900/04800	General fund appropriation	\$ 2,399,900
60900/04800	34101/85300	General fund reversion - FY 2013	(304,344)
34100/69700	60900/04800	Tobacco Settlement appropriation	249,300
34100/01900	60900/10100	Severance tax bond transfers	236,966
34100/10740	60900/89200	Severance tax bond transfers	6,389,916
34100/60910	60900/42900	Severance tax bond transfers	<u>623,727</u>
			<u><u>\$ 9,595,465</u></u>

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 14 – INTERGOVERNMENTAL AGREEMENTS

The Department has entered into an Intergovernmental Agreement with each entity who has been awarded funding for capital projects. The Schedule of Capital Projects - Severance Tax Appropriations and General Fund Appropriations provides a schedule of capital projects and the entity's name. All unexpended balances of general fund capital outlay appropriations are reported in the fund statements as restricted fund balance. Unexpended balances of severance tax bond capital outlay appropriations are not reported in the financial statements as the amounts will be recognized in future periods.

NOTE 15 – RISK MANAGEMENT

The Indian Affairs Department is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees or others; 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. The Department pays premiums to participate in the program.

The Department obtains its coverage through the Risk Management Division. This coverage includes liability and civil rights, property, vehicle, employee bond, workers' compensation, group insurance, and State unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. Risk management expenditures for the Department are accounted for in the general fund. Any claims are processed through RMD. All employees of the Department were covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2011 through June 30, 2013.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Capital Project Funding - The Department has future commitments to fund projects through June 30, 2016. These future project commitments are listed in detail in the Schedule of Capital Projects - Severance Tax Appropriations and State General Fund Appropriations.

Legal Proceedings - The Department is involved in legal proceedings pertaining to a \$337,500 Professional Services Contract awarded to and paid to a film production company to create an educational documentary film regarding the contribution of the Navajo Code Talkers in World War II. The production company has disputed the State's ownership of the product. The Department intends to contest the case and feels there is a high likelihood of a favorable outcome, which would result in the Department maintaining ownership of the rights of the documentary film. No formal resolution of this matter has been executed as of June 30, 2013. In the event that the outcome is not in the Department's favor. Any settlement would be covered under the Risk Management agreement with the General Services Department (see Note 15).

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2013

NOTE 17 – SUBSEQUENT EVENTS

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

The Department has evaluated subsequent events through December 3, 2013, which is the date the financial statements were available to be issued. No matters were identified for recognition in the accounts.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR FUNDS
GOVERNMENTAL FUNDS
June 30, 2013

	Special Capital Outlay Fund 09900	Special Capital Outlay Fund 10000	Special Capital Outlay Fund 10100	Tribal Infra- structure Fund 42900	IAD Grant Fund 66700	GF Reauthor- ization Fund 93100	Total Non-major Funds
ASSETS							
Investment in State Treasurer							
General Fund Investment Pool	\$ -	\$ -	\$ -	\$ 99,902	\$ 44,064	\$ 516,110	\$ 660,076
Due from other funds	-	-	50,586	58,286	-	13,315	122,187
Due from other agencies	68,221	87,828	392,656	202,474	-	-	751,179
Total assets	<u>\$ 68,221</u>	<u>\$ 87,828</u>	<u>\$ 443,242</u>	<u>\$ 360,662</u>	<u>\$ 44,064</u>	<u>\$ 529,425</u>	<u>\$ 1,533,442</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 236,966	\$ -	\$ -	\$ 275,662	\$ 512,628
Bank overdraft	68,221	162,284	831,781	-	-	-	1,062,286
Accrued salaries payable	-	-	-	-	-	-	-
Payroll taxes payable	-	-	-	-	-	-	-
Payroll benefits payable	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	24,032	-	24,032
Other liabilities	-	-	-	-	-	-	-
Due to other funds	-	109,996	37,191	-	12,875	-	160,062
Due to State General Fund	-	212,247	-	-	-	1,210	213,457
Due to other state agencies	-	-	88,489	188,085	-	-	276,574
Total liabilities	<u>68,221</u>	<u>484,527</u>	<u>1,194,427</u>	<u>188,085</u>	<u>36,907</u>	<u>276,872</u>	<u>2,249,039</u>
FUND BALANCES (DEFICIT)							
Restricted	-	-	-	172,577	-	252,553	425,130
Unassigned	-	(396,699)	(751,185)	-	7,157	-	(1,140,727)
Total fund balances (deficit)	<u>-</u>	<u>(396,699)</u>	<u>(751,185)</u>	<u>172,577</u>	<u>7,157</u>	<u>252,553</u>	<u>(715,597)</u>
Total liabilities and fund balances (deficit)	<u>\$ 68,221</u>	<u>\$ 87,828</u>	<u>\$ 443,242</u>	<u>\$ 360,662</u>	<u>\$ 44,064</u>	<u>\$ 529,425</u>	<u>\$ 1,533,442</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NON-MAJOR FUNDS
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	Special Capital Outlay Fund 09900	Special Capital Outlay Fund 10000	Special Capital Outlay Fund 10100	Tribal Infra- structure Fund 42900	IAD Grant Fund 66700	GF Reauthor- ization Fund 93100	Total Non-major Funds
REVENUES:							
Intergovernmental:							
Private gifts and grants	\$ -	\$ -	\$ -	\$ -	\$ 11,997	\$ -	\$ 11,997
EXPENDITURES:							
General government:							
Current:							
Personal services	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	-
Other costs	-	-	236,966	623,727	11,997	287,119	1,159,809
Capital outlay	-	-	-	-	-	-	-
Total expenditures	-	-	236,966	623,727	11,997	287,119	1,159,809
Excess (deficiency) of revenues over expenditures	-	-	(236,966)	(623,727)	-	(287,119)	(1,147,812)
OTHER FINANCING SOURCES (USES)							
Transfers in (out):							
State General Fund appropriation	-	-	-	-	-	-	-
Severance tax bond appropriations	-	-	236,966	623,727	-	-	860,693
Other appropriations - tobacco settlement funds	-	-	-	-	-	-	-
Reversion to State General Fund	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	236,966	623,727	-	-	860,693
Net change in fund balances	-	-	-	-	-	(287,119)	(287,119)
Fund balance (deficit), beginning of year	-	(396,699)	(751,185)	172,577	7,157	539,672	(428,478)
Fund balance (deficit), end of year	\$ -	\$ (396,699)	\$ (751,185)	\$ 172,577	\$ 7,157	\$ 252,553	\$ (715,597)

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
NON-MAJOR SPECIAL REVENUE FUND – SPECIAL CAPITAL OUTLAY FUND 09900
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
REVENUES:				
Severance tax bond appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total revenues	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
EXPENDITURES:				
General government:				
Other costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total expenditures	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 39			\$ -	
Adjustments			<u>-</u>	
Budget basis revenues			<u><u>\$ -</u></u>	
GAAP basis expenditures, page 39			\$ -	
Adjustments			<u>-</u>	
Budget basis expenditures			<u><u>\$ -</u></u>	

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
NON-MAJOR SPECIAL REVENUE FUND – SPECIAL CAPITAL OUTLAY FUND 10000
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Severance tax bond appropriations	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXPENDITURES:				
General government:				
Other costs	\$ -	\$ -	\$ -	\$ -
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 39			\$ -	
Adjustments			<u>-</u>	
Budget basis revenues			<u>\$ -</u>	
GAAP basis expenditures, page 39			\$ -	
Adjustments			<u>-</u>	
Budget basis expenditures			<u>\$ -</u>	

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
NON-MAJOR SPECIAL REVENUE FUND – SPECIAL CAPITAL OUTLAY FUND 10100
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	
REVENUES:				
Severance tax bond appropriations	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXPENDITURES:				
General government:				
Other costs	\$ -	\$ -	\$ -	\$ -
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 39			\$ 236,966	
Adjustments			<u>(236,966)</u>	
Budget basis revenues			<u>\$ -</u>	
GAAP basis expenditures, page 39			\$ 236,966	
Adjustments			<u>(236,966)</u>	
Budget basis expenditures			<u>\$ -</u>	

Note: The budget basis revenues did not include a GAAP basis adjustment in the amount of \$236,966. The budget basis expenditures did not include a request to pay prior year invoices in the amount of \$236,966.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
NON-MAJOR SPECIAL REVENUE FUND – TRIBAL INFRASTRUCTURE FUND 42900
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	
REVENUES:				
Severance tax bond appropriations	<u>\$ 623,727</u>	<u>\$ 623,727</u>	<u>\$ 623,727</u>	<u>\$ -</u>
Total revenues	<u><u>\$ 623,727</u></u>	<u><u>\$ 623,727</u></u>	<u><u>\$ 623,727</u></u>	<u><u>\$ -</u></u>
EXPENDITURES:				
General government:				
Other costs	<u>\$ 623,727</u>	<u>\$ 623,727</u>	<u>\$ 623,727</u>	<u>\$ -</u>
Total expenditures	<u><u>\$ 623,727</u></u>	<u><u>\$ 623,727</u></u>	<u><u>\$ 623,727</u></u>	<u><u>\$ -</u></u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 39			\$ 623,727	
Adjustments			<u>-</u>	
Budget basis revenues			<u><u>\$ 623,727</u></u>	
GAAP basis expenditures, page 39			\$ 623,727	
Adjustments			<u>-</u>	
Budget basis expenditures			<u><u>\$ 623,727</u></u>	

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
NON-MAJOR SPECIAL REVENUE FUND – IAD GRANT FUND 66700
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
REVENUES:				
Private grants	<u>\$ 36,029</u>	<u>\$ 36,029</u>	<u>\$ 11,997</u>	<u>\$ (24,032)</u>
Total revenues	36,029	36,029	<u>\$ 11,997</u>	<u>\$ (24,032)</u>
Prior year fund balance	<u>7,157</u>	<u>7,157</u>		
Total budgeted revenues	<u>\$ 43,186</u>	<u>\$ 43,186</u>		
EXPENDITURES:				
General government:				
Other costs	<u>\$ 32,115</u>	<u>\$ 32,115</u>	<u>\$ 11,997</u>	<u>\$ 20,118</u>
Total expenditures	<u>\$ 32,115</u>	<u>\$ 32,115</u>	<u>\$ 11,997</u>	<u>\$ 20,118</u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 39			\$ 11,997	
Adjustments			<u>-</u>	
Budget basis revenues			<u>\$ 11,997</u>	
GAAP basis expenditures, page 39			\$ 11,997	
Adjustments			<u>-</u>	
Budget basis expenditures			<u>\$ 11,997</u>	

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
NON-MAJOR SPECIAL REVENUE FUND – GENERAL FUND REAUTHORIZATION FUND 93100
Year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amount Budgetary Basis	Favorable (Unfavorable)
REVENUES:				
Other financing sources - transfers	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	<u>\$ -</u>	<u>\$ -</u>
Prior year fund balance	<u>539,672</u>	<u>539,672</u>		
Total budgeted revenues	<u>\$ 539,672</u>	<u>\$ 539,672</u>		
EXPENDITURES:				
General government:				
Other costs	<u>\$ 539,672</u>	<u>\$ 539,672</u>	<u>\$ 287,119</u>	<u>\$ (252,553)</u>
Total expenditures	<u>\$ 539,672</u>	<u>\$ 539,672</u>	<u>\$ 287,119</u>	<u>\$ (252,553)</u>
Reconciliation of GAAP basis to budgetary basis:				
GAAP basis revenues, page 39			\$ -	
Adjustments			<u>-</u>	
Budget basis revenues			<u>\$ -</u>	
GAAP basis expenditures, page 39			\$ 287,119	
Adjustments			<u>-</u>	
Budget basis expenditures			<u>\$ 287,119</u>	

The accompanying notes are an integral part of the financial statements

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF CAPITAL PROJECTS - SEVERANCE TAX AND GENERAL FUND APPROPRIATIONS
JUNE 30, 2013

#	Fund Code	Org. Code	BOF/CPD		Tribal Govt.	Funding	
			Proj. #	Description		Source	Appr. End Date
1	10100	083976	09-3825	Baahaali Chapter-Chapter House Expansion	Navajo Nat.	GF/08/STB0	6/30/2012
2	10100	074660	09-3826	Breadsprings Chapter-Powerline Extension	Navajo Nat.	GF/07/STB0	6/30/2012
3	10100	074724	09-3832	Nenahnezah Community Center Improvement	Navajo Nat.	GF/07/STB0	6/30/2013
4	10100	074643	09-3824	Laguna Pueblo-Water System Improvement	19 Pueblos	GF/07/STB0	6/30/2013
5	10100		09-3838	Torreon Star Bathroom Additions	Navajo Nat.	GF/07/STB0	6/30/2013
						Total projects fund	10100
1	42900	A093138	09-3138	Tribal Infrastructure Projects	Other.	STB/09A	6/30/2013
						Total projects fund	42900
1	93100	073442	11-1166	Tohatchi Chapter-Skateboard Park	Navajo Nat.	GF/11 R	6/30/2013
2	93100	074639	11-1131	Pueblo of Acoma-Skyline Lagoon	19 Pueblos	GF/11 R	6/30/2013
3	93100	074669	11-1158	Crownpoint Wellness-Center Construct	Navajo Nat.	GF/11 R	6/30/2013
4	93100	074738	11-1190	White Rock Chapter-Powerline Project	Navajo Nat.	GF/11 R	6/30/2013
5	93100	084006	12-1616	Pueblo of Isleta-Veteran's Center	19 Pueblos	GF/12 R	6/30/2014
						Total projects fund	93100
1	89200	10-1288	10-1288	Tribal Infrastructure Projects	Other.	STB	6/30/2014
2	89200	121380	12-1380	Pueblo of Acoma-Wheelchair Lift	19 Pueblos	STB/12A	6/30/2014
3	89200	121381	12-1381	Pueblo of Acoma-Auto Extraction Equipmer	19 Pueblos	STB/12A	6/30/2014
4	89200	121382	12-1382	Baahaali Chapter-Construct Parking Lot	Navajo Nat.	STB/12A	6/30/2016
5	89200	121383	12-1383	Ramah Navajo Chapter-Bathroom Additions	Navajo Nat.	STB/12A	6/30/2016
6	89200	121384	12-1384	Mescalero Apache Tribe-Construct Pipe Sto	Apache	STB/12A	6/30/2016
7	89200	121385	12-1385	Tse'Daa'Kaan Chapter-Pave Parking Lot	Navajo Nat.	STB/12A	6/30/2016
8	89200	121386	12-1386	Pueblo of Santa Ana-Police Substation	19 Pueblos	STB/12A	6/30/2016
9	89200	121387	12-1387	Pueblo of Santo Domingo-Fire Truck Pumpe	19 Pueblos	STB/12A	6/30/2014
10	89200	121388	12-1388	Torreon Star Lake Chapter-Waterline Exten	Navajo Nat.	STB/12A	6/30/2016
11	89200	121389	12-1389	Pueblo of Pojoaque-Dam & Gates Improver	19 Pueblos	STB/12A	6/30/2016
12	89200	121390	12-1390	Pueblo of Pojoaque-Poeh Cultural Center	19 Pueblos	STB/12A	6/30/2016
13	89200	121391	12-1391	Santa Fe Indian School-Leadership Program	Other.	STB/12A	6/30/2016
14	89200	121392	12-1392	Alamo Navajo Chapter-Sewage Lagoons	Navajo Nat.	STB/12A	6/30/2016
15	89200	A120012	12TF01	Mariano Lake Chapter-Water Distribution S	Navajo Nat.	STB	4/9/2014
16	89200	A120012	12TF02	Tse'ii'ahi Chapter-STM Aerotor Green Waste	Navajo Nat.	STB	4/9/2014
17	89200	A120012	12TF03	Pueblo of Isleta-Long Term Facility	19 Pueblos	STB	3/24/2014
18	89200	A120012	12TF04	Pueblo of Laguna-School House-Rodeo Driv	19 Pueblos	STB	3/27/2014
19	89200	A120012	12TF05	Pueblo of Nambe-Buffalo Range Subdivisio	19 Pueblos	STB	3/11/2014
20	89200	A120012	12TF06	Pueblo of San Felipe-Middle Hagen Road S	19 Pueblos	STB	3/24/2014
21	89200	A120012	12TF07	Pueblo of Sandia-South Diversion Drainage	19 Pueblos	STB	3/24/2014
22	89200	A120012	12TF08	Pueblo of Santa Ana-Adobe Estates Subdivi	19 Pueblos	STB	3/27/2014
23	89200	A120012	12TF09	Pueblo of Santa Clara-Water Collection Syst	19 Pueblos	STB	3/27/2014
24	89200	A120012	12TF10	Pueblo of Santo Domingo-Community Wate	19 Pueblos	STB	3/27/2014
25	89200	A120012	12TF11	Pueblo of Tesuque-Water & Wastewater Sy	19 Pueblos	STB	3/11/2014
26	89200	A120012	12TF12	Pueblo of Zia-Zia Enterprise Zone	19 Pueblos	STB	3/27/2014
27	89200	A120012	12TF13	NAPI-Potable Water Project	Navajo Nat.	STB	4/9/2014
28	89200	A120012	12TF14	Counselor Chapter-Phase II (Day Mesa) Pow	Navajo Nat.	STB	4/9/2014
29	89200	A120012	12TF15	Jicarilla Apache-Cutter Lateral Initiative	Apache.	STB	3/24/2014
30	89200	A120012	12TF16	Mescalero Apache-Develop Tribal Compreh	Apache.	STB	3/24/2014
31	89200	A120012	12TF17	Ohkay Owingeh-Planning & Design for Infra	19 Pueblos	STB	3/24/2014
32	89200	A120012	12TF18	Pueblo of Taos-Comprehensive Indigenous	19 Pueblos	STB	3/24/2014
33	89200	A120012	12TF19	Pueblo of Santa Clara-Water Planning Capa	19 Pueblos	STB	3/27/2014
34	89200	A120012	12TF20	Church Rock Chapter-State Highway 118	Navajo Nat.	STB	4/9/2014
35	89200	A120012	12TF21	Ramah Chapter-Ramah Navajo Water Well	Navajo Nat.	STB	4/9/2014
36	89200	A120012	12TF22	To'hajiilee Chapter-Supply/Infrastructure	Navajo Nat.	STB	4/9/2014
37	89200	A120012	12TF23	White Rock Chapter-Water Pipeline Phase	Navajo Nat.	STB	3/27/2014
38	89200	A120012	12TF24	Pueblo of Tesuque-Water & Wastewater M	19 Pueblos	STB	3/12/2014
39	89200	A120012	12TF25	Pueblo of San Felipe-Comprehensive Plan	19 Pueblos	STB	3/24/2014
40	89200	A120012	12TF26	Pueblo of Laguna-Master Plan for Parks & R	19 Pueblos	STB	3/27/2014
41	89200	A120012	12TF27	Red Rock Chapter-Comprehensive Plan for	Navajo Nat.	STB	4/9/2014
42	89200	A120012	12TF28	San Ildefonso Pueblo Housing Authority-Ho	19 Pueblos	STB	3/24/2014
						Total projects fund	89200

Amount Appropriated or Reauthorized	Amount Expended	FY13 Expended Amount	Unexpended/ Uncommitted Balance
\$ 45,000	\$ 13,757	13,757	\$ 31,243
114,000	23,419	23,419	90,581
100,000	99,789	99,789	211
100,000	-	100,000	-
82,000	27,011	-	54,989
\$ 441,000	\$ 163,976	236,965	\$ 177,024

\$ 5,000,000	\$ 4,895,602	623,727	\$ 104,398
\$ 5,000,000	\$ 4,895,602	623,727	\$ 104,398

\$ 210,000	\$ -	-	\$ 210,000
50,000	40,000	40,000	10,000
500,000	483,213	235,662	16,787
50,000	48,867	4,244	1,133
15,377	7,213	7,213	8,164
\$ 825,377	\$ 579,293	287,119	\$ 246,084

\$ 2,500,000	\$ 2,484,031	1,735,963	\$ 15,969
35,000	-	-	35,000
22,000	21,630	21,630	370
100,000	-	-	100,000
50,000	-	-	50,000
360,000	-	-	360,000
150,000	-	-	150,000
180,000	-	-	180,000
115,000	115,000	115,000	-
72,000	-	-	72,000
34,000	-	-	34,000
115,000	106,274	106,274	8,726
50,000	-	-	50,000
50,000	-	-	50,000
500,000	246,091	246,091	253,909
300,000	-	-	300,000
700,000	438,255	438,255	261,745
400,000	-	-	400,000
920,000	810,193	810,193	109,807
236,500	236,500	236,500	-
797,500	797,500	797,500	-
1,200,000	62,219	62,219	1,137,781
1,675,000	-	-	1,675,000
1,000,000	44,000	44,000	956,000
535,000	535,000	535,000	-
1,303,669	721,095	721,095	582,574
813,347	-	-	813,347
417,678	-	-	417,678
400,000	232,016	232,016	167,984
117,525	50,808	50,808	66,717
40,000	27,648	27,648	12,352
150,000	-	-	150,000
120,000	57,954	57,954	62,046
50,000	-	-	50,000
350,250	-	-	350,250
75,000	-	-	75,000
600,000	-	-	600,000
150,000	92,718	92,718	57,282
84,496	22,000	22,000	62,496
190,000	29,378	29,378	160,622
50,000	-	-	50,000
32,000	7,675	7,675	24,325
\$ 17,040,965	\$ 7,137,985	6,389,917	\$ 9,902,980

**INDEPENDENT AUDITORS' 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. Arthur Allison, Cabinet Secretary
State of New Mexico Indian Affairs Department
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

I 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, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue fund of the State of New Mexico Indian Affairs Department (Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the combining and individual funds and related budgetary comparisons of the Department, presented as supplemental information, and have issued my report thereon dated December 3, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Department's internal control. Accordingly, I do not express an opinion on the effectiveness of the Department's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2009-1 and 2011-3 to be material weaknesses.

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. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-6, 2012-7, 2012-12, 2012-15, 2013-1, 2013-2, and 2013-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Department'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 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 2011-1, 2012-7, 2012-12, 2012-15, 2013-1, 2013-2, and 2013-3.

The Department's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

The purpose of this report is solely to describe the scope of my 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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James L. Hartogensis, CPA LLC

James L. Hartogensis, CPA LLC
Albuquerque, New Mexico
December 3, 2013

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
 SCHEDULE OF FINDINGS AND RESPONSES
 June 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued: Qualified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? Yes

Significant deficiencies identified not considered to be material weaknesses? Yes

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? Yes

STATUS OF PRIOR YEAR FINDINGS

2009-1 – Severance Tax Bond Funds Not Reconciled	Repeated and modified
2011-1 – Reversions-Capital Projects-SHARE Fund 10000	Repeated and modified
2011-2 – SHARE Fund 10000 Underfunded	Resolved
2011-3 – Interagency Balances	Repeated and modified
2012-1 – Cash Deposit Not Recorded Timely	Resolved
2012-2 – Retainage Fees Policy/Closure of Projects	Resolved
2012-3 – Supporting Documentation	Resolved
2012-4 – Grant Compliance: Questionable Costs	Resolved
2012-5 – Incomplete Documentation	Resolved
2012-6 – Unrecorded Liabilities	Repeated and modified
2012-7 – Asset Dispositions	Repeated and modified
2012-8 – Review of Cash Activity	Resolved
2012-9 – Revenue Classification	Resolved
2012-10 – Reversions Operating Funds	Repeated and included with Finding 2011-1
2012-11 – Budget Violation	Resolved
2012-12 – Cash Monitoring Procedures	Repeated and modified
2012-13 – Timeliness of Audit Report	Resolved
2012-14 – Compensating Time	Resolved
2012-15 – Use of State Vehicle	Repeated and modified

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

CURRENT YEAR FINDINGS

2009-1 Severance Bonds Not Reconciled (Material Weakness)

Condition – Management of the Indian Affairs Department (IAD, Department) is unable to reconcile fiscal year 2012 and prior years' revenues and expenditures relating to capital projects reported in the Statewide Human Resource, Accounting, and Management Reporting System (SHARE) Fund 10100 (Special Capital Outlay Fund), Tribal Infrastructure Fund 42900 and GF Reauthorization Fund 93100, in accordance with state accounting procedures for capital projects. In addition, 2013 revenues in three capital project funds were not recorded accurately. Fiscal year 2013 revenues for funds 42900, 89200 and 93100 were materially misstated prior to posting applicable audit adjustments.

Criteria – The New Mexico Department of Finance and Administration (DFA) has issued accounting procedures for capital projects financed by severance tax bonds, including the criteria and timing for recognizing revenues, expenditures, receivables and payables.

Cause – DFA procedures were not followed. Projects were not reconciled in prior years.

Effect – Fund balances for funds 10000, 10100, 42900 and 93100 were not auditable due to lack of prior year reconciliation. Material audit adjustments to revenues were needed for funds 42900, 89200 and 93100.

Recommendation – I recommend the Department review each capital project funded by severance tax and general appropriations and reconcile each projects' actual expenditures to SHARE. After reconciling expenditures, the Department should adjust fund balances accordingly.

Management's Response - The Department is aware of the unreconciled revenues and expenditures relating to capital projects reporting in SHARE for funds 10100, 42900, 93100. IAD is working on resolving issues from FY 2012 and prior with additional help from two contractors hired by the CFO. The additional revenues were not posted in SHARE due to the DFA – CAFR Unit being informed by DFA – Capital Outlay Bureau staff that these projects were terminated at 6/30/2013 which is incorrect. All of the 2012 Tribal Infrastructure Funds projects have a term date of March and April of 2014. IAD is currently working on developing processes and procedures with the DFA – Capital Outlay Bureau.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2011-1 Reversions – SHARE funds 04800, 10000, and 93100 (Noncompliance)

Condition – Reversions for fiscal years 2011 and 2012 for fund 04800 were not completed until August, 2013. Reversions payable to the State General Fund relating to fiscal year 2012 and prior years for funds 10000 and 93100 were never paid.

Criteria – Unexpended amounts for general fund expenditures and capital projects are required to be reverted in accordance with the legislative appropriation that authorized them.

Cause – Reconciliations for these funds were not completed within the legislatively mandated timeframe, leading to untimely reversions.

Effect – The Department was able to keep monies in their accounts that belonged to the State General Fund. These monies were not made available for appropriation by the State General Fund in a timely manner.

Recommendation – Management should reconcile each of the affected funds and revert any unexpended funds as soon as possible.

Management's Response - IAD's CFO and Accountant started working for the Department in Fiscal Year 2013. Thus, the CFO reconciled and processed the untimely Reversions to get the Department current with prior year reversions. The CFO hired two contractors to reconcile the Department's voluminous amount of capital outlay projects beginning with the year 2006 to the end of fiscal year 2012. The contractors have already found discrepancies with several capital outlay projects beginning the fiscal year 2006 when the SHARE system conversion occurred for the State Agencies. In addition, the two contractors are reconciling each project folder and finding that some receivables and reversions were never made to the State General fund. The contractors are compiling a spreadsheet that will reconcile to the SHARE accounting system when the reconciliation is completed. The contractors will be closing out projects that were never closed out and a written close out letter will be sent to the grantee and a copy forwarded to DFA. IAD's CFO is estimating the completion date of June 30, 2014 to complete this complex reconciliation process.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2011-3 – Interagency Balances (Material Weakness)

Condition – Amounts due from other agencies have not been reconciled or collected.

Criteria – Amounts due from other agencies should be reconciled and collected during the same period in which the receivable arises, or within a reasonable period after fiscal year-end.

Cause – The receivables relate to capital projects. The Department has been unable to reconcile their capital project revenues and expenditures relating to prior fiscal years, therefore the receivable amounts are unknown at June 30, 2013.

Effect – The Department cannot initiate collection efforts until the amounts are reconciled and verified as accurate and valid receivables.

Recommendation – The Department should review each capital project funded by severance tax and general appropriations and reconcile each projects' actual revenues and expenditures to SHARE. After reconciling revenues and expenditures, the Department should adjust and collect the receivables accordingly.

Management's Response - Management is aware of the unreconciled capital project revenues and expenditures relating to prior fiscal years. The CFO hired two contractors to reconcile the Department's voluminous amount of capital outlay projects beginning with the year 2006 to the end of fiscal year 2012. The contractors have already found discrepancies with several capital outlay projects beginning with the fiscal year 2006 when the SHARE accounting system conversion occurred for all State Agencies. In addition, the two contractors are reconciling each project folder and finding that some receivables and reversions were never made to the State General fund. The contractors are compiling a spreadsheet that will reconcile to the SHARE accounting system when the reconciliation is completed. The contractors will be closing out projects that were never closed out and a written close out letter will be sent to the grantee and a copy forwarded to DFA. IAD's CFO is estimating the completion date of June 30, 2014 to complete this complex reconciliation process.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2012-6 Unrecorded Liabilities (Significant Deficiency)

Condition – The Department was unable to accrue accounts payable relating to capital projects in the amount of \$2,980,120 in Fund 89200 and \$236,966 in Fund 10100.

Criteria – DFA requires state agencies to accrue all payables by July 31 each year.

Cause – Invoices from project subrecipients were not received in time to accrue payables by the DFA deadline of July 31, 2013.

Effect – Expenditures relating to capital projects had to be processed and paid during FY2014, leading to untimely payments to subrecipients and budgetary adjustments.

Recommendation – Management should strengthen their year-end closing process to meet the DFA deadline of July 31. Project subrecipients should be required to submit June and prior month invoices by mid-July to allow the Department time to process accounts payable by the deadline.

Management's Response - The CFO and the Capital Outlay staff worked diligently with all Tribal Grantees in requesting all FY13 Tribal Infrastructure Fund and Capital Outlay projects expenditures so that the Department could establish an accurate accounts payables amount to post for the FYE 2013. However, the accounts payables submitted to DFA by the approved extended deadline was not posted in SHARE accounting system due to the DFA – CAFR Unit being informed by DFA – Capital Outlay Bureau staff that these projects were terminated at 6/30/2013 which was incorrect. All of the 2012 Tribal Infrastructure Funds projects have a term date of March and April of 2014. IAD is currently working on processes and procedures with the DFA – Capital Outlay Bureau to approve IAD's processes and procedures.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2012-7 Asset Dispositions (Significant Deficiency, Noncompliance)

Condition – The Department disposed of capital assets without prior notification to the State Auditor.

Criteria – 2.2.2.10(V)(1) NMAC requires agencies to notify the State Auditor at least 30 days prior to any disposition of public property.

Cause – The Department experienced significant turnover at the time the disposition occurred. The error was subsequently discovered and the proper notifications were submitted.

Effect – Improper monitoring, safeguarding and disposition of capital assets may lead to material misstatements in the financial statements.

Recommendation – Management should designate one staff member to record and track the capital asset inventory. Any dispositions should follow the New Mexico Administrative Code (NMAC) requirements including timely notification and proper authority.

Management's Response – The Executive Assistant performed the fiscal year-end inventory for the Department and mistakenly summarized the previous Disposition letter and did not properly define the individual items disposed of. Thus, the supporting documentation did not reflect this transfer and/or disposal at the beginning of the fiscal year. An updated Disposition of Fixed Assets letter was sent to the State Auditor's office on July 10, 2013. This finding has been corrected.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2012-12 Cash Monitoring Procedures (Significant Deficiency, Noncompliance)

Condition – The Department did not monitor cash accounts properly during FY2013.

Criteria – 2.20.5.8(C)(4) NMAC requires cash account records to be reconciled timely each month. Good internal controls include timely reconciliation of all general ledger accounts.

Cause – The Department experienced significant turnover in the Finance Department during FY2013, leading to lack of timely reconciliation of the cash accounts.

Effect – The Department’s cash accounts in funds 09900, 10000 and 10100, designated as “investment in state treasurer general fund investment pool” in the accompanying financial statements, have negative balances.

Recommendation – Management should institute a monthly reconciliation process of all transactions that affect cash each month.

Management’s Response – The CFO is unable to process a true cash reconciliation report for each fund as the DFA does not provide monthly bank statements for the State Agencies to identify outstanding checks. In addition, the Funds 09900, 10000, and 10100 reflect negative balances due to the prior year management and capital outlay staff. Again, the CFO hired two contractors to reconcile the Department’s voluminous amount of capital outlay projects beginning with the year 2006 to the end of fiscal year 2012. The contractors have already found discrepancies with several capital outlay projects beginning with the fiscal year 2006 when the SHARE accounting system conversion occurred for all State Agencies. In addition, the two contractors are reconciling each project folder and finding that some receivables and reversions were never made to the State General fund. The contractors are compiling a spreadsheet that will reconcile to the SHARE accounting system when the reconciliation is completed. The contractors will be closing out projects that were never closed out and a written close out letter will be sent to the grantee and a copy forwarded to DFA. IAD’s CFO is anticipating this reconciliation process will reconcile the negative cash balances for Funds 09900, 10000, and 10100. IAD’s CFO is estimating the completion date of June 30, 2014 to complete this complex reconciliation process.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2012-15 Use of State Vehicles/Fuel Cards (Significant Deficiency, Noncompliance)

Condition – Out of three months vehicle logs and fuel cards tested, one log had incomplete information, and was missing 5 out of 6 fuel receipts for the month. The Department is not resolving the monthly exceptions reported by the fuel card issuer.

Criteria – Proper internal controls over vehicles and fuel cards includes documenting the dates/times traveled, business purpose for the travel, and supporting documentation for fuel purchases paid for with public monies. 1.5.3.11(I) NMAC requires that vehicle logs include the date, employee name, beginning and ending mileages, destination, purpose of trip, type of fuel purchased, number of gallons purchased, total fuel cost, other vehicle related purchases, and a place for a supervisor to make verifications. As part of an effective internal control process over fuel purchases, exceptions should be reviewed and resolved in a timely manner.

Cause - The Department's vehicle log lacked the necessary information to determine the business purpose of each trip. Fuel receipts were not retained, and an affidavit for missing receipts was not obtained.

Effect – Management could not determine whether the travel and related fuel purchases were for valid Department business.

Recommendation – The vehicle logs should be modified to include the necessary information. Fuel receipts should be retained and, if receipts are lost, the Department should require that staff complete an affidavit for missing receipts for each instance. Management should perform a monthly review of WEX fuel reports, resolve any exceptions, and document the resolution.

Management's Response – IAD's Executive Assistant maintains and monitors the vehicle books and log; IAD will revamp the current vehicle log sheet to include the business purpose. In addition, if the gas receipts are lost or missing, IAD will request the Staff to prepare an Affidavit for Lost Receipts to certify that actual receipts for expenses are the correct amount and for the correct period. IAD has currently taken procedures to reconcile the WEX reports on a monthly-basis; and to verify gas receipts are accounted for and accurately recorded per transaction; and to reconcile any discrepancies related to location, mileage and vehicle type used.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2013-1 General Disbursement Exceptions (Significant Deficiency, Noncompliance)

Condition – Out of 60 general disbursements tested, the following exceptions were noted:

Payments were untimely to 13 out of 60 vendors.
Sole source determination was not documented for one procurement.
One purchase order was dated after the actual purchase.

Criteria – According to DFA’s Model of Accounting Practices (2010), “All payments to vendors shall be accurate and timely and be for services already rendered or goods received and accepted by the state agency as complying with the contract or purchase order.” 1.41.1.57 NMAC requires agencies to maintain records of sole source procurements for a minimum of three years. Good internal controls require purchase orders to be prepared and approved prior to the actual purchase.

Cause – The Department experienced significant turnover in the Finance Department during FY2013. Staff had to identify and research a significant amount of unprocessed transactions. The sole source procurement appeared to be processed correctly through DFA’s Contracts Review Bureau but supporting documentation was not maintained. The untimely purchase order was for recurring copier expenses and was subsequently discovered and documented by the Department.

Effect – Untimely payments could affect vendor relations, which may impact future availability of goods and services. Lack of proper internal controls over the processing of transactions may lead to misstatements in the financial statements.

Recommendation – Management should continue to refine the disbursement process and strengthen their internal controls over the transaction processing to ensure timely payments to vendors. The process should include retention of a copy of the DFA sole source form for all sole source procurements.

Management’s Response - IAD’s former Business Ops-Specialist resigned in early September 2012. The Department requested from DFA – Financial Control Division to send an accounts payable staff to IAD to assist with bringing the Department’s outstanding accounts payables current. Thus, this invoice was paid late due to a lack of Human Resources. Per DFA – Contracts Review Bureau, when a sole source is approved by their division, it is their internal policy to not return the original or a copy of the approved sole source contract to the State Agency.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2013-2 Payroll/Personnel Exceptions (Significant Deficiency, Noncompliance)

Condition – Out of 8 employees tested, 2 did not have proper documentation supporting approval of their pay rate. Out of the 8 tested, 5 did not have I-9 forms to prove their eligibility to work in the United States. In addition, the Department does not have a formal process for terminating employees.

Criteria – Proper internal controls over new employee processing includes management approving the employee's pay rate and ensuring the rate is in compliance with New Mexico State Personnel Office (SPO) pay schedules. The hiring process should also include the necessary paperwork to establish work eligibility in accordance with U.S. labor law. Controls over processing terminated employees should ensure all Department property is returned by the departing employee.

Cause – The Department did not implement formal processes for hiring and terminating employees.

Effect – Without the proper approvals and paperwork, the Department may hire employees at unauthorized pay rates and eligibility. Without established termination procedures, employees may not return Department property.

Recommendation – Management should review hiring and termination processes to ensure employees are hired and terminated in accordance with established rules and regulations. Checklists should be developed and maintained that include each document required, and each step necessary to properly hire and terminate staff.

Management's Response – IAD is currently reviewing a termination procedure form to process when an IAD staff member leaves state government. This termination procedure form will include an exit interview, final timesheet, pay out of terminal leave hours, sign-off on returning keys, laptops, cell phones, etc.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
June 30, 2013

2013-3 Travel Advances (Significant Deficiency, Noncompliance)

Condition – The Department does not track travel advances to its employees.

Criteria – 2.42.2.10(C) requires state agencies to maintain records of travel advances.

Cause – The Department did not maintain a separate ledger detailing travel advances by individual staff member. Advances were not coded to the applicable SHARE account for travel advances.

Effect – Travel reimbursements were not processed timely after the travel occurred. In instances where excess advances were made, and the employee owed the Department a refund, timely collection was not possible.

Recommendation – Management should establish a tracking process for travel advances, including posting advances to the SHARE advance account, maintaining a separate employee ledger which is reconciled to SHARE, and timely follow up with each individual employee.

Management's Response – The Department has implemented utilizing the Pre-paid Voucher form which requires the accounting staff to post to the Account Code 171900 – Travel Advance. The Accountant Auditor-Advanced created a separate binder for the Department's travel advances. All employees travel advances are tracked in this binder to verify pre-paid vouchers are reconciled monthly to SHARE Accounting System. This new process created improved internal controls for closing out pre-paid vouchers in a timely manner. This audit finding has been corrected.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
EXIT CONFERENCE
June 30, 2013

The basic financial statements have been prepared by James L. Hartogensis, CPA LLC, with the assistance of the Indian Affairs Department. The content in this report is the responsibility of the Indian Affairs Department.

* * * * *

An exit conference was held on November 20, 2013 and attended by the following:

For James L. Hartogensis, CPA LLC:

James Hartogensis, CPA, CGFM	Principal
------------------------------	-----------

For the State of New Mexico Indian Affairs Department:

Arthur Allison	Cabinet Secretary
Duane Duffy	Deputy Cabinet Secretary
Rosemary Whitegeese	Chief Financial Officer